Resource availability, international acquisition experience, and cross-border M&A target search

A behavioral approach

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Abstract

Purpose – The purpose of this study is to explain how factors relating to resource availability affect managerial risk-taking with regard to the geographic and institutional proximity of cross-border merger and acquisition (M&A) targets. The paper further considers the impact of organizational learning by testing the moderating effect of the acquiring firms' prior international M&A experience.

Design/methodology/approach – This study uses linear regression with robust standard errors to account for dependence among clustered observations at the firm level. The authors used country and industry fixed-effects specifications to account for unobserved heterogeneity.

Findings – The results suggest that when internal and external resources are more abundant, firms pursue cross-border M&As that are more geographically and institutionally distant. The findings further indicate that a firm's prior international M&A experience positively moderates the aforementioned relationships.

Research limitations/implications – Extending the behavioral theory of the firm beyond organizational slack resources, the results highlight the importance of taking a multi-level, open-systems perspective of the strategic impact of resource availability. The authors' theory and findings also provide a more nuanced view of the critical role organizational learning plays in the relationship between resource availability and organizational outcomes.

Originality/value – This is the first study to the authors' knowledge that develops and tests a theoretical model exploring the impact of both internal (organizational slack) and external (environmental munificence at both the industry and home-country levels) resource availability, as well as prior organizational experience on an important multinational business practice.

Keywords Behavioral theory of the firm, Cross-border mergers and acquisitions, Internal and external resources, Open-systems view to organizations, Organizational learning, Organizational search

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Introduction

Cross-border mergers and acquisitions (M&As) continue to be a prominent means of growth and strategic development in today's globalizing business landscape. Cross-border M&A deals totaled US$1.4tn during 2016, accounting for 38 per cent of overall M&A volume and constituting a 59 per cent increase over 2011 levels just five years earlier (Thomson Reuters, 2016). The popularity of cross-border M&A activity is somewhat perplexing, however, since much research suggests that the majority of these deals fail to live up to expectations and often even destroy value for acquirers (Rottig, 2008, 2017; Rottig *et al.*, 2013; Shimizu *et al.*, 2004; Seth *et al.*, 2002). Accordingly, researchers have dedicated substantial effort into understanding the factors driving the continued proliferation of this risky practice.

The behavioral theory of the firm (BTF) points towards one potentially important determining factor that has been largely neglected in extant research on cross-border M&As: the availability of slack resources. One of the key insights emanating from the BTF is that firms with slack (i.e. relatively abundant) internal resources are more likely to engage in experimentation and search for new business opportunities to boost their performance (Cyert and March, 1963). While the BTF initially focused on the firm's internal resources, subsequent research has also placed great emphasis on the importance of external (environmental) resources and their availability (Martinez-del-Rio *et al.*, 2015; Park and Mezias, 2005; Staw and Szwajkowski, 1975). Indeed, the availability of critical resources both within and outside the firm has been shown to help shape the firm's risk orientation, organizational cognition, strategic choices and outcomes (Castrogiovanni, 1991; Hoehn-Weiss and Barden, 2014; Keats and Hitt, 1988; Nadkarni and Barr, 2008).

Building on past research on the BTF and resource availability, this study explores how organizations consider both internal and external environmental resource conditions in formulating and adjusting their international M&A strategies. More specifically, we theorize that when critical resources are more abundant (also called munificent, conceptually the opposite of resource scarcity) at the organization-, industry-, and home country-levels, firms are more likely to pursue cross-border M&A opportunities that are more geographically and institutionally distant. In addition, we propose that the relationships between resource availability and international M&A search distance will be moderated by the acquirer's recent cross-border M&A experience. We argue that acquirers' prior international acquisition experience will interact with the levels of resource availability such that firms with higher levels of international M&A experience will engage in more distant cross-border M&As. Overall, our study examines how resource availability and prior international acquisition experience influence acquiring firms' search for and evaluation of foreign M&A opportunities. We test this model by analyzing 7,415 cross-border M&As announced from 1994 to 2009 by US acquirers listed in the S&P 500. Our findings lend support to the principles of the BTF, namely, the arguments relating to organizational search and managerial decision-making.

This study makes several important theoretical and practical contributions. This is the first study to our knowledge that develops and tests a theoretical model exploring the impact of both internal and external resource availability on cross-border M&As. Specifically, we draw upon behavioral theory to explain how resource availability helps determine management's propensity to take risks in its organizational search efforts for cross-border M&A opportunities. Our study sheds further light on the impact of organizational learning by exploring how international M&A experience affects this relationship. By adopting an open systems perspective on resource availability, considering the availability of resources at multiple layers of the firm's environment simultaneously, and applying insights from the BTF, we make an important step toward a better understanding

of how managerial cognition, search processes, organizational learning and resource availability drive international M&A decisions.

Literature review

The behavioral theory of the firm

While its roots now stretch back over a half-century, the BTF remains one of the most influential and far-reaching theories offered by organizational scholars today (Argote and Greve, 2007; Gavetti *et al.*, 2012). The BTF places emphasis on how "non-market factors" play a critical role in determining organizational strategies and outcomes. As opposed to relying upon purely rational economic conceptions of human decision-making, the BTF draws upon psychological, sociological and political principles to explain how organizations take risks and use feedback to gain a better understanding of their uncertain environments (Augier, 2013).

A central concept within the BTF is organizational search, defined as the process by which organizations learn and interact with various aspects of their environment to develop and evaluate potential solutions to organizational challenges (Alessandri *et al.*, 2014; Argote and Greve, 2007; Chakrabarti and Mitchell, 2013; Cyert and March, 1963). According to the BTF, organizational search behaviors tend to be goal-directed, routine-based and history-dependent (Levitt and March, 1988). Greater resource availability increases the organization's likelihood of engaging in experimentation and change (Cyert and March, 1963; Greve, 2003). Organizational slack permits more discretionary and opportunity-motivated search, as managers are able to relax constraints on the allocation of resources and pursue riskier strategies (March, 1991). Because the fate of the organization does not rest on the success or failure of any single endeavor, slack search enables firms to pursue more radical and riskier business opportunities. Thus, the BTF suggests that there should be a positive relationship between higher levels of slack resources and more far-reaching organizational search efforts (Greve, 2007).

The BTF also suggests that a firm's routines and prior experiences can affect its propensity to engage in distant search. Using BTF reasoning, Haleblian *et al.* (2006) find evidence suggesting that a firm's likelihood of attempting subsequent cross-border acquisitions is positively related to its prior international acquisition experience and performance feedback. A frequent assumption regarding cross-border M&A activities is that acquirers gain valuable insight from each prior international acquisition, which helps improve their future acquisition efforts (Collins *et al.*, 2009; Haleblian *et al.*, 2006; Nadolska and Barkema, 2007). Baum *et al.* (2000), show how the geographic expansion of firms can be understood as a function of their organizations' experience. While all experiences are not equal, the breadth and depth of prior experience are important for organizational learning (Alessandri *et al.*, 2014).

Factors that influence target search in cross-border M&As

Cross-border M&As constitute an alluring, yet risky internationalization strategy and mode of foreign entry (Chakrabarti *et al.*, 2009). Their potential advantages have been well documented in the strategic management and international business literature (Haleblian *et al.*, 2009). Cross-border M&As can provide acquiring firms with economies of scale, access to strategic resources and new knowledge and capabilities. They also enable acquirers to access foreign markets more quickly than other modes of entry, and can be less risky than greenfield investments (Stahl and Voigt, 2008). In today's fiercely competitive global markets, cross-border M&As offer a seemingly desirable mode of much needed growth as well as opportunities to reconfigure their businesses (Karim and Mitchell, 2000).

While cross-border M&As present many value-creating opportunities to acquiring firms, they also present a number of challenges that many organizations find difficult to surmount in their quest for economic gains (Kaul, 2012). Uncertainty and information asymmetry in foreign markets make it difficult for firms to adjust between home and target market conditions (Kogut and Singh, 1988; Zaheer, 1995). The search and selection of M&A targets depend upon a complex set of organizational-level mechanisms, which rely on both the internal and external realities of a firm. With regard to internal factors, organizational capability serves as an important determinant to target selection. Studying the factors driving target selection, Kaul and Wu (2016) developed a capabilities-based theory arguing that acquirers pursue:

- Low-capability targets in existing contexts to utilize existing capabilities, and
- High-capability targets in new contexts to acquire new capabilities.

As for the external realities, Chakrabarti and Mitchell (2013) found that the difficulty of target search increases with geographic distance, particularly when search involves greater information processing, but that firms can partially overcome this challenge through organizational learning.

The availability of crucial resources is another important factor that can affect cross-border M&A target search. Variations in the levels of resource availability can have important implications on how resources should be managed to create and acquire value. When resources are relatively scarce, the importance of managing them effectively increases, as these resources may not be readily available to the firm when needed (Sirmon *et al.*, 2007). Alternatively, managers may undertake risky strategies during periods of improved economic outlook, as booming demand, enhanced firm profitability and higher stock prices usually make it easier for organizational leaders to make claims about the strength and effectiveness of their leadership (Hayward and Hambrick, 1997; Haunschild *et al.*, 1994). This may lead firms to pursue strategies that are less synergistic and unrelated to their core resources and competencies. Thus, resource availability is a critical determinant of organizational strategy and success.

As MNC strategies and cognition are affected by non-market institutional factors (Kostova, 1996; Meyer *et al.*, 2009), these factors have important implications for cross-border M&A target search and post-deal performance (Rottig, 2008; Zhang and Ebbers, 2010). Geographic distance (as well as political, economic and cultural differences) between the target and acquiring firms' home countries have been found to contribute to increased complexity and coordination costs, which in turn, can have a negative impact on both due diligence and post-merger integration (Dikova *et al.*, 2010; Ghemawat, 2007). Political hostility between countries, or even just the absence of an international economic cooperative agreement, can complicate cross-border M&A negotiations and make it difficult to transfer critical assets across national borders (Ghemawat, 2007). Cultural and regulatory differences can also impose serious limits on the extent to which managerial ideas and practices can be modified and applied successfully to new national settings (Rottig, 2008; Schneper *et al.*, 2013; Steigenberger, 2016). As environmental conditions at the time of founding are important determinants of a firm's strategy, structure and organizational culture, institutional differences between the target and acquiring firms' home countries can also lead to problems related to strategic, organizational and cultural fit (Bauer and Matzler, 2014; Rottig, 2008; Slangen, 2006; Steigenberger, 2016).

Open-systems view and cross-border M&As

According to the open-systems view (Scott, 1992) both the internal and external environment of businesses influence organizational operations, performance and survival.

Owing to this constant interaction of internal and external factors, managers must attend to both layers of their environment to accomplish their missions (Pfeffer and Salancik, 1978). In light of the behavioral view and the attention-based view, Barreto (2012) developed a model proposing that organizational slack and the availability of options impact the types and overall number of market opportunities pursued by firms. Applying the threat–rigidity hypothesis in the context of an economic downturn, Alessandri *et al.* (2014) found that firms with greater financial resources and acquisition experience were more likely to make diversifying and/or cross-border acquisitions (*vis-à-vis* domestic, non-diversifying acquisitions).

The availability of both internal and external resources appears to be important in explaining the types of business challenges and degree of risk and complexity that firms are willing to undertake while engaging in various strategic activities, including M&As. Building on these observations, we delve deeper into understanding how both internal and external resource availability help shape acquiring firms' decisions regarding the level of geographic and institutional distance these organizations take on in their pursuit of cross-border M&A targets.

Hypothesis development

Organizational slack and target proximity

Organizational slack represents a cushion of internal organizational resources that allows a firm to adapt to internal or external pressures as well as to initiate changes in strategy in regard to the external environment (Bourgeois, 1981). The BTF suggests that internal organizational slack usually facilitates firm performance because it can protect a firm from external environmental instabilities (Cyert and March, 1963; Bourgeois, 1981). Organizational slack allows managers greater financial discretion (Tan and Peng, 2003) and facilitates exploratory search (also referred to as slack search), which enables firms to pursue distant opportunities (Greve, 2003). Whereas low levels of slack discourage risk-taking (Wiseman and Bromiley, 1996), excess slack makes managers more focused on potential gains, thus permitting them to pursue opportunities that would otherwise be regarded as too risky (Hambrick and D'Aveni, 1988; Nohria and Gulati, 1996). According to Lin *et al.* (2009), organizational slack is likely to become critical to a firm's internationalization as it can be a buffer when firms face culture shock and political risk due to foreign market expansion. Because of slack's influence on risk-taking behavior, managerial preferences and processes for target search will be more likely to include options that are institutionally dissimilar and distant.

According to Staw *et al.* (1981), threats and potential crises induce psychological stress and anxiety in managers, resulting in cognitive and motivational rigidity (e.g. taking mental shortcuts, restricting information processing, tightening controls, avoidance of unfamiliar activities and conservation of resources). For instance, Chen and Miller (2007) found that managers of underperforming firms facing serious financial constraints limit their R&D-related search intensity. By contrast, managers of organizations with abundant internal resources enjoy not only greater opportunities for experimentation (Greve, 2003) but also relatively lax performance monitoring. Although organizational slack is typically perceived as an advantage, it may therefore encourage questionable managerial decisions. Jensen and Meckling (1976), for instance, proposed that some managers may use slack to engage in excessive diversification despite its negative consequences, to further their vested self-interest.

We argue that organizational slack encourages broader organizational search that includes geographically distant M&A targets. Pursuing M&As in general and targeting

distant firms in particular require a firm to hold substantial financial resources that are internally available. When a firm's internal environment is munificent (i.e. organizational slack is high), resources are widely available for maintaining existing strategies and undertaking exploratory attempts for strategic repositioning (Pretorius, 2008; Greve, 2007). Moreover, when a firm has a high level of organizational slack, it is more prone to taking on greater risks, including acquisitions that may be difficult to integrate owing to geographic or institutional differences. Therefore, we expect organizational slack to have a positive relationship with the geographic and institutional distance of M&A targets:

H1a. *Ceteris paribus*, greater organizational slack is positively related to more geographically distant M&A attempts.

H1b. *Ceteris paribus*, greater organizational slack is positively related to more institutionally distant M&A attempts.

Industry-level environmental munificence and target proximity

Industry-level environmental munificence (or simply, industry munificence) is defined as the availability of resources in an organization's product or service market to support growth (Keats and Hitt, 1988; Dess and Beard, 1984). The industry environment of a firm (also called the task environment) is defined in terms of the line of a firm's business (Keats and Hitt, 1988). A high level of munificence at the market level is believed to be positively related to the availability of strategic options (Castrogiovanni, 1991). A consistent pattern of industry growth reduces environmental uncertainty and enables firms to pursue challenging and distant goals (Castrogiovanni, 1991; Brittain and Freeman, 1980). We therefore believe that the industry environment is an important consideration when exploring the effects of resource munificence on strategy and search.

In the spirit of the BTF, we theorize that an acquiring firm's target search and selection process will be influenced by managers' perceptions of resource availability in their industry environment. Prior work has demonstrated how firms behave significantly differently in high-growth industries with various resource sources *vis-à-vis* less-munificent industry environments (Wan and Yiu, 2009). We suggest that managers perceive, react and adapt to the industry-level environmental munificence as they search for M&A opportunities (Tang *et al.*, 2010; Wan and Yiu, 2009). Owing to globalization, opportunities are often not limited to a single country, and thus industry munificence also increases cross-border M&A activity (Huyghebaert and Luypaert, 2010). Following the BTF, we believe firms are more likely to engage in distant search when they face conditions of greater resource availability in their local task environment. In task environments characterized by high levels of munificence, the potential benefits of distant search are more likely to outweigh the costs and risk of failure. Firms operating in this type of environment will be more likely to invest in new business opportunities and increase M&A activity (Andrade and Stafford, 2004), including geographically and institutionally distant deals. Under scarce industry conditions, managers will tend to be more cautious and follow a more localized strategy (Yasai-Ardekani, 1989) by adopting a satisficing model for organizational search. Accordingly, we expect that firms will engage in more distant search for M&A targets when resource availability is high at the industry level. Therefore, we hypothesize that:

H2a. *Ceteris paribus*, greater industry munificence is positively related to more geographically distant M&A attempts.

H2b. *Ceteris paribus*, greater industry munificence is positively related to more institutionally distant M&A attempts.

Home country environmental munificence and target proximity

It is widely believed that home country-level environmental munificence (or home country munificence) is also related to organizational strategy, performance, growth and survival. In his often-cited treatise, McCarthy (1963) argues that the positive correlation found between market cycles and acquisition activity reflects the fact that acquisitions are essentially another form of investment, and it is reasonable to assume greater investment activity in periods of economic growth given the higher returns associated with investment in such periods. When resources in the broader macroeconomic environment are abundant, firms pursue more unrelated diversification (Chatterjee and Wernerfelt, 1991). Firms also become more entrepreneurial under conditions of greater country-level resource abundance. For instance, Aca *et al.* (2012) found that home country munificence is associated with firms pursuing greater risk-taking, proactiveness and strategic renewal.

From a management and organizational cognition perspective, greater munificence in the home country contributes to increased firm-level risk-taking owing to less pressure to be frugal, which helps facilitate greater managerial experimentation (Hayward *et al.*, 2006; March and Shapira, 1987; Shane and Stuart, 2002). Consistent with the BTF, we propose that when managers make target selection decisions, they rely on their perceptions of home country munificence. Under conditions of resource abundance at the country level, organizational cognition and decision-making processes (including managerial biases) will favor selecting riskier targets. In the face of a favorable macro-economic environment, acquirers will take risks and discover viable M&A opportunities even when they involve challenging and institutionally distant M&A targets. Ultimately, these processes will lead to a broader scope of search for potential acquisition targets.

Therefore, we anticipate the following:

H3a. *Ceteris paribus*, greater home-country munificence is positively related to more geographically distant M&A attempts.

H3b. *Ceteris paribus*, greater home country munificence is positively related to more institutionally distant M&A attempts.

Organizational learning: prior international M&A experience and target proximity

Strategic decisions are influenced by routines, defined as repetitive patterns of activities that stem from organizational experience (Nelson and Winter, 1982). The BTF describes organizational learning as an organization's adaptive behavior over time. With regard to search behavior, an organization's search rules and routines will change according to the nature of the strategic issue and the extent to which the organization has had previous experience with alternative search rules.

Consistent with BTF predictions, we contend that firms with prior cross-border M&A experience will likely:

- develop general organizational routines regarding the acquisition process of foreign companies (Dikova *et al.*, 2010);
- broaden their search in foreign markets for accessing and deploying resources (Hitt *et al.*, 1998);
- develop repetitive momentum (Collins *et al.*, 2009); and

- obtain relevant experience for optimal post-acquisition integration (Vermeulen and Barkema, 2001; Hebert *et al.*, 2005).

These competencies and benefits accumulated from past international M&A experience will likely lead acquiring firms' managers to broaden their search and gain confidence in selecting future M&A targets from geographically and institutionally distant countries.

Studies have outlined how exposure to a broader array of experiences may apply to the context of international expansion (Luo and Peng, 1999) and M&A activities (Beckman and Haunschild, 2002). Despite the many idiosyncrasies of acquisition deals and the differences of national institutional constraints on organizational activity, firms benefit from their international acquisition experience as some of the acquired skills are transferrable across deals (Dikova *et al.*, 2010, Barkema and Schijven, 2008). Based on the above reasoning, we predict the following:

H4a. *Ceteris paribus*, the relationship between environmental munificence and geographically distant M&A attempts is moderated by the focal firm's prior international acquisition experience, such that greater experience will strengthen the positive relationships.

H4b. *Ceteris paribus*, the relationship between environmental munificence and institutionally distant M&A attempts is moderated by the focal firm's prior international acquisition experience, such that greater experience will strengthen the positive relationships.

Methodology

Sample and dependent variables

We collected data on 7,415 cross-border M&A attempts by firms listed on Standard & Poor's (S&P) 500 index using the *SDC Platinum Database*. Our sample includes all international M&A attempts announced from 1994 to 2009 by US firms that were listed on the S&P 500 at the start of our period of interest, and where all data necessary for our analyses were available. For our dependent variables, we used Berry *et al.*'s (2010) longitudinal data set of geographic and institutional distance. Following these scholars' recommendations, we used different variables representing various types of cross-national distance in different models instead of relying upon a single, composite proxy. Within the cross-country comparative literature, cultural, political, financial and economic differences, all receive considerable attention as key types of institutional distance (Ghemawat, 2007; Kogut and Singh, 1988; Rottig, 2017; Whitley, 1992). Thus, in addition to geographic distance, we tested our hypotheses using these categories of institutional distance. Geographic distance is calculated using the distance between the geographic centers of acquiring and target countries. All other distance measures are based upon multiple component variables. Political distance is derived based on differences in democratic freedoms ratings, political stability, common membership in the World Trade Organization and regional trade blocks, and government consumption relative to overall size of the economy. Financial distance incorporates differences in the size of the stock market (in terms of both market capitalization and number of listed firms) and the domestic credit market. Economic distance is based on differences in GDP per capita, inflation rates and imports and exports relative to overall GDP. Cultural distance is derived from the World Values Survey results relating to questions about power distance, uncertainty avoidance, masculinity and individualist cultural orientations (for additional details, see Berry *et al.*, 2010, pp. 9-12).

Consistent with Dikova *et al.* (2010), we used the distance values between the target and acquirer's home countries to derive the distance of the M&A attempt. All distance data are expressed by a positive number, with higher numbers suggesting greater distance between the two countries.

Independent and moderating variables

Following Cheng and Kesner (1997) and Lin *et al.* (2009), we operationalized *organizational slack* by calculating the ratio of current assets to current liabilities, based on data from the *Compustat* database. This is a common proxy for organizational slack, as it is considered a measure of the firm's liquidity and readily available resources (Kim *et al.*, 2007).

For our measure of *industry munificence*, we used industry growth rates of each firm's primary industry as listed in *Compustat* (Keats and Hitt, 1988). Industry growth provides an indication of the market's attractiveness, profitability and competitive pressures (McDougall *et al.*, 1994). It is also probably the most widely used measure for industry munificence (Dess and Beard, 1984; Karaevli, 2007; Misangyi *et al.*, 2006). Following prior research (Keats and Hitt, 1988; Castrogiovanni, 2002; Li and Tang, 2010; Tang *et al.*, 2015), we calculated the average sales growth in the acquiring firm's industry over the five years prior to the date of the focal acquisition attempt based on data obtained from *Compustat*.

Following Colpan (2008), we measured home country munificence by using the US GDP growth rate data as reported in the World Bank's World Development Indicators database. Similar to our measures for organizational slack and industry-level munificence, GDP growth rate is a frequently-used measure of resource availability for its specified level of analysis (Colpan, 2008; Madanoglu *et al.*, 2017).

To examine the effect of prior international M&A experience, we used the SDC Platinum Database to calculate the number of cross-border M&As announced by the acquiring firm during the four years prior to the focal M&A attempt (Barkema and Schijven, 2008 and Fowler and Schmidt, 1989).

Control variables

We included several control variables in our models that could provide alternative explanations for distant M&A attempts. First, we controlled for firm size as operationalized by the log of sales. As firm profitability could also potentially explain variance in the nature of M&A attempts, we included a return on sales (ROS) measure, calculated by net income/sales. We also controlled for industry effects by including dummy variables based on the first digit of the firm's primary SIC code. The data for all of the above-mentioned control variables were gathered from the *Compustat* database. Finally, we included a set of annual time dummies to control for unexplained heterogeneity across time.

Statistical analyses

For the purposes of statistical estimation, we employed linear regression with robust standard errors to account for dependence among clustered data at the firm level. We also used country fixed-effects specifications to account for any unobserved heterogeneity among target countries that could provide alternative explanations for our results.

Results

Table I provides descriptive statistics and correlations for our measures. We examined all the variables for any multicollinearity issues that could lead to variance inflation. The

Table I.
Descriptive statistics and correlations

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
Firm size (log sales)	8.80	1.30											
Return on sales	7.30	10.19	0.05*										
Organizational slack	1.47	0.64	−0.27*	0.12*									
Industry growth	27.14	176.30	0.02*	−0.01	−0.01								
GDP growth	2.70	1.50	0.09*	0.04*	−0.04*	−0.23*							
Prior acquisition experience	2.74	2.33	0.28*	0.07*	−0.08*	−0.01	0.02						
Geographic distance	3324.60	4703.38	0.03*	−0.04*	−0.04*	−0.00	−0.03*	0.07*					
Cultural distance	537.41	4.62	0.06*	−0.00	−0.01	−0.02	0.03*	−0.00	0.33*				
Economic distance	2.09	6.30	0.06*	0.01	−0.02	−0.02	0.05*	0.06*	0.42*	0.47*			
Political distance	5370.41	1296.63	0.12*	0.02*	0.03*	−0.01	−0.14*	0.10*	0.39*	0.35*	0.46*		
Financial distance	1.18	2.90	0.05*	0.01	−0.03*	−0.01	0.03*	0.03*	0.41*	0.41*	0.50*	0.42*	

Note: $N = 7{,}415$. * Indicates a significance level of less than 0.05

variance inflation factor (VIF) scores for all independent, moderating and control variables were less than 2.1, which is well below the acceptable threshold (Kleinbaum *et al.*, 1988).

Tables II and III present the OLS regression results for all of our hypothesized relationships. Geographic distance served as the dependent variable for tests displayed in Table II. The dependent variables for the tests reported in Table III are cultural, economic, political and financial distance, respectively. For Tables II and III, Model 1 includes just the control variables and serves as a baseline. The direct effect variables, namely, organizational slack, industry sales growth (industry munificence), GDP growth (country munificence) and prior international acquisition experience, are introduced in Model 2. Model 3 adds the hypothesized interaction effects. This sequence of models is repeated for each additional dependent variable in Table III.

The results of our analyses provide significant support for the hypothesized effect of organizational slack on more geographically distant M&As ($p < 0.05$), thus supporting *H1a*. Further, the positive and significant coefficient for the effect of organizational slack on politically distant M&As ($p < 0.01$) and the marginally significant and positive coefficient representing the effect of organizational slack on economically distant M&As ($p < 0.10$), provide partial support for *H1b*. We do not observe a significant relationship between

Variables	Model 1 *Controls*	Model 2 *Direct effects*	Model 3 *Full model*
Control variables:			
Firm size (log sales)	0.0021****	0.0009	0.0010
	(0.0012)	(0.0029)	(0.0030)
Return on sales	0.0034****	0.0032	0.0035
	(0.0021)	(0.0024)	(0.0023)
Industry dummies	Included	Included	Included
Time effect dummies	Included	Included	Included
Main effects:			
Org slack		0.0078*	0.0071*
		(0.0034)	(0.0033)
Industry growth		0.0008****	0.0007****
		(0.0005)	(0.0004)
GDP growth		−0.0021***	−0.0033**
		(0.0004)	(0.0012)
Prior Int'l acquisition experience		−0.0013	−0.0007
		(0.0019)	(0.0045)
Interaction Effects:			
Org slack * prior experience			−0.0003
			(0.0007)
Industry growth * prior experience			0.0001
			(0.0002)
GDP growth * prior experience			−0.0015
			(0.0012)
Constant	3625.4260***	4693.0801***	4693.0738***
	(1097.1740)	(1361.3221)	(1361.3107)
F-statistic	3.13*	23.75***	21.97***
r^2	0.0222	0.0263	0.0268

Notes: Standard errors are shown in parentheses below the regression coefficients, $N = 7{,}415$. * less than 0.05; ** less than 0.01; *** less than 0.001; **** Indicates a significance level of less than 0.10

Table II.
Estimates from linear regression analysis for environmental munificence and geographically distant M&As

Table III.
Estimates from linear regression analysis for environmental munificence and institutionally distant M&As

Variables	Model 1 controls *cultural*	Model 2 direct effects *cultural*	Model 3 full model *cultural*	Model 4 controls *economic*	Model 5 direct Effects *economic*	Model 6 full model *economic*	Model 7 controls *political*	Model 8 direct effects *political*	Model 9 full model *political*	Model 10 controls *financial*	Model 11 direct effects *financial*	Model 12 full model *financial*
Controls:												
Firm size (log sales)	0.0114 (0.0417)	0.1289* (0.0578)	0.1257* (0.0560)	0.1600* (0.0710)	0.2139** (0.0730)	0.2142** (0.0728)	107.7886*** (24.6756)	90.8390** (28.0861)	92.4280** (27.2093)	0.0443 (0.0337)	0.0851* (0.0353)	0.0837* (0.0350)
Return on sales	0.0001 (0.0058)	−0.0016 (0.0064)	−0.0007 (0.0064)	0.0105**** (0.0057)	0.0088 (0.0058)	0.0095**** (0.0058)	3.5058 (2.6322)	3.7021**** (2.2194)	2.9985 (2.1407)	0.0020 (0.0035)	0.0034 (0.0032)	0.0036 (0.0033)
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included
Time effect dummies	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included
Main effects:												
Org slack		0.0932 (0.0927)	0.1602**** (0.0936)		0.1734**** (0.0944)	0.2477**** (0.1266)		120.5591** (45.4295)	132.3914** (43.5916)		−0.0857 (0.1012)	−0.1386 (0.1115)
Industry growth		−0.0005**** (0.0003)	−0.0005**** (0.0003)		0.0002 (0.0002)	0.0002 (0.0002)		−0.1757 (0.1502)	−0.1867 (0.1460)		−0.0001 (0.0001)	−0.0001 (0.0001)
GDP growth		0.2300*** (0.0517)	0.3200*** (0.0586)		0.3558*** (0.0659)	0.3905*** (0.0695)		−180.4901*** (15.8896)	−200.2055*** (16.7126)		0.0850* (0.0389)	0.0874* (0.0415)
Prior Int'l acquisition experience		−0.0670*** (0.0167)	−0.1060*** (0.0215)		−0.0041 (0.0167)	−0.0108 (0.0163)		8.3093 (7.2867)	22.4638*** (5.3117)		−0.0403* (0.0116)	−0.0476** (0.0144)
Interaction effects:												
Org slack * prior experience			0.0376**** (0.0207)			0.0770** (0.0281)			25.3568** (8.4172)			−0.0365 (0.0274)
Industry growth * prior experience			−0.0001 (0.0002)			−0.0001 (0.0001)			0.0024 (0.0364)			−0.0000 (0.0001)
GDP growth * prior experience			0.1106*** (0.0220)			0.0476* (0.0206)			−27.2349**** (4.7423)			−0.0027 (0.0108)
Constant	−0.3907 (0.4109)	−2.1973** (0.6893)	−2.5416*** (0.6576)	−1.8090* (0.7493)	−4.0129*** (0.7870)	−4.2555*** (0.8024)						−1004.7950*** (273.4517)
	−460.2140 (355.7020)	−452.2101 (345.3732)	−0.5128 (0.3646)	−0.9519* (0.4500)	−0.8050**** (0.4744)							
F-statistic	26.46***	27.60***	28.57***	53.36***	59.93***	62.50***	17.27***	22.14***	20.01***	37.52***	40.01***	40.07***
r^2	0.4649	0.4697	0.4772	0.5794	0.5824	0.5833	0.3410	0.3629	0.3718	0.4627	0.4710	0.4725

Notes: Standard errors are shown in parentheses below the regression coefficients, $N = 7{,}415$. * less than 0.05; ** less than 0.01; *** less than 0.001; **** Indicates a significance level of less than 0.10

organizational slack and institutionally distant M&As with regard to cultural distance or financial distance.

With regard to industry munificence and search for distant targets, *H2a* and *H2b*, we do not find empirical support for our hypothesized relationships. We do observe a marginally significant and negative relationship between industry munificence and more geographically distant M&As, which is in the opposite direction of our predictions. However, none of the coefficients testing the relationship between industry munificence and institutionally distant M&As is statistically significant.

One possible explanation for the lack of significant and consistent results involving industry munificence may have to do with sample selection. Much of the prior empirical research on industry-level environmental munificence has focused on smaller, less diversified firms (Tang *et al.*, 2010; Yasai-Ardekani, 1989). By comparison, the S&P 500 acquirers used in our analysis generally operate in a greater number of industries and tend to have the capacity to diversify even further. High levels of diversification could lead to even more complex environmental search processes than those proposed by our model. Resource availability conditions within a diversified firm's largest or primary line of business might often generate a more tangible effect on the firm's efforts to expand into other industries than on its international search approach. Future research involving large, diversified multinational firms could examine not just how resource availability affects the choice between more local or distant international search, but also how these organizations decide whether to place greater relative emphasis on international search versus the quest for business opportunities along horizontal and vertical dimensions.

H3a and *H3b* predicted a positive relationship between home-country environmental munificence (i.e. GDP growth) and M&A search. Contrary to expectations, we find a negative and highly significant relationship ($p < 0.001$) between GDP growth and geographically distant M&As, which is in the opposite direction of the relationship predicted in *H3a*. We also find a negative and significant relationship between GDP growth and politically distant M&As. However, we also observe a positive and significant relationship between GDP growth and culturally distant ($p < 0.001$), economically distant ($p < 0.001$) and financially distant ($p < 0.05$) M&As, thus providing partial support for *H3b*. Therefore, while we do not find support for *H3a*, we do observe a consistently significant albeit nuanced relationship between home-country environmental munificence and distant M&A search.

The unexpected negative and significant relationship between GDP growth and both geographic and political distance may be due to another important factor in the determination of cross-border M&A target selection. In addition to search distance, the choice of cross-border M&A targets will naturally be influenced by the prevalence (i.e. relative presence or absence) of potentially attractive acquisition targets across other countries. This prevalence is likely to be significantly influenced by relative economic conditions in each country. When the US economy is growing relatively rapidly, for instance, some of the other countries most likely to be positively impacted are its closest geographic neighbors and largest trading partners (Kandil, 2009). Thus, our measure of home country munificence (US GDP growth rates) may be not only influencing the international search processes of the acquiring firms but also could be helping to create a greater number of attractive acquisition targets in countries that are geographically and politically more proximate. It is important to note that political distance is both theoretically and operationally considered to be reduced when countries belong to the same regional trade blocks and international trade organizations (Berry *et al.*, 2010). Thus, the negative relationship between home country (US) GDP growth and both geographic and political

distance may persist in other cases and samples where there are significant economic spillover effects amongst countries that are close in terms of geographic and political distance. While our statistical model included country fixed effects, this specification cannot control for changing conditions in target countries (Diggle *et al.*, 2013). Future research could build upon the model we have presented here to account for both search distance and the various factors influencing cross-country differences in the prevalence of attractive target firms, including the degree of economic interdependence amongst countries (Albrow, 1997).

H4a predicted that firms' international acquisition experience would positively moderate the relationship between resource availability and geographically distant M&As. None of the coefficients for the interactions between resource availability and prior international acquisition experience is significant, thus we do not find support for *H4a*. *H4b* predicted that firms' international acquisition experience would positively moderate the relationship between resource availability and institutionally distant M&As. When introduced as an interaction effect, prior international acquisition experience significantly and positively moderated the effect as predicted for organizational slack with regard to economic distance ($p < 0.01$) and political distance ($p < 0.01$). We also found a marginally positive moderating effect on the relationship between organizational slack and cultural distance ($p < 0.10$). Additionally, our results show that prior international acquisition experience has a positive moderating effect on the relationship between GDP growth and cultural distance ($p < 0.001$) as well as economic distance ($p < 0.05$). Thus, we do find evidence to support *H4b*, suggesting that firms engage in more institutionally distant M&As to even greater extent when they have higher levels of prior international acquisition experience.

Discussions, limitations and implications

The purpose of this study was to examine the unique and unresolved questions of how resource availability relates to multinational acquirers' search processes, specifically their target selection in the context of cross-border M&As. By applying the BTF to cross-border M&As, we examine how the level of resource availability, both in the internal and external environments of the firm, affects the extent to which managers engage in more distant search for M&A targets. The overall results of our analyses support our overarching theoretical arguments. Specifically, the results offer strong support for our hypotheses that firms engage in more distant M&A search when they face conditions of higher external and internal environmental munificence. As the BTF has traditionally focused on slack resources in the firm's internal environment, our results highlight the importance of examining the effects of resource abundance at multiple levels of the environment in future research.

Consistent with our predictions, we found that prior international acquisition experience does positively moderate the relationship between home country environmental munificence and more culturally and economically distant M&A search. Our findings suggest that firms are more likely to engage in extensive organizational search for M&As when resources to pursue growth and experimentation are readily available in their environments. Additionally, these firms will be even more likely to engage in more distant search to the extent that they have prior cross-border acquisition experience.

North (1990) emphasizes the importance of external environmental conditions (and institutions in particular) in determining firms' availability of opportunities and actions. Wan and Hoskisson (2003) argue that a high level of general environmental resource availability plays an important role in a firm's context-specific international diversification strategies as a response to the firm's available set of opportunities in home country environments. In general, dominant firms in munificent country environments may be able

to transfer capabilities (e.g. management know-how and technology) to international markets (Porter, 1990). However, most firms in less munificent environments lack globally re-deployable capabilities that are critical for successfully competing in foreign markets. Our findings reveal the need to further investigate the interaction between firm- and country-level resource availability and its influence on the locational choice of M&A activities. Furthermore, given the differing degree in various levels of munificence, it is possible that certain firms consider pursuing M&A activities in countries by disaggregating the dimensions of institutional distance (Berry *et al.*, 2010) rather than perceiving all of them as an aggregate notion. As our empirical analyses suggest, given the degree and nature of difficulty and uncertainty in dealing with cultural, economic or financial distance, firms may prefer to invest in countries that are either culturally, economically *or* financially (as opposed to culturally, economically *and* financially) more accessible. In other words, firms may discriminate between the challenges posed by each of these dimensions given the level of resource availability in the immediate and the broader environment.

Our study also yields important practical and managerial insights. Our findings stress the relevance of non-market factors such as resource abundance in determining managers' search intensity and ultimately firms' M&A strategies. Extant M&A research suggests that, on average, cross-border M&As destroy rather than create value for acquiring firms. Moreover, successful M&As tend to be those based on sound strategic rationale. Thus, to the extent that geographically and institutionally distant M&As have performance and value creating (or destroying) implications for these firms, stakeholders and boards should be vigilant to ensure that resource abundance does not drive distant search to the detriment of firm value.

Despite our findings, our study is limited in several important ways. As we focus on announced deals and publicly available data, we are unable to include the actual target selection and decision-making processes that precede an M&A announcement. Our theory of target selection relies on actual M&A attempts only and does not explicitly examine the elimination processes and analyses that an acquirer performs prior to selecting a target. Future case-based research may seek to examine all of the potential targets considered but not pursued to confirm whether the framework we present applies. It is also important to note that we did not find support for all our hypotheses. As described earlier in our discussion of the results, future research may incorporate the impact of various target country characteristics along with additional types of corporate development opportunities (including diversification and vertical integration) in their search models. While we have attempted to use the most appropriate measures for resource availability and institutional distance, future research should continue to seek even more refined proxies (Gershewski, 2013). Additionally, because we focus on larger US-based acquirers, our findings may not be generalizable to all other acquirers, such as smaller or emerging market acquirers.

The study adds to the growing research stream of understanding institutional (Dikova *et al.*, 2010; Chari and Chang, 2009; Collins *et al.*, 2009; Reus and Lamont, 2009) and geographically motivated firm strategies (Chakrabarti and Mitchell, 2015). Through the intersection of behavioral research and the study cross-border M&As, we draw attention to the under-explored area of how managerial behavioral and decision-making processes help shape global strategy and corporate development.

In addition, the findings of this study point toward several avenues for future research around the notion of industry munificence. The relationship of scarcity or abundance in industry-specific resources with managerial cognition and behavior appear to be more complex (Alessandri *et al.*, 2014; Ridge *et al.*, 2014; Miller and Chen, 1996). Levinthal and March (1993) suggested three types of managerial biases or myopias – hubris, temporal and

spatial – that can affect managerial perceptions of the competitive environments. Further studies in this stream may help resolve this seemingly paradoxical phenomenon of cross-border M&A distance and the market cycles.

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