OUT OF AFRICA: THE ROLE OF INSTITUTIONAL DISTANCE AND HOST-HOME COLONIAL TIE IN SOUTH AFRICAN FIRMS' POST-ACQUISITION LONG-TERM OPERATING PERFORMANCE IN DEVELOPED ECONOMIES

Abstract:

The colonial ties and institutional distance affect the cross-border acquisition performance of internationalizing South African firms who acquire targets in developed economies. Along with these main effects, this paper examines the moderating effect of the colonial tie on the effects of institutional distance on post-acquisition long-term operating performance. Using data on South African acquisitions in developed economies, this study finds that the colonial tie has a negative impact on the long-term operating performance of South African acquirers. Yet, the colonial tie also moderates the effects of institutional distance. This work contributes to the discussion on host-home country institutional distance and its impact on post-acquisition long-term operating performance and how colonial past can influence the performance of acquirers from South Africa and other such countries with colonial history.

KEYWORDS: Emerging-market multinational firms. South Africa, Institutional distance, Colonial tie, Cross-border post-acquisition long-term operating performance

INTRODUCTION

In recent years, African countries experienced dramatic economic growth. South Africa (SA) has grown in GDP from 136 trillion U.S. dollars in the year of 2000 to close to 350 trillion U.S. dollars in 2014 (UNCTAD, 2014). Along with Brazil, Russia, India, China, SA has been coined as part of BRICS countries, which have demonstrated impressive economic development in the twenty first century. BRICS countries have become important investors and the total of BRICS outward foreign direct investment (FDI) has risen from US$7 billion in 2000 to US$126 billion in 2012, or 9% of world flows (UNCTAD, 2013). The increasing FDI from these emerging-market multinational firms (EMFs) draws researchers' attention to the study of the rich national institutional contexts and how the host-home institutional differences influence the EMFs' performance (Child and Marinova, 2014; Cuervo-Cazurra, 2012; Cui and Jiang, 2012; Tsui, 2006; Ramamurti, 2012; Zoogah, Peng, and Woldu, 2015). Among an array of entry modes, EMFs have mainly utilized cross-border acquisitions to expediently expand their business landscape and upgrade their organizational capabilities (Aybar and Ficici, 2009; Luo and Tung, 2007). In particular, developed markets have become great destinations to meet these latecomers' urgent need to catch up with established multinationals (Luo and Tung, 2007; Makino, Lau, and Yeh, 2002).

To successfully achieve their strategic goals, EMFs need to carefully navigate the home-host institutional environments (Dikova, Sahib and Van Witteloostuijn, 2010). Institutional distance, the differences in the host-home institutional rules, has been studied as a source of liability of foreignness that hinders a foreign acquirer's ability to understand the formal and informal rules in the market (Eden and Miller, 2004; Kalasin, Dussauge and Rivera-Santos, 2014; Kostova and Zaheer, 1999, Xu, Pan, and Beamish, 2004). Hence, a large institutional distance may negatively impact the foreign acquirer's post-acquisition operating performance. By contrast, some international management researchers argue that

cross-national institutional distance does not only pose a negative effect, but also have value-added effects as differences can be viewed as sources of innovation and creativity that are beneficial in a rapidly changing environment (Reus and Lamont, 2009; Stahl and Tung, 2015).

Based on the South African (SA) context in the current study, we further delineate the intricacy of the distance effects based on one important home country characteristic — colonization history. Extant research on the effects of colonization in African countries generates a wealth of research that explains the post-colony economic development (Bertocchi and Canova, 2002; Iyer, 2010; Jones, 2013; Nunn, 2007). For instance, research suggests that the extractive colonization and poor governance during the colonial era continues to plague the economic development in African countries even today (Jones, 2013; Makki, 2015; Nunn, 2007). By interviewing business executives who are familiar with African acquisitions, Ellis, Lamont, Reus, and Faifman (2015) suggested that unique historical conditions, such as colonial ties, affect how employees perceive the acquisitions and have implications on how the post-acquisition integration process is managed. In light of the impacts of historical conditions on the post-acquisition integration process, , we provide a set of hypotheses to delineate both the main effect of colonial tie and the interaction effect of colonial tie and institutional distance on SA firms' post-acquisition long-term operating performance. In addition, extant international business literature has focused extensively on short-term performance of emerging market firms (Aybar & Ficici, 2009; Gubbi, Aulakh, Ray, Sarkar & Chittoor, 2010; Gaur, Malhotra & Zhu, 2013; Nicholson & Salaber, 2013). The current study focuses on operating performance of cross-border acquisitions and contributes to our understanding of EMFs' long-term performance (Fang, Nofsinger and Quan, 2015) after their acquisitions in the developed economies.

Overall, as several researchers suggest, the African context provides a fertile ground for boundary condition testing and theory development (Ellis *et al*., 2015). While cross-

border acquisition activities in the African context have increased, there is limited research that examines African acquirers' performance (Ellis *et al*., 2015). Within strategy research, a newly emergent research stream based on institutional theory has augmented the past strategy research that relied on resource-based and/or industry-based views, both of which have taken the country-level factors as being nearly a non-consequential backdrop. An institution-based view incorporates these important country-level contextual factors, both formal and informal national institutions, of a firm's strategic choices (Peng, Sun, Pinkham and Chen, 2009). What remains an intriguing issue is about how different national institutions interact to form the basis of a firm's strategic choices (Peng et al., 2009). In the current study, we reveal the complex effects of a particularly salient contextual factor shared among emerging economies, namely their colonization history. We take an integrative approach to examine the role of colonial tie in studying SA acquirers' performance as well as the distance effects of political and economic institutional development. While political institutional distance and the colonization history present negative impacts on SA acquirer's long-term accounting performance, SA acquirers can leverage their understanding of the host market derived from the colonial history to mitigate the negative effect of the political institutional distance.

The rest of paper unfolds as follows. First, we provide a brief overview of SA's colonization history and discuss the limited prior research on SA firm's cross-border acquisitions. Second, informed by the literature review on institutional distance, we further describe and develop hypotheses. Finally, we share the findings, provide further research directions and discuss managerial implications in our conclusion section.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

South Africa's colonization history

The development of institutions in South Africa is under the influence of two waves of colonization, first by the Dutch and next the British. In the 1650s, the Dutch East India

Company established a resupply station, providing fresh water, food, and other necessities, at Cape Town for its fleet traveling between Holland and its empire in South and Southeast Asia (History, 2011). When the local Khoisan people refused to supply these items on the terms set by the Company, Europeans used firearms to seize control and drove indigenous inhabitants into the interior of Africa (Davenport & Saunders, 2000). The land was then farmed by white Europeans who were mostly former employees of the Company and slaves imported from other parts of Africa and Asia, adding to the ethnic diversity in the territory. In subsequent decades, French Huguenot refugees, the Dutch, and Germans continued to settle in the Cape, forming the Afrikaner segment, accounting for major non-English speaking whites of today's SA population (History, 2011). The process of settler colonization led to a permanent white population as well as a history of oppressive governance in South Africa.

In 1795, France occupied the Netherland, the home country of the Dutch East India Company, thus prompting the British to be wary of losing control over the route to Asia. Great Britain then occupied the territory in order to stop French attempt to reach India (Beck, 2000). After several battles, the British set up a colony, imposing English governance, language and culture, and expanded the colony inland. Encouraged by humanitarian advocates in Great Britain, the British abolished slavery in the British Empire in 1833 (Brendon, 2007). Starting from 1836, the Boers (Afrikaner farmers) grew discontent towards British rule and changes of the policy in freeing slaves. Thus, they undertook a northern migration that became known as the "Great Trek", resulting in a series of inter-group conflicts with natives, such as the Zulu (Davenport & Saunders, 2000). Subsequently, the Boers won and established two independent republics - Transvaal and Orange Free State. In May 1910, the British unified the two republics and the British colonies of the Cape and Natal, and the Union of South Africa was formed (Davenport and Saunders, 2000). The Union of South Africa claimed independence and ended British colonization through

diplomatic measures and it remained as part of the Commonwealth until today (Decker, 2010).

Colonization has long-lasting effects in many ways. First, colonial powers have spread their language, religion, governance system and cultures among those once-colonized countries. Today SA and UK have similar laws and finance systems (Weimer and Vines, 2011). Many South Africans and the British share the same passion for the sports events, such as crickets and rugby. Second, the marginalization of the indigenous population by the dual colonial powers continued and even strengthened by the creation and election of the National Party in 1948, which institutionalized the ideological doctrine of separate development of races, i.e. apartheid (Marx, 1998). The apartheid system led to generations of race and gender hierarchy in the workplace with white men at the top of the management system (Human and Hofmeyr, 1985; Nkomo, 2015). In 1990s, domestic protests, economic struggles and international economic sanctions finally brought an end to apartheid. The first black South African president, Nelson Mandela, was elected in 1994. Many foreign investors who boycotted the apartheid government have returned with new investments and large projects that stimulated South Africa's recent economic growth (Teoh, Welch and Wazzan, 1999), but the workplace discrimination based on the gender and race persists (Carrim, 2016).

South African firms' cross-border acquisitions in developed markets

Having a relatively stable business environment, SA is credited as one of the leading economic powers in the African continent (Ernst & Young, 2012; Jay and Custy, 2004). SA firms initiated close to 37% of the total number of acquisitions in Africa between 2002 and 2013 (Ernst & Young, 2012). Recent EMF researchers suggest, unlike traditional multinationals, EMFs do not usually establish a substantial foundation before they venture abroad. Instead, EMFs seek accelerated internationalization to acquire much needed strategic assets, such as advanced technology and managerial know-how (Elango and Pattnaik, 2007;

Li, Li, and Shapiro, 2012; Luo and Tung, 2007), as well as to escape the institutional constraints back in their home markets where market-supporting formal institutions are less developed (Cuervo-Cazurra and Ramamurti, 2015; Makino *et al.*, 2002; Ramamurti, 2012). For instance, SabMiller, a brewing and beverage company founded in South Africa, has to operate globally to avoid governmental control over foreign exchange usage and to escape from a limited domestic market (Luo and Tung, 2007).

Further, researchers suggest that developed markets with well-established firms and well-developed regulatory institutions have become important destinations for EMFs' strategic asset-seeking investments (Luo and Tung, 2007; Makino *et al.*, 2002; Wright, Filatotchev, Hoskisson, and Peng, 2005). By entering developed markets, EMFs may acquire both traditional and non-traditional strategic assets, such as brands and distribution channels (Makino *et al.*, 2002). A few large scale EMF's cross-border acquisitions' research has employed the event study method and probed the short-term stock market performance of these acquisitions (Aybar and Ficici, 2009; Nicholson and Salaber, 2013). Most of the cross-border acquisition announcements lead to value destruction of stocks except for the cases when EMFs acquire developed market targets (Aybar and Ficici, 2009; Nicholson and Salaber, 2013). Wimberley and Negash (2004) represented one of the earlier research efforts to document the comparative studies of acquisition events between western multinationals and SA firms. They found that both types of firms experienced similar stock market returns after acquisitions. Smit and Ward (2007) further reported that SA acquirers were more inclined to be engaged in acquisitions following a period of superior performance, but these SA acquirers did not experience improved financial performance after the deals. Moreover, aforementioned studies on EMFs' acquisition performance have mainly focused on the financial performance (i.e. stock return) in a short window of time after the acquisition events. The current study contributes to this stream of literature by examining the operating

performance which is influenced by the institutional effects on the post-acquisition integration process.

Institutional distance and cross-border acquisition performance

An institution-based view suggests nations differ significantly in formal and informal institutions (Scott, 1995). While formal institutions define the formal, legally sanctioned rules of game, informal institutions refer to customs, norms and cultural values which powerfully prescribe socially acceptable behaviors (Scott, 1995; Kostova, 1997; Dikova *et al.*, 2010). Specifically, neo-institutional theory defines organizational legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). The neo-institutional theorists suggest that a firm may gain organizational legitimacy and thus increase its likelihood of survival and success, if the firm conforms to the legitimacy requirements in a given institutional environment (DiMaggio and Powell, 1983; Scott, 1995; Liou, Chao and Yang, 2016).

Institutional distance, which denotes the differences in the institutional environments, represents a considerable challenge for foreign acquirers in establishing legitimacy in the host market. Particularly, EMFs generally face a liability of foreignness, additional costs of doing business in a foreign country (Zaheer, 1995), derived from the large institutional distance between the host developed market and the home emerging economy (Kalasin, Dussauge and Rivera-Santos, 2014.). Two salient characteristics of emerging markets include the emerging economic status and the lack of market-supporting formal institutions; both legislative and judicial institutions to facilitate free market transactions (Liou et al., 2016; Meyer et al., 2009). Like many emerging economies, South Africa has gone a long way to transition into a more open market economy. Despite being plagued by corruption among civil servants and violent strikes, South Africa has enjoyed a notable achievement in trade and monetary

freedom, ranked as 7th in the overall Economic Freedom Index in Sub-Saharan Africa (Heritage Foundation, 2014). The unemployment rate is as high as 25% and the GDP (PPP) per capita is $13, 046 in 2014, compared with the GDP (PPP) per capita of $54,629 in the U.S. (World Bank, 2014).

South African firms that conduct cross-border acquisitions are bounded by the resources and capabilities developed at home (Tan and Chintakananda, 2016). Studies on EMFs' acquisitions suggest that on average, the announcement of most cross-border expansions led to value destruction of EMFs' stocks (Aybar and Ficici, 2009). However, EMFs' acquisitions in developed markets are usually associated with short-term positive stock market reaction (Aybar and Ficici, 2009; Nicholson and Salaber, 2013). Less known is EMFs' long-term performance after acquisitions. As latecomers to the global business landscape, South African firms are generally lacking in international experience and organizational capabilities in cross-cultural management (George et al., 2016). Thus, integration may become a major obstacle for them to accrue the benefits of synergy expected after the acquisition events. Especially when facing large institutional distance, namely political and economic distance, SA acquirers may find it difficult to reconcile the different legitimacy requirements in the host developed market and home institutional environment, hence resulting in lower operating performance (Ataullah, Le and Sahota, 2014). Political distance denotes the country differences in the development of market-supporting institutions while economic distance refers to the economic development difference between the home and host markets. Given the large institutional distance between the home emerging economy and host developed market, we argue that SA acquirers are likely to experience the negative impacts of institutional distance on their firm performance.[1]

[1] Thanks to one reviewer's comment, we would like to acknowledge that the negative impacts of institutional distance are also likely to impede EMFs' understanding about the true costs of the targets, hence systematically

Hypothesis 1 (H1): Institutional distance, namely political and economic distance, has a negative effect on South African acquirers' post-acquisition long-term operating performance.

The colonial tie between the host country and South Africa

EMFs are suggested to have non-market advantages which refer to advantages based on resources developed by the firm to operate in a country's institutional environment (Cuervo-Cazurra and Genc, 2011). Emerging economies were characterized as low in environmental munificence and high in environmental uncertainty because of less developed economy and institutions (Alon, Yeheskel, Lerner and Zhang, 2013; Peng, Wang and Jiang, 2008). For a firm to be successful in an emerging economy, it needs to master navigating the informal institutions, and deal with the uncertainty associated with changing regulations and governmental interventions (Hoskisson, Eden, Lau, and Wright, 2000). Thus, successful EMFs are credited as institutional entrepreneurs who can adapt easily to changing institutional rules (Lall, 1983).

Informal institutions, such as through interpersonal network and cultural understanding, become invaluable resources for EMFs to reduce uncertainty and navigate through the unstable formal institutional environment at their home market. Despite their latecomer disadvantages and home institutional constraints, successful EMFs are shown to be nimble players with great flexibility to compete with established giants (Mathews, 2006; Wright *et al.*, 2005). In particular, African firms have been shown to rely on the social capital residing in community ties to gain legitimacy and improve firm performance (Acquaah, 2007; Nyambegera, 2002). Likewise, we expect that British and Dutch influences through colonization in South Africa in the past centuries can provide SA acquirers the needed familiarity with the target market in the U.K. and the Netherlands (Ahuja and Yayavaram

overpaying for the targets, which may reduce the short-term market performance. In the current paper, we focus on the aspect of the on-going management after the acquisitions and study the long-term operating performance.

2011). The colonization history aligns the language, religion, and certain aspects of culture between the home and host markets so that the SA acquirers can further enhance the integration with the target, thereby improving the post-acquisition long-term operating performance.

Hypothesis 2a (H2a): The home-host colonial tie improves South African acquirers' post-acquisition long-term operating performance.

While it is plausible that the SA acquirers improve their understanding of the host market through colonization history, there can be negative effects associated with perceived status differences between the acquirer and target because of the colonization history. The perceived status differences between the once-dominant group and the less powerful group may generate hostility and a sense of social injustice that will hamper employees' identification with the merged entity (van Vuuren, Beelen, and de Jong, 2010). The colonization history proves to have done much harm on the economic development in African countries because of labor exploitation and resource depletion (Jones, 2013; Nunn, 2007). Considering SA acquirers' acquisitions in more developed nations, we posit that it is also likely that the perceived status differences may put the acquiring firm in a disadvantageous position to integrate the target firm as the target employees may still have the mental framework of having a more dominant position (Ellis *et al*., 2015; van Vuuren *et al*., 2010). On the other hand, the SA employees may also have hostility towards the employees in the once-colonizing country. Hence, we do not exclude the possibility of a negative impact of the host-home colonial tie on post-acquisition long-term operating performance and provide a competing hypothesis as follows.

Hypothesis 2b (H2b): The home-host colonial tie decreases South African acquirers' post-acquisition long-term operating performance.

The moderating role of the host-home colonial tie

Considering potential positive and negative effects residing in the SA's colonial tie with the host market, we will offer the following competing hypotheses for the interaction effect between the colonial tie and institutional distance on the post-acquisition operating performance. On the one hand, it is likely that SA's colonial tie may enhance SA acquirers' understanding of the host country practices and alleviates the legitimacy threat that resides in the institutional distance, thereby mitigating the negative effect of institutional distance on South African acquirers' post-acquisition long-term operating performance. For instance, Peng and Luo (2000) used survey data from China and demonstrated that managers' micro interpersonal ties with top executives at other firms and with government officials help improve macro organizational performance.

As suggested by Kalasin et al. (2014), EMFs generally are lacking in the common practices in market-oriented corporate governance. At home, EMFs rely on extensive personal network to negotiate for favorable terms and diversify into different businesses. Entering the developed markets, SA acquirers would need to substantially alter their corporate governance structure to gain legitimacy, thereby soliciting support from stakeholders in the developed market. Due to the colonization history, SA acquirers presumably can leverage their familiarity with the host developed economy and/or hire top managers who have been working in the host developed market to help with the organizational transformation.

Hypothesis 3a (H3a): the home-host colonial tie mitigates the negative association between the institutional distance and post-acquisition long-term operating performance.

On the other hand, as stated above, the colonization history may put the SA acquirer in a negative light. The perceived status difference increases the difficulty of integration and

limits the synergies from institutional differences (Ellis *et al*., 2015; van Vuuren *et al*., 2010). Le Nguyen and Larimo (2015) researched EMFs cross-border acquisitions in developed markets and concluded that EMFs face country-of-origin liability in addition to liability of foreignness. The developed market stakeholders may have a negative reaction towards the new owner of the acquired unit since they feel their national pride is suffering (Le Nguyen and Larimo, 2015; Sauvant, 2008). More specifically, local suppliers and distributors may refuse to continue cooperating with the acquired unit, thus hampering the post-acquisition operating performance (Le Nguyen and Larimo, 2015). Therefore, we posit that the colonization history may further exacerbate the negative impacts of institutional distance and increases the liability of foreignness, thereby decreasing SA acquirers' post-acquisition operating performance.

Hypothesis 3b (H3b): the home-host colonial tie exacerbates the negative association between the institutional distance and post-acquisition long-term operating performance.

METHOD

Our study focuses on the acquisition activity of the South African firms in the developed markets. We collect data on cross-border acquisitions from SDC Platinum of Thomson Financial Securities Database, which has been widely used in studies involving cross-border activities (Tan and Chintakananda, 2016; Liou et al., 2016). We collected all deals fulfilling the following criteria: (i) the acquisition was completed; (ii) the bidder owned a majority stake in the target company after the transaction; (iii) the home country of the bidder is South Africa. The data includes transaction value, percentage of shares acquired and owned after the transaction, country and industry of each bidder and target, and mode of payment. In addition, to be included in the sample, bidding and target firms need to have accounting data available for at least three years before and after the takeover. We use OSIRIS and FAME

databases to collect accounting data up to three years prior and after each transaction. Prior studies have suggested that data earlier than 1990s in developing countries are potentially problematic given their less established accounting standards and lack of clean data (Tan and Chintakananda, 2016). Hence, we selected deals that were completed between 1994 and 2012 and collected performance data for the years 1991-2015. This procedure is consistent with empirical research in this area as performance induced from corporate takeovers might not materialize for several years (Healy et al., 1992).

Table 1 presents descriptive statistics of our final sample of 73 acquisitions conducted by the South African firms in developed markets, with 31 deals in the U.K. and 3 deals in the Netherlands. During the sampling period, the number of acquisitions from South Africa increased from 1994 to 2000 and dropped till the year of 2005. Then the number of acquisitions increased again until the year of 2008. Also, during the global financial crisis in 2007-08, the acquisition from SA increased keeping with trends observed by other authors in other sectors who discuss the emergence of cross-border acquisitions from emerging economies during the post-crisis period (Rao-Nicholson and Salaber, 2015).

Insert Table 1 here

Measures used in the empirical model

Dependent variable

We use accounting-based measures to evaluate the post-acquisition operating performance because the synergy between acquiring and target firms may take a number of years to realize (Rao-Nicholson et al., 2016) and is best observed by looking at long-term accounting measures such as the return on assets (Hitt et al., 1998; Papadakis and Thanos, 2010; Thanos and Papadakis, 2012a, 2012b). Additionally, using several measures in a single study gives a

more holistic view of the post-acquisition operating performance (Thanos and Papadakis, 2012a). Hence, following Bertrand and Betschinger (2012), Papadakis and Thanos (2010) and Zollo and Meier (2008), we calculate three measures of post-acquisition operating performance: the combined return on equity (ROE) measuring the firms' profitability (used in the main results), return on assets (ROA), and Profit Margin (used in the robustness checks) (Thanos and Papadakis, 2012a).

The pretax cash flow, an accounting-based performance measure used in this study, is defined as sales, minus cost of goods sold and selling, general, administrative expenses, plus depreciation (Healy et al., 1992; Sudarsanam, 2003). Rather than using raw operating cash flow, the usual approach is to deflate them before and after the deal, in order to make financial ratios comparable between companies and over time. Common bases used to scale operating cash flows are the book value of assets and sales (Clark and Ofek, 1994). Hence, we calculate two cash flow returns of the combined firm (i) for each year (t):

Return on equity $\mathrm{ROE}_{i,t} = \frac{\mathrm{CF}_{i,t}}{\mathrm{EQUITY}_{i,t}}$

Return on assets $\mathrm{ROA}_{i,t} = \frac{\mathrm{CF}_{i,t}}{\mathrm{ASSETS}_{i,t}}$

where CF is the pretax cash flow (EBITDA) and EQUITY is the shareholder equity of the combined firm at the end of the year. The accounting figures of target and bidding firms are aggregated in the years before the acquisition. Following Martynova et al. (2007), pre-acquisition cash flow returns of the combined firm are calculated as the sum of cash flows of both firms scaled by the sum of their total assets or sales at the end of the year. Researchers have suggested that prior to empirical analysis, the data on operation performance needs to be checked and any outliers removed to ensure that the analysis captures the operating performance of the firm that is not affected by extra-ordinary items on the income sheets in the given year (Barber and Lyon, 1996). There were no exceptional items or outliers in our sample which would have required treatment to control for bias in our analysis. We repeat

this process of yearly ROE and ROA calculation for our sample firms for three years before and three years after the acquisitions.

Creation of peer sample

To examine the changes in long-term operating performance after an acquisition, we evaluate the performance of the benchmark firm against our sample firms. To isolate the impact of the acquisition on performance, we need to find a relevant benchmark for each transaction. To control for other observables affecting the sample firms, extant literature has suggested two possible ways. First, we adjust the sample firm's performance to industry trend (Healy et al., 1992). Second, the sample firms involved in the acquisitions can be matched to the non-acquiring firms based on several criteria like their industry, asset size and performance measures (Barber and Lyon, 1996; Martynova et al., 2007).

Our first benchmark controls for industry effects (Healy et al., 1992). Hence, a separate industry portfolio is created for each acquirer and target firm, which consists of all firms with the same two digits SIC code. To control for industry size, the pool of firms is reconstructed every year. The firm with the median value of operating cash flow return is then selected as the industry median control firm. *IAROA* is the industry-adjusted return on assets, and *IAROE* is the industry-adjusted return on equity.

$$IAROE_i = ROE_{i,t} - median\ ROE_{ind\_peer,t}$$

$$IAROA_i = ROA_{i,t} - median\ ROA_{ind\_peer,t}$$

To create the benchmark using the second method, we use OSIRIS and FAME database to identify the industry, size and performance matched peer firm for each acquirer. Initially all the firms in the same industry group as the acquirer are collated together and then the industry-peers closet to our sample firm in terms of its asset size in the year of acquisition are selected. In the last stage, we choose a peer firm that is closed to our sample firm in terms of its long-term operating performance in the year of the acquisition. Following Barber and

Lyon (1996) and Martynova et al. (2007), we decided to keep the same matched firm for each year of analysis which belonged to the same industry comparison group. Finally, this peer company's data is collected for our analysis.

$$IAROE_i = ROE_{i,t} - ROE_{ind\_size\_performance\_peer,t}$$

$$IAROA_i = ROA_{i,t} - ROA_{ind\_size\_performance\_peer,t}$$

A cautionary note needs to be mentioned here about these measures as they are not without limitations as highlighted by several authors (see Papadakis & Thanos, 2010 for a review). The key apprehension about using such accounting measures is the fact that these data represent aggregate information for the whole organization (Chenhall and Langfield-Smith, 2007). Nevertheless, in our study, similar to Papadakis and Thanos (2010) who examine deals in a market where it is a relatively new phenomenon, it can be argued that deal related decision-making might be more intuitive than analytical. Similarly, the intensity of acquisition of our sampled firms is low which implies they do not engage in multiple deals during the period of our study, we believe that there are potentially fewer confounding events than those observed for UK and USA firms undertaking cross-border activities. We do not observe firms undertaking multiple deals in the same year in our sample.

Empirical model

We then perform a multivariate analysis to look at the effect of each variable on our adjusted performance measures. Hence, we regress our two measures of post-acquisition long-term operating performance on various deal characteristics and control variables, based on the following cross-sectional OLS model:

$$\text{ADJ\_PERF}_i(\text{post}) = \alpha_0 + \alpha_1 \text{ADJ\_PERF}_i(\text{pre}) + \alpha_2 INSTITUTIONALDIST_i + \alpha_3 COLONIALTIE_i + \alpha_4 INSTITUTIONALDISTXCOLONIALTIE_i + \alpha_5 \text{CONTROLS} + \varepsilon_i$$

where $ADJ\_PERF_i(post)$ is the post-acquisition adjusted operating performance of the combined firm (measured by $IAROA_i$, and $IAROE_i$,) and $ADJ\_PERF_i(pre)$ is the pre-acquisition adjusted performance of the combined firm.

In the presence of interaction terms, the conditional estimation techniques are favorable to unconditional estimation methods (Holburn and Zelner, 2010). Nevertheless, our analysis shows minimum bias emerging from use of unconditional estimators. Hence, we present both unconditional and conditional analysis results for our baseline models, and present results from unconditional estimator in our main specification. We discuss this further in our results section.

Independent variables

We use Berry, Guille´n and Zhou (2010) indicators for institutional distance, including both political distance and economic distance. Berry et al. (2010) measure political distance (POL_DISTi) using the following data - political stability measured by considering independent institutional actors with veto power, democracy score, government consumption (% GDP), membership in WTO (GATT before 1993), and dyadic membership in the same trade bloc (Whitley, 1992; Henisz, 2000; Henisz and Williamson, 1999).

The economic distance (ECO_DISTi) in Berry et al. (2010) is measured using - GDP per capita (2000 US$), GDP deflator (% GDP), exports of goods and services (% GDP), and imports of goods and services (% GDP) (Whitley, 1992; Caves, 1996). The distance between two countries is calculated by using the Mahalanobis distance method and is equivalent to Euclidean distance calculated with the standardized values of the principal components. Further details on the theoretical justification on use of these component variables, their calculation and measures are provided in Berry et al. (2010).

The colonial tie (COLONIAL_TIES) is measured by a dummy variable which takes the value of one if the targets are based in the UK or the Netherlands and zero in all other cases. Though SA firms share colonial history with both the UK and the Netherlands, as shown in Table 1, in terms of foreign investments, SA firms are more likely to engage with the UK firms.

Control variables

We include several control variables in this empirical analysis. We use Berry *et al.* (2010) definition for cultural distance and use their data in our analysis ($CULT\_DIST_i$) and unlike some other indicators for cultural distance their work included yearly calculations for cultural distance. The cultural distance variable is measured as the difference in attitudes towards authority, trust, individuality and importance of work and family. This measure takes the values obtained from World Values Survey (Inglehart, 2004).

We need to control for variation arising from various sources: the deal-level, firm-level and sector-level differences. $CASH_i$ is a dummy variable equal to one when the deal is all cash financed, zero otherwise. Linn and Switzer (2001) find that cash acquisitions are associated with better post-acquisition operating performance. $SAMEIND_i$ is a dummy variable taking the value of one when both bidder and target firms have the same first two SIC digits. Studies have shown that 2-digit match is suitable statistically to 4-digit match and the 2-digit match does not experience any performance loss in terms of the explanatory power of the regressions (Barber and Lyon, 1996).The diversification versus consolidation effects have been widely studied in the literature (Denis et al., 2002; Shleifer and Vishny, 2003; Moeller and Schlingemann, 2005) and we control for the effect of consolidation in our study by including whether the target and bidder are in the same industry.

$PERCENTACQ_i$ represents the percentage of target share owned after the transaction. The ownership concentration can have effect on the deal performance (Moeller and Schlingemann, 2005; Nicholson and Salaber, 2013). $BUSINESS\_GROUP\_A_i$ is a dummy variable that represents if the acquirer is part of a business group and equal to one, zero otherwise. Popli and Sinha (2014) have highlighted the impact of business group association on foreign investment. The information of the acquirer's business group affiliation was obtained from OSIRIS and FAME database.

HIGHTECH(T)$_i$ is a dummy variable which is equal to one if the target belongs to high technology industry, zero otherwise. The studies have shown that high technology firms can leverage the acquired firms' existing knowledge as an input to their own innovation processes (Puranam and Srikanth, 2007; Makri *et al.*, 2010) and this can have a positive effect on the long-term performance of acquirer firms. We also include a proxy for acquirer size by using the log of the acquirer's assets *(LOG_ASSETS(A))*$_i$. Extant studies have shown that size of the acquirer firms will have an effect on deal performance (Moeller *et al.*, 2004). The acquirer's asset data was obtained from OSIRIS and FAME database.

The geographical distance indicator is included to control for geographical distance effects (*GEO_DIST*$_i$) and FOREX to indicate impact of currency fluctuations. The geographical distance can have a substantial influence on the deal performance (Ghemawat, 2001; Berry *et al.*, 2010). In his widely-used CAGE framework, Ghemawat (2001) suggests that a lack of geographical distance is positively related to trade links between countries. In our study, we use the Berry et al.'s (2010) construction of geographical distance. The geographical distance is defined as the great circle distance between two countries according to the coordinates of the geographic center of the countries. Buckley *et al.* (2012) show that foreign investment is related to foreign exchange rate variation. Following Cakici et al. (1996), the relative strength of the exchange rate is calculated as the deviation of the foreign exchange rate at announcement date from its 12-month average. The data on foreign exchange was obtained from Oanda website.

Table 2 reports the correlation coefficients (and statistical significance) across all our variables. Overall, most variables are not significantly correlated. We do not observe any significant correlations that could bias our analysis. Consistent with extant literature, both ROE and ROA pre-acquisition values are higher than the post-acquisition values (Parrino and Harris, 1999; Clark and Ofek, 1994; Dickerson et al., 1997; Yeh and Hoshino, 2002;

Papadakis and Thanos, 2010; Sharma and Ho, 2002; Mantravadi and Reddy, 2008; Bertrand and Betschinger, 2012). We also include industry and year dummies in our empirical models.

Insert Tables 2 here

RESULTS

In this section, we explore the combined effect of the determinants of the post-acquisition long-term operating performance in a multivariate framework. Table 3 and 4 present the coefficient estimates from the cross-sectional analysis for each performance measure and for different combinations of the independent variables. The dependent variable is the post-acquisition adjusted operating performance (*IAROE* and *IAROA*) and *ADJ_PERF(pre)* is the corresponding pre-acquisition performance. In this analysis, robust standard errors (White estimator) were used. The coefficients in the non-linear, conditional regression models do not indicate the marginal effects, thus, making any direct interpretations difficult. Also, coefficients in the conditional regression models do not represent a cross-partial derivative as observed in the liner regression models (Holburn and Zelner, 2010, Ai and Norton, 2003, Hoetker, 2007, Brambor, Clark, and Golder, 2005). In this respect, the coefficients and standard errors do not necessarily tell us any meaningful information on the interaction terms in the model and hypotheses related to them.

Following, Holburn and Zelner (2010), we adopted the approach suggested by King, Tomz and Wittenberg (2000). In this methodology, simulation techniques are used to draw new values of the estimates from the multivariate normal distribution. For example, M draws are made from the multivariate normal distribution with mean β, the estimated coefficient vector, and variance matrix $V(\beta)$ which is the estimated variance-covariance matrix for the coefficients in the model. In this case, M draw will lead to M estimated coefficient vectors.

These estimated coefficients help researchers to draw meaningful inferences from their analysis. In this present work, the variable of interest is the institutional distance and its estimates are conditional on values of colonial tie. In order to calculate confidence intervals for this estimated difference for this simulated model, we used the parameters 1000 times using King, Tomz and Wittenberg's (2000) "CLARIFY" commands for Stata.

Columns 1 and 1a in Table 3 consists of baseline model estimated using conditional and unconditional estimators, respectively. Similar to Holburn and Zelner (2010), we observe that estimated coefficients and their corresponding standard errors are similar in both columns. Thus, our preliminary analysis shows that the choice of unconditional estimator over the conditional estimator has minimal impact on our analysis results. Hence, we report only unconditional estimates in rest of these tables.

Insert Tables 3 and 4 here

In Tables 3 and 4, we observe that among the institutional distance measures only political distance and colonial tie have a significant impact on post-acquisition operating performance. In Table 3, we observe clear and significant impact of the moderating effect of the colonial tie. In columns (5) and (7), we observe that colonial ties have negative and significant effect on the post-acquisition ROE. At the same time, the interaction effect variable (POL_DIST X COLONIAL_TIES) is positive and significant, implying the positive interaction effect of colonial tie and political distance on post-acquisition ROE.

In the full model, presented in Table 3 - column (7), we see that political distance has a negative and significant impact on the ROE. We don't find a significant relationship between the economic distance and ROE nor do we observe interaction effects to be significant in this case. In Table 4, we find that only political distance has negative and

significant effect. ROA performance in the post-acquisition period is negatively affected by the political distance between the SA and the target countries. This could be reflective of the difficulty that SA firms experienced in adapting to the host government policies. Thus, we find no support for our Hypotheses 2a and 3b, whereas, we find some support for our Hypotheses 1, 2b and 3a.

In Table 3 and 4, as expected, past performance is significantly and positively related to the future operating performance. In Table 3, we see that the industrial consolidation has a positive effect on the post-acquisition operating performance. SA firms perform better if they choose to acquire firms in the same industry. Also, higher level of ownership has negative impact on operating performance (ROE) and could imply the challenges of the liability of foreignness faced by these SA companies as they try to integrate the target's operations with the parent company.

The mode of payment in the form of cash payments for acquisitions is positively and significantly linked to both the post-acquisition operating performance indicators, *ROE* and *ROA.* The firms can undertake cash payments either through their own cash reserves or through access to cheap or favorable banking loans. In either case, access to cash channels will help firms undertake valuable acquisitions at the opportune time unlike other firms which might be challenged by cash constraints. It can be argued that EMFs which have access to cash derive value and synergy from their cross-border deals by potentially finding better use for their slack resources through cross-border acquisitions. South African firms' acquisitions in high-tech industry negatively impact the post-acquisition operating performance (ROE, ROA). One argument for this could be the limited experience of South African firms in this sector, especially at the global levels. For example, according to South African Innovation Survey (2003) data, only 5% of the South African large firms had any partnership or external alliance experience. In 2008, though this number had risen to 20% on

average, much of the alliance activities were concentrated in services sector (36%) (South African Innovation Survey, 2008). This limited engagement with outside stakeholders and firms might be limiting factors (Sawers et al., 2008), especially, in high technology industry where employees will be expected to work together for exchange of implicit and explicit knowledge. Thus, SA firms will benefit by focusing on the sectors with which they have been traditionally associated with and have deeper strategic understanding of the business environment, both domestic as well as international.

In Table 4, we see that the business group membership has a positive effect on these performance measures. Extant literature has shown that business group membership enhances the ability of firms to absorb the synergies from cross-border acquisitions (Khanna and Palepu, 2000; Guillén, 2000; Yaprak and Karademir, 2010). We also observe in the full model (column (7)) that geographical distance has a positive effect on the post-acquisition operating performance. This result is inconsistent with the results obtained in contemporary research. SA might be a special case, being at the southern end of the African continent, almost all of the advanced market targets are geographically far from South Africa and therefore the geographic distance relationship with post acquisition performance might not be consistent in this study compared to previous studies.

Robustness check

We undertook a series of tests to verify the robustness of our results. We used Profit Margin as another variable of interest and used the pre- and post-acquisition values to undertake the analysis as above. Our result for this profitability measure was similar to the results obtained in Table 4. Also, instead of 3-year time window for pre- and post-acquisition performance, we decreased this window to one year in the pre- and post-period; using one year time-window on either side of the deal event. Our results are like those observed in Tables 3 and 4.

In addition, instead of regressing ADJ_PERF(post) on ADJ_PERF(pre) and other variables, we directly used the difference in adjusted performance as the dependent variable. Following other studies (Ramaswamy, 1997; Zollo and Singh, 2004), we calculated for each deal the difference between post-acquisition and pre-acquisition operating performance and tried to explain the change using our explanatory variables. Again, our conclusions remain unchanged. Finally, we used the second method of peer selection suggested by Barber and Lyon (1996) and Martynova et al. (2007). In this case, the peer selection was done by matching sample firm to a peer firm which was from same industry, of same size and performance. The results of this robustness were similar to those evidenced in this paper.

We also used different control variables in our empirical model. First, we used alternate indicators for cultural distance (Hofstede's cultural distance (Kogut and Singh, 1988; Morosini et al., 1998; Beugelsdijk, Maseland and Hoorn, 2015) and institutional indicators (economic freedom index developed by the Heritage Foundation (Meyer et al., 2009) in our regression models. The results of these analyses are similar to the results obtained in Table 3. Second, we used STOCK as an explanatory variable instead of CASH and our results were not qualitatively different from the ones presented in the above tables. Third, instead of just controlling for business group membership for acquirer firm, we also include dummy variable which controls the effect of business group membership for the target firms. Forth, instead of SAMEIND2, we used a dummy variable to control for same industry acquisitions at 4-digit level (SAMEIND4). Again, our conclusions remain unchanged.

DISCUSSION

The African continent is the last frontier of international business research (Klingebiel and Stadler 2015). Along with challenges, this context also provides an interesting avenue for conducting innovative research in strategic management, especially in the context of cross-border acquisitions. Indeed, African countries with their rich history, institutional context and

colonial ties provide a suitable platform to examine the impact of institutional distance and colonial ties on African foreign acquisitions in the developed economies. Kligebiel and Stadler (2015: 198) argue that "extant theoretical conceptions of the boundary of the firm, risk, or diversification, for example, seem to fly in the face of certain observable realities in African economies." Our study benefits from the colonial past of South Africa and helps us examine the impact of contemporary institutions on the cross-border acquisitions by the South African firms and how historical colonial ties can moderate these contemporary realities. We argue that our work provides novel insight into South Africa's uniquely constrained context and is a valuable step towards bringing African empirics into the broader strategy narrative.

We observe that institutional factors and colonial ties have differing effects on various measures of operating performance. Return on Equity (ROE) exemplifies how company's management uses investors' money and whether management is growing the company's value at an acceptable rate. The results show that South African firms' ROE after acquisitions can benefit from the colonization history to mitigate the negative impacts of the institutional distance. Return on Assets (ROA) indicates how much profit a company earns from every South African Rand of its assets. The results indicate that post-acquisition ROA is not affected by the colonial ties and institutional distance, which could indicate the large amount of leverage used for the African acquirers to attain their assets.

We contribute to the literature in multiple ways. First, we provide evidence on the impact of institutional distance on post-acquisition operating performance of South African acquisitions in the developed markets. International business researchers have recognized both positive and negative effects of institutional distance (Reus and Lamont, 2009; Stahl and Tung, 2015). South African firms generally lack the capabilities to overcome these negative effects and therefore, large institutional distance, specifically political distance impacts

negatively on their post-acquisition operating performance. Second, we add to the discourse on colonial ties and how it can moderate the impact of institutional distance on the post-acquisition operating performance. The colonization history puts the SA acquirers in a disadvantageous position to integrate with the target in the developed market. However, faced with large institutional distance, specifically political distance, SA acquirers benefit from their colonization history to alleviate the legitimacy threat derived from this political distance. Finally, this work highlights the salient feature in the strategic management of cross-border acquisitions by the South African firms and how these internationalizing firms can derive value in cross-border transactions by focusing on countries with a shared history, such as through South Africa's colonial ties to the developed nations. As the extent of economic development status improves among African countries, more and more African firms are engaged in cross-border transactions. It remains an important inquiry to investigate how colonial ties may similarly alleviate liability of foreignness for firms from other African countries.

Limitation and future research

Zoogah, Peng and Woldu (2015) have recently proposed institutions and organizational resources as two major theoretical building blocks to study the organizational effectiveness in Africa. Indeed, not all African firms can effectively align their organizational resources to absorb the learning opportunities afforded in the developed markets (Zoogah *et al.*, 2015). In the current study, we examine the moderating role of colonial tie between institutional distance and post-acquisition operating performance. We encourage researchers to further study the African firm level characteristics that are effective in alleviating the legitimacy threat presented by institutional distance.

Klingebiel and Stadler (2015) discuss data availability for strategy research in the African context. As this research shows, albeit difficult and time-consuming, it is possible to

develop a robust database and measures to examine the post-acquisition operating performance of South African acquirers. Though not sufficiently representative for the whole of the African continent, this work highlights the difficulty as well as usefulness of developing pan-African databases to examine the impact of cross-border acquisitions by African firms. We urge other authors to conduct further research in this area by examining other acquisitions from the African continent. To continue research in this area, future researchers can gather data either by means of primary data collection via interviews and develop case studies or conduct surveys of managers engaged in the African context. Also, different performance measures can be used to test the outcome of the African firms as they acquired targets in developed countries. For example, market-based measures like book-to-market values and Tobin's Q can be used to examine the long-term impact of foreign acquisitions of the African multinational companies[2].

CONCLUSION

This study contributes to the emergent literature on African cross-border business activities, especially those in advance economies. We focus on the South African deals in advanced economies and examine the effect of colonial ties on cross-border acquisitions. We demonstrate that though colonial tie has a negative effect on the post-acquisition performance of the firm, it has a positive moderating effect on the differences in the political institutions between the home-host countries. Our research highlights the fact that the colonial history has negatively impacted international activities, yet, on the other hand, values and norms embedded in the home country due to colonial history can mitigate some of the liabilities in the foreign markets. In this study, colonial history clearly influences the firm-level performance for companies engaging in international acquisitions. Managers from countries with colonial history, both African and non-African countries, can use the results of this

[2] We would like to thank one of our reviewers for suggesting this future direction of work.

research to leverage their colonial past and develop strategies that mitigate their liabilities in cross-border activities. There is still much work to be done in this area of research as we explore the direction and impact of cross-border investment by the African firms.

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Table 1. Sample description

Panel A: Completion year					
Year	Number of deals	Mean value of deals per year ($ millions)	Number of deals with deal value	Minimum deal value ($ millions)	Maximum deal value ($ millions)
1994	1	1143.48	1	-	1143.48
1996	1	118.36	1	-	118.36
1997	1	1312.90	1	-	1312.90
1998	4	90.15	2	43.00	137.30
1999	4	2137.91	1	-	2137.91
2000	8	18.41	4	6.00	30.82
2001	7	109.89	7	9.21	443.48
2002	2	261.14	2	42.29	480.00
2003	3	65.47	3	5.72	107.30
2004	3	104.11	3	36.76	171.25
2005	2	170.72	1	-	170.72
2006	4	200.69	2	86.96	314.43
2007	7	458.67	6	5.89	2053.48
2008	8	223.80	7	0.18	1081.78
2009	4	105.01	4	39.01	244.00
2010	3	242.79	2	69.58	416.00
2011	4	726.08	4	1.50	1062.69
2012	7	15.71	1	-	15.71

Source: Thomson One database

Panel B: Target Nation

Country	Nº of deals
Australia	11
Austria	1
Canada	6
Finland	1
France	1
Germany	1
Isle of Man	1
Luxembourg	1
The Netherlands	3
New Zealand	1
Singapore	1
United Kingdom	31
United States	14

Source: Thomson One database

Table 2. Descriptive statistics and correlation matrix

		Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(
(1)	ROE_{post}	-1.309	82.09	1.000													
(2)	ROA_{post}	5.577	11.35	0.6418*	1.000												
(3)	ROE_{pre}	19.383	58.00	0.4699*	0.3762*	1.000											
(4)	ROA_{pre}	7.339	32.11	0.8387*	0.6602*	0.8044*	1.000										
(5)	POL_DIST	225.228	72.23	-0.2426	-0.1280	-0.1218	-0.2009	1.000									
(6)	ECO_DIST	7.927	6.18	-0.0385	0.1507	-0.0820	-0.0494	0.1557	1.000								
(7)	CULT_DIST	19.032	8.16	0.0567	0.0207	0.0405	0.0834	-0.0688	-0.0668	1.000							
(8)	COLONIAL_TIES	0.424	0.49	0.1945	0.0887	0.3528*	0.3384*	-0.3480*	-0.2175	0.3855*	1.000						
(9)	SAMEIND2	0.534	0.50	-0.0782	-0.1235	-0.3700*	-0.2670	0.0048	0.1587	-0.0523	-0.3646*	1.000					
(10)	PERCENTACQ	83.33	27.17	-0.2104	-0.2627	-0.0461	-0.1994	-0.0913	-0.1385	-0.0197	0.0524	0.0995	1.000				
(11)	CASH	0.356	0.48	0.0964	0.0672	-0.0103	0.0454	0.4291*	0.0779	-0.2582	-0.1181	0.0636	-0.2778	1.000			
(12)	BUSINESS_GROUP_A	0.808	0.39	0.0447	0.0672	-0.2343	-0.0553	0.1377	0.0698	-0.0056	-0.0039	-0.0363	0.0556	0.0717	1.000		
(13)	SIZE	43.324	6.32	-0.0351	0.1700	-0.0016	-0.0319	0.1243	0.2176	0.1773	-0.1913	0.2375	-0.1462	0.0754	-0.0468	1.000	
(14)	HIGHTECH(T)	0.191	0.39	-0.4118*	-0.3265*	-0.1938	-0.3839*	0.0454	0.2579	-0.2709	-0.2073	0.0363	0.0944	0.1463	0.1489	0.1686	1
(15)	GEO_DIST	10640.520	2669.75	-0.3375*	-0.1845	-0.2680	-0.4104*	0.4911*	0.0566	0.0230	-0.5091*	0.1602	0.0077	0.0598	-0.0649	0.5797*	0 *
(16)	FOREX	62.110	328.52	-0.0116	-0.1052	-0.1828	-0.0721	-0.3320*	-0.0348	0.3845*	0.0726	0.1490	-0.0165	-0.1216	0.0813	-0.1512	- 0

* Significance of correlation at $p<0.01$

Table 3. Post-acquisition performance and institutional and cultural distances and colonial ties (Return on Equity - ROE)

VARIABLES	(1a)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
POL_DIST			-0.533			-0.777		-1.094*
			(0.436)			(0.488)		(0.634)
ECO_DIST				-0.705			-0.717	1.609
				(1.141)			(1.141)	(1.508)
COLONIAL_TIES					35.610	-187.800*	60.890	-291.500*
					(52.900)	(93.870)	(217.800)	(170.500)
POL_DIST X COLONIAL_TIES						1.046**		1.053**
						(0.482)		(0.484)
ECO_DIST X COLONIAL_TIES							-3.787	12.060
							(33.700)	(25.710)
CULT_DIST	-0.149	-1.413	-1.685	-1.444	-1.729	0.0239	-1.835	0.377
	(1.073)	(1.243)	(1.178)	(1.250)	(1.236)	(1.422)	(1.191)	(1.348)
$IAROE_{pre}$	0.642***	0.714**	0.726**	0.715**	0.727**	0.718**	0.727**	0.718**
	(0.400)	(0.314)	(0.304)	(0.316)	(0.318)	(0.282)	(0.319)	(0.286)
SAMEIND2	13.986	20.280	36.850	20.060	27.930	51.180	27.470	57.640
	(16.250)	(22.150)	(27.060)	(22.570)	(26.280)	(31.030)	(27.660)	(34.830)
PERCENTACQ	-0.404	-0.277	-0.455	-0.313	-0.357	-0.653*	-0.395	-0.623*
	(0.401)	(0.288)	(0.291)	(0.301)	(0.276)	(0.330)	(0.299)	(0.343)
CASH	47.157**	50.940**	63.820**	52.060*	50.480**	62.730*	51.970*	67.000*
	(23.100)	(24.600)	(31.000)	(26.120)	(24.390)	(31.600)	(27.700)	(33.450)
BUSINESS_GROUP_A	42.712	43.640	46.980	43.470	47.270	43.510	47.350	42.800
	(39.804)	(40.720)	(40.500)	(40.700)	(42.860)	(38.490)	(44.280)	(39.110)
SIZE	1.602	1.951	0.807	2.300	2.074	1.051	2.282	-0.0297
	(1.777)	(1.251)	(1.193)	(1.539)	(1.289)	(1.032)	(1.961)	(1.910)
HIGHTECH(T)	-86.747**	-	-	-	-	-86.370**	-	-89.610**
		89.720**	87.540**	87.670**	87.380**		85.790**	
	42.663	(34.080)	(32.500)	(32.670)	(33.250)	(32.010)	(34.260)	(35.530)
GEO_DIST	-0.006	-0.005	0.002	-0.006	-0.002	0.005	-0.003	0.009
	(0.005)	(0.004)	(0.006)	(0.004)	(0.005)	(0.007)	(0.006)	(0.009)
FOREX	1.29	2.513	0.646	2.127	-0.514	-3.927	-1.155	-1.520
	(1.51)	(2.099)	(2.880)	(2.223)	(5.625)	(5.559)	(5.991)	(5.403)
Year Dummies	Included	Included	Included	Included	Included	Included	Included	Included
Industry Dummies	Included	Included	Included	Included	Included	Included	Included	Included
Constant	21.260	23.110	61.210	24.310	-18.610	139.800	-5.628	148.500
	(70.236)	(83.320)	(92.480)	(84.370)	(115.600)	(91.100)	(156.200)	(123.600)
Observations	73	73	73	73	73	73	73	73
R-squared	0.453	0.650	0.669	0.651	0.655	0.711	0.656	0.715
Adj- R-squared	0.360	0.4105	0.4298	0.3984	0.4043	0.4747	0.3762	0.4545

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 4. Post-acquisition performance and institutional and cultural distances and colonial ties (Return on Assets - ROA)

VARIABLES	(1) $IAROA_{post}$	(2) $IAROA_{post}$	(3) $IAROA_{post}$	(4) $IAROA_{post}$	(5) $IAROA_{post}$	(6) $IAROA_{post}$	(7) $IAROA_{post}$
POL_DIST		-0.0215			0.0116		-0.101*
		(0.054)			(0.072)		(0.059)
ECO_DIST			0.262			0.242	0.541
			(0.321)			(0.334)	(0.372)
COLONIAL_TIES				6.506	10.590	-25.330	-35.940
				(5.453)	(9.637)	(32.160)	(36.930)
POL_DIST X COLONIAL_TIES					-0.020		-0.013
					(0.043)		(0.047)
ECO_DIST X COLONIAL_TIES						4.820	5.644
						(4.606)	(4.734)
CULT_DIST	-0.181	-0.192	-0.170	-0.238	-0.271	-0.136	-0.117
	(0.168)	(0.167)	(0.166)	(0.172)	(0.190)	(0.176)	(0.203)
$IAROA_{pre}$	0.161***	0.160***	0.159***	0.162***	0.164***	0.162***	0.153***
	(0.038)	(0.038)	(0.036)	(0.039)	(0.039)	(0.036)	(0.036)
SAMEIND2	1.392	2.052	1.476	2.765	2.372	3.207	4.789
	(3.265)	(3.792)	(3.409)	(3.689)	(4.230)	(3.525)	(3.980)
PERCENTACQ	-0.054	-0.061	-0.041	-0.068	-0.063	-0.054	-0.055
	(0.046)	(0.047)	(0.044)	(0.053)	(0.055)	(0.048)	(0.048)
CASH	3.961	4.502	3.568	3.890	3.711	3.075	5.249*
	(2.809)	(2.913)	(2.943)	(2.852)	(3.553)	(2.854)	(3.104)
BUSINESS_GROUP_A	4.496	4.625	4.577	5.104*	5.161*	4.846*	4.836*
	(2.907)	(2.909)	(2.865)	(2.999)	(3.034)	(2.850)	(2.805)
SIZE	0.444*	0.401	0.317	0.469*	0.478	0.539	0.182
	(0.252)	(0.311)	(0.249)	(0.268)	(0.364)	(0.382)	(0.376)
HIGHTECH(T)	-9.929**	-9.908**	-10.76**	-9.560**	-9.503**	-9.630**	-10.76**
	(3.968)	(4.087)	(4.122)	(3.935)	(3.908)	(4.452)	(4.484)
GEO_DIST	-7.89e-07	0.0002	0.0001	0.0005	0.0004	0.0008	0.001*
	(0.0006)	(0.001)	(0.0006)	(0.0007)	(0.0009)	(0.0007)	(0.0009)
FOREX	0.250	0.181	0.398	-0.295	-0.226	0.127	0.696
	(0.387)	(0.398)	(0.435)	(0.603)	(0.774)	(0.601)	(0.696)
Year Dummies	Included	Included	Included	Included	Included	Included	Included
Industry Dummies	Included	Included	Included	Included	Included	Included	Included
Constant	-10.800	-9.272	-11.240	-18.460	-20.990	-34.250*	-22.120
	(10.190)	(11.420)	(10.180)	(11.710)	(17.140)	(17.730)	(17.430)
Observations	73	73	73	73	73	73	73
R-squared	0.662	0.664	0.674	0.671	0.672	0.692	0.705
Adj- R-squared	0.4316	0.4203	0.4369	0.4326	0.4044	0.4407	0.4349

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1