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ABSTRACT

Building on a knowledge-based perspective of mergers and acquisitions, this paper investigates the likelihood of survival of target firms acquired by foreign investors. Specifically, we examine the role played by three potential antecedent conditions of an acquiring firm's absorptive capacity on the likelihood of the target firm's survival: a) previous experience of the acquirer in the host country; b) the business similarity between acquirer and target; and c) the cultural distance between the countries of the acquiring and acquired firms. Based on a sample of 396 Italian firms acquired by foreign multinational companies in the decade 2005-2015, results suggest that acquired firms are more likely to survive in case the acquirer benefits from previous country-level experience and in case of business similarity, while the cultural distance between the country-of-origin of the acquiring firm and Italy does not prove to be a significant determinant of survival versus mortality of acquired subsidiaries. Overall, our analysis confirms that context familiarity, in terms of both country and business contexts, plays a fundamental role in determining the destiny of acquired firms.

1. INTRODUCTION

Acquisitions are an external source of knowledge (Chaudhuri and Tabrizi, 1999) and represent a key mode for implementing corporate strategy renewal, especially to realize international expansion strategies. Time-compression opportunities vis-à-vis alternative equity-based establishment modes (e.g., greenfield investments), scale and scope economies, access to strategic resources and assets, and the possibility to seize opportunities in foreign markets are some of the multiple incentives that encourage firms to pursue acquisitions outside the home market, i.e. cross-border acquisitions.

Although the literature on acquisitions has long assumed cross-border acquisitions to be similar to domestic acquisitions, an increasing awareness has developed that the former actually do differ from the latter in virtue of some peculiarities that typically engender additional risks (Shimizu et al., 2004). Indeed, the spectrum of economic, cultural, and institutional differences across countries generates uncertainty (Zaheer, 1995), information asymmetry (Kogut and Singh, 1988), and liability of foreignness (Zaheer, 1995), i.e. the set of costs that a foreign entrant has to bear if compared to local players due to its lack of familiarity with and legitimacy in the host destination. Liability of foreignness may jeopardize the realization of expected synergies and strategic objectives, while also forcing acquiring firms to take into account a vast number of aspects characterizing the target environment. Several studies have indeed suggested that the country environment of the target firm substantially affects the ability to acquire firms to exploit and extend their knowledge and competence bases abroad (Morck and Yeung, 1991; Caves, 1996).

In this scenario, the knowledge-based view has gained an increasingly popular place within academic conversations, since knowledge transfer has appeared on the research agenda as a *sine-qua-non* condition enabling the realization of the synergistic potential that motivates the acquisition.

The perspective traditionally taken in the majority of studies on acquisitions delves into the performance implications in terms of value creation for acquiring firms’ shareholders, thereby leaving the outcomes on target firms mostly unexplored.

The focus on implications for acquired companies, although not new in the literature on acquisitions, has actually resulted in a quite meager scholarly production if compared to other research focuses. Specifically, building on various, yet conceptually interconnected theoretical frameworks, namely the knowledge-based view (e.g., Hébert et al. 2005), the capabilities-based view (e.g., Uhlenbruck 2004), and on organizational learning theory (e.g., Li 1995; Vermeulen and Barkema, 2001; Nadolska and Barkema, 2007; 2014), this set of studies has examined the post-deal effects on the survival (Li et al., 1995; Shaver et al., 1997; Delios and Beamish, 2001), longevity (Barkema et al., 1996), and on the evolution (Uhlenbruck, 2004) of acquired subsidiaries. What these studies all have in common is the underlying assumption that subsidiary survival may be considered as a proxy for the performance of an acquisition.

This line of inquiry actually shows a strong interconnection with the *subsidiary evolution* theoretical framework from international business literature, aimed at analyzing the effect of foreign investments on the survival and development of subsidiaries (e.g., Shaver et al., 1997; Birkinshaw and Hood, 1998; Delios and Beamish, 2001).

One of the main arguments that have dominated the scene in this research territory is that the longevity of acquired subsidiaries is closely related to the extent to which key organizational capabilities and knowledge bases are mutually transferred between parent and subsidiary. The knowledge-based view of mergers and acquisitions is hence in tight connection with a capabilities-based view (Haspleslagh and Jemison 1991) and with the increasingly flourishing literature on *dynamic capabilities*. With absorptive capacity being acknowledged as a critical dynamic capability affecting the success of acquisitions (Reus, 2012), this paper intends to offer a contribution by examining the effect played by three potential antecedent conditions that may shape an acquiring firm's ability to transfer and absorb new knowledge: a) the acquiring firm's previous host country experience; b) the business similarity between acquirer and target; and c) the cultural distance between home and host country. To the best of the authors' knowledge, this is the first study establishing a link between these three potential antecedents of absorptive capacity and the survival probability of acquired subsidiaries.

Our study, therefore, aims to contribute to this fertile conversation by analyzing acquisitions of Italian firms executed by foreign multinationals in the 2005-2015 decade, with the purpose of exploring the effect on acquired firms' survival.

2. THEORETICAL BACKGROUND AND HYPOTHESES DEVELOPMENT

2.1. A knowledge-based view of mergers and acquisitions

In an acquisition context, ideally, the combined knowledge pool of the two formerly independent firms should be greater than the two knowledge stocks separately for the acquisition to generate synergies (Reus, 2012).

A knowledge-based view of mergers and acquisitions suggests that the extent to which the value of the combined knowledge bundles of acquiring and target firms is greater than the values of the two knowledge stocks taken independently is a function of the ability to transfer knowledge. Knowledge transfer depends upon two key organizational dynamic capabilities, i.e. absorptive capacity and combinative capability. The notion of dynamic capability has had a fortunate destiny in management research and may be broadly defined as the ability to systematically reconfigure strategic, organizational, and operating routines to realize new resources combinations (Teece et al., 1997; Eisenhardt and Martin, 2000; Zollo and Winter, 2003). Looking more closely at the two aforementioned dynamic capabilities, while combinative capability is strongly related to social capital theory (Kogut and Zander, 1992) and depends on the opportunity, motivation, and ability to share knowledge, absorptive capacity is a dynamic capability that is embedded in a firm's processes and knowledge base.

In Cohen and Levinthal (1990)'s theorization, absorptive capacity is defined as the capacity to assimilate new knowledge. In their reconceptualization, Zahra and George (2002) take a broader perspective that goes beyond assimilation and define absorptive capacity as the "set of organizational routines and processes by which firms acquire, assimilate, transform, and exploit knowledge to produce a dynamic organizational capability" (p. 186).

Prior research has highlighted two key elements that shape a firm's absorptive capacity: prior related experience (Zahra and George, 2002) and complementary knowledge (Lane and Lubatkin, 1998). More specifically, in the context of acquisitions, absorptive capacity is contingent upon prior related experience: past experience becomes embedded in the repertoire of organizational routines that shape the firm's knowledge base upon which it develops its absorptive capacity (Cohen and Levinthal 1990). The second determinant is the extent to which the combining firms have complementary versus similar knowledge bases, whereby complementarity is considered to occur when the two firms have distinct capabilities but in similar business areas (Reus 2012).

The theoretical perspective of subsidiary evolution posits that, although the acquiring firm is responsible for the allocation of resources and activities to the acquired company, it is often the acquired firm itself that owns the critical resources and competencies for its own development and longevity (Uhlenbruck, 2004). Because, after an acquisition, the target firm is expected to adopt and absorb the know-how of the acquiring company (Birkinshaw and Hood, 1998), the ability of the acquirer to transfer its own knowledge becomes decisive.

Building on the knowledge-based perspective, we therefore explore three elements that may play a key role in affecting the extent to which knowledge transfer effectively occurs and, in turn, in determining the likelihood of survival of the acquired subsidiary: the acquirer's experience in the host country, the business similarity between acquirer and target, and the cultural distance between acquirer and target.

2.2. The effect of acquirer's host country experience

A key antecedent of absorptive capacity is the firm's past experience (Zahra and George, 2002). The exposure to knowledge sources in the form of environmental scanning (Zahra and George, 2002), interorganizational relations (Lane and Lubatkin, 1998), and learning-by-doing mechanisms (Levitt and March, 1988) contributes to the creation of routines and shapes managerial cognition, which in turn ultimately influence the firm's ability to manage knowledge (Tripas and Gavetti, 2000).

Extant research acknowledges host country experience as a crucial element in international expansion processes (Johanson and Vahlne, 1977). Literature has examined the effect played by this type of local experience on both investment choices (e.g., Barkema and Vermeulen, 1998; Collins et al., 2009) and performance (e.g., Nadolska and Barkema, 2007).

Cross-border expansion is characterized by the liability of foreignness, i.e. the lack of familiarity with the specificities of the target context, that typically results in a competitive disadvantage with respect to local incumbents (Zaheer, 1995).

Familiarity with the host country gained through prior experience in the country therefore represents a key element that may reduce the firm's liability of foreignness. Experience in the host country indeed provides a number of benefits, namely the reduction of operating challenges, the mitigation of the competitive disadvantage vis-à-vis local competitors (Delios and Beamish, 2001), a potentially better valuation of the target firm, and the development of specific resources that can be transferred to the local subsidiary (Uhlenbruck, 2004).

Examining the likelihood of survival and the performance of 3,080 subsidiaries of 641 Japanese multinationals, Delios and Beamish (2001) find a positive relationship between previous host country experience and subsidiary survival. Building on the *hazard rate model* to analyze the likelihood of survival of foreign investments in the United States in the pharmaceutical and computer industries between 1974-1989, Li (1995) highlights that exit rates are higher in case the investor does not have previous experience in the United States and in case the commitment of resources to the subsidiary is not continued over time through additional investments. Overall, it has therefore been argued that the rate of survival (Li, 1995), as well as the longevity and evolution (Barkema et al., 1996; Shaver et al., 1997; Uhlenbruck, 2004) increase when the acquirer has host country experience.

Furthermore, because each institutional context offers some peculiar and distinctive learning opportunities, previous experience in a certain country encourages further acquisitions in that same country if compared to alternative countries in which the acquirer does not benefit from any previous experience (Collins et al., 2009). In addition, some studies have also argued that host country experience impacts the choice of the entry mode, with acquisitions being preferred over greenfield investments (Barkema and Vermeulen, 1998) especially at increasing cultural distance (Slangen and Hennart, 2008).

In contrast, in the absence of previous experience in the target country, acquirers are more exposed to risks arising from the information asymmetry (Kogut and Singh, 1988) and from the hampered transfer of knowledge (Balakrishnan and Korza, 1993; Hébert et al., 2005).
This leads us to formulate the following hypothesis:

H1: In cross-border acquisitions, acquirer's experience in the target country has a positive effect on the likelihood of survival of the acquired firm.

2.3. The effect of business similarity between acquirer and target

When considering the strategic objectives underlying acquisitions, firms may either grow within the current business or enter a new, more or less related, business.

The so-called 'relatedness hypothesis', according to which acquisitions in a related business tend to outperform acquisitions in an unrelated business, has been central to a host of academic contributions, falling within the broader research area addressing the diversification-performance relationship (e.g., Seth, 1990; Datta, 1991; Park, 2002).

The concept of relatedness in acquisitions is central to the strategic school, where it has been explored as a fundamental premise for strategic fit, defined as "the degree to which the target firm augments or complements the parent's strategy and thus makes identifiable contributions to the financial and non-financial goals of the parent" (Jemison and Sitkin 1986, 146).

In the context of cross-border acquisitions, in which the information asymmetry and the uncertainty deriving from liability of foreignness may challenge the realization of expected synergies, the choice to diversify has been acknowledged as a relevant issue affecting the performance and survival of foreign subsidiaries (Li, 1995). Because the more a firm departs from the current business the greater the exposure to uncertainty (Caves, 1982), the challenges inherent in the acquisition process may exponentially increase due to the fact that the risks associated with the entry in a foreign country are coupled with risks associated with the entry in a new business. In such circumstances, because unrelated industries are less likely to share similarities in procedures, cultures, and dominant logics (Laamanen and Keil, 2008), the acquirer is less likely to possess relevant resources and competencies that may be transferred to the foreign subsidiary (Bane and Neubauer, 1981; Li, 1995).

The lack of familiarity with the target's business may potentially generate detrimental dysfunctionalities during the integration process by injecting attitudes that threaten the creation of an atmosphere for knowledge and capability transfer (Haspeslagh and Jemison, 1991).

According to Jemison and Sitkin (1986), the unfamiliarity with the target's business may result in the misapplication of management systems, for instance, through the imposition of the parent firm's practices onto the newly acquired subsidiary in virtue of the presumption that its operating systems and management style are superior.

On the contrary, at greater business similarity between acquirer and target, potential synergies at market, technological, and product-level may possibly increase thanks to the broader set of resources and capabilities that can be transferred to the new subsidiary. In addition, this knowledge base may be more effectively transferred, leading to positive effects on the likelihood of subsidiary survival. Based on these arguments, the following hypothesis is formulated:

> *H2: In cross-border acquisitions, the business similarity between acquirer and target has a positive effect on the likelihood of survival of the acquired firm.*

2.4. The effect of home-to-host country distance

In light of the increasing importance of cross-border acquisitions as a means for international expansion, existing research on the effects of distance on internationalization choices has extensively investigated how different types of distance affect cross-border acquisitions. International business literature has emphasized that distance actually represents a multi-dimensional construct (Ghemawat, 2001). The complexity of cross-border acquisitions relative to domestic acquisitions has encouraged scholars to focus on a beloved, though contentious issue in the international business literature: cultural distance (Schoenberg, 2000), on which the mixed empirical results reveal ambiguous implications (Stahl and Voigt, 2008).

The initial hypothesis on which research has intuitively focused suggests the existence of a negative relationship between the cultural distance between acquirer and target and post-acquisition performance because the inevitable cultural collisions (Buono et al., 1985; Jemison and Sitkin, 1986) hamper an effective socio-cultural integration (Stahl and Voigt, 2008), resulting in value destruction for the shareholders of the acquiring firm (Datta and Puia, 1995). Cultural distance has also been regarded as one of the components of country risk as it significantly impacts the possible benefits that may be accrued when investing in a given country (Shimizu et al., 2004).

Because acquisitions represent a preferential way for accessing external resources and know-how and because the extent to which they may be attained is subject to valuation barriers and possible opportunistic behaviors (Chakrabarti and Mitchell, 2013), difficulties may exponentially increase as the distance and the geographic dispersion of resources increase as well (Dicken, 1971), thus generating obstacles to the effective valuation of potential targets along with organizational resistance during the post-acquisition phases (Chakrabarti and Mitchell, 2013). For instance, Popli et al. (2016) examined the relationship between cultural distance and the likelihood of abandoning a cross-border acquisition and found that it is reduced when the acquirer has experience in the same country or in a culturally similar country.

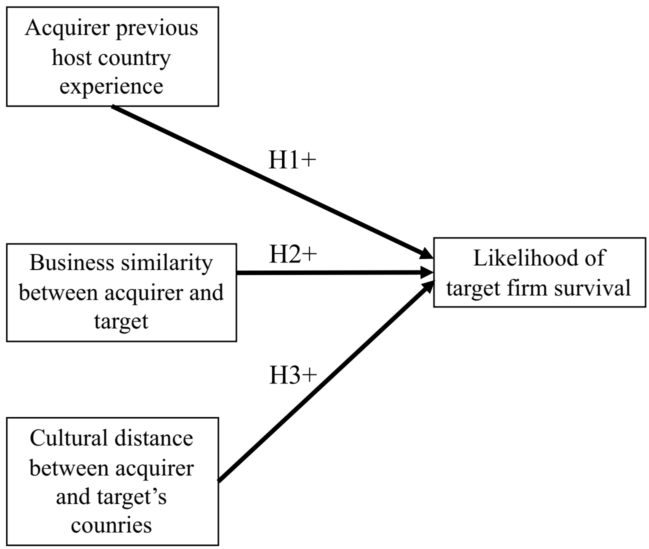
Building on the theoretical perspective of subsidiary evolution, Uhlenbruck (2004) suggests that cultural distance may reduce the possibility of the target firm to access resources and know-how of the acquirer. Observing a sample of 170 cross-border acquisitions in transition economies in Europe over the period 1990-1993, Uhlenbruck (2004) argues that the potential for learning and knowledge transfer along with the possibility to nurture the resource base of the acquired firm and to effectively integrate it are reduced at increasing cultural distance, thereby hampering the subsidiary's evolution over time (Birkinshaw and Hood, 1998). Hébert et al. (2005), who build on the knowledge-based perspective and find support for the significant role played by expatriates in transferring knowledge to the foreign subsidiaries, thus enhancing their survival probability. The task-level performance of knowledge transfer is hence increased by expatriates acting as facilitators of transfer, which has a positive effect on the long-term transaction-level performance intended through the lenses of subsidiary survival.

Such considerations lead to the following hypothesis:

> *H3: In cross-border acquisitions, cultural distance between acquirer and target has a negative effect on the likelihood of survival of the acquired firm.*

The conceptual model and hypotheses are reported in figure 1.

Figure 1. Conceptual model and hypotheses



3. METHODOLOGY

3.1.Research context

In Europe, the growing harmonization of regulation and the progressive creation of a homogeneous market have substantially reduced the completion time and streamlined cross-border acquisitions (Moschier and Campa, 2009).

In this scenario, Italy has been steadily suffering from a weak position in terms of foreign direct investments (FDI) attraction if compared to other European countries (Prometeia, 2014). The lower competitiveness of Italy for FDI attraction results both from the typical specialization model of the Italian industrial system, characterized by the deeply rooted dominance of traditional manufacturing sectors and of family ownership, and from institutional aspects such as bureaucratic burdens, judicial system slowness, along with the absence of a well-developed capital market favoring ownership transfers. In most recent years, thanks to financial and labor market reforms, the competitiveness of Italy has increased: according to the UNCTAD (World Investment Report, 2016), during the 2013-2015 three-year period, Italy was able to attract approximately USD 67 billion (+50% if compared to the previous three-year period). Especially during the last years, Italian firms have been increasingly regarded as attractive targets of acquisitions by foreign multinationals interested in acquiring popular brands of the *Made-in-Italy*. If, on the one hand, this phenomenon highlights an increased competitiveness of the Italian business context, on the other, it raises concerns about the effects that such deals may generate on the future of acquired firms, i.e. on the survival of target firms after being taken over.

3.2.Sample and data collection

The hypotheses have been tested on a sample of 396 cross-border acquisitions in Italy in the period 2005-2015. The source of sampled observations is the database Zephyr (Bureau Van Dijk) and the selection process has been based on the following criteria: i) acquisitions completed between 1/1/2005 and 12/31/2015: only completed acquisitions were included in the sample, thereby excluding cases of announcements, rumors or withdrawals; ii) acquisitions made by foreign investors in Italy as target country; iii) "pure acquisitions", i.e. acquisitions in which the acquirer does not own any previous stake in the acquired firm, thereby excluding acquisitions for increasing already existing ownership stakes. These criteria led to an initial dataset of 936 acquisitions.

We focused on acquisitions involving entire companies, thus excluding branches and individual assets (106 deals). Furthermore, due to unavailability of data, the final sample consists of 396 observations.

The distribution of deals by year in both absolute numbers and in percentage is provided in Figures 2 and 3, respectively.

Figure 2. Distribution of acquisitions by year (absolute numbers)

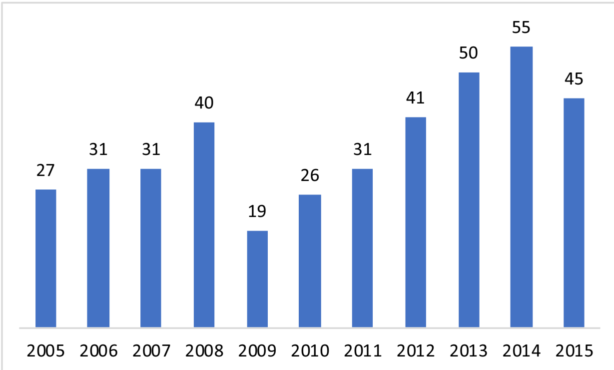
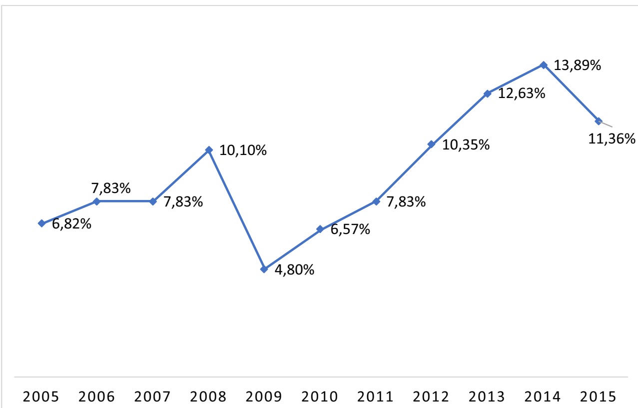


Figure 3. Distribution of acquisitions by year (percentage)



With a rather steady trend in the period 2005-2008, a significant reduction of acquisition activity in Italy occurred during 2009 - year in which the global economic crisis exploded. Starting from 2010, however, the volume of cross-border acquisitions in Italy started to grow again, until in 2013-2015 it even exceeded the pre-crisis volume.

To analyze the distribution of both acquiring and acquired firms by industry, sectors have been clustered on the basis of 2-digit NAICS codes of acquirers (Table 1) and target companies (Table 2).

Table 1. Distribution of acquisitions by acquiring firm's industry

Acquiring firm industry	Number	Percentage
Mining and extraction, utilities, and construction	28	7,07%
Manufacturing[1]	192	48,48%
Trade and transportation	46	11,62%
Services[2]	112	28,28%
Other sectors[3]	18	4,55%
Total	**396**	**100,00%**

Most foreign investors are active in the manufacturing industry (192 firms), of which 25 operate in the manufacturing of food, beverage, and textile, 43 operate in paper and wood manufacturing and in chemicals manufacturing, while the majority (124 firms) is involved in machinery, computer, and electrical products manufacturing, as well as in furniture manufacturing.

[1] The *Manufacturing* sector includes: NAICS 31 (25 firms), NAICS 32 (43 firms), NAICS 33 (124 firms).

[2] The S*ervices* sector includes: NAICS 51 (18 firms), NAICS 52 (23 firms), NAICS 53 (6 firms), NAICS 54 (50 firms), NAICS 55 (5 firms), NAICS 56 (10 firms).

[3] *Other sectors* include: NAICS 1 (1 firm), NAICS 6 (7 firms), NAICS 7 (7 firms), NAICS 8 (1 firm), NAICS 9 (2 firms).

Moving to the examination of target firms, Table 2 displays a distribution that looks very similar to that of acquiring firms: the majority of acquisitions involves firms in the manufacturing industry (194 deals, 48,99% of observation), immediately followed by the services sector with 107 target firms.

Table 2. Distribution of acquisitions by acquired firm's industry

Target firm industry	Number	Percentage
Mining and extraction, utilities, and construction	28	7,07%
Manufacturing[4]	194	48,99%
Trade and transportation	50	12,63%
Services[5]	107	27,02%
Other sectors[6]	17	4,29%
Total	**396**	**100.00%**

When considering the distribution by acquiring firms' home country, Table 3 shows a clear predominance of acquirers from European Union (EU) with 312 investors, followed by Asia with 29 acquiring firms and by other European countries not members of EU 28. In general terms, only 57 acquisitions (14,39% of the sample) come from non-European countries. It is also worth noting that 90,91% of acquisitions observed are

[4] The *Manufacturing* sector includes: NAICS 31 (31 firms), NAICS 32 (42 firms), NAICS 33 (110 firms).
[5] The S*ervices* sector includes: NAICS 51 (17 firms), NAICS 52 (13 firms), NAICS 53 (6 firms), NAICS 54 (58 firms), NAICS 55 (1 firm), NAICS 56 (12 firms).
[6] *Other sectors* include: NAICS 6 (5 firms), NAICS 7 (7 firms), NAICS 8 (3 firms), NAICS 9 (2 firms).

made by acquirers coming from developed countries, while only 36 acquisitions (9,09%) are associated with acquirers from emerging economies, as defined by Hoskisson et al. (2000).

Table 3. Distribution of acquirers by geographic area

Geographic area	Number	Percentage
European Union (EU28)	312	78,79%
Asia	29	7,32%
Other European countries	27	6,82%
NAFTA	19	4,80%
Middle East	4	1,01%
Oceania	2	0,51%
Centre and South America	2	0,51%
Africa	1	0,25%
Total	**396**	**100,00%**

3.3. Variables and measures

The dependent variable is the *Target firm survival*, operationalized as a dichotomous variable that takes value 1 when the acquired firm is still active (with either the same firm name or a new one) at the moment of data collection and 0 in case the subsidiary is dissolved or in liquidation/bankruptcy. Case 1 includes 296 survived firms (74,75% of the observations), of which 239 still have the same name while 57 changed their name; case 0 includes 100 firms (25,25% of observations), of which 75 are already dissolved while 25 are in liquidation (Table 4).

Table 4. Distribution of target firms by status

Status Target firm	Number	Percentage
Active with same name	239	60,35%
Active with different name	57	14,39%
Dissolved	75	18,94%
In liquidation	25	6,31%
Total	**396**	**100,00%**

Independent variables are: host country (i.e. Italy) experience, business similarity between acquirer and target, and cultural distance.

The variable of *host country experience* is a dichotomous variable taking value 1 if the acquiring firm already owns subsidiaries in Italy at the moment in which the focal acquisition is executed, and value 0, as opposite, in case the focal acquisition represents the first investment in Italy. In our sample, 302 deals have been executed by experienced firms, while 94 acquisitions have been carried out by first-time investors in Italy.

The variable of *business similarity* has been built based on a comparison between the 2-digit NAICS codes of acquirer and target core businesses. This dichotomous variable takes value 1 when acquirer and target have the same 2-digit NAICS codes, i.e. they operate in the same business, and value 0 when there is no match between the 2-digit NAICS codes. The 0-case, therefore, identifies those acquisitions in which a diversification strategy is implemented and, hence, those firms for which entering Italy is associated with venturing into a different business. In our sample, 258 acquisitions are characterized by business-level similarity between acquirer and target, while 138 acquisitions involve business diversification.

The variable of *cultural distance* has been measured following Chakrabarti et al. (2009), i.e., as the distance between the Hofstede's (1980; 2001) orthogonal dimensions of power distance, individualism, masculinity, uncertainty avoidance, long-term orientation, and indulgence.

Our analysis includes several control variables: diversification of both acquirer and target, acquirer size, industry and time dummies.

Diversification has been found to provide the firm with a repository of geographically fungible resources and capabilities that can be leveraged when implementing an international expansion, for instance through a cross-border acquisition. We hence include in our model two control variables capturing the diversification status of both acquiring and target firm at the moment of the focal acquisition. The variable capturing the *acquirer diversification* is a dichotomous measure based on the number of NAICS codes in which the acquiring firm is active and takes value 1 if the acquirer is a multi-business firm, i.e. it operates in two or more businesses, and value 0 in case the acquirer operates in only one business. The variable capturing the *target firm diversification* has been measured consistently.

The analysis also includes *acquirer size,* measured as the natural log of the acquiring firm's total assets before the focal acquisition. Finally, both time and industry effects are included: for what concerns time effects, ten dichotomous variables were included with the year 2015 representing the baseline year, while as long as industry effects are concerned, we included four dichotomous variables identifying the four macro-industries shown in Table 2 ("other sector" represents the baseline industry).

4. RESULTS

Table 5 displays descriptive statistics and the correlation matrix. The low correlation coefficients suggest that multicollinearity did not bias our results.

Table 5. Descriptive statistics and correlation matrix

	Variables	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)
(1)	Target firm survival	.74	.43	1.00					
(2)	Host country experience	.76	.42	.19*	1.00				
(3)	Business similarity	.65	.47	.06	-.03	1.00			
(4)	Cultural distance	1.43	.98	.00	.00	0.02	1.00		
(5)	Acquirer diversification	1.17	.93	.08	.03	0.02	-.09	1.00	
(6)	Target firm diversification	.80	.93	.07	.06	-0.11	-.02*	.15*	1.00
(7)	Acquirer size	19.04	3.26	-.11*	.09	0.10	-.07*	.14*	-.05

Notes:
- *p < 0.5
- Year and industry dummies are not reported.

Table 6 shows the results of the econometric analysis: in line with the nature of our dependent variable as a dichotomous variable, a logistic regression was performed.

Model 1 in Table 6 displays the results for a model including only the control variables, while in Model 2 the three independent variables are added.

The analysis provides support for our Hypothesis 1, positing that the acquirer's previous experience in Italy will have a positive effect on the likelihood of the target firm survival (Model 2, β=0,92; p<0,01): the likelihood of survival increases significantly when the acquiring firm already operates in Italy through previously established subsidiaries. Specifically, 240 target firms that survived (60% of our total sample) were acquired by foreign companies having previous equity-based experience in Italy.

Hypothesis 2 on the positive relationship between business relatedness and the likelihood of survival receives marginal support (Model 2, β=0,50; p<0,10) but is consistent with our prediction that at greater business similarity between acquirer and target, the likelihood of survival increases.

Hypothesis 3 on the negative effect played by cultural distance on the likelihood of survival does not receive any support. As an additional analysis, an alternative variable has been used as a proxy of geographical distance: a dichotomous measure was built taking value 1 for non-European acquirers and value 0 for European acquirers. However, even in this case, no support was found for a negative relationship between distance and survival likelihood. Additionally, the distinction between acquiring firms from developed countries vs emerging countries (Hoskisson et al., 2000) is not associated with any significant difference in terms of survival of the acquired firms.

Table 6. Logistic Regression

Dependent variable: Likelihood of target firm survival

Variables	Model 1	Model 2
Independent variables		
Host country experience		0.92*** (0.28)
Business similarity		0.50* (0.27)
Cultural distance		0.02 (0.13)
Control variables		
2005	-1.76** (0.74)	-1.45* (0.77)
2006	-1.50** (0.74)	-1.31* (0.76)
2007	-1.81** (0.73)	-1.72** (0.74)
2008	-2.19*** (0.70)	-1.86** (0.72)
2009	-2.50*** (-0.78)	-2.42*** (0.79)
2010	-0.77 (0.82)	-0.73 (0.84)
2011	-1.96*** (0.72)	-1.92** (0.74)
2012	-1.07 (0.73)	-1.02 (0.74)
2013	-0.91 (0.73)	-0.84 (0.75)
2014	-0.99 (0.70)	-0.92 (0.72)
Mining and extraction, utilities, construction	-0.46 (0.69)	-0.68 (0.73)
Manufacturing	0.38 (0.59)	0.06 (0.63)
Trade and transportation	0.10 (0.66)	0.10 (0.70)
Services	0.39 (0.61)	0.18 (0.64)
Acquirer diversification	0.23* (0.13)	0.26* (0.14)
Target diversification	0.05 (0.14)	0.08 (0.14)
Acquirer size	-0.05 (0.04)	-0.08* (0.04)
Intercept	3.05*** (1.10)	2.66** (1.17)
Number of observations	396	396
χ^2	40.76***	53.70***
Pseudo R2	0.09	0.12

Notes:

Standard errors are in parentheses.

Significance levels: *p < 0.1; **p < 0.5; ***p < 0.01

As long as control variables are concerned, the likelihood of survival is positively associated with acquirer diversification (Model 2, β=0,26; p<0,10) and negatively associated with acquirer size (Model 2, β=-0,08; p<0,10). While at industry level no statistically significant effect emerges, it is worth noting that, in line with expectations, the likelihood of survival depreciates over time: in particular, if compared to target firms acquired in 2015, the probability of survival is significantly lower for firms acquired between 2005 and 2009 and in 2011.

5. DISCUSSION AND CONCLUSIONS

Our analysis focuses on three main antecedents of the likelihood of acquired firms' survival after cross-border acquisitions: acquirer host country experience, business similarity between acquirer and target, and cultural distance.

Empirical results confirm that previous host country experience positively affects the survival of target firms. From an international business perspective, this result is fully consistent with the argument that costs associated with liability of foreignness are not static and, rather, decline as the firm gains knowledge of the target market (Zaheer, 2002). Acquiring firms benefiting from previous experience in Italy have gained knowledge of the specificities of the cultural, institutional, and competitive environment, which may lead to an increased familiarity with and legitimation in the local context (Zaheer, 1995).

From a knowledge-based perspective, these (experienced) acquirers have developed specific resources, capabilities, and knowledge bases that can be effectively transferred to the locally acquired subsidiary (Uhlenbruck, 2004), which in the absence of any previous host country experience would be extremely difficult (Balakrishnan and

Korza, 1993; Hébert et al., 2005) and exposed to information asymmetry (Kogut and Singh, 1988).

Our results on the association between business similarity and acquired firms' survival confirm that a greater similarity at business level between acquirer and target provides benefits in terms of reduced uncertainty (Caves, 1982) and development of resources and competencies that may be transferred to the acquired firm (Bane and Neubauer, 1981; Li, 1995), which, in turn, may increase the potential synergies and the effectiveness of knowledge and resource transfer processes. This evidence is also in line with the process perspective on acquisitions (Haspeslagh and Jemison, 1991). Specifically, it reveals that similarity at business level may not only result in a more effective evaluation of strategic fit in the preliminary stage of target valuation but may also enable acquiring firms to avoid the detrimental misapplication of management systems and to create an environment that is conducive to social integration and collaboration.

Empirical results do not provide support to our prediction that cultural distance should play a negative effect on the likelihood of survival because of the greater difficulty of transferring knowledge at increasing distance. The lack of a statistically significant effect of cultural distance is, however, not totally surprising, especially when considering the substantially mixed findings obtained over the years (Stahl and Voigt, 2008). Indeed, because cultural distance does not necessarily imply cultural incompatibility (Weber et al., 1996), some studies have hypothesized that distance could also prove beneficial as it may produce competitive advantages, in terms of access to distinctive competencies and incentives to innovation, foster learning and encourage acquirers towards a more cautious target valuation and selection (Chakrabarti et al., 2009).

This paper is not without limitations, primarily due to: a) the lack of consideration of additional firm-specific factors related to both the acquiring and the acquired firms (e.g., historical performance) as well as additional country-level factors; and b) the need to more accurately operationalize the survival of acquired firms by incorporating the temporal dynamic, i.e. the temporal evolution of the acquired firm status.

In spite of the aforementioned limitations, this study provides a contribution to the research stream on subsidiary survival. In the vast body of literature on acquisitions, it has been argued that the deeply rooted direction of most studies to focus on post-acquisition value creation at acquiring firm level has raised the need to investigate the implications at subsidiary level (Uhlenbruck, 2004). This study contributes to this fertile research area by examining the effects on Italian target firms acquired by foreign investors and raises some interesting implications for both managers and policy-makers. Indeed, the future of acquired firms appears to be more a function of the familiarity at both country and business level rather than of distance.

This evidence suggests that the investor's familiarity with both the institutional and the business contexts play a key role in facilitating the knowledge transfer process and, hence, in influencing the destiny of acquired firms.

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