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論　文　題　目

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The Effects of Liability of Foreignness on Cross-Border Mergers and Acquisitions: The case of Japan

〈英訳又は和訳〉

クロスボーダーM&A におけるよそものの不利益問題の影響
―日本を例として―

名城大学大学院　経営学研究科　経営学専攻　博士後期課程

氏　名	牛　騁

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Cross-border mergers and acquisitions (CBMA) have become an essential strategy for the global expansion of Japanese firms. However, acquirers suffer economic losses after CBMA. The liability of foreignness (LOF), the social cost of doing business abroad related to national distance, and cultural distance (CD) get attention in recent studies to explore the country-related factors of CBMA. This study seeks to address the effect of LOF with the following research questions: (1) Do LOF and CD affect negatively to the performance of CBMA in Japan as well, (2) Do international communication and prior CBMA experience mitigate the negative effect of LOF and CD in Japanese CBMA.

LOF causes costs in the complementation of CBMA in two ways. First, legitimacy deficit (LD) causes three ways: (1) cost in achieving regulatory legitimacy, such as a barrier to building a political tie, (2) cost in achieving normative legitimacy, such as a barrier to seeking endorsement; and (3) cost in achieving cognitive legitimacy such as cost to planning an advertising campaign, sales promotion. Second, information asymmetry (IA) in CBMA occurs as (1) cost of identifying search criteria, negotiating with potential targets, and evaluating all potential target companies based on provided information, (2) cost of due diligence, such as confirming or correcting the value assessment, (3) cost of post-M&A integration. These costs make pre- and post- CBMA more complicated, and as a result, the financial performance of acquirers decreases after CBMA. Hence, this study considered that LOF decreases acquirers' performance as well in Japan,

Besides, this study also focuses on the cultural aspect of LOF (cultural distance between two countries; CD). Local stakeholders (e.g., consumers, employees) easily consider foreign investors irrational and untrustworthy for stereotypes and ethnocentrism, increasing the cognitive

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legitimacy deficit. Foreign investors need guarantees and endorsement, such as advertising campaigns and sales promotions, to acquire legitimacy in the local market. Moreover, the CD also increases the difficulties of PMI (post mergers integration) when employees and managers from different cultures are mutually exclusive and ultimately decreases the financial performance of acquirers. Especially in Japan, CD in separate dimensions of MAS (masculinity), UAI (uncertainty avoidance), and LTO (long-term orientation) score at a high level. These cultural characteristics also contribute to Japanese unique management systems, such as lifetime employment. For Japanese CBMA, the CD could negatively affect acquirers' financial performance.

Then, this study would testify if international communication and prior CBMA experience mitigate the negative effect of LOF and CD in CBMA. In CBMA, international communication (traveling) helps eliminate the negative effect of LOF, especially CD's negative effect by promoting cross-cultural understanding, eliminating ethnocentrism and negative stereotypes, and efficiently increasing information exchange. Prior CBMA experience helps the acquirers absorb new information, build a business network, and reduce investment uncertainty and cultural barriers in foreign or local markets. Prior CBMA experience could also increase integration skills such as negotiation and evaluation. Overall, prior CBMA experience mitigates the negative effect of LOF and CD.

Based on these theoretical frameworks, this study uses 382 Japanese CBMA deals from 2000 to 2018 and verifies the effect of LOF and CD on the acquirer's financial performance. This study also uses 286 cross-border acquisitions for comparison. The findings are as follows.

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First, LOF caused by LD negatively affects the Japanese CBMA's financial performance, while LOF caused by IA does not. International communication does not mitigate the effect of two kinds of LOF. By contrast, prior CBMA experience mitigates the effect of LOF caused by legitimacy deficit in CBMA. As for CD, we found that CD in aggregate level, MAS, and UAI dimensions also negatively affect financial performance. International communication does not mitigate the effect of CD at the aggregate level but mitigates the effect of CD in aggerate level and UAI and LTO dimensions. In the IDV dimension, the communication amplifies CD's negative effect. Prior CBMA experience mitigates the effect of LOF caused by legitimacy deficit in CBMA. While the acquirer possesses a longer CBMA experience history, LOF caused by IA shows a negative effect (but no significant effect when the acquirer possesses a shorter CBMA experience). In the aggregate level and MAS dimensions, prior CBMA experience mitigates the effect of CD. The mitigating effect is also observed in the IDV dimension.

This study contributes to the academic research of CBMA with Japanese deals. This study proves that LOF and its cultural aspect (CD) negatively affect the acquirers' financial performance in Japanese CBMA. The cultural barriers might be a fundamental cause for Japanese firms to acquire legitimacy in host countries because of their unique management systems, such as lifetime employment. At the same time, prior CBMA experience could eliminate the negative effect. Japanese firms should acquire legitimacy and gain more CBMA experience in host countries. The findings also provide evidence of inequivalence of CD with Japanese deals. The MAS and UAI might firmly pull Japanese loss after CBMA, while IDV pulled another way of culture in Japan.

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This study also contributes to the implementation of Japanese CBMA. First, Japanese firms should pay more attention to local network construction to eliminate the social cost of national distance (LOF), especially the cultural distance. It might be helpful to construct the DX (digital transformation) system to follow the long-term PMI continuously. Second, Japan should also launch more massive cross-sectoral communication policies (e.g., institutional effort to build international twin cities). International public communication also needs government mobilization and endorsement.

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