Journal of Business Research 80 (2017) 35–44

Contents lists available at ScienceDirect

Journal of Business Research

journal homepage: www.elsevier.com/locate/jbusres

Value creation in cross-border acquisitions: The role of outside directors' human and social capital

Dynah A. Basuil[a,*], Deepak K. Datta[b]

[a] Washington SyCip Graduate School of Management, Ramon V. Del Rosario Center for Corporate Responsibility, Asian Institute of Management, Philippines
[b] Department of Management, College of Business, University of Texas at Arlington, 701 S. West Street, Arlington, TX 76019, USA

ARTICLE INFO

Keywords:
Cross-border acquisition
Value creation
Outside directors
Human capital
Social capital

ABSTRACT

Do outside directors influence the performance of cross-border acquisitions? We use resource dependence arguments and a sample of 431 relatively large cross-border acquisitions undertaken by U.S. firms to explore how the human and social capital of outside directors on the acquiring firm's board influence shareholder value creation. Findings indicate that human and social capital linked to board tenure, external board appointments, and region-specific cross-border acquisition experience, but not target firm industry experience, have an impact on acquiring firms' shareholder value. Our study's theoretical and empirical contributions, along with managerial implications, are discussed.

1. Introduction

Over the past quarter of a century, there has been a dramatic upsurge in cross-border merger and acquisition (M & A) activity. Data compiled by UNCTAD indicates that between 1990 and 2007 there was a ten-fold increase in the total value of cross-border acquisitions. While the great recession of 2008–09 resulted in a dramatic drop in the value of such acquisitions (from \$1023 billion in 2007 to \$287 billion in 2009), the total value of cross-border acquisitions has steadily grown since, reaching \$722 billion in 2015. Cross-border M & A also represents the dominant vehicle used by multinationals in their foreign direct investments, accounting for nearly 70%of worldwide FDI volume (Zander & Zander, 2010). However, there is widespread recognition that such acquisitions are inherently complex and risky transactions from the perspective of acquiring firms. There are significant challenges when undertaking cross-border acquisitions, including limited and, often, unreliable information on foreign markets and potential targets therein, making it difficult to evaluate potential acquisition opportunities accurately. Additional difficulties stem from acquiring firms having to navigate environments characterized by different formal (political, regulatory, industry) and informal (cultural, social) institutions. It is, therefore, not surprising that cross-border acquisitions are associated with high failure rates as empirical evidence that such transactions, on average, fail to create shareholder value for acquiring firms are mounting (e.g., Aybar & Ficici, 2009; Amihud, DeLong, & Saunders, 2002; Basuil & Datta, 2015; Cartwright & Schoenberg, 2006; Datta & Puia, 1995). The variability in the performance of cross-border acquisition has prompted several researchers to explore the determinants of such performance. To date, studies have examined the effects of relatedness between acquiring and acquired firms (e.g., Datta & Puia, 1995; Doukas & Lang, 2003; Francis, Hasan, & Sun, 2008; Gleason, Mathur, & Wiggins, 2006; Markides & Oyon, 1998), target country attributes (e.g., Doukas & Travlos, 1988; Gleason et al., 2006), cultural differences (e.g., Chakrabarti, Gupta-Mukherjee, & Jayaraman, 2009; Datta & Puia, 1995; Dikova & Sahib, 2013; Slangen, 2006), and acquiring firms' tangible and intangible assets (e.g., Basuil & Datta, 2015; Markides & Oyon, 1998; Morck & Yeung, 1992).

Research on the role of the board of directors in cross-border acquisition performance, however, has been scarce. An exception is Markides and Oyon's (1998) study, which found that cross-border acquisitions by firms having insider-dominated boards resulted in shareholder value destruction; thereby, highlighting the important role that outside directors play in acquiring firms being able to create value in cross-border acquisitions. Indeed, Haleblian, Devers, McNamara, Carpenter, and Davison's (2009) extensive review of the literature points to our limited understanding of the role of the board in mergers and acquisitions. Our study seeks to fill this important gap in the context of cross-border transactions.

In studying the effectiveness of outside directors in cross-border acquisitions, we rely on resource dependence theory arguments on the role of such directors both in the provision of resources (Hillman, Cannella, & Paetzold, 2000; Hillman & Dalziel, 2003; Kor & Misangyi, 2008; Pfeffer & Salancik, 1978) and in the counseling of top management in key strategic decisions (Kor & Sundaramurthy, 2009; Kroll, Walters, & Le, 2007; Pugliese & Wenstøp, 2007). Researchers have

* Corresponding author.
E-mail addresses: dbasuil@aim.edu (D.A. Basuil), ddatta@uta.edu (D.K. Datta).

http://dx.doi.org/10.1016/j.jbusres.2017.07.002
Received 24 November 2016; Received in revised form 5 July 2017; Accepted 6 July 2017

argued that outside directors are uniquely positioned to enhance the performance of firms on whose boards they serve by collectively using their human and social capital when performing their resource acquisition and counseling roles in key strategic decisions, including those associated with major acquisitions (Arthurs, Hoskisson, Busenitz, & Johnson, 2008; Johnson, Daily, & Ellstrand, 1996; Kor & Sundaramurthy, 2009; Kroll et al., 2007). Several studies in recent years have examined the performance effects of human and social capital in strategic decisions. They include studies by Khanna, Jones, and Boivie (2014), Le, Kroll, and Walters (2013), Sundaramurthy, Pukthuanthong, and Kor (2014), and Vandenbroucke, Knockaert, and Ucbasaran (2016) and among others. While these studies highlight the importance of directors' human and social capital in influencing organizational performance, none of them relate to strategies in the international context. Thus, Reuer, Klijn, van den Bosch, and Volberda's (2011) call for studies on the role of board human and social capital in firm internationalization has remained largely unanswered. Our study helps fill this gap via the examination of the role of outside directors' human and social capital in the creation of shareholder value in cross-border acquisitions.

We expect our study to make several important contributions. From a theoretical perspective, we build on the growing body of research on the human and social capital of outside directors to develop arguments linking outside directors' experiences to shareholder value creation in cross-border acquisitions. We draw on the resource dependence literature to theorize how such experiences influence their efficacy in the acquisition of external resources and in the providing of guidance to acquiring firm management towards enhancing cross-border acquisition performance. Examining the role of outside directors using resource dependence theory allows us to provide meaningful insights into how the outside directors' knowledge and experiences positively impact acquisition outcomes. Empirically, our study contributes by providing evidence on how the human and social capital of outside directors can be important in the performance of cross-border acquisitions. Additionally, our study highlights the usefulness of the buy-and-hold abnormal returns (BHAR) methodology (developed in the finance area) when assessing of shareholder value creation in international strategies. Finally, from the perspective of managerial practice, our study findings inform managers at acquiring firms how board capital can be effectively leveraged to create shareholder value in cross-border acquisitions.

2. Theory and research hypotheses

The early corporate governance literature was grounded in agency theory with the primary thesis that independent boards with a high percentage of outside directors and the absence of CEO duality were beneficial for firm performance. However, empirical studies grounded in agency theory have provided equivocal findings (e.g., Daily, Dalton, & Canella, 2003). One of the limitations of this body of research was that it failed to consider the contributions that directors can make towards firm performance based on their accumulated knowledge and experience and/or via the external relations that they develop over time (e.g., Hillman & Dalziel, 2003; Kor & Misangyi, 2008; Kroll et al., 2007; Tian, Haleblian, & Rajagopalan, 2011). It led to the development of a body of research that is primarily grounded in resource dependence theory. The underlying premise is that firm performance is likely to be influenced by the human and social capital of directors which enhances their ability to access vital resources needed by the firm (e.g., information, knowledge, skill sets) and provide valuable counsel to top management (Hillman et al., 2000).

Human capital is the outcome of human-specific investments by individuals which culminates in the accumulation of experience-based knowledge, skills, and expertise that may be utilized in the decision-making process (Johnson, Schnatterly, & Hill, 2013; Kor & Leblebici, 2005; Kroll et al., 2007). From a resource dependence perspective, the human capital of outside directors relates to their ability to resolve the resource needs of organizations on whose boards they serve (Pfeffer & Davis-Blake, 1987). Human capital may be internal (i.e., knowledge and expertise involving the inner workings of the focal firm) or external (i.e., knowledge gained from interactions with other firms, boards, and institutions). Social capital, on the other hand, involves the ability of individuals to use social relations and network relationships to access information and knowledge needed by them and their firms (Tian et al., 2011). Outside directors develop social capital through personal networks that serve as direct and indirect links to other individuals and organizations. As with human capital, social or relational capital can be internal or external. Internal social capital relates to the working relationships that outside directors develop with managers and other directors in the focal firm (Hillman & Dalziel, 2003). Such relationships provide them with greater access to firm-specific information and knowledge, thereby enhancing the quality of advice that they can provide to firm management. External social capital, on the other hand, is associated with external ties, often through appointments on other boards or director interlocks. Extant research has viewed external directorships as a key source of information and experience (e.g., Carpenter & Westphal, 2001; Hillman et al., 2000). Along with providing access to the experiences and knowledge of directors and managers at other companies, external director appointments enable outside directors to identify best practices at other firms. This enables them to identify promising approaches that are likely to work in their firm without subjecting the firm to experimentation. Network ties can also be valuable in expediting the transfer of acquired knowledge and expertise. As stated by Westphal, Seidel, and Stewart (2001), the benefits from external directorships accrue when their network of ties helps improve the flow of relevant information and knowledge to the focal firm.

The collective human and social capital of outside directors represent a proxy for their ability to access needed resources and provide top management with valuable guidance and counsel in making strategic decisions (Arthurs et al., 2008; Kor & Sundaramurthy, 2009; Kroll et al., 2007). From an empirical standpoint, research by Kor and Sundaramurthy (2009) indicates that the human and social capital of outside directors (proxied by outside directors' membership on multiple boards, industry-specific managerial experience, and firm-specific founding experience) have strong effects on firm performance. In recent years, other studies have focused on examining the performance implications of human and social capital in strategic decisions (e.g., Khanna et al., 2014; Le et al., 2013; Vandenbroucke et al., 2016; Sundaramurthy et al., 2014). However, none of these studies involve cross-border acquisitions.

In the following paragraphs, we present arguments on how the human and social capital of outside directors associated with board tenure, external board appointments held, and experiences in the target firm industry and in prior cross-border acquisitions in the region can be expected to impact shareholder value creation in cross-border acquisitions.

2.1. Board tenure

The benefits associated with outside directors having longer board tenure have been documented in several studies (e.g., Kor & Sundaramurthy, 2009; Le et al., 2013; Rutherford & Buchholtz, 2007; Vafeas, 2003). It has been argued that longer tenure allows outside directors to accumulate greater firm-specific knowledge and develop an improved understanding of firm needs and capabilities (Johnson et al., 2013; Kor & Sundaramurthy, 2009). Since most outside directors serve on a part-time basis, a longer tenure on the board provides them with more opportunities to acquire knowledge about firm idiosyncrasies that form the basis of their firm-specific human capital. It enables them to put issues in perspective and better interpret the information they receive from other sources thereby becoming more effective in assisting firm management on cross-border acquisition issues.