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**Embracing the Foreign: Cultural Attractiveness and
International Strategy**

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INTRODUCTION

National culture has been extensively studied in international strategy, and its impact on managerial and economic outcomes has been shown to be profound (Franke, Hofstede, and Bond, 1991; Kirkman, Lowe, and Gibson, 2006). Of particular interest have been situations in which different cultures come into contact with each other. While a few studies show a positive impact generated from the meeting of national cultures (e.g., Morosini, Shane, and Singh, 1998; Shenkar and Zeira, 1992; Vaara *et al.*, 2014), the vast majority of the literature has focused on the challenges, negativities, and difficulties that originate from such encounters (Shenkar, 2001; Tung and Verbeke, 2010).

The most widely used construct used to examine the differences between national cultures is that of cultural distance (CD) (Kogut and Singh, 1988), which measures how far apart two cultures are on an aggregate of Hofstede's (1980) original four cultural dimensions. The main premise behind this construct is that differences in cultures constitute hurdles, which hamper firms' flow of information, knowledge, and competencies, increasing uncertainty and augmenting the cost of doing business abroad (Barkema, Bell, and Pennings, 1996; Nachum, 2003). The CD formula has been applied to numerous international business phenomena including foreign direct investment (FDI) (Shenkar and Zeira, 1992), entry mode (Chang and Rosenzweig, 2001), knowledge acquisition (Li, Poppo, and Zhou, 2010), and multinational enterprise (MNE), subsidiary, and cross-border acquisition (CBA) performance (Barkema *et al.*, 1997; Stahl and Voigt, 2008), among others. Consistent with the hurdle logic are familiarity theory (e.g., Miller and Parkhe, 2002), transaction cost economics (TCE) (Hennart, 1982), and the Uppsala Stage model (Johanson and Vahlne, 1977). All three theoretical lenses view cultural differences as obstacles to the initiation, operation, and success/ survival of FDI.

While CD helped generate valuable findings, its key properties and resulting deficiencies have been criticized on both conceptual and empirical grounds (Lee, Shenkar, and Li, 2008; Tung and Verbeke, 2010), leading some to endorse a rejection of the construct and its underlying metaphor altogether (Shenkar, 2001; Shenkar, Luo, and Yeheskel, 2008). Subsequent empirical research confirmed that many of the assumptions behind CD were erroneous, including, for instance, symmetry (Lee *et al.*, 2008). One illusion that has been criticized is the assumption of discordance (Tung and Verbeke, 2010), namely the belief that CD invariably generates negative outcomes, neglecting evidence that differences can also be a source of benefits and synergies (e.g., Morosini *et al.*, 1998; Vaara *et al.*, 2014). The concept of cultural attractiveness (CA) is introduced with the latter line of reasoning in mind and is consistent with calls for introducing novel cultural constructs and challenges to a simplistic distance metaphor (Lee *et al.*, 2008; Leung *et al.*, 2005).

Drawing on interpersonal attraction research, we define CA as the desirability of a culture for members of another culture. To examine the predictive validity of the construct, we explore its relationship with a country's reputation. We further examine its relation with country-pair FDI inflows for 41 nations during the 1985 to 2012 time period and CBA performance for 40 nations between 1990 and 2009. We seek to contribute to the growing thrust questioning the usage of CD and their FDI negativity presumption, while building on the cultural friction lens (Shenkar *et al.*, 2008). In this context, we seek to establish cultural attraction as a major force bringing cultures together, as opposed to keeping them apart, in the process impacting FDI. In so doing, we reassess assumptions embedded in extant theories ranging from cultural familiarity (Lee *et al.*, 2008) to the Uppsala model (Johanson and Vahlne, 1977) and TCE (Chang and Rosenzweig, 2001), using a behavioral, interpersonal theory to augment our understanding of the complex relationship between culture, foreignness, and FDI.

LITERATURE AND THEORY

In interpersonal attraction research, rooted in social psychology and sociology (Byrne and Griffitt, 1973; Klohnen and Luo, 2003), attractiveness refers to an individual who possesses desirable qualities that evoke positive affective evaluations in others (Blau, 1960; Lott and Lott, 1965). Individuals who display specific traits, characteristics, or behaviors deemed desirable and valuable by an observer exert positive perceptions in the observer and, thus, becomes attractive in the observer's eyes (Berscheid and Walster, 1969). Interpersonal attraction also occurs when the shared behaviors and actions of a collective are valued by an observer or an observing group (Lott and Lott, 1965). Interpersonal attraction impacts the cognitive schemas and behaviors of individuals and groups and has been shown to stimulate approach, conformity, and performance of individuals and groups (Byrne and Griffitt, 1973; Lott and Lott, 1965) on a wide range of issues, comprising job interviews and evaluation (Ellis *et al.*, 2002), social integration (Simsek *et al.*, 2005), and interpersonal relationships (Fitness, Fletcher, and Overall, 2007) among others.

We build on the interpersonal attraction framework to develop the novel concept of CA¹. Cultures comprise the “values, beliefs, norms, and behavioral patterns of a national group” (Leung *et al.*, 2005: 357). As such, cultures can be seen as collectivities of individuals with relatively homogeneous qualities characterized by taken-for-granted behaviors/ practices (House *et al.*, 2004). These qualities are observable in work routines, management practices, and everyday behaviors characteristic of members of a given society (House *et al.*, 2004; Morosini *et al.*, 1998). At the same time, members of a culture share a relatively homogeneous view of what they find desirable/ attractive or not (Schwartz, 1994). These views and desires are reflected in individual values (House *et al.*, 2004) that involve a form of

¹ While a few studies mention CA (e.g., Shenkar, 2001; Shenkar *et al.*, 2008; Very *et al.*, 1997), to our knowledge, the concept has not been hitherto developed and measured systematically.

judgment of what individuals find positive or negative (Kirkman *et al.*, 2006; Rokeach, 1973). If the members of a culture possess qualities in the form of practices that are deemed desirable by others, the culture will be considered attractive. Building on the above discussion, we define CA as the desirability of a culture for members of another culture based on the extent to which the former culture's practices reflect the latter culture's values.

We expect members of the same national culture to have a fairly homogeneous view on the attractiveness of another nation's culture because cultural members are subject to out-group homogeneity effects when they form perceptions of other cultures (Brewer and Brown, 1998). Out-group homogeneity refers to the tendency to view out-groups as more homogeneous than in-groups and has been extensively studied and verified in social psychology (Boldry, Gaertner, and Quinn, 2007; Brauer, 2001). Out-group homogeneity occurs because individuals lack the cognitive capacity to deal with an overly complex environment (Fiske and Taylor, 2013). As a result, individuals use categorization to simplify their environment and create categories based on attributes that objects appear to have in common (Yzerbyt and Demoulin, 2010). A prominent natural category is nationality (Ostrom and Sedikides, 1992) as individuals and firms in a nation typically share common traits, behaviors, and practices owing to their embeddedness in the same institutional environment (North, 1990). In return, observers tend to attribute traits, abilities, and other characteristics to a foreign entity on the basis of its nationality (Leung *et al.*, 2005). Out-group homogeneity also causes members of the same national culture to share similar perceptions toward other cultures. As cultural members identify with other members of their culture, i.e. the in-group, they adopt common perceptions of out-groups shared by other cultural members (Simon, 1992; Tajfel, 1981). Similarity in perceptions is also driven by shared transmitting mechanisms through which cultural members receive information that include societal channels and direct contact (Bar-Tal, 1997). Societal channels comprise news media, books,

TV, and educational contents among others. Members of the same national culture are likely exposed to very similar news channels, TV programs, and educational contents and, thus, receive similar information on foreign cultures. Direct contact occurs when cultural members travel abroad or when they interact with tourists, exchange students, expatriates, or immigrants in the home country. As individuals/ organizations from the same nation typically share common cultural traits (Chhokar, Brodbeck, and House, 2007), individuals are able to observe typical behaviors of another culture through interaction with a limited number of members of that culture. Therefore, members of the same national culture tend to develop a relatively homogenous and socially shared perception of another culture. These perceptions are usually quite rigid as they are entrenched, from decades/ centuries of religious, cultural, and economic interactions (Cuddy *et al.*, 2009).

MEASUREMENT OF CULTURAL ATTRACTIVENESS (CA)

In order to measure CA, we need to obtain data on the behavioral patterns and practices of a national culture and data on what members of different cultures find desirable. The GLOBE project explicitly measures a culture's qualities in the form of its cultural practices and also captures what societal members find desirable in the form of cultural values for 62 societies (House *et al.*, 2004). Thus, GLOBE provides measures that map to the theoretical concept of CA. Other seminal cultural studies tend to focus exclusively on cultural values (e.g., Hofstede, 2001; Inglehart, 2004; Schwartz, 1994) and, albeit being valuable for different purposes, are not able to capture a culture's attractiveness.

Using GLOBE for the CA measure also ensures a degree of content validity as GLOBE's theory-driven approach in identifying cultural dimensions and developing items/scales covers a significant part of the (known) domain of culture (Hanges and Dickson, 2004). After review of seminal literature, interviews, and multiple testing phases, GLOBE specified the nature of the constructs they wanted to measure and then identified the nine cultural

dimensions they intended to assess (Hanges and Dickson, 2004): Assertiveness, future orientation, gender egalitarianism, humane orientation, in-group collectivism, institutional collectivism, performance orientation, power distance, and uncertainty avoidance. GLOBE developed parallel items to assess the values and practices of each dimension. The items measuring cultural practices directed respondents' attention on how things are while the items on cultural values focused respondents' attention on how things "should be" (Hanges and Dickson, 2004). The parallel structure of the items allow us to calculate CA by matching a culture's values with another culture's practices (Very *et al.*, 1997). 17,370 middle managers from 951 organizations in three industries and 62 societies completed the questionnaires (House and Hanges, 2004).

We use the Euclidean distance formula to measure CA: Given two cultures O (observer) and T (target), each has their own cultural values V and practices P for cultural dimension d. The observer O possesses certain values $V_{O,d}$ ("should be") for dimension d. Culture T is assessed by the observer on its attractiveness based on its cultural practices $P_{T,d}$ ("as is") for dimension d.

$$\text{Cultural attractiveness}_{(O,T)} = \sqrt{\sum_{d=1}^9 [6 - |P_{T,d} - V_{O,d}|]^2} \quad (1)$$

We use the value six in equation (1) because it is the largest possible score between practices and values of any dimension (GLOBE items' scale is 1–7). Thus, CA for dimension d is six when the congruence between host country practices and home country values is largest and zero when it is smallest. We calculate the absolute value differences rather than real value differences between cultural values and practices because deviation from an ideal value in either direction renders a culture and its cultural dimension less attractive. Using real value differences yields less consistent results. We use response bias corrected GLOBE scores to prevent distorted cross-cultural comparisons (Hanges, 2004a). GLOBE uses a modified cultural response statistical correction procedure to remove response bias from its

questionnaire data and, in so doing, provides cultural scores that allow cross-cultural comparisons of the real underlying cultural constructs (Hanges, 2004a). Subsequent studies that use GLOBE scores provide substantial evidence that cultural values (e.g., Crossland and Hambrick, 2011; Parboteeah, Hoegl, and Cullen, 2008; Waldman *et al.*, 2006) and cultural practices (e.g., Brock *et al.*, 2008; Estrin, Baghdasaryan, and Meyer, 2009; Vaara *et al.*, 2014) relate with objective organizational and management outcomes in theoretically consistent ways. These findings provide further evidence that the GLOBE scores are largely objective and are able to capture the actual underlying practices and values constructs. We include all nine GLOBE dimensions to calculate CA in order to capture the entire cultural domain. It is important to note that this CA operationalization measures the overall attractiveness of a culture and is suitable to study overall cross-cultural perceptions and transactions that are more general in nature. For specific topics that allude to a selective domain of culture, a disaggregated approach can be more adequate as certain dimensions can be more relevant than others. Appendix 1 reports the CA scores between the 20 nations with the largest populations during the sample period 1985–2012.

ASYMMETRIC PROPERTY OF CULTURAL ATTRACTIVENESS

We employ cultural values and practices to calculate CA. Cultural values are socially shared conceptions of the desirable (Kluckhohn, 1951) and are formed through different external and internal forces that act upon cultural members (Rokeach, 1979). While external forces include factors such as climate, geography, history, and technological developments/ inventions, internal forces consist of individuals' needs (Hofstede, 2001; Rokeach, 1973). Cultural practices are behavioral patterns that are initially undertaken by cultural members in response to reoccurring challenges and situations (House *et al.*, 2004). They then become rigid and habitual through cultural members' repetition, either consciously to gain social acceptance or unconsciously as imitation of common behavior that is shared by other cultural members

(Fischer *et al.*, 2009; Shteynberg, Gelfand, and Kim, 2009). As values and practices arise from a myriad of complex and often path-dependent antecedents, countries possess unique cultural values systems and cultural practices patterns (House *et al.*, 2004; Rokeach, 1973).

Prior work provides consistent evidence that cultural values and practices in a same culture typically are not identical (e.g., Haire, Ghiselli, and Porter, 1966; Hanges, 2004b; Hofstede *et al.*, 1990; Van Oudenhoven, 2001) and are often negatively correlated (Hanges, 2004b). Several scholars provide rationales to explain why individuals do not practice what they value. Javidan *et al.* (2006) propose a deprivation hypothesis and argue that cultures that have more of a practice become more satiated while cultures that have less of a practice feel more deprived whereby creating a gap between values and practices. Venaik and Brewer (2010) use Maslow's (1943) hierarchy of needs theory to suggest that different cultural traits satisfy different types of needs. Cultural members will value cultural specifications that relate to basic needs if these needs are unmet while they will value specifications relating to higher-level needs if their basic needs are satisfied. Taras, Steel, and Kirkman (2010) build on the value internalization argument among others and postulate that cultural practices and values do not match if cultural members do not sufficiently internalize their values (Fischer, 2009). As variations between cultural values and practices originate from complex and often interdependent antecedents, it is very unlikely that two cultures possess values or practices profiles such that the aggregate level of congruency between culture O's values and culture T's practices matches the congruency between T's values and O's practices. The GLOBE scores support this notion and show that, unlike CD, no country-dyad has symmetric CA scores, i.e. culture T's CA assessed by culture O neither equals nor correlates with culture O's CA evaluated by culture T. The GLOBE data support this assumption and show that country T's CA assessed by country O correlates with country O's CA assessed by country T with $r=0.4$ for the 20 largest nations reported in Appendix 1.

Developing the CA concept is consistent with calls for novel cultural constructs to help overcome some of CD's inherent limitations (Lee *et al.*, 2008; Leung *et al.*, 2005). CA can help explain asymmetric cross-cultural impacts, overcoming CD's assumption of symmetry (Tung and Verbeke, 2010). A CA lens also helps specify how cultures are drawn close to each other. In so doing, CA provides a positive view of culture and the approach, conformity, and performance outcomes resulting from its attractiveness (Blau, 1960; Lott and Lott, 1965).

CULTURAL ATTRACTIVENESS AND COUNTRY REPUTATION

Using items that build on seminal works in the cultural literature to measure CA ensures a degree of content validity. However, we also need to establish CA's predictive validity to provide evidence for its construct validity (Nunnally, 1978). Predictive validity not only helps illustrate the practical utility of the construct, but also places it in a larger nomological network, further supporting construct validity (Cronbach and Meehl, 1955). We draw on the reputation literature and choose country reputation as the outcome variable because corporate and individual reputation have been frequently studied in strategic management (Phillipe and Durand, 2011; Roberts and Dowling, 2002) with country reputation attracting renewed scholarly attention (Arikan and Shenkar, 2013; Newburry, 2012). Reputation denotes a global perception formed through the public knowledge about and recognition of an entity and its attributes (Roberts and Dowling, 2002). The reputation ascribed to a given entity is based on information of its past actions and decisions (Phillipe and Durand, 2011). For countries, these actions consist of the behaviors of a country's members and leaders. Information on these behaviors transfers through international news coverage, expatriates, immigration, tourism, and exchange of cultural goods. These behaviors and practices are then evaluated by the observing country on the basis of what the observing country's members find desirable. Culture is central in determining behavioral patterns and the way societal members evaluate

them (i.e. their values) (House *et al.*, 2004). If CA evokes positive affective evaluations of one national culture toward another country's culture it should determine the way a given country perceives and evaluates another country in general. Thus,

Hypothesis 1: Other things being equal, a country's CA relates positively to its overall reputation as perceived by another country.

CULTURAL ATTRACTIVENESS AND FDI

In order to assess CA's usefulness for international strategy, we examine its influence on FDI. FDI is a momentous step of strategic importance and unusual uncertainty for MNEs resulting from the scale of capital committed to a less familiar foreign country (Hymer, 1976). Existing theories on FDI provide various motives for such investment decisions including market-seeking, efficiency-seeking, resource-seeking, and strategic-asset-seeking (Dunning, 1998; Nachum and Zaheer, 2005). Culture plays a pivotal role in FDI decisions because of the inherent involvement of different national cultures and the potential cultural friction that may arise from the interaction (Shenkar *et al.*, 2008). Cultural familiarity theory suggests that MNEs are less likely to invest and establish subsidiaries in culturally distant countries (Lee *et al.*, 2008; Miller and Parkhe, 2002). Firms incur additional costs and face increased difficulties when operating in a cultural environment that is dissimilar to their own due to unfamiliarity with a host environment, specifically lack of knowledge on how to conduct business and operate in that environment (Zaheer and Mosakowski, 1997), which hampers the flow of information and knowledge and creates a liability of foreignness (Nachum, 2003).

We argue that familiarity only captures the negative aspects of culture's role in FDI whilst neglecting the impact of a culture's attractiveness based on affective evaluations. We propose that, other things being equal, MNEs are likely to invest in countries that are culturally attractive because attractiveness stimulates the tendencies to approach a culture and conform to local practices (Byrne and Griffitt, 1973; Lott and Lott, 1965). These tendencies

affect FDI location decision as they direct managers' attention to a foreign investment destination and help facilitate the operation of foreign subsidiaries.

Individuals tend to move — physically and mentally — toward those whom they are attracted to (Byrne and Griffitt, 1973). As managers incorporate their personal experiences and perceptions in their professional decision making process (Arikan and Shenkar, 2013), they will consider a foreign location a potential investment destination, if they are willing to approach and interact with that country's managers and personnel. Thus, managers will likely direct more attention to culturally attractive nations than to unattractive ones. Individuals also tend to conform to the behaviors and practices of individuals and groups that they find attractive (Lott and Lott, 1965). Conformity helps accelerate cooperation between home and host country personnel as host country employees are not forced to significantly alter their habitual behaviors and routines (Morosini *et al.*, 1998). We expect MNE populations to target culturally attractive places for their foreign investments resulting from the inclinations to approach these cultures and conform to the cultures' practices. Therefore,

Hypothesis 2: Other things being equal, a host country's CA relates positively to its FDI inflows from a home country.

CULTURAL ATTRACTIVENESS AND CROSS-BORDER ACQUISITION PERFORMANCE

As firm performance is substantial to the field of strategic management (Nag, Hambrick, and Chen, 2007), we study CA's influence on internationalization performance, in particular cross-border acquisition (CBA) performance (Seth, Song, and Richardson Pettit, 2002). Firms have different motives for acquiring foreign targets that include increase in market power, redeployment of assets, exploitation of technical knowledge, and spreading of risks among others (Nadolska and Barkema, 2007; Ravenscraft and Scherer, 2011). Ultimately, acquirers intend to generate value through CBAs (Jensen and Ruback, 1983; Moeller, Schlingemann,

and Stulz, 2005). Prior work finds that successful integration, i.e. the blending of operations of two previously autonomous firms, is vital to value generation (Buono and Bowditch, 2003; Shrivastava, 1986). Cultural familiarity theory proposes that MNEs will show poorer performance when they invest and operate in culturally distant locations (Lee *et al.*, 2008; Miller and Parkhe, 2002) as post-merger integration suffers from conflict and discord that result from unfamiliarity with the foreign culture whereby causing disappointing CBA outcomes (Datta and Puia, 1995).

We propose that familiarity theory provides an incomplete picture of culture's impact on CBA outcomes as evidenced by conflicting findings (Datta and Puia, 1995; Morosini *et al.*, 1998). We argue that, other things being equal, CBA performance is superior in culturally attractive countries as CA facilitates post-merger integration. We focus on the target nation's CA because MNEs that enter a foreign culture deal with different entities including the local workforce, state agencies, unions, and the public while the target remains in its cultural environment and mainly deals with the inward investor (Lee *et al.*, 2008). Thus, the target nation's CA is more central in affecting the acquirer than the other way around. Previous work reveals that individuals perform better when they work with people they are attracted to (Byrne and Griffitt, 1973). They will be more committed and satisfied, perform more efficiently on a consistent basis, and yield higher self-efficacy when operating in the attractive culture and dealing with its individuals and organizations (Earley, 1994). These findings suggest that acquirers' managers will display better performance when the target is from an attractive culture and, in so doing, help achieve superior integration.

Furthermore, individuals tend to accept local cultural practices in attractive cultures (Byrne and Griffitt, 1973; Lott and Lott, 1965). This tendency helps reduce hostility and resistance, a critical issue that acquirers face during post-merger integration (Shenkar *et al.*, 2008). Targets often see acquirers as conquerors due to their removal of control and

ownership (Haspeslagh and Jemison, 1991; Riad and Vaara, 2011). This impression can turn into anger and resentment and hamper efficient integration, particularly when acquirers force targets to change their cultural practices (Buono and Bowditch, 2003). When the target culture is attractive, however, acquirers tend to accept local practices and do not forcefully replace them (Byrne and Griffitt, 1973). Target firms will then not feel threatened and show more commitment, less personnel turnover, and better performance during post-merger integration (Chatterjee *et al.*, 1992). Therefore, we expect attractiveness to relate positively to foreign subsidiary performance through better integration outcomes.

Hypothesis 3: Other things being equal, a target country's CA relates positively to cross-border acquisition (CBA) performance.

METHODS

Country reputation

Data and dependent variable

To establish predictive validity of CA (hypothesis 1), we use country-dyadic annual reputation ratings from the Reputation Institute. Respondents in the Group of Eight (G8) nations were asked to rate the reputation of up to two countries they are familiar with using a 4-item measure. This resulted in 175,548 individual reputation ratings made for 34 nations between 2009 and 2013. We aggregate the ratings to obtain annual bilateral reputation scores, i.e. the average reputation of a target country ranked by all respondents from one (of the eight) observing countries in a given year. Appendix 2 contains a detailed description of the methodology used to collect the data.

Empirical model

We use correlation and regression analyses to assess CA's predictive validity. We employ Prais-Winsten feasible generalized least squares (FGLS) estimation, which corrects the standard errors of the regression coefficients for autocorrelation and heteroskedastic

disturbances that are present in the data (Wooldridge, 2010). We distinguish between DCs (developed countries) with high Human Development Index (HDI) and LDCs (less-developed/ developing countries) with low HDI. While the observing countries (G8) are all DCs (with high HDI), we are still able to include almost the full range of CA scores.

Control variables

We include CD between the home and host country using the *Kogut and Singh (1988) index*.

We construct a variable *CA variance* that measures the total variance of the CA measure.

$CA\ variance_{(OT)} = \sum_d^9 [(CA_{OT,d}) - \text{mean}(CA_d)]^2$ for observing culture O, target culture T,

and cultural dimension d. We also enter the *population size* of the target country and the *economic distance* between observing and target country calculated as the absolute difference between the logged GDP per capita of the two countries (Tsang and Yip, 2007). Furthermore, we control for the target nation's *GDP growth* obtained from the World Bank (Sethi *et al.*, 2003). We include Henisz's (2000) *political constraint* index and the *geographic distance* between the observing and target nations. We further enter dummy variables that indicate whether observer and target countries share a *common language*, *colonial ties*, and *legal origins* from the CIA's World Factbook (Siegel, Licht, and Schwartz, 2013). We lag all variables by one year to avoid potential reverse causality and because country reputation is likely affected by past information. Time dummies are included.

Results

Table 1 reports the FGLS estimation results. VIFs (less than 2.5) indicate low multicollinearity levels for the regression models. Model 1–6 include the CA variable for the full, DCs=>DCs, and DCs=>LDCs samples, with or without controls for CD, respectively. We find that CA's coefficient is positive and that the probability that the sample value would be larger than the value observed if the null hypothesis is true is less than $6.7 \cdot 10^{-6}$ percent (Model 2) in all Models 1–6. The coefficients indicate that a one standard deviation increase

in CA relates to 1.56–3.97 points increase in country reputation. This increase corresponds to moving up by two to five ranks on average for 2013 (the average difference between two consecutively ranked countries is 0.84). Thus, hypothesis 1 receives strong support.

*** Insert Table 1 here ***

Foreign direct investment

Data and dependent variable

For hypothesis 2, we collected data from the OECD Statistical Compendium on bilateral FDI for the 1985–2012 period. We did not combine country reputation and FDI data because overlap in countries and timespans is marginal. We use annual bilateral FDI flows for the dependent variable to study the scope of MNE investments between two countries (Sethi *et al.*, 2003; Siegel *et al.*, 2013). This variable captures the aggregate country-level FDI flow from a home into a host country in a given year. Because the FDI data are skewed, we use the natural logarithm of (FDI flows + 1).

Control variables

We include CD between the home and host country using different CD measures (Lee *et al.*, 2008; Sethi *et al.*, 2003). First, we include two measures based on GLOBE, *GLOBE's values distance* and *GLOBE's practices distance*. We apply the Euclidean distance formula to GLOBE's values and practices scores, respectively. We use GLOBE to match the sample and underlying cultural dimensions with those used to calculate CA. Second, we use the *Kogut and Singh (1988) index*. Third, we employ *Ronen and Shenkar's (1985/2013) clusters* classification. Finally, we construct a CD index based on *Schwartz's (1994) cultural* dimensions using the Euclidean formula. We control for the logged GDP of the home and host country (*log home-country GDP*, *log host country GDP*) and the *logged geographic distance* between the countries that are part of the gravity equation model of FDI (Siegel *et al.*, 2013). We include *CA variance* and the *economic distance* between home and host

country calculated as the absolute difference between the logged GDP per capita of the two countries. Economic distance indicates whether MNEs are attracted to a country due to resource exploration versus resource exploitation, which in turn partly depends on economic distance (Tsang and Yip, 2007). We also control for *GDP growth* obtained from the World Bank (Sethi *et al.*, 2003). We also include Henisz's (2000) *political constraint* index and enter dummy variables that indicate whether host and home countries share a *common language*, *colonial ties*, and *legal origins* from the CIA's World Factbook (Siegel *et al.*, 2013). All variables are lagged by one year to avoid potential reverse causality and because FDI decisions are likely based on previous year's data (Sethi *et al.*, 2003). Time dummies are included.

Empirical model

For the FDI data, we employ a gravity equation model in line with prior work (Siegel *et al.*, 2013). Because the FDI data contain heteroskedasticity and autocorrelation we employ FGLS estimation. We distinguish between DCs and LDCs consistent with extant work as the influence of explanatory variables and type of FDI among nations tend to substantially vary between DCs and LDCs, whereby pooling the data becomes questionable (Blonigen and Wang, 2004; Sethi *et al.*, 2003). The three different country-pair types are: DC => DC, DC => LDC, and LDC => DC.² We exclude host countries that have tax haven status because the actual location of operation is unlikely to be in a tax haven.

Results

VIFs are less than 2.0 for all variables indicating low multicollinearity levels³. Tables 2–4 report the results of the FGLS estimations for DC/ DC, DC/ LDC, and LDC/ DC country

² OECD does not provide FDI data for LDC/ LDC dyads. While FDI between LDCs is increasing, the vast majority of global FDI flows still occurs among the countries covered in our sample.

³ We do not include the correlation matrices due to parsimony. They are available from the authors.

pairs, respectively. For each table, Model 1 includes only the control variables. We propose that the CA of a host country has a positive influence on the amount of FDI flows in that country. For Model 2 we enter CA. Models 3–7 include the five different CD measures. We find that CA's coefficient is positive in all Models 2–7 across all three country-dyad types. The probability that the sample value would be greater than the value observed if the null hypothesis is true is less than $3.6 \cdot 10^{-11}$, 2.0, and $7.5 \cdot 10^{-17}$ percent for DC/ DC, DC/ LDC and LDC/ DC pairs, respectively. A one standard deviation increase in CA is associated with a change in mean log FDI flows of up to +7.3, +7.2, and +13.3 percent for DC/ DC, DC/ LDC, and LDC/ DC dyads. Thus, hypothesis 2 receives support for all country-pair types. Interestingly, while CD negatively affects FDI consistent with cultural familiarity theory for DCs/ DCs, findings on CD are inconsistent for the other country-pairs.

*** Insert Tables 2–4 here ***

Cross-border acquisition performance

Data and dependent variable

For hypothesis 3, we obtained the acquisition sample from Thomson One Banker database. We found 8,519 CBAs from 37 acquirer countries and 40 target countries made by public firms between 1990 and 2009 that met the following criteria (Masulis, Wang, and Xie, 2007): 1) The acquisition is completed. 2) The acquirer owns less than 50 percent of the target's shares before the announcement and 100 percent of the target's shares afterwards. 3) The deal value is more than 1 million US dollars. 4) The acquirer has annual financial statement and stock return data available from Datastream.

We use cumulative abnormal return (CAR) as our dependent variable to examine the performance of CBAs in line with prior work (Aybar and Ficici, 2009; Gaur, Malhotra, and Zhu, 2013). CAR captures whether an event had a positive or negative effect on shareholder wealth (Masulis *et al.*, 2007). We collected the daily stock prices for the acquiring firm

around the announcement date t_0 and used a standard market model to calculate CAR (Gaur *et al.*, 2013). For acquirer i during the event window $t-2$ to $t+2$ (i.e. two days before and after the announcement), we calculated the abnormal return as:

$$AR_{i,t} = R_{i,t} - (\alpha_i + \beta_i R_{m,t}) \quad (2)$$

where $AR_{i,t}$ is the abnormal return, $R_{i,t}$ is the acquirer's daily stock return, and $R_{m,t}$ is the daily stock market return. The market model parameters, α and β , are estimated over a 200-day window from event day -210 to event day -11 before the announcement day at $t=0$ (Masulis *et al.*, 2007). We add the daily abnormal returns to calculate CAR during the 5-day window $(-2, +2)$ surrounding the acquisition announcement (Gaur *et al.*, 2013; Masulis *et al.*, 2007):

$$CAR_i = \sum_{t=-2}^{+2} AR_{i,t} \quad (3)$$

Control variables

We include CD between the home and host country using the same set of CD measures we used for the FDI data, i.e. *GLOBE's values distance*, *GLOBE's practices distance*, *Kogut and Singh (1988) index*, *Ronen and Shenkar's (1985/2013) clusters*, and *Schwartz's (1994) cultural distance* using the Euclidean distance formula. We again enter *CA variance*. We control for the *percentage acquired* (Aybar and Ficici, 2009) and the *deal value* (Sears and Hoetker, 2014). We include dummies that indicate whether acquirer and target firms share the same industry (*industry relatedness*) and are from *high-tech sector* (Masulis *et al.*, 2007). We further enter the acquirer's *total assets* and return on asset (*ROA*) (Louis and Sun, 2010). We also include the acquirer's prior *acquisition experience* (Sears and Hoetker, 2014). We include Henisz's (2000) *political constraint* index, *geographic distance* (Aybar and Ficici, 2009), and *economic distance* (Tsang and Yip, 2007). Finally, we enter dummies for *colonial ties* and *cash purchase*. Time and country dummies are included.

Empirical model

For the CBA data, we employ clustered (within each acquirer nation) OLS regression with robust standard errors and target nation and year fixed effects (Chakrabarti, Gupta-Mukherjee, and Jayaraman, 2009).

Results

VIFs are less than 4.0 for all variables indicating low multicollinearity levels. Table 5 reports the estimation results. Model 1 includes only the control variables. We propose that the CA of a target nation has a positive influence on CBA performance. We enter CA for Model 2. Models 3–7 include the five different CD measures. We find that CA is positive in all Models 2–7 and the probability that the sample value is larger than the observed value if the null hypothesis is true is less than 3.9 percent. CA also has an economically meaningful impact on acquirer returns. Acquirers will see the amount of value it obtains increase by over USD 52.8 million on average if the target country has a one standard deviation higher CA, everything else being equal. Thus, hypothesis 3 receives support. Interestingly, the CD measures do not exert a significant influence on acquirer returns.

*** Insert Table 5 here ***

Sensitivity analyses

We performed additional tests to assess the robustness of our results. We successively excluded the seven countries with the largest surface areas from the FDI and CBAs samples. We exclude large countries because different perceptions of another country's attractiveness may develop in large countries as their populations are spread over a greater area and may interact less frequently/ intensely to form a homogeneous view of other cultures. Furthermore, different regions of a large country can have significantly different historical pasts and developments. The seven countries are Australia, Brazil, Canada, China, United States, Russia, and India. We began by excluding the largest nation (Russia) and then running the analyses. We then excluded the largest and second largest nations (Russia and Canada) and

ran the analyses again and so on until we excluded all seven nations from our analyses. The results are highly similar to the previous results. While country size can relate to diverse perceptions toward another nation, we also account for alternative country diversity measures developed by Fearon (2003) and Alesina *et al.* (2003) that measure diversity through cultural, ethnic, linguistic, and religious fractionalization. In line with the previous procedure, we successively omit the seven most diverse countries that also appear in the original sample from the analyses. The results are again very similar to the original findings.

We also divided the FDI and CBAs samples into smaller segments to account for potential changes in culture over time. While it is often argued that culture remains relatively stable over long periods of time (Brodbeck, Chhokar, and House, 2007; Hofstede, 2001), changes can still be observed (Leung *et al.*, 2005). To mitigate the effects of potential variations in cultural values and practices during our sample period, we divided the sample into five-year and 10-year segments and ran our analyses separately for each segment. The results are, again, highly similar to the original results.

DISCUSSION AND CONCLUSION

Grounded on interpersonal attraction research, we developed the novel CA concept. To demonstrate its value, we show that CA overcomes some of the limitations endemic to the CD construct and employ the concept to challenge and extend cultural familiarity theory's stronghold on culture's role in FDI and CBAs. We provide evidence of CA's predictive validity using country reputation data and demonstrate its effect on FDI flows and CBA performance. The results show that CA is a fundamental factor in determining country reputation, FDI flows, and CBA outcomes and has a more consistent influence than CD.

Implications for research

Our study contributes to international strategy research in several ways. First, it provides a new approach to assess the relationship between cultures that overcomes some of the

inaccurate assumptions of the often-used CD construct. The CD logic examines the relation between two cultures through their differences, often relying on the assumption of discordance that equates differences with liabilities (Shenkar, 2001). That is, the more dissimilar another culture is the more likely disruption occurs during interaction. In contrast, CA centers on the positive perception toward another culture. As such, CA provides an approach to explain culture's positive impact on internationalization outcomes that overcomes the assumption of discordance (Tung and Verbeke, 2010). CA can also help overcome the often-criticized assumption of symmetry (Lee *et al.*, 2008). While CD scores are identical for both cultures, target country T's CA assessed by observing country O and country O's CA assessed by country T are not as we discussed above and, instead, correlate with $r=0.36$ for the FDI sample and $r=0.19$ for the CBAs sample. Thus, CA can be used to directly explain asymmetric cultural phenomena as opposed to CD. For example, Selmer, Chiu, and Shenkar (2007) find that German expatriates are better adjusted in the U.S.A. than American expatriates are in Germany despite being separated by the same CD. The CA scores show that the U.S. culture is more attractive to Germans than the other way around by 0.6 standard deviations, making it easier for Germans to adjust to the U.S. culture.

Second, the CA concept can help challenge, extend, and refine theories consistent with the hurdle logic of culture that include cultural familiarity theory (Lee *et al.*, 2008), the Uppsala Stage model (Johanson and Vahlne, 1977), and TCE (Hennart, 1982). Cultural familiarity theory builds on the assumption of discordance and proposes that MNEs are less likely to invest in culturally distant countries and exhibit poorer performance when they do (Lee *et al.*, 2008). Consistent with CD's hurdle presumption, cultural familiarity theory views culture as a source of negativity and disturbance whilst neglecting culture's positive impact. We use the CA concept to extend the familiarity framework. Drawing on attractiveness' approach, conformity, and performance tendencies, we offer a construct that can examine

culture's positive impact on international transactions and argue that firms are drawn to attractive cultures and perform better in these cultures despite cultural differences. We provide evidence for our claims and, in so doing, demonstrate that CA is an important and hitherto neglected factor that needs to be accounted for when studying culture's impact on the very decision to launch foreign investments and on FDI performance.

Another prominent theory consistent with CD's hurdle logic is the Uppsala Stage model of internationalization, which explains the sequence and gradual commitment of FDI (Barkema *et al.*, 1996; Johanson and Vahlne, 1977). The Uppsala model predicts that firms progressively expand from their home country into countries with greater psychic distance before increasingly committing larger stakes in order to gradually gain market knowledge that helps reduce the uncertainty of operating in a foreign market (Johanson and Vahlne, 1977; Luostarinen, 1980). However, support for the proposed foreign entry sequences has been limited (Shenkar, 2001), partially because the theory is primarily applicable to overseas expansions motivated by market seeking. If motives such as resource or technology seeking are dominant in the decision calculus, the model does not apply (Petersen and Pedersen, 1997). The CA logic can help refine internationalization theory through a complementary perspective on culture's impact on uncertainty. As firms tend to approach and interact with attractive cultures (Lott and Lott, 1965), they likely learn more about culturally attractive than unattractive markets whereby reducing uncertainty to invest in the former (Luostarinen, 1980). Thus, we expect CA and CD to occur in tandem such that firms expand progressively not only from culturally proximate to more distant, but also from culturally attractive to less attractive markets. Furthermore, CA acts as a threshold that facilitates or prevents entry. While the original model suggests that firms will eventually overcome uncertainty associated with CD through incremental learning (Johanson and Vahlne, 1977), lack of CA may deter firms from entry altogether because firms are not willing to approach and interact with

unattractive cultures (Byrne and Griffitt, 1973). Hence, incorporating CA into the internationalization model can help explain foreign expansion patterns that the original Uppsala model has not been able to explain on its own (Benito and Gripsrud, 1992).

CA also has implications for transaction cost theory, which has become the main theoretical pillar in explaining culture's impact on foreign entry mode (Chang and Rosenzweig, 2001; Hennart, 1982). Transaction cost theorists associate larger CD with higher information and enforcement costs that MNEs account for through greater control over their foreign operations (Buckley and Casson, 1976; Tihanyi, Griffith, and Russell, 2005). However, CD also increases the uncertainty of operating abroad due to lack of knowledge of the foreign country, which is compensated through less control and greater reliance on local partners (Gatignon and Anderson, 1988; Hennart and Reddy, 1997). In an effort to reconcile the contradictory predictions, Anderson and Gatignon (1986) suggest that control levels will either increase or decrease with greater CD and that increase/ decrease of control depends on the gains of doing business in the entrant's vis-à-vis locals' way. However, they do not specify how these gains may be determined. CA can help resolve this issue by providing a means of assessing whether it is beneficial to do business the locals' way. The more attractive cultural members consider a culture the more faith and trust they will have in its individuals' and firms' capabilities and practices (Byrne and Griffitt, 1973; Very *et al.*, 1997). As such, an entrant will consider the locals' way of doing business more beneficial and will more likely rely on local employees/ managers and their practices (Reuer, Klijn, and Lioukas, 2014). The entrant will then opt for low control entry modes that allow local partners/ employees to do business their accustomed way (Anderson and Gatignon, 1986). Conversely, an entrant will decide to exercise greater control and try to enforce changes in cultural practices if the foreign culture is not sufficiently attractive. We note that control and ownership are two related but not identical constructs (Anderson and Gatignon, 1986) and expect the entrant to potentially

increase ownership levels in culturally attractive nations over time in order to benefit from attractiveness' performance outcomes (Byrne and Griffitt, 1973) while continuing to provide significant leeway to local employees in conducting business the locals' way.

Finally, the results show that the CD measures do not have consistent effects on country reputation, FDI flow, and CBA performance. For example, the same Kogut and Singh index has different effects on FDI inflows for different country-pairs, i.e. negative for DC/DC pairs and positive for DC/ LDC and LDC/ DC dyads. Moreover, the coefficient of the Kogut and Singh index is positive whereas the GLOBE's values distance coefficient is negative in Table 4. Furthermore, none of the CD measures yields any significant effect on CBA performance. In contrast, the effects of CA are consistent throughout. This indicates that CA has better explanatory power than CD.

Limitations

This study has limitations. The CA concept we developed is based on the assumptions that cultural members of a society possess a relatively homogeneous view of the attractiveness of another culture and that this view does not change quickly/ significantly over time. While we draw on social psychology's outgroup-homogeneity effect to provide theoretical reasoning for why perceptions of another country's attractiveness should be relatively homogeneous within a country and perform an extensive set of robustness tests to remove potential within-country heterogeneities in our sample, we do not have individual-level data on CA to examine directly whether this assumption holds. Similarly, prior work provides strong theoretical reasons that cultural practices and values are largely stable over time (Hofstede, 2001; House *et al.*, 2004). To ensure that potential temporal variations do not distort our results, we conduct several robustness tests. However, ultimately, we cannot determine CA's stability over time with the data that we currently have.

Second, we measure CA by comparing what the observing culture's members find attractive with the actual traits found in the target culture. This measure maps to the theoretical concept of CA. However, its validity is based on several assumptions. Members of culture A need to perceive culture B's practices the same way as members of culture B do. Furthermore, we assume that negative practices-values correlations, a complex issue that has generated various complementary and competing explanations (Taras *et al.*, 2010), do not significantly affect the perception toward another culture's practices. In addition, we suggest that the entire cultural domain is relevant for the three dependent variables country reputation, FDI inflows, and CBA performance. While we justify the former assumptions with the response bias corrected GLOBE scores that accurately measure cultural constructs (Hanges, 2004b) and the latter assumption through the three dependent variables' general nature and further provide support through predictive validity testing, we ultimately cannot verify the assumptions with the available data.

Furthermore, we examine FDI inflows using aggregated country-level data. While we theorize from the viewpoint of MNE populations in line with prior work on MNE investment patterns (Nachum and Zaheer, 2005; Siegel *et al.*, 2013), country-level analyses can be considered questionable in establishing a novel construct's ability to extend firm-level theories. We address this issue by demonstrating CA's impact on CBA performance using a firm-level sample and, in so doing, demonstrate CA's significant effect on firm-level outcomes. Thus, we have confidence in CA's impact on firm-level phenomena, but also note that the country-level FDI data have limitations resulting from their aggregated nature.

Future research directions

The findings and main ideas of our study pose a number of interesting directions for future research. Different methods can be used to improve the measurement of CA. We used GLOBE's cultural scores to calculate CA. While this method maps to the definition and

theoretical concept of CA and immediately gives scholars the opportunity to study CA across 62 societies, other novel measures can help refine CA's operationalization. One possibility is to collect data using surveys that capture the perceived CA of cultural members, i.e. directly asking respondent to evaluate how attractive a culture (or a cultural dimension) is to them. A direct assessment of CA can help overcome several of the limitations discussed above.

Surveys conducted in several regions within a country can help validate the CA measure we used and further help uncover potential heterogeneities of CA perceptions in a country. While GLOBE removes response bias and allows for cross-cultural comparison of its scores, directly asking respondent to evaluate how attractive a culture is would be the most accurate way to measure CA. Cross-national surveys can also help identify whether cultural members are equally sensitive to a same cultural dimension while multi-wave surveys can reveal temporal variations of CA assessments. Moreover, researchers may employ surveys and in-depth studies to uncover potential relations between CA and CD.

The CA concept can be used to challenge and refine management theories that are based on the hurdle premise of culture, such as transaction cost economics (Hennart, 1982; Hennart and Reddy, 1997) and the Uppsala process model of internationalization (Barkema *et al.*, 1996; Johanson and Vahlne, 1977) as discussed above. CA may further be helpful to examine a large variety of international management phenomena in which different cultures come into contact. CA can be applied to study various international strategy topics including cross-border alliances, international JVs, cross-border knowledge transfer, international marketing, and international human resource management. It can be used as both, alternative or complement, to the existing CD construct. While some issues are best addressed with the help of the CD construct, other questions may be best attended to with the CA construct. For even other issues CA and CD can be used as complementary sources of explanations.

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TABLES

Table 1.

Effect of cultural attractiveness on country reputation, 2009–2013, FGLS estimation results.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	Full sample		DCs => DCs		DCs => LDCs	
Cultural attractiveness	1.567 (0.285)	1.581 (0.285)	2.004 (0.323)	1.973 (0.323)	3.835 (0.614)	3.971 (0.639)
Kogut/Singh index		0.300 (0.342)		-0.571 (0.391)		-0.523 (0.691)
CA variance	2.447 (0.300)	2.345 (0.321)	0.871 (0.362)	1.01 (0.374)	3.701 (0.579)	3.755 (0.583)
Population size	2.011 (0.324)	2.042 (0.326)	-7.999 (1.452)	-8.053 (1.450)	3.003 (0.348)	2.953 (0.354)
Economic distance	-6.946 (0.485)	-7.038 (0.496)	-3.444 (0.808)	-3.003 (0.861)	-9.527 (0.800)	-9.514 (0.799)
GDP growth	-1.068 (0.427)	-1.054 (0.427)	-2.239 (0.550)	-2.343 (0.554)	-0.020 (0.573)	-0.050 (0.574)
Political risk	7.851 (0.412)	7.938 (0.423)	9.098 (0.902)	9.275 (0.910)	8.79 (0.590)	8.558 (0.664)
Geographic distance	-0.465 (0.305)	-0.474 (0.306)	0.198 (0.342)	0.241 (0.343)	0.020 (0.654)	-0.075 (0.665)
Language	1.614 (0.356)	1.683 (0.365)	2.392 (0.399)	2.256 (0.41)	-1.974 (0.610)	-2.048 (0.617)
Colonial ties	-0.156 (0.291)	-0.159 (0.291)	-0.285 (0.313)	-0.270 (0.312)	0.879 (0.599)	0.852 (0.600)
Legal origin	-0.952 (0.377)	-0.898 (0.382)	-1.308 (0.437)	-1.420 (0.443)	1.572 (0.570)	1.58 (0.569)
Observations	1,245	1,245	893	893	352	352
Dyads	279	279	200	200	79	79
Wald (chi2)	1,174.55	1,176.05	457.09	460.31	352.81	353.96

Estimation with time dummies. Standard errors are in parentheses.

Note: We do not include the correlation matrices due to parsimony. The correlation tables are available from the authors.

Table 2.

Effect of cultural attractiveness on FDI flows for DC => DC country-pairs, 1985–2012, FGLS estimation results.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Cultural attractiveness		1.038 (0.121)	1.295 (0.123)	1.106 (0.121)	1.087 (0.123)	1.012 (0.121)	0.913 (0.122)
GLOBE's values distance			-0.733 (0.075)				
GLOBE's practices distance				-0.435 (0.067)			
Kogut/Singh index					-0.172 (0.060)		
Ronen/Shenkar cluster						0.217 (0.049)	
Schwartz's cultural distance							-0.609 (0.088)
CA variance	0.171 (0.062)	0.108 (0.062)	0.126 (0.061)	0.085 (0.062)	0.133 (0.062)	0.078 (0.062)	0.057 (0.062)
Log home country GDP	3.168 (0.079)	3.131 (0.078)	3.188 (0.078)	3.021 (0.080)	3.119 (0.078)	3.153 (0.078)	3.351 (0.084)
Log host country GDP	2.337 (0.079)	2.353 (0.079)	2.390 (0.078)	2.261 (0.080)	2.338 (0.079)	2.370 (0.079)	2.590 (0.086)
Log geographic distance	-1.386 (0.044)	-1.518 (0.046)	-1.332 (0.050)	-1.534 (0.046)	-1.521 (0.046)	-1.486 (0.047)	-1.397 (0.049)
Economic distance	-2.030 (0.136)	-1.877 (0.136)	-1.369 (0.145)	-1.515 (0.147)	-1.814 (0.138)	-1.787 (0.138)	-1.439 (0.150)
GDP growth	0.626 (0.122)	0.564 (0.122)	0.439 (0.121)	0.504 (0.121)	0.540 (0.122)	0.550 (0.121)	0.589 (0.121)
Political constraint	0.082 (0.089)	0.055 (0.089)	0.133 (0.088)	0.006 (0.089)	0.060 (0.089)	0.060 (0.088)	0.045 (0.088)
Common language	0.592 (0.062)	0.484 (0.063)	0.346 (0.064)	0.446 (0.063)	0.450 (0.064)	0.361 (0.069)	0.327 (0.067)
Colonial ties	0.067 (0.044)	0.080 (0.044)	0.035 (0.044)	0.069 (0.044)	0.078 (0.044)	0.065 (0.044)	0.086 (0.044)
Legal origin	0.118 (0.064)	0.240 (0.065)	0.267 (0.065)	0.155 (0.066)	0.184 (0.068)	0.067 (0.076)	0.276 (0.065)
Observations	5,872	5,872	5,872	5,872	5,872	5,872	5,872
Dyads	339	339	339	339	339	339	339
Wald (chi2)	4,468.74	4,597.59	4,769.09	4,672.76	4,612.15	4,632.46	4,682.44

Estimation with time dummies. Standard errors are in parentheses.

Table 3.

Effect of cultural attractiveness on FDI flows for DC => LDC country-pairs, 1985–2012,

FGLS estimation results.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Cultural attractiveness		1.043 (0.186)	0.917 (0.187)	0.549 (0.185)	0.437 (0.188)	1.026 (0.187)	1.031 (0.923)
GLOBE's values distance			0.538 (0.083)				
GLOBE's practices distance				1.176 (0.089)			
Kogut/Singh index					1.108 (0.097)		
Ronen/Shenkar cluster						0.221 (0.187)	
Schwartz's cultural distance							0.502 (0.094)
CA variance	-0.075 (0.128)	-0.116 (0.129)	-0.125 (0.128)	0.028 (0.127)	-0.115 (0.127)	-0.141 (0.130)	-0.088 (0.128)
Log home country GDP	4.545 (0.122)	4.550 (0.122)	4.611 (0.122)	4.995 (0.124)	4.716 (0.121)	4.556 (0.122)	4.669 (0.123)
Log host country GDP	3.281 (0.154)	3.427 (0.160)	3.302 (0.160)	3.484 (0.157)	3.635 (0.158)	3.427 (0.160)	3.469 (0.159)
Log geographic distance	-1.284 (0.132)	-1.306 (0.132)	-1.496 (0.134)	-1.144 (0.130)	-1.228 (0.130)	-1.268 (0.135)	-1.246 (0.132)
Economic distance	1.493 (0.109)	1.362 (0.115)	1.150 (0.119)	0.816 (0.121)	1.058 (0.117)	1.377 (0.116)	1.035 (0.130)
GDP growth	0.175 (0.088)	0.121 (0.089)	0.092 (0.089)	0.300 (0.088)	0.118 (0.088)	0.120 (0.089)	0.081 (0.089)
Political constraint	0.720 (0.082)	0.732 (0.082)	0.817 (0.083)	0.706 (0.080)	0.835 (0.081)	0.740 (0.082)	0.740 (0.082)
Common language	-0.231 (0.105)	-0.267 (0.106)	-0.107 (0.108)	-0.145 (0.104)	-0.083 (0.105)	-0.270 (0.106)	-0.176 (0.107)
Colonial ties	0.882 (0.076)	0.893 (0.076)	0.884 (0.075)	0.885 (0.074)	0.847 (0.075)	0.898 (0.076)	0.851 (0.076)
Legal origin	-0.247 (0.087)	-0.173 (0.090)	-0.127 (0.089)	-0.004 (0.089)	-0.076 (0.089)	-0.173 (0.090)	-0.179 (0.089)
Observations	4,624	4,624	4,624	4,624	4,624	4,624	4,624
Dyads	327	327	327	327	327	327	327
Wald (chi2)	3,049.75	3,068.51	3,138.21	3,361.19	3,284.16	3,070.82	3,116.17

Estimation with time dummies. Standard errors are in parentheses.

Table 4.

Effect of cultural attractiveness on FDI flows for LDC => DC country-pairs, 1985–2012,

FGLS estimation results.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Cultural attractiveness		1.268 (0.096)	1.451 (0.103)	1.187 (0.099)	1.011 (0.110)	1.260 (0.097)	1.109 (0.097)
GLOBE's values distance			-0.608 (0.123)				
GLOBE's practices distance				0.413 (0.124)			
Kogut/Singh index					0.634 (0.135)		
Ronen/Shenkar cluster						-0.132 (0.178)	
Schwartz's cultural distance							0.969 (0.118)
CA variance	0.340 (0.100)	0.654 (0.101)	0.772 (0.103)	0.544 (0.106)	0.489 (0.106)	0.650 (0.101)	0.535 (0.101)
Log home country GDP	3.269 (0.203)	3.076 (0.199)	3.195 (0.200)	3.161 (0.200)	3.305 (0.204)	3.062 (0.200)	3.086 (0.197)
Log host country GDP	3.605 (0.179)	3.834 (0.176)	3.781 (0.176)	3.903 (0.177)	3.823 (0.175)	3.825 (0.176)	3.858 (0.174)
Log geographic distance	-1.997 (0.181)	-1.908 (0.177)	-1.840 (0.177)	-1.819 (0.179)	-1.868 (0.177)	-1.956 (0.189)	-1.922 (0.176)
Economic distance	-1.529 (0.131)	-1.757 (0.129)	-1.513 (0.138)	-1.875 (0.134)	-1.832 (0.130)	-1.763 (0.129)	-2.085 (0.134)
GDP growth	0.138 (0.215)	0.123 (0.210)	0.139 (0.210)	0.163 (0.210)	0.221 (0.211)	0.125 (0.210)	0.492 (0.213)
Political constraint	0.554 (0.176)	0.591 (0.172)	0.672 (0.172)	0.603 (0.172)	0.564 (0.172)	0.580 (0.173)	0.499 (0.171)
Common language	1.428 (0.123)	1.135 (0.122)	1.025 (0.124)	1.142 (0.122)	1.169 (0.122)	1.165 (0.129)	1.247 (0.122)
Colonial ties	0.445 (0.093)	0.527 (0.091)	0.517 (0.091)	0.530 (0.091)	0.524 (0.091)	0.511 (0.093)	0.470 (0.090)
Legal origin	-0.280 (0.111)	0.098 (0.112)	0.077 (0.112)	0.181 (0.115)	0.198 (0.114)	0.102 (0.112)	0.147 (0.112)
Observations	3,959	3,959	3,959	3,959	3,959	3,959	3,959
Dyads	357	357	357	357	357	357	357
Wald (chi2)	1,472.17	1,710.13	1,744.80	1,725.92	1,741.51	1,710.91	1,805.87

Estimation with time dummies. Standard errors are in parentheses.

Table 5. Effect of cultural attractiveness on cross-border acquisition performance.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Cultural attractiveness		0.003 (0.001)	0.003 (0.001)	0.003 (0.001)	0.003 (0.001)	0.003 (0.001)	0.002 (0.001)
GLOBE's values distance			-0.001 (0.002)				
GLOBE's practices distance				0.001 (0.002)			
Kogut/Singh index					0.001 (0.001)		
Ronen/Shenkar cluster						0.000 (0.001)	
Schwartz's cultural distance							-0.001 (0.001)
CA variance	0.004 (0.001)	0.004 (0.001)	0.004 (0.001)	0.004 (0.001)	0.003 (0.001)	0.004 (0.001)	0.004 (0.001)
Percentage acquired	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)
Deal value	-0.002 (0.001)	-0.002 (0.001)	-0.002 (0.001)	-0.002 (0.001)	-0.002 (0.001)	-0.002 (0.001)	-0.002 (0.001)
Industry relatedness	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)
High-tech industry	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)
Acquirer's assets	-0.002 (0.001)	-0.002 (0.001)	-0.002 (0.001)	-0.002 (0.001)	-0.002 (0.001)	-0.002 (0.001)	-0.002 (0.001)
Acquirer's ROA	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)
Prior takeover experience	-0.004 (0.001)	-0.004 (0.001)	-0.004 (0.001)	-0.004 (0.001)	-0.004 (0.001)	-0.004 (0.001)	-0.004 (0.001)
Political risk	-0.002 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)
Geographic distance	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)
Economic distance	0.004 (0.001)	0.003 (0.001)	0.004 (0.001)	0.003 (0.001)	0.003 (0.001)	0.003 (0.001)	0.004 (0.001)
Colonial link	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)
Cash purchase	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)
Intercept	-0.007 (0.007)	-0.003 (0.007)	-0.002 (0.007)	-0.004 (0.007)	-0.003 (0.008)	-0.003 (0.007)	-0.004 (0.008)
Observations	8,511	8,511	8,511	8,511	8,511	8,511	8,511
R-squared	1.58%	1.64%	1.65%	1.66%	1.65%	1.64%	1.65%

Estimation with time dummies. Standard errors are in parentheses.

APPENDICES

Appendix 1: Cultural attractiveness between 20 countries based on GLOBE scores.

Observing country	Cultural attractiveness of																				
	BRA	CHN	EGY	FRA	DEU	IND	IDN	ITA	JPN	MEX	NGA	PHL	RUS	ZAF	KOR	ESP	THA	TUR	GBR	USA	
Brazil	BRA	.	14.29	14.07	13.82	13.39	13.87	13.98	13.16	14.49	13.54	13.42	13.96	13.33	14.28	13.49	13.00	13.64	13.05	13.91	13.78
China	CHN	14.81	.	14.99	15.08	15.08	14.65	14.76	14.24	14.82	14.75	14.74	14.90	13.98	15.65	14.19	14.23	14.31	14.33	15.13	15.17
Egypt	EGY	14.67	15.54	.	14.57	14.65	15.12	15.26	14.27	15.22	14.72	14.63	15.22	14.14	15.28	14.35	14.27	14.92	14.34	14.79	14.91
France	FRA	13.85	14.93	14.53	.	13.36	14.59	14.46	13.38	14.75	14.13	13.76	14.71	14.08	14.54	14.13	13.52	14.26	13.76	14.18	14.04
Germany	DEU	14.27	14.34	14.74	13.76	.	14.51	14.69	13.72	14.72	14.15	13.91	14.82	14.17	14.49	14.20	13.71	14.43	13.95	13.86	14.13
India	IND	14.74	14.89	14.98	15.03	14.47	.	14.74	14.18	14.75	14.75	14.79	14.85	14.26	15.55	14.26	14.27	14.31	14.35	14.96	15.09
Indonesia	IDN	14.75	15.26	15.13	15.04	14.71	14.79	.	14.18	15.01	14.94	14.84	15.04	14.19	15.54	14.72	14.45	14.51	14.53	15.06	15.11
Italy	ITA	13.81	14.68	14.52	13.93	13.18	14.41	14.32	.	14.56	14.10	13.74	14.59	14.04	14.47	14.12	13.50	14.07	13.72	14.01	13.98
Japan	JPN	14.63	14.40	14.79	14.65	14.26	14.54	14.64	14.05	.	14.80	14.74	14.64	13.86	15.09	13.88	14.33	14.38	14.37	14.50	14.84
Mexico	MEX	14.06	15.22	14.79	14.26	13.94	14.81	14.72	13.60	14.64	.	13.98	14.92	14.36	14.73	14.03	13.71	14.49	13.99	14.39	14.26
Nigeria	NGA	13.86	14.60	14.38	14.06	13.79	14.17	14.31	13.38	14.43	13.88	.	14.30	13.78	14.51	13.55	13.34	13.96	13.38	14.14	14.00
Philippines	PHL	14.18	14.97	14.64	14.56	14.23	14.54	14.42	13.62	14.18	14.50	14.31	.	14.21	15.01	14.05	13.94	14.17	14.24	14.53	14.57
Russia	RUS	14.07	14.74	14.46	14.15	14.05	14.59	14.46	13.58	14.03	14.34	13.98	14.68	.	14.38	13.44	13.73	14.47	13.99	14.18	14.12
South Africa	ZAF	14.78	15.46	15.48	14.98	14.36	15.19	15.31	14.30	14.98	14.94	14.68	15.37	14.65	.	14.28	14.40	14.84	14.45	15.11	14.97
South Korea	KOR	15.44	15.64	15.50	15.54	15.17	15.71	15.61	15.17	15.38	15.50	15.39	15.64	15.09	15.35	.	15.25	15.72	15.18	15.50	15.22
Spain	ESP	13.84	14.84	14.45	14.07	13.46	14.36	14.22	13.39	14.51	14.11	13.76	14.56	13.99	14.49	14.16	.	13.97	13.77	14.19	14.01
Thailand	THA	13.82	14.90	14.52	14.01	13.71	14.50	14.47	13.36	14.60	14.10	13.70	14.64	14.13	14.46	14.02	13.46	.	13.70	14.10	13.99
Turkey	TUR	13.93	14.81	14.61	14.15	13.42	14.52	14.53	13.44	14.77	14.22	13.86	14.62	14.01	14.63	14.17	13.61	14.29	.	14.21	14.14
United Kingdom	GBR	14.51	14.91	15.23	14.34	13.65	15.13	15.11	14.04	14.77	14.79	14.46	15.23	14.45	14.98	14.18	14.20	14.76	14.35	.	14.72
United States	USA	14.73	14.57	15.07	14.52	13.82	15.01	14.90	14.18	14.40	15.00	14.64	15.10	14.33	15.00	14.37	14.50	14.65	14.75	14.45	.

Cultural attractiveness (CA): Mean = 14.43; standard deviation = 0.54. For Germany and South Africa, we calculated the mean score of Germany-East and Germany-West and South Africa (Black sample) and South Africa (White sample), respectively. Using population distribution as weights does not yield significantly different results for our analyses.

Appendix 2: Methodology employed to collect country reputation data.

The Reputation Institute conducted surveys in the G8 countries consisting of the world’s largest eight economies with high Human Development Index, i.e. Canada, France, Germany, Italy, Japan, Russia, U.K., and the U.S.A. (Newbury, 2012). Samples were obtained from online consumer panels in each country between 2009 and 2013. Consumers were asked to rate the reputation of up to two countries they are familiar with. A 4-item measure is used to assess the bilateral reputation of countries. The items were measured on a 7-point scale and were then converted to a 0–100 scale. The items used are:

We would now like you to give us your impressions of [COUNTRY]. Below, we provide you with a variety of descriptions. Please tell us how well you believe they describe [COUNTRY]. Share your impressions of [COUNTRY] based on both your personal experience and anything you have read, seen, or heard. Please enter a number from ‘1’ to ‘7’ where ‘1’ means ‘I strongly disagree’ and ‘7’ means ‘I strongly agree’.

Item 1:	[COUNTRY] has a good reputation
Item 2:	I have a good feeling about [COUNTRY]
Item 3:	I admire and respect [COUNTRY]
Item 4:	I trust [COUNTRY]

We calculated the average reputation scores for each country-dyad. We included the 34 target countries, for which we were able to calculate cultural attractiveness scores. Total number of respondents ranged from 52 to 1,857 for the country-dyads examined resulting in 175,548 individual ratings. To establish measurement equivalence across nations, we calculated the reliability of the reputation measure for each country-dyad. The reputation measure has reliabilities of 0.82 and higher for all dyads.