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Organization Capital and International Acquisitions☆

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ABSTRACT

As a critical source of sustainable competitive advantage, organization capital combines human skills with physical assets and is of particular value in complex strategic endeavors such as international acquisitions. Our research examines the role of organization capital (OC) in firm internationalization through cross-border mergers and acquisitions (M&A). We focus on the effect of OC on the initiation of cross-border M&A deals and value creation after deal closing. Further, we investigate the role of acquisition experience and whether acquisition experience allows firms with high OC to better allocate and direct resources along the cross-border M&A process. We draw on longitudinal data from listed US firms spanning 24 years of M&A activity between 1996 and 2019 and find that firms with higher organization capital are more likely to internationalize through cross-border M&A because of freed-up resources to recognize opportunities. We further find that firms with higher organization capital sustain performance and significantly create value for investors in the short and long run because of a better understanding of capturing value from rare strategic events. We also show that acquisition experience strengthens the relationship of organization capital with firm internationalization, but we do not find a significant effect on value creation after deal closing. Our results offer novel and robust insights into the importance of organization capital in firm internationalization and value creation in international markets.

1. Introduction

International acquisitions play an important role in internationalization strategies, as evidenced by rising numbers and volumes in the global mergers and acquisitions (M&A) market (Conn et al., 2005; Erel et al., 2012; Renneboog and Vansteenkiste, 2019). According to the institute for mergers, acquisitions and alliances, the number of cross-border deals has risen from around 472 in 1985 to more than 12,000 in 2022, despite some cyclical developments (IMAA-Institute, 2024). However, notwithstanding their popularity, M&A are inherently high-risk endeavors with commonly reported failure rates of 40–60% (Homburg and Bucerius, 2005, 2006). Compared to domestic M&A, cross-border M&A entail even greater risks as companies need to navigate foreign legal regimes, information environments, language settings, accounting rules, or cross-cultural contexts (see, e.g., Humphery-Jenner et al., 2017; Moeller and Schlingemann, 2005). Consequently, failure rates for cross-border M&A reach up to 70% (Capron, 1999; Cioli et al., 2020; Hsu et al., 2021). For successfully navigating the complexities of cross-border activities, research has emphasized the importance of the interplay of human skills and physical capital (Renneboog and Vansteenkiste, 2019).

The combination of human skills and physical capital into systems accumulates over time into organization capital (OC), providing firms with a competitive edge through unique knowledge and the capability to capture value from strategic initiatives. OC is defined as "the agglomeration of technologies—business practices, processes, and designs" (Lev et al., 2009, p. 277). It is embodied in the firm's key talent, tailored to the specific characteristics of an organization, and tacit in nature, making it inimitable by competitors (Evenson and Westphal, 1995). OC manifests in organizational practices, processes, systems, and culture (Hasan and Cheung, 2018). Recent studies suggest that OC enables superior operating, investment, and innovation performance (Lev et al., 2009), enhances the efficiency and productivity of the firm (Eisfeldt and Papanikolaou, 2013; Li et al., 2018), and forms the basis of

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sustainable competitive advantage (Lev and Radhakrishnan, 2005; Lev et al., 2009).

Building on previous research, we argue that OC plays a crucial role in initiating and leveraging international business (IB) investment decisions such as cross-border M&A. While OC is vital for value creation after an acquisition, we argue that it is also critical for opportunity identification in the pre-merger stage. During the pre-merger stage, OC enables firms to recognize and engage with strategic opportunities (Brown and Eisenhardt, 1998; Shane and Venkataraman, 2000). This is especially relevant for cross-border M&A, where opportunity identification is more complex, demanding, and challenging compared to domestic acquisitions and high levels of OC can free up resources to scan and engage in new strategic opportunities.[1]

In the post-merger stage, OC facilitates value creation from corresponding strategic initiatives (Lev, 2001; Mishra and Gobeli, 1998; Morck and Yeung, 1992). Value creation in acquisitions requires an active combination of the acquirer and target resources (Cording et al., 2008; Haspeslagh and Jemison, 1991). Here, OC not only facilitates productive interactions among various resources fostering economic value and growth (Lev et al., 2009), but also helps organizations with associated ambiguities, conflicts, and deadlocks. Combined, organization capital might allow firms to better detect opportunities in the pre-merger stage and to realize long-term value in the post-merger stage through improved opportunity recognition and value creation (Ireland et al., 2003; Ramachandran et al., 2006).

While OC constitutes an organization-wide source of competitive advantage, acquisition experience might help firms to direct OC to critical acquisition related activities in a targeted way. Generally, acquisition experience can help organizations in developing and transferring acquisition practices (Barkema and Schijven, 2008) and sensitizes managers to appropriate contexts for their application (Hutzschenreuter et al., 2014). However, empirical evidence on the experience-performance relationship in M&A is mixed (Heimeriks et al., 2012; Felker et al., 2024), indicating the need for a contextualized understanding of its effects. We argue that the effects of OC on both opportunity identification and value creation in cross-border M&A become more pronounced through acquisition experience, as it enables firms to allocate resources more effectively where they are needed.

With this research, we aim to contribute to the IB literature in several ways. *First*, our study provides a novel perspective on international business investment decisions and OC by examining the role of OC in initiating and creating value from cross-border M&A. By doing so, we disentangle the cross-border M&A process into its constituting phases: opportunity recognition in the pre-merger phase and value creation in the post-merger phase (Shimizu et al., 2004). Our findings provide strong empirical evidence for the facilitating role of OC at different stages of the cross-border M&A process (Hasan and Cheung, 2018; Tan et al., 2020).

Second, we advance our understanding of cross-border mergers and acquisitions. IB literature has traditionally treated cross-border M&A either as an entry mode decision compared to other options (Brouthers and Brouthers, 2000; Shimizu et al., 2004), investigated contextual aspects that influence the motivation to go abroad (Alimov, 2015; Xie et al., 2017), or focused on integration related topics (Brannen and Peterson, 2009; Sarala and Vaara, 2010). We complement this research by examining both, opportunity identification in the pre-merger stage, and value creation during the post-merger stage. While previous research has typically focused on short event windows to assess acquisition performance (King et al., 2004; King et al., 2021), we emphasize the long-term outcomes of acquisitions. Value creation following deal closing might take up to three years or longer (Bauer and Matzler, 2014; Cording et al., 2008; Haspeslagh and Jemison, 1991; Homburg and Bucerius, 2005, 2006; Larsson and Finkelstein, 1999). We find strong empirical evidence for the effect of OC on long-term value creation from international acquisitions. Our results remain consistent, as indicated by several robustness tests, including the specification curve analysis.

Third, we complement previous research on acquisition experience by investigating when acquisition experience matters along the acquisition process. Instead of arguing for a direct effect, we propose that acquisition experience helps managers to direct resources more effectively to improve outcomes. The distinction between opportunity recognition and value creation is important, as they involve different activities in terms of scope and time (Felker et al., 2024; Turner and Lee-Kelley, 2012). Opportunity recognition in the pre-merger stage is typically performed by a small circle of managers over a short period, whereas value creation or integration is a decentralized, long-term activity carried out by middle managers across the organization (Bauer et al., 2024; Meglio and Risberg, 2010; Trichterborn et al., 2016; Vaara, 2003). While acquisition experience might benefit firms in both cases, the underlying mechanisms of the interplay of organization capital and acquisition experience differ. We show that OC, in combination with acquisition experience, enables organizations to effectively direct resources during the pre-merger stage. However, this may not be the case for value creation in the post-merger stage.

Fourth, we empirically contribute to the literature by providing additional evidence through the application of alternative measures of OC, thereby strengthening the substance of our empirical results. We demonstrate that firms with higher OC can positively influence the long-term performance of cross-border M&A (Bena and Li, 2014; Martin and Shalev, 2017). Using a large sample of U.S. public firms from 1996 to 2019, we find that firms with high OC are more likely to engage in cross-border M&A. Additionally, our tests on value creation confirm that firms with high OC create more value from cross-border M&A in the long run. The longitudinal nature of data allows us to capture the accumulation of OC over time for the same acquirer and to analyze cross-section variations. Our results indicate that OC fosters opportunity recognition and value creation from cross-border M&A. These findings imply that firms should systematically invest in organization capital when considering international acquisitions.

2. Theory and hypothesis development

2.1. Organization capital

Organization capital evolves over time through the accumulation of human capital, values and norms, knowledge, expertise, and business processes and practices (Atkeson and Kehoe, 2005; Lev et al., 2016). This accumulation enables firms to "systematically outperform their competitors and maintain their leading position for long periods, despite significant economic changes" (Lev et al., 2009, p. 276). Empirical evidence underscores that OC enhances firms' productivity and efficiency (Lev et al., 2009; Peters and Taylor, 2017). Firm-specific codified and tacit knowledge facilitate the interaction of tangible and intangible resources, optimizing the utilization of physical resources (Lev et al., 2016), ultimately constituting a pivotal source of long-term competitiveness (Griffith et al., 2010; Lev and Radhakrishnan, 2005; Li et al.,

[1] Please note Organization Capital (OC) differs from Organizational Slack (OS) in that OS refers to tangible and readily available resources such as "redundant employees, unused capacity, and unnecessary capital expenditures" (Oerlemans and Pretorius, 2008). As such, organizations can quickly mobilize these resources to react to external or internal changes (Bourgeois, 1981). Contrary to slack resources, OC consists of accumulated intangible knowledge and capabilities and materializes as human-, structural-, and relational capital, enhancing long-term competitive advantages and growth (Atkeson and Kehoe, 2005; Lev et al., 2016). As such, OC is also different from capabilities, which operate on specific tasks or activities (Teece et al., 1997; Teece, 2007). The organization capital is broader and provides a competitive advantage through accumulated intangible knowledge and capabilities. This conceptual distinction consequently manifests in different approaches to measurement. While slack is assessed as current assets/current liabilities, OC is firm-specific and mirrored by capitalized SG&A expenses.

2018; Wernerfelt, 1984). The partially tacit nature of organization capital constitutes an idiosyncratic feature of the firm (Lev and Radhakrishnan, 2005; Lev et al., 2016). For example, while competitors may access specific technologies, the orchestration of a portfolio of resources often remains tacit and therefore invisible to anyone external (Jie et al., 2021).

International business scholars have extensively focused on intangible resources when studying the sources of firm-specific competitive advantages (Chung et al., 2015). These studies primarily consider categories such as research and development (R&D) resources (Cheng and Bolon, 1993; Purkayastha et al., 2018), human resources (Chung et al., 2015; Crane and Hartwell, 2019; Lai et al., 2019), or marketing resources (Roy et al., 2019). Among these intangibles, OC stands out as a paramount firm-specific asset with an intangible dimension resulting from investments in business processes and management practices that enhance efficiency and help to develop and maintain a competitive advantage (Eisfeldt and Papanikolaou, 2013, 2014; Lev and Radhakrishnan, 2005; Prescott and Visscher, 1980).

International acquisitions constitute a critical strategic vehicle for firm internationalization and adaptation (Shimizu et al., 2004). Compared to other modes of entry, cross-border M&A provides firms with opportunities to engage and fully control their operations abroad (Hennart and Park, 1993). However, cross-border M&A requires substantial resources and managerial commitment to succeed (Homburg and Bucerius, 2005, 2006; Zollo, 2009). While firm-specific tangible and intangible resources are crucial in international business investment decisions, mere replication may not suffice for success across diverse contexts (Kostova, 1999; Mudambi & Navarra, 2004). For example, target screening, where opportunities are identified, becomes even more complex in an international setting, requiring contextualized search criteria (Welch et al., 2020). Similarly, creating value after an acquisition or integrating a target firm is already a challenging and costly activity domestically, and this complexity intensifies in cross-border situations (Shimizu et al., 2004).

Acquisition experience can aid firms in navigating these challenging contexts (Bauer et al., 2021). For example, research indicates that experienced acquirers pay lower premiums compared to competitors (Malhotra et al., 2015) or can integrate culturally different targets better (Li et al., 2016). However, there is also evidence suggesting opposite effects (Chatterjee, 2009). These inconclusive findings underscore the importance of contextualizing acquisition experience (Bauer et al., 2021; Felker et al., 2024). Indeed, acquisition experience enables firms to direct resources more efficiently and effectively to specific tasks and enables managers to anticipate challenges. For example, searching for a target firm abroad demands greater resource allocation compared to a domestic search, as firms need to extend their research activities into foreign cultures, institutional settings, competitive landscapes, and customer or employee relationships. Further, integration across borders poses greater challenges than domestic integrations, involving complexities arising from diverse cultures, working styles, or regulatory environments. Here, experienced acquirers can leverage their accumulated experiences and direct freed-up resources more efficiently to address these challenges.

We argue that organization capital, defined as the accumulation of firm-specific resources facilitating superior operating, investment, and innovation performance (Lev et al., 2009), plays a crucial role in enabling firms to engage in cross-border M&A. On one hand, OC equips firms with sophisticated business processes, management practices, and systems to operate efficiently. On the other hand, it frees up resources that can be allocated to understand and navigate complex business environments. Further, acquisition experience can enable acquirers to direct the freed-up resources towards activities and tasks that increase the likelihood of successfully engaging in and creating value from an acquisition. Thus, organization capital increases the likelihood of engaging in complex strategic endeavors such as cross-border M&A (Driffield et al., 2021) and also supports firms to create value from those (Lee et al., 2018; Steigner and Sutton, 2011). We further argue that acquisition experience may strengthen these effects even more. The following Fig. 1 visualizes the proposed relationships.

2.2. Organization capital and cross-border mergers and acquisitions

We argue that organization capital facilitates engagement in cross-border M&A activity through two primary mechanisms. First, identifying and acquiring a suitable target firm is resource-intensive, particularly in unfamiliar and international contexts (Bauer and Dao, 2024). The organization capital enables firms to free up resources, allowing them to deploy excess resources for strategic activities (Carneiro et al., 2018; Eisfeldt and Papanikolaou, 2013; Francis et al., 2021; Lev et al., 2009), such as finding an appropriate target firm internationally and executing cross-border M&A (Carneiro et al., 2018; Dolmans et al., 2014).

Second, organization capital enables firms to adapt to new environments (Lev et al., 2016). Achieving a fit with evolving environments requires the recognition of opportunities in new settings that come with ambiguities and complexities. Here, OC aids firms in comprehending and navigating the intricacies of unfamiliar settings (Lev et al., 2016). This matters for target screening in acquisitions in general and especially for cross-border M&A settings, where firms must navigate different legal regimes, cultures, languages, geographical distances, or information environments (Capron and Guillén, 2009; Humphery-Jenner et al., 2017; Ragozzino and Reuer, 2011), and organization capital enables firms to anticipate resource utilization across different contexts (Evenson and Westphal, 1995; Hasan and Cheung, 2018). We argue that firms with high OC are less absorbed by contextual burdens and can better anticipate the possibilities for value creation when comparing different opportunities, which makes it more likely that they engage in cross-border M&A (Agrawal et al., 2017). Furthermore, organization capital frees up resources that can be utilized during target screening to anticipate diverse potential consequences, such as retaliation (Meyer, 2008). This allows firms with high organization capital to identify and evaluate opportunities more effectively. Combined, OC not only provides firms with necessary resources but also enhances their ability to recognize and act upon opportunities for value creation possibilities, ultimately increasing the likelihood of engaging in cross-border M&A. Thus,

Hypothesis 1. *Firms with high organization capital are more likely to engage in international acquisitions.*

2.3. Organization capital and value creation

The value creation in M&A occurs post-closing during integration (Haspeslagh and Jemison, 1991; Larsson and Lubatkin, 2001). "Integration refers to the managerial actions taken to combine two previously separate" bundles of tangible and intangible resources, aiming to create value through the combination (Cording et al., 2008, p. 744). However, most firms experience challenges such as market share losses (Harding and Rouse, 2007), increased retaliation (Keil et al., 2013; Schriber et al., 2022; Uhlenbruck et al., 2017), drops in innovativeness (Paruchuri et al., 2006; Puranam and Srikanth, 2007), or increased turnover of key personnel (Krug et al., 2014; Walsh, 1988) following acquisitions. The key reasons for these issues stem from integration-related activities absorbing management focus and resources (Cording et al., 2008; Lamont et al., 2019). For example, integration can reduce responsiveness to customer needs (Homburg and Bucerius, 2006; Öberg, 2014), resulting in reduced customer service (Angwin, 2004; Kato and Schoenberg, 2014), and lower retention rates (Harding and Rouse, 2007). Additionally, engaging in acquisitions is resource-intensive and reduces the acquiring firm's slack (King and Schriber, 2016).

Notably, the inherent complexity and ambiguity of cross-border M&A integration exacerbate these challenges, with failure rates

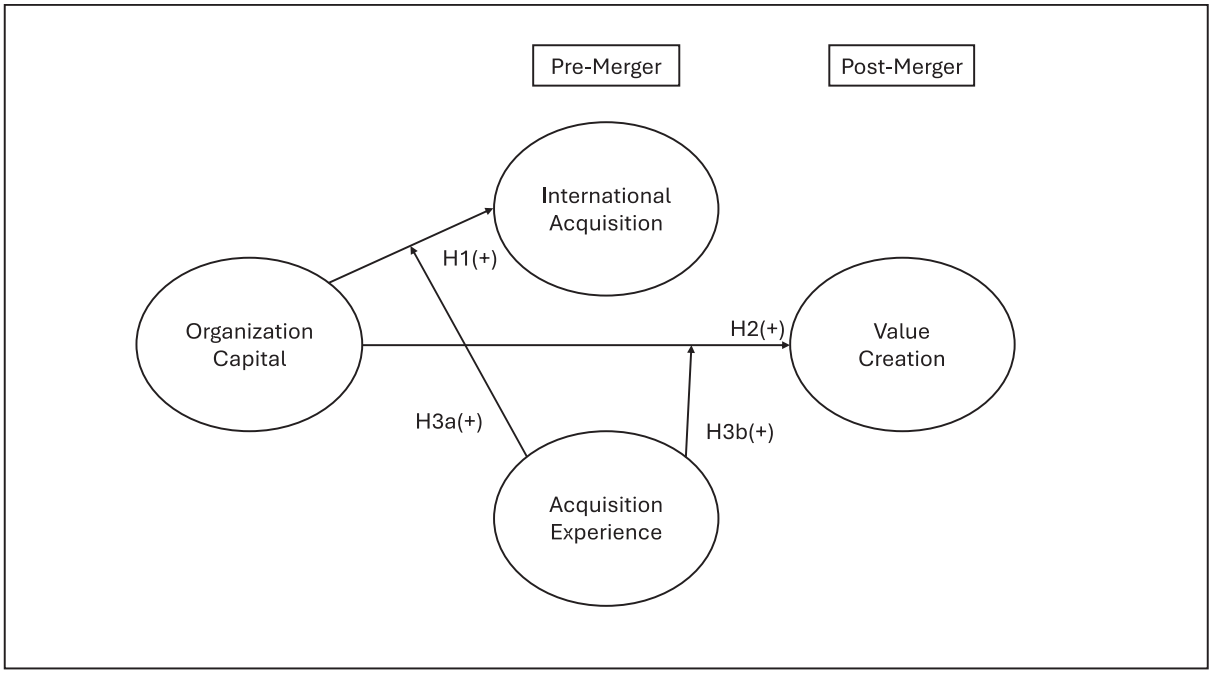

Fig. 1. Conceptual model.

reported to be as high as 70% compared to 50% in domestic settings (Capron, 1999; Cioli et al., 2020; Hsu et al., 2021). International acquisitions introduce unfamiliar contexts (Sarala et al., 2019; Shimizu et al., 2004; Humphery-Jenner et al., 2017; Moeller and Schlingemann, 2005), including cultural differences that hinder goal achievement during integration (Brouthers and Brouthers, 2000; Kogut and Singh, 1988), making the integration of cross-border M&A more costly and management-intensive (Shimizu et al., 2004). However, despite these difficulties, differences between acquirer and target countries can facilitate value creation following acquisitions (Morosini et al., 1998; Vermeulen and Barkema, 2001). This is contingent upon how effectively acquirers integrate a target firm's tangible and intangible resources (Bauer et al., 2016). Therefore, acquirers need to understand the interaction of the targets' tangible and intangible resources and their value-generating interactions with the acquirer. Accordingly, we argue that organization capital mitigates integration challenges in three ways.

First, organization capital is 'the knowledge used to combine human skills and physical capital into systems' that enables acquiring firms to understand how target firms generate value and how combining acquirer and target resources can result in superior performance (Evenson and Westphal, 1995, p. 2237). Second, in complex international settings, organization capital facilitates effective integration by freeing up resources that help firms navigate unfamiliar environments (Evenson and Westphal, 1995; Hasan and Cheung, 2018). Third, organization capital frees up resources that can be allocated to manage the complexities of cross-border integration activities, reducing the burden of integration for managers and allowing them to maintain their focus on day-to-day business activities (Cording et al., 2008). Consequently, firms with high organization capital are better equipped to manage challenges such as retaliation, top talent turnover, or the loss in innovation productivity following an acquisition without sacrificing long-term strategic objectives in favor of short-term gains (Carneiro et al., 2018; Eisfeldt and Papanikolaou, 2013; Francis et al., 2021; Lev et al., 2009). Combined, organization capital allows acquiring firms to understand the value creation possibilities through integration better, skillfully maneuver through unfamiliar settings, and provides firms with the resource position to be prepared for ambiguities and follow long-term strategic objectives. Thus,

Hypothesis 2. *Firms with high organization capital will produce better long-term value when engaging in international markets through cross-border M&A.*

2.4. Acquisition experience

A common argument for the relevance of acquisition experience is that the repetition of complex tasks allows for learning-curve effects (Yelle, 1979) and improves associated activities (Nelson and Winter, 1982). We argue that acquisition experience matters because it enables acquirers to effectively allocate attention and resources to critical tasks throughout the acquisition process. To comprehensively understand the effects of acquisition experience, it is essential to differentiate between the influences on pre-merger and post-merger phases, given their distinct nature and impact on organizational scale and scope (Meglio and Risberg, 2010; Vaara, 2003). While pre-merger activities are highly discrete and information is only shared among a few managers, post-merger activities often require fundamental changes to the operating routines typically of the target firm and, thus, involve multiple people across the organization (Bauer et al., 2024; Zollo, 2009; Zollo and Winter, 2002).

Pre-merger activities encompass "(a) initiation; (b) target selection; (c) bidding and negotiation; (d) valuation, financial terms, and financing; (e) announcement; and (f) closure" (Welch et al., 2020, p. 844). Pre-merger activities play a pivotal role in shaping the course of action in an acquisition, and early mistakes might reveal their significance at later stages during integration (Haspeslagh and Jemison, 1991). For example, thorough target selection requires enormous efforts in advance, and many firms continuously screen the market and create long lists of potential targets (Salter and Weinhold, 1981), while others are more opportunistic and wait until a potential target approaches them (Bauer and Dao, 2024; Bauer et al., 2021). In international markets, the pre-merger phase is highly complex, as firms are confronted with unfamiliar settings (Welch et al., 2020). The organization capital plays a critical role in this by freeing up resources for these activities. Yet, the acquirer's experience might direct attention and resources toward critical tasks. As such, acquisition experience allows for a diligent use of organization capital and helps firms identify opportunities better and engage in promising cross-border M&A opportunities. This might

explain why research found a positive relationship between acquisition experience and subsequent acquisition activities (Hitt et al., 1998). Thus,

Hypothesis 3a. *Acquisition experience moderates the relationship between organization capital, and the likelihood of engaging in cross-border M&A in a way that experienced acquirers with high levels of OC are more likely to engage in cross-border M&A.*

Post-merger activities are geared towards realizing value from the acquisition, often requiring substantial changes to the operating routines of a target firm (Bauer and Matzler, 2014, Zollo and Winter, 2002). This is a challenging task and most firms experience market share losses (Harding and Rouse, 2007), increased retaliation (Keil et al., 2013; Schriber et al., 2022; Uhlenbruck et al., 2017), or drops in innovativeness (Paruchuri et al., 2006) following an acquisition. Surprisingly, despite the expectation that experience should help firms to anticipate these ambiguities, Uhlenbruck and colleagues (2006) found that experience has a negative impact and argued that firms might not have sufficient capacity for integration (Uhlenbruck et al., 2006). This aligns with Cording and colleagues (2008), who highlight managerial absorption during integration. Integration in cross-border M&A settings is even more challenging due to different cultures or legal frameworks (Shimizu et al., 2004). We argue that experience sensitizes acquirers to potential integration-related challenges in cross-border M&A and may help mitigate the negative effects reported by other researchers when combined with high organization capital. Thus,

Hypothesis 3b. *Acquisition experience moderates the relationship between organization capital and value creation in cross-border M&A in a way that experienced acquirers with high levels of OC are better able to realize value from international acquisitions.*

3. Data and methodology

3.1. The sample of acquisitions

We obtained a comprehensive sample of all completed M&A transactions from the Thomson One Banker Securities Data Company (SDC) database from 1996 to 2019. Following Li et al. (2018), we impose the filters below to obtain our final sample: i) the deal is classified as "Acquisition of Assets," "Acquisition of Majority Interest," or "Merger" by the data provider; ii) the acquirer is a public firm listed on the American Stock Exchange (AMEX), New York Stock Exchange (NYSE), or NASDAQ; iii) the acquirer holds less than 50% of the shares of the target firms before the deal announcement and ends up owning 100% of the shares of the target firm through the deal; iv) the deal value is at least $1 million; v) the target firm is a public firm, a private firm or a subsidiary U.S. and non-U.S. firms; and vi) basic financial and stock return information is available for the acquirer. The final dataset comprises 30,587 transactions involving 8,372 distinct acquirers, with acquirer characteristics accessible for 24,605 of these transactions. This dataset encompasses domestic and cross-border mergers and acquisitions involving U.S. firms across all industries. Upon excluding domestic mergers and acquisitions, the sample size reduces to 4,217 deals, involving 2,214 unique acquirer-target country pairs across 43 countries. The acquirer value creation metrics, specifically *ΔTobinQ1* and *ΔTobinQ3*, are available for 3,365 and 2,815 transactions, respectively. We require data on deal, acquirer, and country characteristics.

3.2. Organization capital measures

We follow the methodology of Eisfeldt and Papanikolaou (2013) to estimate organization capital based on capitalized SG&A expenses. SG&A expenses consist of a firm's operating expenses that are not directly related to a particular unit of output. Simply put, SG&A expenses include all non-production costs of operating a firm. Eisfeldt and Papanikolaou (2013, p. 1380) state that "a large part of SG&A consists of expenses related to labor and IT (white-collar wages, training, consulting, and IT expenses), consistent with the idea that any accrued value will be somewhat firm-specific…" These expenses help a firm develop unique knowledge, business processes, and systems that ensure efficient utilization of resources. Therefore, any spending to increase the firm's organization capital will be included in SG&A expenses.

We construct the stock of organization capital $OC_{i,t}$ for firm i in year t using the perpetual inventory method. In particular, we recursively construct the stock of organization capital by accumulating the deflated value of SG&A expenses:

$$OC_{i,t} = (1 - Dep_{OC})OC_{i,t-1} + \frac{SG\&A_{i,t}}{CPI_t} \quad (1)$$

where $SG\&A_{i,t}$ is firm i's SG&A expenses in year t, CPI_t is the consumer price index and Dep_{OC} is the depreciation rate. To implement the law of motion in equation (1), we first choose the initial stock according to

$$OC_{i,0} = \frac{SG\&A_{i,1}}{g + Dep_{OC}} \quad (2)$$

where $SG\&A_{i,1}$ is firm i's first non-missing SG&A expenses available in Compustat; g is the industry (at the 2-digit Standard Industrial Classification (SIC) level) and decade-specific average real growth rate of firm-level SG&A expenses and depends on which year firm i first enters the Compustat database; Dep_{OC} denotes the depreciation rate of firm-level organization capital, and we assume a 15% depreciation rate for organization capital, the rate used by the Bureau of Economic Analysis for the estimation of R&D capital stock (Eisfeldt and Papanikolaou, 2013); We treat the missing values of the firm i's SG&A expenses as 0; Finally, we scale organization capital by the book value of firm's total assets. We use this variable as our primary independent variable in the paper.

3.3. Value creation measures

In this paper, we use *ΔTobinQ1* and *ΔTobinQ3* to measure value creation. Tobin's Q has been widely used as a valuation measure in finance and IB literature (e.g., Gompers et al., 2003; Gozzi et al., 2008; Huang et al., 2020; Humphery-Jenner, 2014; Morck et al., 1988; Sojli and Tham, 2017). *ΔTobinQ1* is the change in acquirer Tobin's Q from the year before the deal completion to the year after the deal completion. *ΔTobinQ3* is the average Tobin's Q of the acquirer in the 3-year period after the deal completion minus Tobin's Q of the acquirer in the year before the deal completion. Gozzi et al. (2008) report that the average value of Tobin's Q does not change when comparing the years before firms' internationalization to the years after firms' internationalization. They also find that Tobin's Q shows a transitory peak in the year of internationalization. Therefore, choosing the year before the deal completion allows us to avoid any abnormal peaks that may exist in firm valuation in the year of internalization.[2] The positive change in Tobin's Q between the base and lead years will capture firms' value creation from cross-border M&A and vice versa. Both of these variables are used as dependent variables to test Hypothesis 2 and Hypothesis 3b. The definitions of variables are provided in the Appendix A.

3.4. Country and firm-level data

Following Nielsen and Raswant's (2018) guidance on accounting for additional variables and prior work (e.g., Erel et al., 2012; Gan and Qiu,

[2] In a separate regression, we also consider the year of internationalization as a base year in the computation of *ΔTobinQ1* and *ΔTobinQ3*. Our results are not found to be sensitive to the choice of base year between t (year of internationalization) and t-1 (a year before internationalization). Results are not reported but can be obtained from the corresponding author upon request.

2019), we collect several time-varying country-level control variables. *GDP Growth* is the difference between the acquirer and target countries of domicile in the annual real growth rate of the GDP, *Market R12* is the difference between the acquirer and target countries' annual local real stock market return, *Corporate Tax* is the difference between acquirer and target countries of domicile in corporate tax rates, and *Kaufman* is the average of all the six governance indicators by Kaufmann et al., (2009). The six governance indicators are political stability, voice and accountability, government effectiveness, regulatory quality, control of corruption, and rule of law. These governance indicators capture the country's corporate governance strength (Ellis et al., 2017; Karolyi and Taboada, 2015). In addition to the time-varying country-level control variables, we also include time-invariant country-level variables. *Same Language* is the indicator for the acquirer and target countries having the same primary language, the *Same Religion* is the indicator for the acquirer and target countries having the same primary religion, and the *Same Region* is the indicator that the acquirer and target are from the same continent, the *Same Law* is the indicators for acquirer and target countries same legal system, *Distance* is the distance between acquirer and target countries geographical distance, *Legal Protection* is the difference between acquirer and target countries of domicile in the anti-self-dealing index developed by Djankov et al., (2008), and *Disclosure Quality* is the difference between acquirer and target countries quality of accounting disclosure based on 1990 annual reports.

Our primary dependent variable is an indicator variable that takes the value of 1 if a U.S. firm *i* engages in cross-border M&A at time *t*, and 0 otherwise. We use this variable to test Hypothesis 1 and Hypothesis 3a. Our primary variable, organization capital scaled by total assets (OC), is constructed using SG&A expenses and the perpetual inventory method. Section 3.3. provides the details of the variable construction. Following Andrade et al., (2001), Chen et al., (2007), and Gan and Qiu (2019), we employ the following firm-level controls: *Firm Size* is the natural logarithm of the acquirer firm's total assets, *ROA* is the acquirer firm's income before extraordinary items scaled by total assets, *MTB* is the acquirer firm's market value of equity divided by book value of equity, *Leverage* is the acquirer firm's book value of debt divided by the sum of the book value of debt and market value of equity, and *Past Return* is the acquirer firm's buy-and-hold stock return (in percentage points) in the year prior to deal announcement. Our deal-specific controls include the following: *All Cash* is the all-cash deal indicator, *All Equity* is the all-equity deal indicator, *Target Size* is the natural logarithm of deal value, *High Target Size* is an indicator variable where the target firm size is larger than the sample median deal value, *Private Target* is the private target indicator, *Subsidiary Target* is the subsidiary target indicator, *Diversifying* is the diversifying transaction indicator, and *Tender Offer* is the tender offer indicator. The detailed data definitions and data sources are provided in the Appendix A.

3.5. Summary statistics

Table 1 provides the descriptive statistics for all variables. Panel A of the table presents descriptive statistics on the characteristics of the acquirer. The mean OC is found to be 0.86 with a standard deviation of 1.01. The high standard deviation, as compared to the mean OC, indicates large variability across firms, which the percentile values can further evidence. The mean ROA of the acquirer is −0.01 with an associated standard deviation of 0.20, indicating a relatively larger variability pattern across firms than OC. Panel B provides descriptive statistics for the variables representing deal characteristics, while Panel C presents descriptive statistics for the time-varying country-level variables. Panel D presents descriptive statistics for the time-invariant country-level variables. Panel E and Panel F provide descriptive statistics for our dependent variables: value creation measures and acquirer performance measures, respectively.

The mean values of the *ΔTobinQ1* and *ΔTobinQ3* are −0.56 and −0.62, with associated standard deviations of 3.19 and 2.95, respectively. The mean values of *ΔROA1*, *ΔROA2*, and *ΔROA3* are −2.98, −1.97, and −1.55, respectively, associated with very large standard deviations (141.11, 142.74, and 147.96, respectively). Descriptive statistics on the country-wise deal value characteristics are presented in Panel G of Table 1. As reported, there are large variations of cross-border flow from the US to other nations. The United Kingdom (UK) has been the largest recipient of the US cross-border M&A, following Canada 787 and Germany 369 cross-border M&A. Finally, the pairwise correlation coefficients for all the variables are presented in Table 2. The correlation coefficients between OC and both valuation measures (*ΔTobinQ1* and *ΔTobinQ3*), as well as deal performance measures (*ΔROA1*, *ΔROA2*, and *ΔROA3*), are found to be positive. The correlation matrix indicates minimal concerns regarding multicollinearity. However, to address the potential for omitted variable bias in univariate correlations that could obscure true relationships, we conduct multiple regressions to analyze the role of acquirer organization capital in cross-border M&As.

3.6. Empirical models

To investigate whether the firms with high organization capital are more likely to go for cross-border M&A, we run the following logit regression:

$$CBM\&A_{i,t} = \alpha + \beta OC_{i,t-1} + \delta' Controls_{i,t-1} + YearFE + \varepsilon_{i,t} \quad (3)$$

where $CBM\&A_{i,t}$ is an indicator variable that takes the value of 1 if a U.S. firm *i* engages as an acquiring entity in cross-border M&A at time *t*, and 0 otherwise (i.e., all domestic mergers and acquisitions are assigned a value of 0). $OC_{i,t-1}$ is the organization capital for firm *i* at time $t-1$. $Controls_{i,t-1}$ is a set of control variables that includes deal-specific, country-specific, and lagged firm-specific controls. Time-varying firm-specific and country-specific control variables are lagged by one time period, while time-invariant deal-specific and country-specific control variables remain non-lagged. Firm-specific controls include firm size (*Firm Size*), return on assets (*ROA*), market-to-book equity ratio (*MTB*), leverage ratio (*Leverage*), and past stock return (*Past Return*). Deal-specific controls include an all-cash deal indicator (*All Cash*), all-equity deal indicator (*All Equity*), target size (*Target Size*), high target size (*High Target Size*), private target indicator (*Private Target*), subsidiary target indicator (*Subsidiary Target*), diversifying transaction indicator (*Diversifying*), and tender offer indicator (*Tender Offer*). Country-specific controls include the difference between acquirer and target countries of domicile in the GDP growth (*GDP Growth*), annual local real stock market return (*Market R12*), legal protection (*Legal Protection*), corporate tax rates (*Corporate Tax*), quality of disclosure (*Disclosure Quality*), and target countries corporate governance strength (*Kaufman*). *YearFE* is the year-fixed effect in our model. The full variable definitions are in the Appendix A.

To investigate whether firms with high organization capital create value for their shareholders through cross-border M&A, we use the following regression specification:

$$Value\_Creation_{i,t} = \alpha + \beta OC_{i,t-1} + \delta' Controls_{i,t-1} + YearFE + IndustryFE + CountryFE + \varepsilon_{i,t} \quad (4)$$

where the dependent variable is either *ΔTobinQ1* or *ΔTobinQ3*. $OC_{i,t-1}$ is the organization capital for firm *i* at time $t-1$. $Controls_{i,t-1}$ is a set of control variables that includes deal-specific, country-specific, and lagged firm-specific controls. Time-varying firm-specific and country-specific control variables are lagged by one time period, while time-invariant deal-specific and country-specific control variables remain non-lagged. Firm-specific controls include firm size (*Firm Size*), return on assets (*ROA*), market-to-book equity ratio (*MTB*), leverage ratio (*Leverage*), and past stock return (*Past Return*). Deal-specific controls include an all-cash deal indicator (*All Cash*), all-equity deal indicator (*All*

Table 1
Descriptive statistics.

	Obs	Mean	Median	SD	10th Percentile	90th Percentile
Panel A: Acquirer Characteristics						
OC	24,605	0.86	0.61	1.01	0.04	1.96
Firm Size	24,605	6.80	6.74	2.03	4.18	9.65
ROA	24,605	−0.01	0.03	0.20	−0.15	0.10
MTB	24,605	3.48	2.34	3.93	0.96	6.58
Leverage	24,605	0.36	0.35	0.29	0.00	0.73
Past Return	24,605	18.79	9.33	64.02	−48.46	88.94
Acquisition Experience	24,605	0.60	1.00	0.49	0.00	1.00
Panel B: Deal Characteristice						
All Cash	30,587	0.27	0.00	0.45	0.00	1.00
All Equity	30,587	0.15	0.00	0.36	0.00	1.00
Target Size	30,587	3.84	3.69	1.84	1.56	6.25
High Target Size	30,587	0.50	1.00	0.50	0.00	1.00
Private Target	30,587	0.53	1.00	0.50	0.00	1.00
Subsidiary Target	30,587	0.31	0.00	0.46	0.00	1.00
Diversifying	30,587	0.37	0.00	0.48	0.00	1.00
Tender Offer	30,587	0.02	0.00	0.15	0.00	0.00
Panel C: Time-varying country-level variables						
GDP Growth	30,587	0.01	0.00	0.83	0.00	0.00
Market R12	30,587	0.00	0.00	0.24	0.00	0.00
Kaufman	30,587	1.35	1.37	0.20	1.23	1.50
Corporate Tax	30,587	0.92	0.00	3.64	0.00	4.00
Panel D: Time-invariant country-level variables						
Legal Protection	30,587	0.01	0.00	0.10	0.00	0.00
Disclosure Quality	30,496	0.07	0.00	2.98	0.00	0.00
Same Language	30,587	0.93	1.00	0.25	1.00	1.00
Same Religion	30,587	0.93	1.00	0.26	1.00	1.00
Same Region	30,587	0.89	1.00	0.31	0.00	1.00
Same Law	30,587	0.95	1.00	0.23	1.00	1.00
Distance	30,587	1.16	0.00	2.93	0.00	8.69
Panel E: Value creation measures						
ΔTobinQ1	3365	−0.56	−0.13	3.19	−1.88	0.64
ΔTobinQ3	2815	−0.62	−0.13	2.95	−1.84	0.61
Panel F: Acquirer performance measures						
ΔROA1	3534	−2.98	−0.97	141.18	−15.88	5.51
ΔROA2	3248	−1.97	−1.42	142.74	−17.28	5.00
ΔROA3	2993	−1.55	−1.58	147.96	−17.07	4.72
	Obs	Mean	Median	SD	10th Percentile	90th Percentile
Panel G: Country-wise Deal Value Characteristics						
USA-Argentina	39	95.41	35.00	152.41	3.60	429.00
USA-Australia	248	166.23	19.01	415.35	2.99	441.00
USA-Austria	17	56.69	25.73	82.37	9.00	164.00
USA-Belgium	52	365.64	37.85	1127.02	3.53	573.91
USA-Brazil	68	142.16	37.39	221.29	7.04	398.00
USA-Canada	787	270.25	41.55	882.03	4.70	551.90
USA-Chile	16	203.65	20.00	460.36	2.70	415.00
USA-Colombia	7	48.89	51.00	42.77	2.00	109.00
USA-Denmark	51	258.33	80.00	461.56	5.48	672.10
USA-Ecuador	2	16.50	16.50	2.12	15.00	18.00
USA-Egypt	8	183.00	77.00	224.44	36.00	650.00
USA-Finland	29	323.40	50.10	968.28	6.00	672.84
USA-France	267	175.53	38.12	554.05	3.75	435.00
USA-Germany	369	231.63	45.89	711.65	5.00	470.62
USA-Greece	3	592.08	619.89	263.26	316.02	840.33
USA-Hong Kong	34	113.28	32.94	196.75	3.00	259.09
USA-India	47	167.47	27.00	594.14	3.10	170.00
USA-Indonesia	3	8.03	2.70	10.29	1.50	19.90
USA-Ireland	85	886.10	40.00	4854.55	7.00	550.00
USA-Israel	128	182.95	65.91	369.74	10.00	475.00
USA-Italy	93	230.83	37.29	589.08	4.43	433.20
USA-Japan	40	364.38	62.75	885.11	4.33	651.47
USA-Malaysia	8	38.03	29.00	32.59	1.86	104.04
USA-Mexico	74	302.63	52.85	622.12	4.50	962.00

(*continued on next page*)

Table 1 (*continued*)

	Obs	Mean	Median	SD	10th Percentile	90th Percentile
USA-Netherlands	157	415.22	39.55	1534.17	5.70	756.18
USA-New Zealand	30	28.73	15.97	32.42	5.73	95.69
USA-Nigeria	1	1050.00	1050.00		1050.00	1050.00
USA-Norway	63	218.65	70.00	474.61	7.00	450.00
USA-Pakistan	1	2258.82	2258.82		2258.82	2258.82
USA-Peru	3	33.46	18.90	29.06	14.56	66.93
USA-Philippines	6	130.08	19.55	233.11	1.20	593.67
USA-Portugal	7	101.70	49.91	147.53	2.05	415.00
USA-Singapore	37	163.58	20.20	439.05	2.80	331.00
USA-South Africa	12	154.67	60.75	198.04	6.00	498.54
USA-South Korea	39	262.46	86.20	445.41	4.80	1050.00
USA-Spain	81	183.58	42.00	383.18	6.20	375.17
USA-Sweden	115	353.77	45.00	913.40	5.35	742.12
USA-Switzerland	97	648.21	85.00	1852.30	8.00	2215.78
USA-Taiwan	28	59.71	23.20	94.71	4.19	199.40
USA-Thailand	7	86.54	60.20	101.11	1.84	274.74
USA-Turkey	5	155.76	177.48	104.54	9.00	257.73
USA-United Kingdom	1048	316.25	48.58	1344.70	5.36	483.18
USA-Venezuela	5	289.84	25.00	475.15	8.25	1111.60

Equity), target size (*Target Size*), high target size (*High Target Size*), private target indicator (*Private Target*), subsidiary target indicator (*Subsidiary Target*), diversifying transaction indicator (*Diversifying*), and tender offer indicator (*Tender Offer*). Country-specific controls include the difference between acquirer and target countries of domicile in the GDP growth (*GDP Growth*), annual local real stock market return (*Market R*12), corporate tax rates (*Corporate Tax*), and target countries corporate governance strength (*Kaufman*). In this regression, we also control for the year fixed effects (*YearFE*), industry fixed effects – at the 2-digit SIC level (*IndustryFE*), and country fixed effects (*CountryFE*). The full variable definitions are in the Appendix A.

4. Results

4.1. The effect of organization capital on firm internationalization

Table 3 reports our results for Hypothesis 1. In all model specifications, we include year-fixed effects. Column 1 reports preliminary results on Hypothesis 1 without any control variables. As hypothesized, we find a positive and significant result, and this outcome is sustained as we gradually introduce various control variables.

In column 2, our hypothesized relationship between OC and international acquisition remains positive and significant as we include the financial attributes of acquirer firms and find them significant and in the expected sign. The acquirer firm's *Firm Size*, *ROA,* and *MTB* are positive and significant, and *Leverage* and *Past Return* are negative and significant.

In column 3, in addition to the financial attributes of acquirer firms, we include deal characteristics in our model specification. The OC-internationalization relationship remains as hypothesized. Among deal characteristics, *All Equity* and *Target Size* are negative and significant, whereas *Private Target*, *Subsidiary Target*, *Diversifying,* and *Tender Offer* are positive and significant. *All Cash* and *High Target Size* are statistically insignificant. The financial attributes of acquirer firms remain broadly significant and qualitatively unchanged.

Finally, column 4 includes the locational variables to capture the differences between home and host countries and to test the overall model. The OC-internationalization relationship remains as hypothesized. *GDP Growth*, *Legal Protection*, *Corporate Tax,* and *Disclosure Quality* are positive and significant, whereas *Market R12* and *Kaufman* are negative and significant. Overall, we find strong support for our Hypothesis 1. Thus, indicating the facilitating role of organization capital in a firm's decision to engage in international markets by becoming an acquirer in cross-border M&A.

4.2. The effect of organization capital on value creation

Table 4 reports our results for Hypothesis 2. We examine the effect of OC on value creation through cross-border M&A. In our model specifications, the dependent variables are *ΔTobinQ1* and *ΔTobinQ3*. The control variables are acquirer and deal characteristics, incorporating both country-level time-varying and time-invariant variables. The fixed effects consist of year, industry, and country, while the standard errors are clustered at the firm level. In both model specifications, the coefficient estimates of OC are positive and statistically significant at the 1% level. It indicates that firms with higher OC create value through cross-border M&A, and the results are consistent across all specifications. Another important observation is that the estimated coefficients of OC are larger with *ΔTobinQ3* compared to *ΔTobinQ1,* indicating that the acquirer firm's value increases more in the long run after the completion of cross-border M&A. Consistent with previous literature, the effects of the ratio of market-to-book value (*MTB*) found to be negative and significant in all specifications. We find positive and significant effects of *Leverage* and *Past Returns* but negative effects of *All Equity* and *Target Size*. Consistent with Li et al. (2018), which analyzed US domestic mergers, we find no significant effects of diversification in US cross-border M&A.

We conduct a specification curve analysis to verify the robustness of our documented OC and value creation relation (Simonsohn et al., 2020). In the specification curve, we include a wide variety of model specifications. First, we include our control variable choices into two dimensions: (i) baseline and (ii) baseline with country-level time invariant variables. The baseline model includes firm size (Firm Size), return on assets (ROA), market-to-book equity ratio (MTB), leverage ratio (Leverage), past stock return (Past Return), all-cash deal indicator (All Cash), all equity deal indicator (All Equity), target size (Target Size), high target size (High Target Size), private target indicator (Private Target), subsidiary target indicator (Subsidiary Target), diversifying transaction indicator (Diversifying), tender offer indicator (Tender Offer), GDP growth (GDP Growth), annual local real stock market return (Market R12), corporate tax rates (Corporate Tax), and target countries corporate governance strength (Kaufman). The country-level time-invariant variables include legal protection (Legal Protection), quality of disclosure (Disclosure Quality), distance (Distance), same religion (Same Religion), same language (Same Language), same legal origin (Same Law), and same continent (Same Region). The full variable definitions are in the Appendix A. Previous research suggests that a country's tax competitiveness (Gan and Qiu, 2019), strength of labor regulations (Levine et al., 2020), and cultural differences (Chakrabarti et al., 2009; Morosini et al., 1998) influence acquirer post-deal

Table 2
Pairwise correlations.

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	OC	1														
2	Firm Size	−0.343	1													
3	ROA	−0.127	0.234	1												
4	MTB	0.115	0.009	0.077	1											
5	Leverage	−0.317	0.351	0.017	−0.038	1										
6	Past Return	−0.038	−0.058	0.180	0.381	−0.037	1									
7	All Cash	0.040	0.113	0.106	−0.022	−0.032	−0.020	1								
8	All Equity	−0.061	−0.020	−0.122	0.138	−0.031	0.043	−0.291	1							
9	Target Size	−0.211	0.623	0.114	0.065	0.216	−0.026	0.035	0.060	1						
10	High Target Size	−0.164	0.506	0.093	0.054	0.180	−0.029	0.048	0.043	0.789	1					
11	Private Target	0.117	−0.268	−0.020	0.053	−0.192	0.014	−0.097	−0.001	−0.336	−0.270	1				
12	Subsidiary Target	−0.029	0.078	0.025	−0.047	0.103	0.004	0.115	−0.228	0.038	0.062	−0.664	1			
13	Diversifying	0.037	0.000	0.018	−0.010	0.007	−0.002	0.010	−0.013	−0.062	−0.043	0.055	0.007	1		
14	Tender Offer	0.016	0.109	0.025	0.026	0.017	−0.014	0.136	−0.050	0.168	0.133	−0.181	−0.120	0.001	1	
15	GDP Growth	0.012	−0.026	−0.001	0.014	0.016	0.021	−0.007	0.001	−0.002	0.003	−0.002	0.021	0.010	0.003	1
16	Market R12	−0.002	0.007	0.000	−0.003	0.010	−0.003	−0.011	0.001	−0.008	−0.014	0.007	−0.004	−0.002	−0.002	−0.006
17	Kaufman	−0.011	−0.098	−0.045	0.036	−0.013	0.008	−0.046	0.131	−0.021	−0.024	−0.012	−0.030	0.018	0.061	0.117
18	Corporate Tax	0.036	0.055	0.019	0.008	−0.047	−0.016	0.048	−0.082	0.027	0.034	−0.016	0.054	0.025	0.030	−0.111
19	Legal Protection	0.025	0.009	0.014	0.005	−0.006	0.007	−0.013	−0.028	0.008	0.001	−0.014	0.045	−0.014	−0.030	0.116
20	Disclosure Quality	0.008	0.031	0.009	0.002	0.014	0.003	−0.017	−0.026	−0.008	−0.007	0.000	0.034	−0.016	−0.056	0.023
21	Same Language	−0.045	−0.060	−0.030	−0.043	0.033	0.005	−0.017	0.086	0.004	−0.003	0.019	−0.096	−0.013	0.004	−0.086
22	Same Religion	−0.034	−0.042	−0.013	−0.036	0.037	0.007	−0.022	0.070	0.014	0.002	0.015	−0.050	−0.004	−0.014	0.075
23	Same Region	−0.049	−0.071	−0.032	−0.042	0.036	0.019	−0.037	0.103	0.015	0.002	0.015	−0.105	−0.038	−0.028	−0.107
24	Same Law	−0.041	−0.049	−0.030	−0.022	0.023	0.007	−0.016	0.081	−0.003	−0.005	0.023	−0.098	−0.016	0.002	−0.186
25	Distance	0.053	0.069	0.029	0.044	−0.044	−0.020	0.041	−0.107	−0.016	0.001	−0.025	0.101	0.034	0.044	0.051
26	ΔROA1	0.049	0.027	0.144	0.041	0.092	0.132	0.044	−0.095	−0.042	−0.030	−0.028	0.034	0.015	0.005	0.013
27	ΔROA2	0.065	0.034	0.043	0.002	0.102	0.067	0.045	−0.094	−0.037	−0.024	−0.042	0.044	0.007	0.006	0.011
28	ΔROA3	0.063	0.054	−0.012	−0.023	0.104	0.037	0.041	−0.082	−0.020	−0.010	−0.050	0.046	0.003	0.006	0.004
29	ΔTobinQ1	0.062	0.029	0.085	−0.100	0.132	0.149	0.054	−0.132	−0.042	−0.032	−0.066	0.058	0.023	0.009	0.028
30	ΔTobinQ3	0.055	0.040	0.069	−0.191	0.160	0.101	0.064	−0.159	−0.041	−0.031	−0.080	0.071	0.026	0.010	0.019
31	Acquisition Experience	−0.127	0.275	0.077	0.017	0.088	−0.029	0.035	0.002	0.116	0.099	−0.041	0.016	0.009	0.027	−0.026

		16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
16	Market R12	1															
17	Kaufman	−0.024	1														
18	Corporate Tax	−0.002	0.192	1													
19	Legal Protection	0.009	−0.196	0.045	1												
20	Disclosure Quality	0.026	−0.573	−0.100	0.670	1											
21	Same Language	−0.034	0.283	−0.333	−0.670	−0.555	1										
22	Same Religion	−0.035	0.240	−0.473	−0.391	−0.353	0.624	1									
23	Same Region	−0.024	0.051	−0.461	−0.118	−0.122	0.737	0.433	1								
24	Same Law	−0.037	0.120	−0.320	−0.761	−0.464	0.898	0.492	0.656	1							
25	Distance	0.024	−0.024	0.610	0.139	0.084	−0.707	−0.638	−0.928	−0.629	1						
26	ΔROA1	0.003	−0.054	0.007	0.006	0.003	0.002	0.007	0.000	−0.007	−0.003	1					
27	ΔROA2	0.004	−0.054	−0.003	0.007	0.012	0.006	0.017	0.008	−0.003	−0.016	0.878	1				
28	ΔROA3	0.006	−0.047	−0.001	0.008	0.014	0.007	0.018	0.010	−0.003	−0.019	0.776	0.943	1			
29	ΔTobinQ1	−0.003	−0.062	0.012	0.011	0.006	−0.004	0.008	−0.009	−0.013	0.005	0.330	0.308	0.249	1		
30	ΔTobinQ3	−0.002	−0.069	0.018	0.014	0.005	−0.004	0.007	−0.010	−0.016	0.006	0.314	0.297	0.253	0.957	1	
31	Acquisition Experience	−0.006	−0.013	0.013	−0.001	0.013	−0.028	−0.019	−0.037	−0.019	0.035	0.021	0.018	0.022	0.004	0.001	1

Table 3
Organization capital and cross-border M&A.

Dependent variable	1	2	3	4
OC	0.0950***	0.1520***	0.1287***	0.1422***
	(0.018)	(0.020)	(0.021)	(0.024)
Firm Size		0.1292***	0.2011***	0.2098***
		(0.015)	(0.017)	(0.020)
ROA		0.3441***	0.0691	0.0849
		(0.129)	(0.126)	(0.144)
MTB		0.0225***	0.0319***	0.0289***
		(0.005)	(0.005)	(0.006)
Leverage		−0.612***	−0.7558***	−0.7050***
		(0.103)	(0.103)	(0.125)
Past Return		−0.0012***	−0.0012***	−0.0016***
		(0.000)	(0.000)	(0.000)
All Cash			−0.0698	−0.0669
			(0.044)	(0.057)
All Equity			−0.6600***	−0.5874***
			(0.080)	(0.097)
Target Size			−0.1303***	−0.1635***
			(0.021)	(0.028)
High Target Size			0.0982	0.1131
			(0.063)	(0.080)
Private Target			0.6210***	0.8542***
			(0.085)	(0.106)
Subsidiary Target			0.9986***	1.1597***
			(0.086)	(0.107)
Diversifying			0.0937**	0.0748
			(0.044)	(0.053)
Tender Offer			1.3828***	1.2837***
			(0.124)	(0.146)
GDP Growth				1.4230***
				(0.136)
Market R12				−0.0465
				(0.034)
Kaufman				−3.8605***
				(0.578)
Legal Protection				5.1789***
				(0.762)
Corporate Tax				1.1122***
				(0.056)
Disclosure Quality				0.0851**
				(0.039)
Intercept	−2.3245***	−2.9846***	−3.5764***	1.0138
	(−0.088)	(0.131)	(0.166)	(0.831)
Year Fixed Effect	Yes	Yes	Yes	Yes
Number of Observation	24,605	24,605	24,605	24,528
Pseudo R-squared	0.0134	0.0256	0.0550	0.5492

This table reports the logit regression results with the probability of a firm becoming an acquirer in CBM&A. The dependent variable is equal to one if a U.S. firm engages as an acquiring entity in CBM&A, and zero otherwise. Year fixed effects are included in the tests. All variable definitions are in the Appendix A. Heteroskedasticity-consistent standard errors (in parentheses) are clustered at the acquirer level. *, **, and *** correspond to statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 4
Acquirer organization capital and value creation from cross-border M&A.

	ΔTobinQ1	ΔTobinQ3
OC	0.5448***	0.5743***
	(0.076)	(0.082)
Firm Size	0.0375	0.0656*
	(0.040)	(0.037)
ROA	−0.0097	−0.2504
	(0.437)	(0.452)
MTB	−0.1692***	−0.2357***
	(0.040)	(0.041)
Leverage	1.7497***	2.0303***
	(0.356)	(0.392)
Past Return	0.0138***	0.0132***
	(0.002)	(0.002)
All Cash	0.1105	0.0973
	(0.077)	(0.080)
All Equity	−0.9613*	−0.8695*
	(0.500)	(0.454)
Target Size	−0.1774***	−0.1457**
	(0.067)	(0.062)
High Target Size	−0.0067	0.0117
	(0.149)	(0.157)
Private Target	−0.6198*	−0.4309
	(0.353)	(0.320)
Subsidiary Target	−0.2095	−0.0575
	(0.294)	(0.272)
Diversifying	−0.0640	−0.0514
	(0.100)	(0.103)
Tender Offer	0.0070	0.0555
	(0.252)	(0.260)
GDP Growth	0.0450**	0.0192
	(0.022)	(0.021)
Market R12	0.0173	0.0049
	(0.061)	(0.073)
Kaufman	1.6328**	1.1519
	(0.788)	(0.803)
Corporate Tax	0.0067	0.0011
	(0.013)	(0.013)
Intercept	−2.6526**	−2.3479**
	(1.032)	(1.107)
Year Fixed Effect	Yes	Yes
Industry Fixed Effect	Yes	Yes
Country Fixed Effect	Yes	Yes
Number of Observation	3,361	2,808
Adjusted R-squard	0.1922	0.2459

This table presents the results of acquirer organization capital and value creation represented by *ΔTobinQ1* and *ΔTobinQ3* from CBM&A. To conduct this test, we remove all domestic M&A involving U.S. firms from our sample. 2-digit Standard Industrial Classification (SIC) industry, year and country fixed effects are included in the tests. All variable definitions are in the Appendix A. Heteroskedasticity-consistent standard errors (in parentheses) are clustered at the acquirer level. *, **, and *** correspond to statistical significance at the 10%, 5%, and 1% levels, respectively.

performance. Our selection of variables addresses each of these control dimensions. Second, we include industry and year fixed effects only to observe the impact of country-level fixed effect on our results. We also incorporate industry, year, and country fixed effects in our analyses. Third, we incorporate standard error clustering at both the industry and country levels, as well as at the firm level. Fourth, to alleviate any concern about the global financial crisis (GFC) period effect on our results, we divide our data into different sub-periods with and without the GFC. Since the specification curve only presents coefficient estimates of the primary variable, our choices of varying model specifications will identify the most critical factors in specifying the model. As the coefficient estimates sort the models, the distribution of dots in the lower panel can reveal whether certain specification choices drive the results.

Fig. 2 presents the results of the OC effect on cross-border M&A value creation through specification curve analysis. We estimate 48 models from different specification choices to construct the specification curve. In the specification curve, our main variable of interest is OC, and the dependent variable is either *ΔTobinQ1* or *ΔTobinQ3*. The control variables are as per two dimensions; the fixed effects are either industry and year or industry, year and country; the sample period is either with or without GFC; finally, we cluster the standard errors at the firm, industry, and country level. The upper panel plots the coefficient estimates of OC from all model specifications in decreasing order with 95% confidence intervals. The bars at the bottom of the upper panel present the sample size for each specification. We present the maximum and minimum coefficient estimates and the zero threshold for simplicity. The lower panel reports the exact specifications for each model. The colored dots indicate the choices from various specification alternatives.

The specification curve shows that the coefficient estimates of OC are positive and statistically significant across all specifications. More importantly, the inclusion of new variables, fixed effects, standard error clustering, and sub-sample periods with different specifications do not

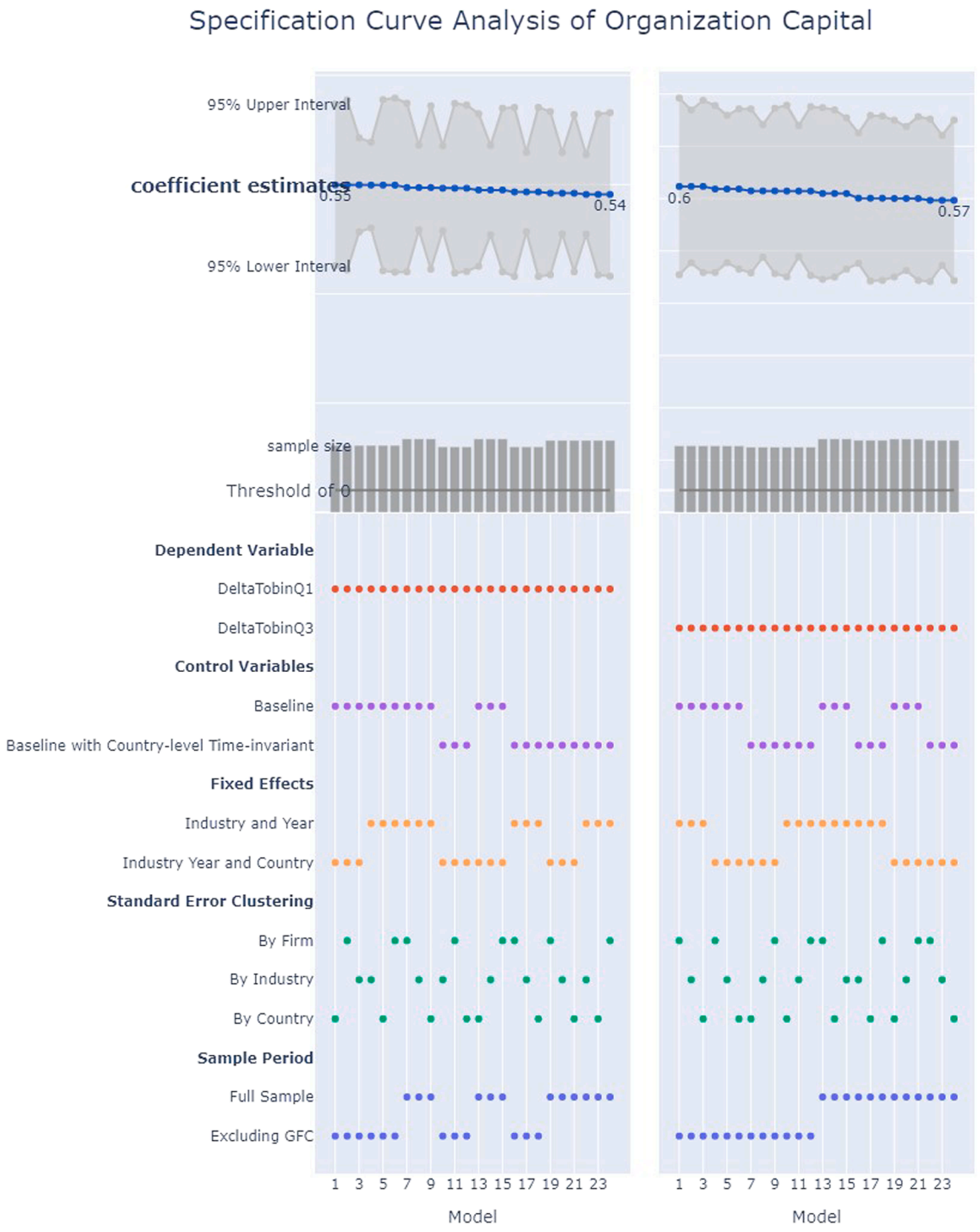

Fig. 2. Uses specification curve analysis to summarize the robustness of our results of the relation between organization capital (OC) and value creation to a variety of model specifications. The upper panel plots the coefficient estimates of OC from all model specifications in decreasing order with 95% confidence intervals. The bars at the bottom of the upper panel represents sample size for each specification. For simplicity, we present only the maximum and minimum coefficient estimates, as well as the threshold of zero. The lower panel reports the exact specification for each model. The colored dots indicate the choices from various specification alternatives. All variable definitions are provided in the Appendix A. To interpret this specification curve, for example, the first model that uses *ΔTobinQ1* as the dependent variable, and the control variables as per the baseline model, including industry fixed effects, year fixed effects and country fixed effects, with standard error clustering at the country level, excluding GFC (global financial crisis) sample period, has an estimated OC coefficient of 0.55. As per the curve, the coefficient estimates of OC varies between 0.55 and 0.54 based on different model specifications for *ΔTobinQ1*. The curve shows that the coefficient estimates of OC are statistically significant for all model specifications and therefore robust.

change the significance of the results. The specification curve could be interpreted as the last model that uses *ΔTobinQ1* as the dependent variable and baseline with country-level time-invariant variables as control variables, including industry fixed effects and year fixed effects, clustering standard errors at the firm level, with entire sample period, has an estimated OC co-efficient of 0.54. With all different specifications, the coefficient estimates of OC vary between 0.55 and 0.54 for the dependent variable *ΔTobinQ1* and between 0.60 and 0.57 for the dependent variable *ΔTobinQ3*. The slight difference in coefficient estimates across various model specifications indicates the accuracy of our baseline model. Consistent with our results in Table 4, the specification curve strongly supports our Hypothesis 2, confirming that the acquirer firms with high OC create value through cross-border M&A. The results are robust to various model specifications with fixed effects, standard error clustering, and different sub-sampling periods (i.e., with and without the GFC).

4.3. Evidence from instrumental-variable 2-stage regressions

Despite controlling many factors that explain cross-border M&A performance, the estimation results estimated using pooled may be constrained by the endogeneity problem. It is possible that the prior performance of firms also influences them to invest in organization capital. Therefore, a causality could run from financial constraint or affluence to organization capital (Angrist and Pischke, 2008; Wooldridge, 2015). Thus, a part of an organization capital can be determined endogenously. The remedy to the endogeneity problem would be to estimate the models with Two-Stage Least Square (2SLS) and use the Instrumental Variable (IV) method. The IV method has been used extensively in finance literature to control issues related to endogeneity (Kim et al., 2021; Li et al., 2018). Following prior literature (Carlin et al., 2012; Hasan and Cheung, 2018; Kim et al., 2021), we use median industry-level organization capital based on Compustat three-digit SIC codes as a potential instrument for the estimation. We expect industry-level organization capital to be a strong influencer of the firm-specific organization capital as a small firm needs to compete primarily with an industry peer to sustain competitive advantage. Therefore, a positive relationship between organization capital at industry- and firm- levels may exist. On the other hand, the industry-level organization capital is unlikely to affect firm-specific performance except via the firm-level organization capital (Carlin et al., 2012; Hasan and Cheung, 2018).

Table 5 presents the results for the IV regressions. The first-stage regression results are presented in columns (1) and (3), confirming our previous prediction about the instrument's suitability. The co-efficient values of industry-average organization capital in first-stage regressions are found to be significant at 1% level with the Cragg-Donald F statistics presented in the bottom part of the table rejecting the possibility of weak-instrument. In the second-stage regressions of columns (2) and (4), the coefficients on organization capital are positive and significant at 5% levels for both *ΔTobinQ1* and *ΔTobinQ3*, respectively, confirming our Hypothesis 2. The results are robust in the presence of multiple control variables, as presented in the table.

Table 5
Instrumental-variable 2-stage regressions.

	OC 1st Stage (1)	ΔTobinQ1 2nd Stage (2)	OC 1st Stage (3)	ΔTobinQ3 2nd Stage (4)
OC		0.8127**		0.8190**
		(0.381)		(0.382)
Industry OC	0.4519***		0.4519***	
	(0.048)		(0.046)	
Firm Size	−0.0824***	0.0619	−0.0794***	0.0873*
	(0.014)	(0.055)	(0.014)	(0.047)
ROA	−0.7396***	0.1776	−0.6478*	−0.1005
	(0.277)	(0.527)	(0.347)	(0.574)
MTB	0.0402***	−0.1809***	0.0364***	−0.2456***
	(0.006)	(0.046)	(0.007)	(0.046)
Leverage	−0.3373***	1.8541***	−0.3686***	2.1327***
	(0.076)	(0.395)	(0.084)	(0.457)
Past Return	−0.0014***	0.0142***	−0.0015***	0.0137***
	(0.000)	(0.002)	(0.000)	(0.002)
All Cash	0.0721***	0.0894	0.0624**	0.0795
	(0.026)	(0.083)	(0.027)	(0.086)
All Equity	−0.3021***	−0.8763*	−0.2713***	−0.7974*
	(0.066)	(0.504)	(0.074)	(0.407)
Target Size	−0.0452***	−0.1661**	−0.0433***	−0.1356**
	(0.015)	(0.067)	(0.016)	(0.058)
High Target Size	0.0085	−0.0047	−0.0020	−0.0091
	(0.042)	(0.151)	(0.046)	(0.160)
Private Target	−0.0905	−0.5946*	−0.0839	−0.4073
	(0.059)	(0.354)	(0.060)	(0.309)
Subsidiary Target	−0.0666	0.1884	−0.0421	−0.0433
	(0.056)	(0.295)	(0.057)	(0.265)
Diversifying	−0.0139	−0.0651	−0.0267	−0.0506
	(0.028)	(0.100)	(0.030)	(0.104)
Tender Offer	−0.0633	0.0276	−0.0726	0.0753
	(0.067)	(0.251)	(0.069)	(0.252)
GDP Growth	0.0063	0.0428*	0.0077	0.0170
	(0.007)	(0.022)	(0.007)	(0.021)
Market R12	0.0035	0.0174	0.0013	0.0057
	(0.010)	(0.059)	(0.010)	(0.072)
Kaufman	−0.1114	1.6569**	0.0321	1.1424
	(0.161)	(0.780)	(0.164)	(0.804)
Corporate Tax	−0.0047	0.0081	−0.0026	0.0020
	(0.004)	(0.012)	(0.004)	(0.013)
Year Fixed Effect	Yes	Yes	Yes	Yes
Industry Fixed Effect	Yes	Yes	Yes	Yes
Country Fixed Effect	Yes	Yes	Yes	Yes
Cragg-Donald Wald F statistic	174.98		149.97	
Stock-Yogo (2005) Critical Values	16.38		16.38	
Number of Observation	3,361	3,361	2,808	2,808
Adjusted R-squared		0.0973		0.1284

This table presents the results of two-stage instrumental variable regressions using industry-level organization capital (Industry OC) as the instrument for our OC measure. Industry OC is defined as the median industry-level organization capital based on Compustat three-digit SIC codes. The dependent variables are *ΔTobinQ1* and *ΔTobinQ3*. In all specifications, we include year fixed effects, industry fixed effects, and country fixed effects. Columns (1) and (3) report the first-stage result with Cragg-Donald Wald F statistic for weak instrument and columns (2) and (4) report the second-stage result using OC as our main explanatory variable. All variable definitions are in the Appendix A. Heteroskedasticity-consistent standard errors (in parentheses) are clustered at the acquirer level. *, **, and *** correspond to statistical significance at the 10%, 5%, and 1% levels, respectively.

4.4. Evidence from Heckman two-stage sample selection model

To mitigate sample selection bias, we adopt the Heckman two-step sample selection model as a robustness check. In the first step, we estimate a logit model with a binary variable that takes the value of 1 if a U. S. firm engages as an acquiring entity in cross-border M&A and 0 otherwise. The specification of the first-step model is the same as model (3) described in Section 1.6. The inverse Mills ratio (IMR) is generated from the first step and then included in the second-step model to control potential sample selection bias. The specification of the second-step model is the same as model (4) described in Section 1.6.

Table 6 presents the regression results for the Heckman two-stage model. The first-step results are identical to Table 3. The second-step results show that the OC coefficient remains positive and qualitatively the same as our previous findings. The coefficients on the IMR in Model 2 and Model 3 are negative but not statistically significant, suggesting that the sample selection bias may not be a significant concern for our analysis. This finding supports the validity of our model for value creation.

Table 6
Heckman two-stage regression analysis on cross-border M&A value creation.

	First-step regression	Second-step regression	
	P(CBM&A = 1)	ΔTobinQ1	ΔTobinQ3
	(1)	(2)	(3)
OC	0.1422***	0.5389***	0.5705***
	(0.024)	(0.075)	(0.081)
Firm Size	0.2098***	0.0347	0.0669*
	(0.020)	(0.040)	(0.037)
ROA	0.0849	−0.0072	−0.2178
	(0.144)	(0.436)	(0.451)
MTB	0.0289***	−0.1649***	−0.2301***
	(0.006)	(0.038)	(0.039)
Leverage	−0.7050***	1.7222***	1.9929***
	(0.125)	(0.353)	(0.385)
Past Return	−0.0016***	0.0136***	0.0130***
	(0.000)	(0.002)	(0.002)
All Cash	−0.0669	0.1109	0.1018
	(0.057)	(0.077)	(0.081)
All Equity	−0.5874***	−0.8879*	−0.7642
	(0.097)	(0.511)	(0.473)
Target Size	−0.1635***	−0.1703**	−0.1400**
	(0.028)	(0.067)	(0.063)
High Target Size	0.1131	−0.0290	−0.0532
	(0.080)	(0.149)	(0.157)
Private Target	0.8542***	−0.6015*	−0.4120
	(0.106)	(0.355)	(0.320)
Subsidiary Target	1.1597***	−0.2041	−0.0434
	(0.107)	(0.296)	(0.272)
Diversifying	0.0748	−0.0958	−0.0789
	(0.053)	(0.098)	(0.099)
Tender Offer	1.2837***	0.0165	0.0754
	(0.146)	(0.253)	(0.260)
GDP Growth	1.4230***	0.0618**	0.0247
	(0.136)	(0.028)	(0.028)
Market R12	−0.0465	0.0124	−0.0016
	(0.034)	(0.060)	(0.072)
Kaufman	−3.8605***	1.9161**	1.3499
	(0.578)	(0.879)	(0.904)
Corporate Tax	1.1122***	0.0077	−0.0002
	(0.056)	(0.013)	(0.013)
Legal Protection	5.1789***		
	(0.762)		
Disclosure Quality	0.0851**		
	(0.039)		
Inverse Mills Ratio		−0.1740	−0.0898
		(0.182)	(0.184)
Intercept	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes
Industry Fixed Effect		Yes	Yes
Country Fixed Effect		Yes	Yes
Number of Observation	24,528	3,295	2,758
Pseudo R-squared / Adjusted R-squared	0.5492	0.1862	0.2409

This table reports the regression results of Heckman model. Model 1 reports the results of the first step estimation from a logit model with a probability of a firm becoming an acquirer in CBM&A. The dependent variable is equal to one if a U.S. firm engages as an acquiring entity in CBM&A, and zero otherwise. Year fixed effect is included in the test. Model 2 and Model 3 report the results of the second step, aimed at testing our Hypothesis on acquirer organization capital and value creation from CBM&A represented by *ΔTobinQ1* and *ΔTobinQ3*. To conduct this test, we remove all domestic M&A involving U.S. firms from our sample. 2-digit Standard Industrial Classification (SIC) industry, year and country fixed effects are included in the tests. All variable definitions are in the Appendix A. Heteroskedasticity-consistent standard errors (in parentheses) are clustered at the acquirer level. *, **, and *** correspond to statistical significance at the 10%, 5%, and 1% levels, respectively.

4.5. The moderating effect of acquisition experience

In strategic decision-making, organizations accumulate knowledge, expertise, and insights through their past acquisition endeavors. This reservoir of experience plays a crucial role in shaping firms' future merger and acquisition decisions and outcomes. In this section, we investigate whether the acquisition experience positively moderates the relationship of organization capital on the likelihood of engaging in cross-border M&A activities and whether such activities create value for the firm. The concept hinges on the idea that organizations with substantial acquisition experience can navigate the complexities of cross-border M&A more adeptly, potentially transforming these activities into value-creating endeavors. To test Hypothesis 3a, we include *Acquisition experience* as an interaction term with $OC_{i,t-1}$ in Model (3), where *Acquisition experience* is an indicator variable that takes the value of 1 if the acquirer engages in mergers and acquisitions activity over the past three years and 0 otherwise. To test Hypothesis 3b, we include *Acquisition experience* as an interaction term with $OC_{i,t-1}$ in Model (4). The dependent and control variables remain the same per both model specifications. Table 7 presents the results. Our results indicate that the acquisition experience positively moderates the relationship between organization capital and the likelihood of engaging in cross-border M&A activities. However, we did not observe a significant positive effect suggesting that integration in a cross-border M&A setting is even more complex. We believe this could be due to various complexities of cross-border M&A, such as changing market conditions, cultural and contextual differences, integration challenges, incomplete learning, managerial hubris, unexpected geopolitical events, industry disruptions, macroeconomic shifts, difficulties in post-acquisition execution, etc. Although acquisition experience offers valuable insights and expertise and improves the chances of engaging in cross-border M&A, it does not ensure value creation. Hence, indicating the importance of organization capital in value creation through international acquisitions.

Table 7
Acquisition experience and cross-border M&A.

	P(CBM&A = 1)	ΔTobinQ1	ΔTobinQ3
	(1)	(2)	(3)
OC	0.0828***	0.5009***	0.5141***
	(0.029)	(0.083)	(0.085)
Acquisition experience	−0.0397	−0.0546	−0.1179
	(0.068)	(0.184)	(0.189)
OC × Acquisition experience	0.1459***	0.1019	0.1431
	(0.039)	(0.116)	(1136)
Intercept	Yes	Yes	Yes
Control variables as in Table 3	Yes	–	–
Control variables same as Table 4	–	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes
Industry Fixed Effect	–	Yes	Yes
Country Fixed Effect	–	Yes	Yes
Number of Observation	24,528	3,361	2,808
Pseudo R-squared / Adjusted R-squared	0.5497	0.1919	0.2457

Column (1) reports the logit regression results with the probability of a firm becoming an acquirer in CBM&A. The dependent variable is equal to one if a U.S. firm engages as an acquiring entity in CBM&A, and zero otherwise. Year fixed effect is included in the test. Column (2) and Column (3) presents the results of acquirer organization capital and value creation represented by *ΔTobinQ1* and *ΔTobinQ3* from CBM&A. To conduct this test, we remove all domestic M&A involving U.S. firms from our sample. 2-digit Standard Industrial Classification (SIC) industry, year and country fixed effects are included in the tests. All variable definitions are in the Appendix A. Heteroskedasticity-consistent standard errors (in parentheses) are clustered at the acquirer level. *, **, and *** correspond to statistical significance at the 10%, 5%, and 1% levels, respectively.

4.6. Further evidence on acquirer organization capital and deal performance

This section provides further evidence on organization capital and the firm's deal performance through cross-border M&A. We employ post-deal performance measures *ΔROA1*, *ΔROA2*, and *ΔROA3* to support our claim. Since ROA includes true net income in its calculation and captures the firm's efficiency, which shows how efficient a firm is at

Table 8
Further evidence on acquirer organization capital and value creation.

Variable	ΔROA1			ΔROA2			ΔROA3		
	Quantile			Quantile			Quantile		
	25th	50th	75th	25th	50th	75th	25th	50th	75th
OC	0.4905	0.5356**	0.7934***	0.7663*	0.7204***	0.7437***	0.9445**	0.8980***	0.8785***
	(0.355)	(0.200)	(0.218)	(0.433)	(0.210)	(0.246)	(0.475)	(0.199)	(0.217)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of Observation	3,462	3,462	3,462	3,180	3,180	3,180	2,934	2,934	2,934
Pseudo R-squared	0.1160	0.0416	0.0355	0.1291	0.0496	0.0376	0.1293	0.0503	0.0411

This table presents the results of acquirer organization capital and cross-border deal performance. To conduct this test, we remove all domestic M&A involving U.S. firms from our sample. 2-digit Standard Industrial Classification (SIC) industry, year and country fixed effects are included in the tests. All variable definitions are in the Appendix A. Heteroskedasticity-consistent standard errors are in parentheses. *, **, and *** correspond to statistical significance at the 10%, 5%, and 1% levels, respectively.

using its assets to generate profits, it is a better measure compared to other return-based measures that are more exposed to market frictions. *ΔROA1* is the change in the acquirer's return on assets (ROA) (in percentage points) from the year before the deal announcement to the year after deal completion. *ΔROA2* is the average ROA (in percentage points) of the acquirer in the 2-year period after deal completion minus the ROA of the acquirer in the year before the deal announcement. *ΔROA3* is the average ROA (in percentage points) of the acquirer in the 3-year period after deal completion minus the ROA of the acquirer in the year before the deal announcement. To conduct our test, we keep *ΔROA1*, *ΔROA2,* and *ΔROA3* as our dependent variables and employ all acquirer and deal characteristics with time-varying and time-invariant country-level variables as control variables. We also include year, industry, and country fixed effects. Our initial investigation did not find evidence of an average effect of OC on the acquirer's changes in ROAs (results not reported). This could be due to the considerable variation in *ΔROAs*. However, when we employ quantile regressions based on the firms' exposure to our main variable OC, we find compelling evidence that high OC firms generate positive and significant deal performance through cross-border M&A.

The results in Table 8 highlight the relationship between organizational capital (OC) and cross-border M&A (CBM&A) performance across different performance quantiles (i.e., 25th, 50th and 75th quantile). The analysis uses three performance measures *ΔROA1*, *ΔROA2*, and *ΔROA3* to capture short-term, medium-term, and long-term effects, respectively. The findings consistently show that high OC firms outperform their lower-OC counterparts, with increasing statistical significance across higher quantiles, particularly for firms that perform better in CBM&A.

For the short-term performance measure *ΔROA1*, OC becomes more significant as firm performance improves. While OC is not statistically significant at the 25th quantile, it becomes significant at the 5% level at the 50th quantile, with a coefficient of 0.5356. At the 75th quantile, OC attains high statistical significance (1% level) with the largest coefficient of 0.7934, indicating that high OC firms experience greater short-term gains from CBM&A compared to lower-performing firms.

In the medium-term performance measure *ΔROA2*, the impact of OC is more consistent across quantiles. OC is marginally significant (10% level) at the 25th quantile with a coefficient of 0.7663, and becomes highly significant (1% level) at both the 50th and 75th quantiles, with coefficients of 0.7204 and 0.7437, respectively. This suggests that OC positively influences medium-term performance, though the effect remains stronger for better-performing firms.

For the long-term performance measure *ΔROA3*, OC shows a robust and consistent positive impact across all quantiles. It is significant at the 5% level at the 25th quantile (coefficient: 0.9445) and highly significant at the 1% level at the 50th and 75th quantiles, with coefficients of 0.8980 and 0.8785, respectively. These results indicate that OC delivers sustained benefits over the long term, making it a critical factor for long-term success in cross-border acquisitions.

The pattern of increasing statistical significance at higher quantiles, coupled with the consistently positive coefficients, strongly supports the Hypothesis that high OC firms create more value through CBM&A than firms with lower OC. Additionally, the generally larger coefficients for *ΔROA3* suggest that the full benefits of OC may take longer to materialize, underscoring the importance of OC for long-term success in cross-border acquisitions.

These findings are robust, accounting for control variables and fixed effects for year, industry, and country. This ensures that the results apply across various contexts and time periods, further emphasizing the importance of OC as a key driver of success in cross-border M&A, especially for high-performing firms. The analysis highlights the critical role of OC in international business strategy, demonstrating that firms with greater organizational capital are better positioned to succeed in cross-border deals.

5. Robustness tests

5.1. Subsample analysis

We conduct several subsample analyses with equation (4) to ensure our results are not driven by specific industries or serial acquires. First, we exclude high-tech firms from our sample because they are more R&D intensive (Hasan et al., 2021) and they exhibit a high level of asymmetric information (Benou et al., 2007).[3] The results are reported in Panel A of Table 9. We find that the coefficient of OC is positive and significant at a 1% level and consistent with the findings of our primary analysis in Table 4. This confirms that high-tech firms do not drive our results.

Second, we exclude all finance and utility firms from our sample because these firms operate in a different business and regulatory environment than those in other industries (Huang et al., 2018; Masulis and Mobbs, 2014).[4] Also, the traditional cost classifications of COGS and SG&A do not apply to finance firms (Enache and Srivastava, 2018). The results are reported in Panel B of Table 9. The OC coefficient remains positive and qualitatively the same as our previous findings. This

[3] Following Barton and Waymire (2004), we define the following 3-digit SIC codes as high-tech firms: aircraft (372), automotive (371), communications (481, 482, 489), electronics (363, 366, 369), film and entertainment (781, 783, 791), industrial machinery (351–356), office equipment (357), photography (381, 383, 384, 387) and electrical utilities (491, 493).

[4] For finance firms, we exclude SIC codes 6000–6999, and for utility firms, we exclude SIC codes 4000–4999 from our sample.

Table 9
Robustness tests: subsample analysis.

Panel A: Exclusion of high-tech firms	ΔTobinQ1	ΔTobinQ3
	(1)	(2)
OC	0.5079***	0.5470***
	(0.083)	(0.097)
Intercept	Yes	Yes
Control variables as in Table 4	Yes	Yes
Year Fixed Effect	Yes	Yes
Industry Fixed Effect	Yes	Yes
Country Fixed Effect	Yes	Yes
Number of Observation	2,582	2,151
Adjusted R-squared	0.2131	0.2365
Panel B: Exclusion of Financial and Utility firms		
	(1)	(2)
OC	0.5342***	0.5612***
	(0.075)	(0.080)
Intercept	Yes	Yes
Control variables as in Table 4	Yes	Yes
Year Fixed Effect	Yes	Yes
Industry Fixed Effect	Yes	Yes
Country Fixed Effect	Yes	Yes
Number of Observation	3,092	2,575
Adjusted R-squared	0.2015	0.2581
Panel C: Exclusion of all firms except Manufacturing Firms		
	(1)	(2)
OC	0.6153***	0.7256***
	(0.138)	(0.149)
Intercept	Yes	Yes
Control variables as in Table 4	Yes	Yes
Year Fixed Effect	Yes	Yes
Industry Fixed Effect	Yes	Yes
Country Fixed Effect	Yes	Yes
Number of Observation	1,823	1,583
Adjusted R-squared	0.1874	0.2975
Panel D: Exclusion of all firms except Services Firms		
	(1)	(2)
OC	0.4110***	0.4075***
	(0.111)	(0.120)
Intercept	Yes	Yes
Control variables as in Table 4	Yes	Yes
Year Fixed Effect	Yes	Yes
Industry Fixed Effect	Yes	Yes
Country Fixed Effect	Yes	Yes
Number of Observation	750	580
Adjusted R-squared	0.5514	0.6182
Panel E: Exclusion of Serial Acquirers		
	(1)	(2)
OC	0.4046***	0.3976***
	(0.067)	(0.069)
Intercept	Yes	Yes
Control variables as in Table 4	Yes	Yes
Year Fixed Effect	Yes	Yes
Industry Fixed Effect	Yes	Yes
Country Fixed Effect	Yes	Yes
Number of Observation	2,004	1,626
Adjusted R-squared	0.1349	0.1924

This table presents the results of acquirer organization capital and value creation represented by *ΔTobinQ1* and *ΔTobinQ3* from CBM&A. To conduct this test, we remove all domestic M&A involving U.S. firms from our sample. 2-digit Standard Industrial Classification (SIC) industry, year and country fixed effects are included in the tests. All variable definitions are in the Appendix A. Heteroskedasticity-consistent standard errors (in parentheses) are clustered at the acquirer level. *, **, and *** correspond to statistical significance at the 10%, 5%, and 1% levels, respectively.

confirms that financial and utility firms do not drive our results.

Third, prior studies suggest that the relationship between international diversification and performance is different for service and manufacturing firms (Capar and Kotabe, 2003). Therefore, to ensure how the role of OC may differ between these two industries, we take these two industries separately and re-estimate the equation (4).[5] The results are reported in Panel C and Panel D of Table 9. OC coefficients remain positive and significant at a 1% level in both cases. However, we find that the OC coefficient is higher with manufacturing firms than service firms. This indicates that the role of OC is more pronounced in manufacturing firms than in service firms. For both firms, the OC coefficients are consistent with our main results.

Fourth, serial acquirers are quite common in cross-border M&A. Following Fuller et al., (2002) and Li et al. (2018), we define a serial acquirer as an acquirer completing bids for five or more targets in any 3-year window during the sample period 1996–2019. We detect 438 serial acquirers in our sample, and they are involved in about 38.6% of deals. To ensure serial acquirers do not drive our results, we remove them from our sample. Panel E of Table 9 presents the results. The exclusion of serial acquirers in our sample does not alter our main results and remains positive and significant at a 1% level.

Overall, these results align with our previous findings and support Hypothesis 2 in all sub-sample analyses. In nearly all of these analyses, the OC coefficient with *ΔTobinQ3* is higher than the OC coefficient with *ΔTobinQ1*, suggesting that firms with high OC perform better in the long run following cross-border M&A.

5.2. Using alternative organization capital measures

While the results above provide compelling evidence of the positive effects of OC on a firm's value creation in cross-border M&A, a potential concern may remain regarding the measurement of OC (Li et al., 2018). This is because some parts of the SG&A expenses may disproportionately reflect the firm's body of knowledge, business processes, and systems that generate competitive advantage. For example, the US GAAP definition of SG&A expenses states that this item represents the overall nonproduction costs of a firm, which consists of expenses related to IT infrastructure, information systems, research and development (R&D), employee training, advertising and marketing (Eisfeldt and Papanikolaou, 2013). To mitigate the concerns, we use the alternative measures of OC from prior literature and re-test our Hypothesis 1 and Hypothesis 2.

First, we follow Peters and Taylor (2017) to estimate OC measures based on SG&A expenses. Although SG&A expenses include most of the expenditures that generate OC, the authors suggest including all nonproduction costs. Therefore, Peters and Taylor (2017) estimate the stock of OC using the perpetual inventory method with only the percentage of SG&A expenditure invested in OC. In the computation, they consider 30% of SG&A invested in OC and a depreciation rate of 20%. We follow the same procedures to calculate our OC and scale it by total assets. Our new measure is called *OC_PT*. The results are presented in Panel A of Table 10. For Hypothesis 1, we present the result with a complete model only (i.e., control variables as in Table 3) in column (1). For Hypothesis 2, we present the results in column (2) and column (3). The control variables are the same as in Table 4. We only report the coefficient estimate of *OC_PT* for brevity and don't present detailed results for the control variables. Nonetheless, all control variables' results are consistent, with no significant deviations from our previous estimates. As expected, the results are positive and significant at a 1% level for both hypotheses with the new *OC_PT* measure.

Second, we employ Enache and Srivastava (2018) method to estimate the OC measure. The authors suggest using net SG&A, where net

[5] For manufacturing firms, we keep the SIC codes 2000–3999, and for service firms, we keep the SIC codes 7000–8999 in our sample.

Table 10
Robustness tests: alternative organization capital measures.

Panel A: Measure of Peters and Taylor (2017)	P(CBM&A = 1)	ΔTobinQ1	ΔTobinQ3
	(1)	(2)	(3)
OC_PT	0.7017***	2.7066***	2.7161***
	(0.111)	(0.385)	(0.409)
Intercept	Yes	Yes	Yes
Control variables as in Table 3	Yes	–	–
Control variables same as Table 4	–	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes
Industry Fixed Effect	–	Yes	Yes
Country Fixed Effect	–	Yes	Yes
Number of Observation	24,172	3,328	2,780
Pseudo R-squared / Adjusted R-squared	0.5477	0.1917	0.2434
Panel B: Measure of Enache and Srivastava (2018)			
	(1)	(2)	(3)
OC_ES	0.0874**	0.1649***	0.1638***
	(0.037)	(0.058)	(0.053)
Intercept	Yes	Yes	Yes
Control variables as in Table 3	Yes	–	–
Control variables as in Table 4	–	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes
Industry Fixed Effect	–	Yes	Yes
Country Fixed Effect	–	Yes	Yes
Number of Observation	24,172	3,328	2,780
Pseudo R-squared / Adjusted R-squared	0.5467	0.1747	0.2246
Panel C: Modified measure of Eisfeldt and papanikolaou (2013)			
	(1)	(2)	(3)
OC_EP_MODIFIED	0.1451***	0.5680***	0.5865***
	(0.025)	(0.079)	(0.085)
Intercept	Yes	Yes	Yes
Control variables as in Table 3	Yes	–	–
Control variables as in Table 4	–	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes
Industry Fixed Effect	–	Yes	Yes
Country Fixed Effect	–	Yes	Yes
Number of Observation	24,172	3,328	2,780
Pseudo R-squared / Adjusted R-squared	0.5475	0.1897	0.2420

Column (1) reports the logit regression results with the probability of a firm becoming an acquirer in CBM&A. The dependent variable is equal to one if a U.S. firm engages as an acquiring entity in CBM&A, and zero otherwise. Year fixed effect is included in the test. Column (2) and Column (3) present the results of acquirer organization capital and value creation represented by *ΔTobinQ1* and *ΔTobinQ3* from CBM&A. To conduct this test, we remove all domestic M&A involving U.S. firms from our sample. 2-digit Standard Industrial Classification (SIC) industry, year and country fixed effects are included in the tests. All variable definitions are in the Appendix A. Heteroskedasticity-consistent standard errors (in parentheses) are clustered at the acquirer level. *, **, and *** correspond to statistical significance at the 10%, 5%, and 1% levels, respectively.

SG&A is obtained by subtracting R&D (Compustat variable XRD) and advertisement expenses (Compustat variable XAD) from total SG&A. This is because the investment in OC, aimed at improving organizational knowledge and capabilities, should not be commingled with operating expenses. The authors then separate the investment portion of SG&A and the maintenance portion of SG&A from net SG&A using a cross-sectional regression. They use net SG&A as the dependent variable and sales revenue as the independent variable. The portion of net SG&A that is accompanied by sales revenue is labeled as the maintenance portion of net SG&A expense. They label the remaining net SG&A expense as the investment portion of the net SG&A expense. Following Enache and Srivastava (2018), we calculate the firm's investment portion of net SG&A expense and capitalize it using the same procedure as Eisfeldt and Papanikolaou (2013) to estimate an alternative proxy of OC. We call this alternative proxy *OC_ES*. The results are reported in Panel B of Table 10. Although we find the coefficients smaller than our primary analysis, the results are qualitatively the same for both hypotheses.

Third, studies have shown that R&D intensity is vital for internationalization success (Filatotchev and Piesse, 2009). One might argue that the acquirer firm's R&D investment drives our results. Moreover, Enache and Srivastava (2018) argue that the R&D and advertisement expenses should be deducted from total SG&A to evaluate OC investments, as discussed in the earlier paragraph. To mitigate this concern, we deduct R&D and advertisement expenses from total SG&A (total SG&A – Advertisement expenses – R&D expenses). We take this net SG&A and calculate an alternative proxy of OC using the same procedure as Eisfeldt and Papanikolaou (2013). We call this alternative proxy *OC_EP_MODIFIED*. Panel C of Table 10 presents the results. We find that the results with this modified OC are consistent with our hypotheses. The *OC_EP_MODIFIED* coefficients in columns (2) and column (3) are slightly more substantial than our previous results. This indicates that the R&D investment does not drive our results.

The results presented with alternative measures of OC show that our results on Hypothesis 1 and Hypothesis 2 remain valid. Consistent with our earlier findings, we again find that the alternative OC coefficients are mostly higher with *ΔTobinQ3* than *ΔTobinQ1*. This indicates that firms with high OC perform better in the long run after cross-border M&A. In summary, our results concerning the hypotheses are robust to alternative measures of organization capital.

6. Discussion and conclusion

In this paper, we have examined the role of organization capital in firm internationalization and value creation through international acquisitions. The global share of cross-border M&A relative to total M&A has notably increased in recent years compared to other international investments (UNCTAD, 2017, 2019). Despite the substantial risks associated with cross-border M&A, evidenced by high failure rates (Capron, 1999; Cioli et al., 2020; Conn et al., 2005; Hsu et al., 2021), many firms continue to engage and some achieve success, suggesting that these firms possess distinctive features enabling them to identify opportunities and generate value during integration effectively. Therefore, we explore organization capital as a distinguishing firm-level feature and study its facilitating role in firm internationalization through cross-border M&A. We adopt a firm-specific resource perspective and extend the discussion on multinational firms by theorizing and factoring in the significant role of organization capital in internationalization decisions and processes. We examine whether the firm's investment in augmenting organization capital influences its internationalization efforts and ultimately contributes to shareholder value creation. This paper provides a novel perspective on firm-specific resources within IB literature and contributes to the emerging research on organization capital, making three crucial contributions.

First, we establish the importance of organization capital in international acquisitions. This contributes to international business research, which traditionally focuses on contextual factors or firm-specific motivations for international expansions. We complement this research by showing that firms can actively prepare for cross-border M&A activities and become superior in opportunity recognition by developing organization capital. Indeed, our findings show that organization capital increases the likelihood of engaging in cross-border M&A. This aligns with Vahlne and Ivarsson (2014) and Hitt et al., (2006), who underscore the foundational role of resources in internationalization. Expanding on this extant research, our results emphasize the importance of the linkages between management and resources,

particularly the productive combination stemming from tangible and intangible resources (Lev et al., 2016). As our results remain stable after controlling for deal-, firm-, and country-specific effects, we have reason to believe that organization capital is an essential condition to engage in cross-border M&A. Specifically, organization capital enables firms to recognize opportunities in international markets through two primary mechanisms. First, efficiency gains stemming from organization capital free up resources necessary to detect opportunities in unfamiliar settings. Second, organization capital helps firms facilitate the coordination of widely distributed and diverse expertise across the organization. Thus, it enhances the ability to understand and evaluate the value-creating potential of the interaction of an acquirers' and targets' resources and management. Both mechanisms, grounded in organization capital, increase the likelihood of engaging in international acquisitions.

Second, our findings underscore the crucial role of organization capital in post-merger value creation, aligning with existing research emphasizing the significance of resources in complex and enduring investments such as cross-border M&A (Lee et al., 2018; Steigner and Sutton, 2011). Our results confirm our theoretical prediction that firms investing in organization capital achieve superior post-merger value outcomes for shareholders over both, short- and long-term horizons. This is important and complements event study methodologies, which typically focus on short event windows, whereas acquisitions are usually long-term endeavors, and acquisition integration often takes up to three years or even more (Bauer and Matzler, 2014; Cording et al., 2008; Homburg and Bucerius, 2005, 2006). Indeed, our results confirm that the effect of organization capital on $\Delta TobinQ3$ is higher than the $\Delta TobinQ1$. The additional analyses using the specification curve, instrumental variable approach, sub-sample analysis, and alternative OC measures support these findings. This complements previous research by showing that organization capital enables firms to understand the value-creating interactions of acquirer and target, to skillfully maneuver tangible and intangible resources hand in hand in unfamiliar settings, and to have sufficient free resources to keep focused on the long-term objectives of an acquisition. This is pivotal given the tendency for short-term gains during acquisition integration, potentially undermining or harming the achievement of strategic goals (Zollo and Meier, 2008). In essence, organization capital enables firms to realize opportunities more effectively.

Third, our findings contribute to extant research on acquisition experience. Specifically, our results show that acquisition experience strengthens the relationship between organization capital and the likelihood of engaging in cross-border M&A. This aligns with research showing that past acquisitions positively impact future M&A engagements (Hitt et al., 1998). Our results indicate that when coupled with high organization capital, acquisition experience enables acquirers to effectively direct attention and coordinate resources freed up by OC toward critical tasks during the pre-merger stage. The combination of high OC and acquisition experience allows acquirers to identify opportunities in international settings.

However, we did not find a significant effect of acquisition experience on the relationship between organization capital and post-merger value creation. This non-significant effect indicates that there might be multiple forces at play that can increase or decrease the likelihood of value creation following an acquisition due to the inherent complexity. For example, acquirers may encounter new and unfamiliar competitors (Schriber et al., 2022) or encounter different game rules within the industry. Moreover, acquisition integration might be more complex due to differences in cultures and approaches to doing business. This complexity likely explains why acquisition experience does not directly affect subsequent acquisition integrations, as one cross-border M&A experience might not be transferable to another. This finding aligns with research emphasizing the role of specific elements of experience, such as understanding different cultures and new settings, that can be applied to subsequent cases while other elements cannot be transferred (Nadolska and Barkema, 2007). One mechanism to better understand past experiences is deliberate learning or heuristics that develop from acquisition experience (Bingham and Eisenhardt, 2011; Zollo, 2009). While deliberate learning allows managers to extract lessons learned, it might also be too rigid and result in path dependency, reducing the likelihood of benefiting from past experiences (Heimeriks et al., 2007; Heimeriks et al., 2012). Another critical challenge in leveraging past integration experiences is the inherent complexity and the involvement of multiple middle managers who implement integration plans next to their day-to-day activities (Felker et al., 2024; Trichterborn et al., 2016). As such, a centralized reflection of the experience made might be complex in general, but even more so in the case of cross-border M&A. Thus, our non-significant findings point towards the need for a more nuanced understanding of learning mechanisms and their impact on value creation during post-merger integration in cross-border M&A settings.

Finally, our study contributes to the expanding theoretical and empirical groundwork for understanding M&A performance (King et al., 2021). By combining firm-specific organization capital and centering our research on cross-border M&A—an arena characterized by complexity and risk yet promising substantial value for acquirers—we enhance our understanding of critical firm-level factors influencing decision-making and value creation in this domain. Combined, we pay much-needed attention to improving our understanding of firm-level factors, facilitating better opportunity recognition and capture in cross-border M&A.

6.1. Managerial and policy implications

This paper emphasized the critical role organization capital can play in successful firm internationalization via cross-border M&A, which has important implications for acquiring firms' management. Unlike domestic M&A, cross-border M&A involves added frictions from unfamiliar international settings, posing additional challenges to maintaining competitiveness and performance (e.g., Gan and Qiu, 2019; Levine et al., 2020). In addition to business as usual, cross-border activities also require managers to assimilate emerging complex issues concerning international business, such as the evolving international security environment (Kim and Druckman, 2020; Kim and Raswant, 2022a; Kim and Raswant, 2022b; Kim and Raswant, 2023). Focusing on a single component, such as human resources or R&D, may not deliver sustained advantages when complex coordination of organization-wide dispersed expertise is required. Therefore, it is crucial for firms to systematically monitor and invest in their organization capital to navigate unfamiliar settings.

In this paper, we have conceptualized organization capital as encompassing organization practices, processes, systems, and designs or the interplay of human skills and physical assets. Our analysis shows strong evidence supporting that organization capital enhances the likelihood of engaging in cross-border M&A and aids firms in creating value for investors, both in the short- and long term. These findings can inform and support managerial decisions regarding the developing organization capital. As the business landscape becomes increasingly competitive, managers can leverage organization capital to achieve sustained competitive advantage, enhance resource allocation, and improve corporate valuation in the market (Lev et al., 2016). Additionally, our results suggest that organization capital is a relevant dimension for investment decisions. Managers should be cautious not to become overconfident in their experience. While experience can help direct freed-up resources during the pre-merger stage, relying solely on experience during integration is insufficient. Since integration is a decentralized activity, managers should employ deliberate learning mechanisms that facilitate sharing experiences across the organization (Zollo, 2009). These deliberate learning mechanisms can enable firms to allocate and direct resources more effectively during integration. For policymakers, our study indicates that firms with higher OC are less inclined to prioritize short-term profits at the expense of long-term

competitive advantages. This suggests that such acquirers are more sensitive to specific contexts and more socially responsible when integrating. Consequently, policymakers might focus on encouraging FDI from firms with high OC to foster long-term benefits for the local economy.

6.2. Limitations and future research directions

Our study offers several directions for future research to explore the role of organization capital in firm internationalization. First, this study is limited to examining the cross-border M&A activities of firms headquartered in the US. Future researchers could expand this research to firms based in other countries, particularly those based in emerging markets. These markets 'offer the opportunity to observe the origin of the capabilities of MNEs' (Hernandez and Guillén, 2018). Second, a potential limitation of this paper is the measurement of organization capital. Our current measure of organization capital is based on SG&A expenses, which could be refined (Li et al., 2018). SG&A expenses include labor costs that are not directly linked to a particular unit of output. Thus, any spending to improve organization capital will be included in SG&A expenses (Eisfeldt and Papanikolaou, 2013). However, we assume that SG&A expenses vary systematically across firms, and by doing so, firms enjoy a competitive edge. Researchers are encouraged to develop and test this line of inquiry. Third, the mechanism by which organization capital provides a competitive edge may involve complex and not directly observable factors, such as innovative culture or leadership qualities. Therefore, future studies could explore additional units of analysis and their influence on the role of organization capital in internationalization. Fourth, despite employing many variables in our model, the problem with omitted variables cannot be entirely ignored. Researchers should consider additional variables impacting the relationships between organization capital and diverse outcome variables. Fifth, our research is based on a sample of US acquirers, and the taxation and accounting standards that are key for calculating organization capital might not be comparable with other contexts. Sixth, our research focuses on cross-border M&As, and we believe that this line of inquiry will benefit from further exploring different dimensions of internationalization more broadly. Researchers are encouraged to consider this in future research. Consequently, our findings on OC are not entirely generalizable, and research in other regions is needed. Finally, we hope this research stimulates further research at the crossroads of organization capital and international business, enhancing our understanding of how firms can leverage organization capital to succeed in international markets.

CRediT authorship contribution statement

Florian Bauer: Writing – review & editing, Writing – original draft, Conceptualization. **Arpit Raswant:** Writing – review & editing, Writing – original draft, Methodology, Conceptualization, Data curation, Project administration. **Md Ahasan Habib Sarkar:** Writing – review & editing, Writing – original draft, Methodology, Conceptualization, Data curation, Software.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Appendix A

Variable	Description
OC	Following Eisfeldt and Papanikolaou (2013), we construct acquirer firm's organization capital scaled by total assets using a perpetual inventory method. For a firm in Compustat, starting from the first year with non-missing SG&A expenses, we recursively construct the stock of organization capital by cumulating the CPI-deflated value of SG&A expenses using a depreciation rate of 15%. The initial stock of organization capital is calculated with an industry- and decade-specific real growth rate of SG&A expenses. (Source: Compustat)
Firm Size	Natural logarithm of acquirer firm's total assets (Source: Compustat)
ROA	Acquirer firm's income before extraordinary items scaled by total assets. (Source: Compustat)
MTB	Acquirer firm's market value of equity divided by book value of equity. (Source: Compustat)
Leverage	Acquirer firm's book value of debt divided by the sum of book value of debt and market value of equity. (Source: Compustat)
Past Return	Acquirer firm's buy-and-hold stock return (in percentage points) in the year prior to deal announcement. (Source: Compustat)
All Cash	An indicator variable that takes the value of 1 if the bid involves only cash payment to the target shareholders, and 0 otherwise. (Source: SDC Platinum)
All Equity	An indicator variable that takes the value of 1 if the bid involves only stock swap with the target shareholders, and 0 otherwise. (Source: SDC Platinum)
Target Size	Natural logarithm of deal value (in millions USD). (Source: SDC Platinum)
High Target Size	An indicator variable that takes the value of one if the target firm size (as proxied by deal value) is larger than the sample median deal value, and zero otherwise. (Source: SDC Platinum)
Private Target	An indicator variable that takes the value of 1 if the target firm is privately held, and 0 otherwise. (Source: SDC Platinum)
Subsidiary Target	An indicator variable that takes the value of 1 if the target firm is a subsidiary, and 0 otherwise. (Source: SDC Platinum)
Diversifying	An indicator variable that takes the value of 1 if the acquirer is not from the same 2-digit SIC industry as the target firm, and 0 otherwise. (Source: SDC Platinum)
Tender Offer	An indicator variable that takes the value of 1 if the bid is a tender offer made to the target shareholders, and 0 otherwise. (Source: SDC Platinum)
GDP Growth	The difference between acquirer and target countries of domicile in the annual real growth rate of the GDP. (Source: World Bank Development indicators)
Market R12	The differece between acquirer and target countries annual local real stock market return. We obtain total value-weighted return indices in local currency for each country (Datastream code: RI) and deflate these indices using 2010 consumer price index (CPI) in each country to calculate real stock returns. (Source: World Bank Development indicators and Datastream)
Kaufman	The average of all six Kaufmann et al., (2009) governance indicators: political stability, voice and accountability, government effectiveness, regulatory quality, control of corruption, and rule of law. Each of the indices ranges from − 2.5 to 2.5, with higher values indicating better governance. (Source: World Bank Worldwide Governance Indicators)
Legal Protection	The difference between acquirer and target countries of domicile in the anti self-dealing index. Anti self-dealing index is the average of ex ante and ex post private control of self-dealing where ex ante private control of selfdealing is the index of ex ante control of self-dealing transactions (average of approval by disinterested shareholders and ex ante disclosure) and ex post private control of selfdealing is the index of ex post control over self-dealing transactions (average of disclosure in periodic filings and ease of proving wrongdoing). (Source: Djankov et al., 2008)
Corporate Tax	The difference between acquirer and target countries of domicile in corporate tax rates. (Source: OECD and Tax Foundation)
Disclosure Quality	The difference between acquirer and target countries of domicile in the index created by the Center for International Financial Analysis and Research to rate the quality of 1990 annual reports on their disclosure of accounting information. (Source: La Porta et al., 1997, 1998)
Same Language	An indicator variable that takes the value of 1 if the acquirer and target countries primary language are the same, and 0 otherwise. (Source: World Factbook)

(*continued on next page*)

(*continued*)

Variable	Description
Same Religion	An indicator variable that takes the value of 1 if the acquirer and target countries primary religion are the same, and 0 otherwise. (Source: Stulz and Williamson, 2003)
Same Region	An indicator variable that takes the value of 1 if the acquirer and target are from same continent, and 0 otherwise. (Source: World Factbook)
Same Law	An indicator variable that takes the value of 1 if the acquirer and target countries legal origin is English, and 0 otherwise. (Source: Djankov et al., 2008)
Distance	Log of circle distance between the acquirer and target countries capitals. We obtain the latitude and longitude of capital cities of each country and use SAS GEODIST function to calculate the distance in kilometers. (Source: https://www.mapsofworld.com/utilities/world-latitude-longitude.htm)
Acquisition Experience	An indicator variable that takes the value of 1 if the acquirer engages in mergers and acquisitions activity over the past three years, and 0 otherwise.
ΔTobinQ1	Tobin's Q of the acquirer in year c + 1 minus Tobin's Q of the acquirer in year c-1 where year c is the year of deal completion. Tobin's Q is calculated as (Book value of total assets + market value of equity − book value of equity)/Book value of total assets. (Source: Compustat)
ΔTobinQ3	Average Tobin's Q of the acquirer from year c + 1 to year c + 3 minus Tobin's Q of the acquirer in year c-1 where year c is the year of deal completion. Tobin's Q is calculated as (Book value of total assets + market value of equity − book value of equity)/Book value of total assets. (Source: Compustat)
ΔROA1	Return on assets (in percentage points) of the acquirer in year c + 1 minus return on assets of the acquirer in the year of deal announcement. Year c is the year of deal completion. (Source: Compustat)
ΔROA2	Average return on assets (in percentage points) of the acquirer from year c + 1 to year c + 2 minus return on assets of the acquirer in the year of deal announcement. (Source: Compustat)
ΔROA3	Average return on assets (in percentage points) of the acquirer from year c + 1 to year c + 3 minus return on assets of the acquirer in the year of deal announcement. (Source: Compustat)

Data availability

Data will be made available on request.

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