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Financial Implications of Cultural Distance in Cross-Border M&A

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Introduction

Cross-border mergers and acquisitions are among the largest discretionary allocations of capital that firms make. A substantial share of such transactions fails to deliver the returns anticipated at announcement, and cultural difference between the parties is the explanation most frequently advanced for that shortfall, in the practitioner literature and in academic work alike. The proposition has intuitive force. Organisations that have developed distinct decision norms, communication practices and conceptions of authority should find it costly to combine, and the cost should rise with the difference between them.

The empirical record, however, does not settle the question in the direction the proposition would suggest. Cultural distance has been associated with lower announcement returns, impaired sociocultural integration and higher managerial turnover in some studies, and with superior post-acquisition performance, greater knowledge transfer and reduced organisational inertia in others. The meta-analytic evidence assembled by Beugelsdijk et al. (2018) across 156 studies does not resolve the divergence so much as document its scale: the effects of cultural distance vary in sign as well as in magnitude across the stages of internationalisation, and the heterogeneity between studies remains substantial after moderators are accounted for. Two decades of accumulated estimates have therefore not produced a stable answer to a question that appears, on its face, straightforward.

This thesis proceeds from the position that the instability is informative rather than merely inconvenient, and that part of it is traceable to how the independent variable is constructed. Cultural distance is conventionally measured by composite indices computed from national value surveys, which assign a single score to a pair of countries irrespective of which firms are involved, which parts of the two organisations come into contact, and what the parties do about the contact. The consequences that the indices are used to predict, by contrast, arise between specific organisations at specific interfaces, and they are mediated at every point by managerial decisions. Shenkar (2001) identified the assumptions that this practice requires and the difficulties each of them raises; Luo and Shenkar (2011) proposed that the object of analysis should be the friction generated where two organisations actually come into contact rather than the distance between the countries in which they are domiciled. A measure defined at the level of nations is being asked to carry an explanation that operates at the level of firms.

The argument developed here follows from that distinction. It holds that the financial consequences of cultural distance depend on the arrangements through which the resulting friction is managed rather than on the measured magnitude of the distance alone, and it identifies two managerial variables through which the conversion takes place. The first is monitoring capability, understood as the arrangements through which an investor observes a distant organisation between transactions: reporting, board representation, contractual information rights, and the channels through which information held locally reaches the party that has committed the capital. The second is integration capability, understood as the organisational arrangements through which an acquirer processes difference after control has passed: a dedicated integration function, decisions on the retention or replacement of management, decisions on the operating autonomy of the acquired unit, and documented transfers of practice between the parties. Neither variable is implied by the distance score. Both are observable independently of the outcome they are used to explain, and the thesis treats that independence as a requirement rather than a convenience.

The question the thesis addresses can accordingly be stated as follows: through what mechanisms do the financial consequences of cultural distance in cross-border M&A depend on the way that distance is managed, and what observable evidence distinguishes friction arising from cultural difference from friction arising from economic, regulatory, political or governance conflict? The second half of the question is not subordinate to the first. Cultural explanation is unusually available after the fact, and an argument that does not specify in advance what would count as cultural friction, and what would count against its presence, cannot be tested against a record in which the outcome is already known.

The argument is examined through a qualitative comparative case study of three cross-border transactions attempted or completed between 2016 and 2023: the prohibited merger of Deutsche Börse and the London Stock Exchange Group, SoftBank's staged investment in WeWork, and LVMH's acquisition of Tiffany & Co. The three were selected purposively for the variation in their outcomes, one transaction that did not close, one that closed and destroyed value, and one that closed and, on the evidence available, created value. This is selection on the dependent variable, and it is treated throughout as such. The design permits the mechanisms present in each case to be identified and compared; it does not permit an estimate of how frequently those mechanisms occur, and it does not permit the claim that the differences in management caused the differences in outcome. The three transactions also differ substantially

in structure, in control arrangements and in the performance measures available for each, and the comparison developed in the final section of Chapter 3 is therefore conducted at the level of mechanisms rather than of financial results.

To constrain the interpretive latitude that a design of this kind allows, the methodology states in advance the observable indicators by which cultural friction is identified, together with the indicators used for the two managerial variables; a rule under which an episode is attributed to cultural friction only where the disputed item carried low direct economic value and the disagreement persisted after the economic terms had been settled; the rival categories, economic, regulatory, political, and governance, to which episodes are assigned where that rule is not met; the counterfactual against which each case is assessed, defined as a course of action documented as available to the parties and not taken; and the evidence that would count against the argument. Each case closes with an explicit statement of the alternative explanations that the evidence does not exclude.

The thesis is organised in three chapters. Chapter 1 establishes the theoretical foundations, examining the definitions and measurement frameworks through which cultural distance has been operationalised and the objections raised to them (Section 1.1), the entry mode literature within which the choice of acquisition is situated (Section 1.2), and the mechanisms through which cultural difference generates costs and benefits in cross-border operations (Section 1.3). Chapter 2 follows those mechanisms through the lifecycle of an investment, assembling the empirical results on how cultural distance shapes the investment decision (Section 2.1), how it bears on post-investment monitoring (Section 2.2), and how its financial consequences develop over the longer term as firms accumulate experience and absorptive capacity (Section 2.3). Chapter 3 presents the empirical analysis: the research design and identification strategy (Section 3.1), the three case studies in turn (Sections 3.2 to 3.4), and a comparative assessment of the mechanisms the three records make visible (Section 3.5). The conclusions summarise the findings, state the limitations of the design, and identify the evidence that would be required to test the argument beyond a small number of cases.

The contribution the thesis offers a demonstration, on three documented records, that comparable levels of measured distance are compatible with sharply different financial outcomes, and an account of the observable arrangements that distinguish the cases in which friction was processed from those in which it was not. Read against the aggregate evidence, the

three cases are best understood as an illustration of why the estimates in that literature vary as they do.

Chapter 1: Theoretical Foundations of Cultural Distance

This chapter provides a comprehensive overview of the theoretical literature on cultural distance and international expansion. It introduces the main conceptual frameworks used to define and measure cultural distance, examines how companies approach foreign market entry, and identifies the mechanisms through which cultural differences generate costs or, alternatively, become a source of value. The empirical results that test these mechanisms are presented separately, in Chapter 2.

The chapter is structured around a central tension that runs through the international business literature: cultural distance, which is on the one hand, consistently associated with higher complexity, costs, and risk in cross-border operations, and, on the other hand, increasingly recognised as a potential source of value when firms develop the capabilities to absorb and recombine the knowledge embedded in different cultural systems. Resolving this tension, hence understanding when distance destroys value, when it merely raises the cost of doing business, and when it can be leveraged into a strategic advantage, is the analytical thread that connects the three sections of this chapter. Throughout, the discussion remains at the level of constructs and causal mechanisms: no samples, coefficients, or empirical results are reported in this chapter.

1.1 Cultural Distance: Definitions and Measurement Frameworks

The concept of cultural distance (CD) has become one of the most widely applied constructs in international business research, serving as a key explanatory variable across a broad spectrum of strategic phenomena from foreign market entry and ownership decisions to post-acquisition integration, knowledge transfer, and subsidiary performance.

At its core, the construct captures the degree to which the values, norms, and practices of one country differ from those of another, with the underlying assumption that greater dissimilarity generates higher complexity, costs, and uncertainty for firms operating across national borders. Yet, as this section will argue, the appeal of such a parsimonious construct has at times obscured the conceptual ambiguities embedded in its definition, and the persistent inconclusiveness of the empirical evidence accumulated over four decades of research suggests

that cultural distance is better understood as a contingent and multidimensional phenomenon than as a uniform predictor of organisational outcomes.

The first systematic operationalisation of the construct was introduced by Kogut and Singh (1988), who developed a composite index based on the four cultural dimensions identified by Hofstede (1980): power distance, individualism, masculinity, and uncertainty avoidance.

Their formula, known as the K-S index, computes a weighted average of squared differences between two countries on each dimension, normalised by the within-dimension variance. Originally applied to explain entry mode choices into the United States market, the K-S index rapidly became the dominant empirical instrument in the field. With over 5,000 citations, the original article remains among the most referenced contributions in management research (Beugelsdijk et al., 2018), and in a comprehensive review of Hofstede-based research, Kirkman et al. (2006) found that more than 80% of articles on culture and firm internationalisation focused specifically on the cultural distance construct. The reasons for such success are not difficult to identify: by translating the elusive notion of culture into a single quantitative score, the K-S index offered scholars and practitioners a tractable variable that could be incorporated into regression analyses alongside other firm and country-level controls, lending an aura of measurement precision to a fundamentally qualitative phenomenon. This very tractability, however, has been the source of the construct's most fundamental weaknesses. In what remains the most influential critique of the cultural distance literature, Shenkar (2001) identified a series of hidden assumptions that systematically undermine the validity of the K-S index.

The first is the Illusion of Symmetry, which treats the distance from country A to country B as identical to the reverse, ignoring the well-documented evidence that adaptation costs are typically asymmetric, investing in a more institutionally developed market is not equivalent to investing in a less developed one.

The second is the Illusion of Stability, which assumes culture to be a static phenomenon invariant over time, despite four decades of evidence on cultural convergence in some domains and divergence in others.

The third is the Illusion of Linearity, which presupposes a uniform, monotonic relationship between cultural dissimilarity and organisational outcomes, neglecting the possibility that moderate distance may produce different effects than extreme distance.

Shenkar further argued that by focusing exclusively on what separates cultures, the construct systematically ignores the mechanisms, globalisation, geographic proximity, technological convergence, and accumulated international experience, that actively reduce cultural barriers between firms and their foreign environments. The implicit metaphor of "distance," he observed, frames the analytical question in purely separative terms, even though much of what shapes cross-border outcomes concerns the active management of cultural interfaces rather than the passive measurement of differences.

A complementary critique concerns the level of analysis at which cultural distance is measured. Mezias, S.J., et al. (2002) demonstrated empirically that national-level cultural indices are poor predictors of organisational-level behavior, given that culture at the firm level is a structurally distinct construct from national culture averages. Even Hofstede himself acknowledged this distinction, demonstrating that the dimensions identified at the national level do not transpose mechanically to the organisational level. Yet the bulk of subsequent empirical research, anchored to the powerful precedent of Kogut and Singh's findings, continued to use national indices as proxies for organisational-level cultural differences. The mismatch introduces systematic measurement error, which Brouthers and Brouthers (2001) identified as a likely source of what they termed the "cultural distance paradox": despite its theoretical appeal and intuitive plausibility, the K-S index has consistently generated mixed and often contradictory empirical results across decades of research, with studies finding negative, null, and even positive effects of cultural distance on the same outcomes.

In response to these limitations, two complementary streams of research have sought to refine the cultural distance construct from within. The first, represented by Beugelsdijk et al. (2015), proposes variance-based measures of cultural distance that capture within-country heterogeneity, offering a more nuanced operationalisation capable of reflecting the diversity of cultural profiles that multinational firms actually encounter in host markets. Their analysis of 50 studies applying the K-S measure showed that mean-based indices yield systematically biased results, and argued that existing databases such as the World Values Survey can already support the construction of more accurate variance-based alternatives.

The second stream, anchored in the contributions of Xu and Shenkar (2002), extends the conceptual perimeter of distance by introducing the notion of institutional distance, distinguishing between regulatory, normative, and cognitive dimensions of the formal and informal environment. This broader framing, situated at the intersection of cultural and institutional theory, has proven particularly relevant for explaining cross-border investment decisions in contexts where legal systems, governance structures, and social norms diverge substantially from those of the investing firm's home country.

A more radical reorientation of the field has been advocated by Shenkar himself in his subsequent work. Shenkar, Luo and Yeheskel (2008) and Shenkar (2012) propose substituting the metaphor of distance with that of friction, arguing that what matters analytically is not the static difference between two cultures but the dynamic interaction that emerges at the cultural interface. The points of contact between specific firms operating under specific institutional and operational conditions. Friction, unlike distance, is inherently bilateral, situated, and manageable: it depends on which dimensions of culture come into contact, in which organisational contexts, and through which integration mechanisms. Crucially, the friction lens accommodates the empirically observed reality that some cultural combinations generate disruptive frictions while others produce synergetic ones, a distinction that the unidimensional concept of distance cannot capture. This reorientation has opened space for a more constructive interpretation of cultural differences, grounded in the knowledge-based view of the firm. A growing body of research, began before Shenkar with the seminal contribution of Morosini, Shane and Singh (1998), has argued that cultural distance can exert a positive effect on cross-border acquisition performance, particularly through its impact on growth, by exposing the acquiring firm to novel routines, organisational practices, and managerial approaches. Sarala and Vaara (2010) extended this perspective, proposing that cultural differences can stimulate organisational learning and knowledge transfer when integration is managed with appropriate sensitivity. More recently, Stahl and Tung (2015) reviewed the international business literature and argued that the field has been disproportionately oriented toward the negative effects of cultural distance, while accumulating evidence of positive effects has been comparatively underweighted. Stahl et al. (2016) further argued that cultural diversity provides multinational firms with access to a wider range of ideas, problem-solving approaches, and creative recombinations of knowledge, which can become a source of sustained competitive advantage when firms possess the internal capabilities to exploit them.

The crucial moderating role of such internal capabilities is theorised by Moura, Falaster and Silva-Rêgo (2022), who identify *absorptive capacity* as the variable that governs whether cultural distance is converted into value or into cost. In their framework, the acquiring firm's ability to identify, assimilate, and commercially exploit external knowledge determines the sign of the relationship; the empirical evidence supporting this proposition is examined in Section 2.3. This perspective implies that cultural diversity is not in itself either an asset or a liability, but rather a contingent resource whose value depends on the firm's capacity to convert it into organisational learning and innovation. This contingent perspective, which subsumes both the cost-based view of transaction cost economics and the value-based view of the knowledge-based perspective, offers a more theoretically satisfying framework for interpreting the heterogeneous empirical evidence accumulated over decades of cultural distance research.

Taken together, the evolution of the cultural distance literature reveals a progressive movement from parsimonious but limited composite indices toward more theoretically grounded, multidimensional, and capability-sensitive frameworks. The original K-S index remains analytically useful as a first-order approximation, but its limitations are now well documented and broadly accepted across the field. The most productive contemporary perspectives treat cultural distance as a real and substantive feature of the international business environment, one that imposes genuine costs on firms that ignore or mismanage it, while also recognizing that, when approached strategically and with adequate organisational capabilities, cultural differences can become a source of learning, innovation, and competitive differentiation. This dual nature of cultural distance, simultaneously a barrier to be managed and a resource to be exploited, provides the analytical foundation for the discussion of entry mode strategies that follows.

1.2 International Expansion Strategies and Entry Mode Selection

The conceptual debates examined in the previous section take on concrete strategic relevance when firms move from analysing cultural and institutional environments to deciding how to operate within them. Entry mode selection is the choice of the organisational form through which a firm establishes a presence in a foreign market. It represents the principal mechanism through which the abstract construct of cultural distance translates into observable strategic and financial outcomes. It is the point at which firms must commit to a specific configuration of ownership, control, and resource exposure, and where the costs and opportunities associated with cultural differences become quantifiable and consequential.

The international business literature traditionally distinguishes between non-equity modes such as exporting through agents and the licensing of intellectual property which require limited resource commitment and preserve strategic flexibility, and equity-based modes which involve direct ownership stakes in foreign operations. The latter category subsumes three principal alternatives: joint ventures (JVs), in which the foreign investor shares ownership and control with a local partner; greenfield investments, in which the firm builds new operations from the ground up; acquisitions, in which the firm purchases an existing local entity. Each mode implies a different configuration of control, flexibility, risk exposure, and integration cost.

As Brouthers and Hennart (2007) note, the literature further refines this taxonomy by distinguishing between entry mode choices (JV versus wholly-owned subsidiary, or WOS) and establishment mode choices (greenfield versus acquisition), recognizing that these two decisions are conceptually and empirically distinct, even when frequently treated as a single construct in earlier research.

The dominant theoretical lens for analysing this decision has been Transaction Cost Economics (TCE), which frames entry mode selection as a governance problem: the optimal organisational form is the one that minimises the total costs of transacting, controlling, and coordinating a given investment (Williamson, 1985). Under this view, high asset specificity and high environmental uncertainty push firms toward internalised, wholly-owned structures, while more standardised and lower-risk operations can be efficiently managed through cooperative or market-based arrangements. The TCE framework has been complemented by

the resource-based view (RBV), which emphasises the role of firm-specific resources, particularly accumulated international experience and managerial capabilities in shaping entry mode preferences (Brouthers et al., 2008). The two perspectives are not mutually exclusive, and the most influential empirical studies in the field combine them with elements of institutional theory to produce models with significantly higher explanatory power than any single perspective taken in isolation.

In line with this theoretical architecture, Kogut and Singh (1988) established the proposition that cultural distance functions as a source of uncertainty in entry mode decisions, predicting that firms from culturally distant countries will prefer joint ventures and greenfield investments over acquisitions. The underlying logic, refined in subsequent work, is that acquisitions impose what Barkema et al. (1996) termed a "*double-layered acculturation*" challenge: the acquiring firm must reconcile not only the differences between its own organisational culture and that of the target, but also the differences between the two underlying national cultures. As cultural distance increases, this dual integration burden escalates non-linearly, making greenfield investments which allow the foreign subsidiary to be built from the outset in alignment with headquarters' organisational practices increasingly attractive. Joint ventures, in turn, offer a hybrid solution: by partnering with a local firm, the foreign investor outsources part of the cultural and institutional adaptation challenge, at the cost of accepting shared control and reduced strategic flexibility.

Harzing (2002) broadened this analytical framework by introducing the firm's overall international strategy as an explanatory variable of establishment mode choice. Building on the typology of Bartlett and Ghoshal, she argued that multinationals pursuing global strategies focused on cross-border integration and the exploitation of economies of scale, favor acquisitions as a means of gaining rapid access to established resources, distribution networks, and market positions. Conversely, firms following multidomestic strategies, which prioritise local responsiveness and product adaptation, show a stronger preference for greenfield investments, which allow the subsidiary to be built in alignment with headquarters' management approach and organisational culture from inception. Harzing's contribution highlighted that entry mode choice is not driven solely by external factors such as cultural distance and host-country uncertainty, but also by the strategic posture of the multinational itself, a consideration that significantly complicates simple universalistic predictions about the effects of cultural distance on mode selection. These theoretical positions generate a testable prediction: if cultural

distance operates as a source of uncertainty, its magnitude should be observable in the location and structure of foreign investments, and misalignment between the chosen mode and the cultural and institutional context should carry a measurable performance penalty. The empirical literature that tests this prediction, together with the meta-analytic evidence on its boundary conditions, is examined in Section 2.1.

This insight has direct implications for the strategic analysis of entry mode selection. The conventional reading of the literature, that firms should avoid culturally distant markets, or hedge against cultural distance through joint ventures or greenfield modes represents only one possible response to the challenge. An alternative and complementary reading suggests that firms with adequate organisational capabilities, particularly those with well-developed absorptive capacity and integration competencies, can deliberately leverage cultural distance through acquisitions, transforming what is conventionally treated as a source of risk into a source of strategic learning and value creation. The underlying logic is general: when an acquiring firm possesses both the strategic intent and the operational capacity to absorb the distinctive resources, brand equity, and managerial routines embedded in a culturally distant target, the acquisition can generate returns that would be impossible through culturally proximate alternatives.

Taken together, these contributions point toward a more nuanced theoretical framing of cultural distance in entry mode research. Rather than treating distance as a uniform predictor of strategic risk, the most recent literature suggests that the relationship between cultural distance and entry mode performance is contingent on the alignment between three elements: the nature of the cultural and institutional environment, the strategic intent of the entering firm, and its organisational capacity to manage the cross-cultural interface that any equity-based foreign investment necessarily creates. When these three elements are misaligned, when firms underestimate cultural distance, choose modes that amplify rather than mitigate cross-cultural complexity, or lack the integration competencies required for the chosen mode, entry mode decisions tend to destroy value. When they are aligned, entry mode becomes the strategic instrument through which culturally distant operations can be transformed into a source of differential learning and superior financial performance. The specific mechanisms through which this alignment or misalignment translates into financial costs and benefits are the subject of the following section.

1.3 Mechanisms of Cost and Value Creation in Cross-Border Operations

The strategic frameworks examined in the previous sections ultimately find their test in financial outcomes. Whether a firm chooses to enter a foreign market through acquisition, greenfield investment, or joint venture, and whether it succeeds in managing the cultural and institutional differences it encounters, the consequences materialise in the form of shareholder value created or destroyed, synergies realised or forgone, and operating performance improved or impaired. This section identifies the mechanisms through which cultural and institutional differences produce those outcomes. It specifies the causal channels that such results are intended to test. A useful conceptual anchor for this staged analysis is the distinction, drawn from Jemison (1988), between value capture, which is a one-time event arising from the transaction itself, and value creation, which is a long-term process requiring the realisation of operational synergies. Cultural distance affects these two processes through different channels and over different time horizons, and conflating them is one of the principal reasons the empirical literature has struggled to reach consensus on whether cultural differences help or harm cross-border financial performance.

The first mechanism through which distance generates cost is informational. Cross-border operations require the parent to form judgements about assets, markets, and management teams whose behaviour is governed by norms it does not share. Distance raises the cost of acquiring reliable information before the transaction and degrades the quality of the information flowing through the organisation afterwards, because the interpretive frames used to encode and decode performance signals differ on the two sides of the boundary. The consequence is not simply that information is scarcer, but that it is systematically less reliable: the same operating datum can support incompatible inferences in the two organisations. Where monitoring depends on interpersonal contact rather than on codified reporting, this degradation is compounded, since the effectiveness of personal coordination is itself a function of shared cultural reference points.

The second mechanism is behavioural and operates at the moment of valuation. If managers systematically underestimate the difficulty of combining organisations across a cultural boundary, the price paid for a foreign asset will embed synergy assumptions that the integration process cannot deliver. The cost of distance in this channel is therefore not incurred during integration but fixed at signing, in the form of a premium calibrated on an unrealistic integration scenario. This mechanism explains why the financial penalty associated with

distance can appear even in transactions that are subsequently well managed: the error was committed before management began. It also implies that the penalty is avoidable in principle, since it originates in a forecasting failure rather than in an intrinsic property of the distance itself. A further distinction is central to the argument. Cultural differences do not affect performance directly, but through the integration process, which Birkinshaw et al. (2000) decompose into two distinct components: Sociocultural integration, which concerns the human dimension of combining two organisations: the development of shared identity, mutual trust, and positive attitudes toward the new entity;

Task integration, which, by contrast, concerns the transfer of capabilities, the sharing of resources, and the organisational learning that together generate operational synergies. The crucial implication of this decomposition is that cultural differences are likely to be more closely and directly associated with sociocultural integration outcomes than with realised synergies or long-term shareholder value, because the causal chain linking culture to the former is far shorter than that linking it to the latter. This helps explain why studies that measure proximate, process-level outcomes tend to find stronger cultural effects than those that measure distal, financial outcomes, where numerous intervening variables dilute the signal.

The decomposition identifies the third mechanism, which is organisational. Cultural differences act directly on the sociocultural component of integration, where shared identity and trust are built, and only indirectly on task integration, where synergies are realised. Because the causal chain from cultural difference to sociocultural outcome is short while the chain to financial outcome is long and mediated by many intervening variables, the same underlying difference will appear strong when proximate process outcomes are observed and weak when distal financial outcomes are observed. This structural feature of the causal architecture, rather than any inconsistency in the phenomenon itself, accounts for much of the apparent contradiction in the accumulated evidence, and it implies that the degree of operational integration a transaction requires determines how much of the cultural difference is actually converted into cost.

Against these cost channels, the literature identifies mechanisms through which distance generates value. The first is a novelty differential. The practices, routines, and organisational solutions available in a culturally distant environment are, by construction, less likely to be already present in the acquiring firm's repertoire; the transfer of such practices therefore carries

a higher expected informational yield than transfer between proximate units, where the marginal knowledge content of the exchange is low. Distance in this channel is not a friction to be minimised but the very condition of the gain: the same dissimilarity that raises integration cost is what makes the transferred knowledge worth acquiring.

The second value mechanism is recombinant and operates at the level of the firm's knowledge base rather than the individual transaction. Organisations that expand exclusively through internally replicated structures tend toward routine rigidity, since each expansion reproduces the existing knowledge base rather than challenging it. The absorption of a foreign organisation introduces unfamiliar routines that disturb this tendency, restoring variety to the firm's repertoire and improving its capacity to respond to subsequent environmental change. The returns from this mechanism accrue not within the focal transaction but across the firm's later expansion trajectory, which is why analyses confined to the performance of a single deal will systematically understate them.

The third value mechanism is attentional, and it operates through managerial behaviour rather than through the properties of the assets combined. Where cultural difference is visible and expected to be consequential, it raises the salience of the integration problem and prompts managers to adopt more deliberate and disciplined integration approaches: to define control structures explicitly, to sequence integration steps, and to monitor the process rather than assume its success. Where difference is small or believed to be small, the same problem attracts no comparable attention. This mechanism predicts that acknowledged distance may outperform unacknowledged proximity, and it inverts the intuitive expectation that the financial risk of a cross-border transaction rises monotonically with measured distance.

This interpretation connects directly to the well-known "psychic distance paradox" (O'Grady and Lane, 1996), according to which operations in apparently similar countries often prove unexpectedly difficult to manage precisely because their superficial familiarity lulls managers into underestimating the cultural and institutional differences that nonetheless persist. The behavioural and attentional mechanisms described above are the two faces of a single phenomenon: the financial outcome of a cross-border deal depends less on the objective magnitude of cultural difference than on whether managers *recognise and actively respond to it*. High friction that is acknowledged can be more profitable than low distance that is ignored.

Taken together, these mechanisms yield a coherent picture of how cultural difference is converted into financial consequence. The informational channel raises the cost of forming reliable judgements and degrades the monitoring on which correction depends. The behavioural channel fixes part of the cost at the moment of valuation, before management begins. The organisational channel determines how much of the difference is actually transmitted to financial outcomes, through the level of operational coupling the transaction requires. Against these, the novelty and recombinant channels generate returns that rise, rather than fall, with dissimilarity, and the attentional channel makes the visibility of difference itself a determinant of how well it is managed. Cultural and organisational differences become liabilities when integration is mismanaged or attempted at inappropriately high levels of operational coupling, but they can become genuine assets, sources of learning, profitability and competitive differentiation; when the acquirer possesses the awareness, the leadership, and the absorptive capacity to manage the cultural interface deliberately.

These mechanisms do not operate independently of the firm that hosts them. Whether the informational and behavioural channels dominate the novelty and recombination channels depends on a single organisational variable, the firm's absorptive capacity: its ability to recognise the value of external knowledge, assimilate it, and apply it commercially. Absorptive capacity determines whether the unfamiliar routines encountered in a distant environment are perceived as noise to be suppressed or as knowledge to be internalised, and it therefore governs the sign, and not merely the magnitude, of the relationship between distance and financial performance. Cultural distance, on this account, is neither an asset nor a liability in itself; it is a contingent resource whose realised value is determined by the capability the firm brings to it, and whose costs are conditional on managerial failures that are, in principle, avoidable. The analysis of these mechanisms confirms the thesis developed throughout this chapter: cultural distance is a critical variable that must be taken seriously at every phase of a cross-border investment, precisely because its mismanagement is a recurrent and well-documented cause of financial value destruction. At the same time, the coexistence of cost-generating and value-generating channels implies that distance is not destiny.

Firms that approach cultural differences with strategic intent and adequate organisational capability are not merely able to neutralise the associated risks; they can convert those differences into a durable source of value. It is a dual proposition: distance as a serious risk to be respected and distance as a latent resource to be leveraged.

Chapter 2: Cultural Distance Across the Investment Lifecycle

Whereas the previous chapter established the theoretical foundations of cultural distance and traced its dual nature as both a barrier and a potential source of value, this chapter follows that tension through the chronological lifecycle of a cross-border investment. It examines how cultural distance operates at three successive stages: the investment decision, where it shapes the choice of target market and entry structure; the post-investment phase, where it governs the monitoring and integration mechanisms that determine whether value is realised; and the long term, where its financial consequences are revealed as contingent on experience, capability, and managerial choice.

The organising argument is that cultural distance is not a static parameter assessed once at the moment of investment, but a dynamic condition whose effect is continuously mediated by the firm's decisions at each stage of the lifecycle. At every stage, the evidence tests the mechanisms specified in Chapter 1 and reveals the same underlying structure: the negative effects of cultural distance are conditional on managerial failures that are, in principle, avoidable, while its positive effects are conditional on organisational capabilities that firms can deliberately build. By following the investment from decision to long-term outcome, this chapter assembles the empirical results through which those mechanisms have been assessed, providing the analytical lens through which the three case studies of Chapter 3 are examined.

2.1 Cultural Distance as a Driver of Investment Decisions

Cultural distance exerts a measurable influence on where firms choose to invest and how they structure their entry. The most comprehensive evidence comes from Beugelsdijk et al. (2018), whose meta-analysis of 156 studies covering over 200,000 firm-level observations quantifies the effect of cultural distance across all key stages of internationalisation. Two findings stand out. First, firms are significantly less likely to invest in culturally distant countries ($r = –.023$): the proximity bias is real, statistically robust, and consistent with both transaction cost theory and the behavioral prediction that managers underestimate the true costs of culturally distant operations. Second, when firms do invest in culturally distant locations, they strongly prefer greenfield investments over acquisitions ($r = –.050$). This establishment mode effect is more than twice the magnitude of the location choice effect and reflects a deliberate managerial response: acquisitions require deep cross-cultural integration, while greenfield investments

allow the subsidiary to be built in organisational alignment with the parent from inception, limiting the integration surface area exposed to cultural friction.

The aggregate picture conceals a more consequential finding. Beugelsdijk et al. (2018) document that cultural distance impairs performance at the subsidiary level ($r = –.032$) but leaves MNC-level performance statistically unaffected. The authors attribute this divergence partly to behavioral underestimation of internationalisation costs and partly to corporate-level diversification, which absorbs subsidiary-level losses without surfacing them in consolidated financials. Firms are therefore routinely incurring value destruction in their culturally distant subsidiaries that is concealed by portfolio effects rather than solved by managerial capability. This suggests that the proximity bias is not an irrational heuristic but a rational response to a genuine capability gap and that firms that close that gap are positioned to recover the subsidiary-level performance currently being sacrificed.

Against this picture of systematic avoidance and suppressed subsidiary performance, the same meta-analysis identifies a starkly different pattern at the post-investment stage. The effect of cultural distance on the benefit of management practice transfers is strongly positive ($r = .148$), nearly three times the magnitude of the negative subsidiary performance effect and the largest coefficient in the entire study. Firms operating in culturally distant subsidiaries derive significantly greater value from the transfer of management practices, governance mechanisms, operational routines, human resource systems than those in culturally proximate settings. The mechanism is direct: cultural distance amplifies the novelty differential between the transferred practice and the host organisation's existing repertoire, enlarging the performance improvement each transfer generates. The proximity bias therefore carries a concrete opportunity cost: by concentrating capital near home, firms systematically forgo the internationalisation contexts where practice transfer returns are highest.

The foundational empirical demonstration of the entry mode prediction set out in Section 1.2 remains that of Kogut and Singh (1988). Analysing 228 entries by foreign firms into the United States, they found that firms from culturally distant countries systematically preferred joint ventures and greenfield investments over acquisitions, establishing at the level of a single national market the pattern that the meta-analytic evidence above confirms across the field.

The most influential empirical test of an integrated model of entry mode selection remains that of Brouthers (2002), who developed an *extended TCE framework* that incorporates institutional context variables such as legal restrictions, host-country investment risk and cultural context variables, alongside traditional transaction cost factors. Examining 105 European Union firms entering Central and Eastern European markets, Brouthers found not only that the extended model predicted entry mode choices significantly better than the basic TCE model, but also, and more importantly, that firms whose entry mode choices aligned with the predictions of the extended framework achieved significantly better performance on both financial and non-financial measures than firms whose choices did not fit. This finding carries far-reaching implications: it suggests that entry mode is not merely a tactical decision, but a strategic commitment with measurable performance consequences, and that ignoring institutional and cultural context in the decision-making process systematically leads to value destruction.

Slangen and van Tulder (2009) further refined the conceptualization of external uncertainty in entry mode research, arguing that overall governance quality encompasses the rule of law, regulatory effectiveness, and control of corruption. This provides a more accurate proxy for the external uncertainty faced by wholly-owned subsidiaries than cultural distance alone. Their analysis of 231 entries by Dutch multinationals into 48 countries found that cultural distance had no significant effect on the choice between joint ventures and wholly-owned subsidiaries once governance quality was properly accounted for, pointing to potential conceptual overlap and possible multicollinearity in how external uncertainty had traditionally been operationalised in entry mode studies. Their work invites a more disciplined separation between the cultural component of distance, which primarily affects the firm's ability to manage internal organisational interactions, and the institutional component, which affects the firm's exposure to formal external risk. Despite the cumulative sophistication of these models, the empirical evidence on entry mode performance remains markedly heterogeneous. Meta-analyses by Tihanyi et al. (2005), Reus and Rottig (2009), and Beugelsdijk et al. (2018) all confirm that the performance consequences of culturally distant entry are highly contingent on a range of moderating factors, including the firm's prior international experience, the institutional similarity between home and host country, the integration approach adopted, and, most importantly for the argument developed in this thesis, the firm's absorptive capacity.
This heterogeneity is not a sign of weakness in the literature: it reflects the genuine complexity of cross-border investment decisions, in which the same nominal cultural distance can produce

vastly different outcomes depending on how the firm chooses to engage with the cultural environment of the host country. Beyond entry structure, the same contingency appears in the determinants of cross-border activity itself, where country-level financial factors operate largely independently of the integration challenges that follow.

At the first stage, that of the investment decision itself, the financial logic of cross-border activity is shaped by a set of country-level factors that are largely independent of the cultural integration challenges that follow. In the most comprehensive empirical analysis of the determinants of cross-border activity to date, Erel, Liao and Weisbach (2012) examined a sample of 56,978 cross-border mergers occurring between 1990 and 2007 and found that geography, the quality of accounting disclosure, and bilateral trade all significantly increase the likelihood of mergers between two countries. The geographic effect is robust and economically meaningful: holding other factors constant, a shorter distance between two countries materially increases the probability of mergers between firms located in them, a pattern the authors attribute partly to lower coordination and monitoring costs and partly to better information flows between geographically proximate firms. Higher economic development and superior accounting quality, in turn, are associated with the likelihood of being an acquirer rather than a target, while larger differences in corporate income tax rates attract foreign investment. Notably, once these factors are controlled for, Erel et al. find no evidence that sharing a common language or religion affects merger propensity. This result cautions against treating cultural proximity as a monolithic and safe driver of cross-border activity.

Beyond these structural factors, Erel et al. (2012) documented that valuation plays a central role in motivating cross-border deals: firms in countries whose stock markets have appreciated, whose currencies have recently strengthened, and that exhibit relatively high market-to-book ratios tend to act as acquirers, while firms in weaker-performing economies tend to become targets. The magnitudes are concrete: the exchange rate of acquiring companies appreciates relative to that of targets by roughly 1.1% in the year prior to the acquisition, rising to over 3.4% in the three-year window before the deal. Critically, the authors evaluate two competing explanations for this pattern and find support for a wealth-based rather than a mispricing-based interpretation: firms from wealthier countries acquire foreign targets because their lower cost of capital makes such targets relatively inexpensive, rather than because of temporary stock-market overvaluation that would later revert. This distinction matters because

it implies that the valuation advantage driving many cross-border deals is durable and economically grounded, rather than a transient arbitrage opportunity.

The contribution of Erel et al. (2012) is important for the argument of this thesis because it locates cultural and geographic distance within a broader system of financial frictions. As the authors observe, national borders add to the calculus of domestic mergers an additional set of frictions (cultural, geographic, regulatory, and monetary), that can either impede or facilitate a deal. Cultural and geographic differences raise the cost of combining two firms, but governance-related differences can simultaneously *motivate* a merger when the combined entity benefits from the stronger investor protection of the acquirer's home jurisdiction. This dual character, distance as both an obstacle and, under certain conditions, a driver of value, anticipates the more granular evidence on deal performance that emerges at the subsequent stages of the transaction.

The second stage, that of deal announcement, brings the financial impact of cultural distance into sharp focus through the lens of capital markets. The foundational study here is that of Datta and Puia (1995), who examined 112 large cross-border acquisitions undertaken by United States firms between 1978 and 1990, spanning targets in eighteen different countries. Their central finding was sobering: on average, cross-border acquisitions did not create value for the shareholders of acquiring firms. More importantly for the present discussion, they found that cultural distance had a clear negative effect on shareholder wealth, with acquisitions characterised by high cultural distance accompanied by significantly lower abnormal returns for the acquiring firm's shareholders. The effect was not confined to a narrow event window: the divergence in cumulative excess returns between the high-distance and low-distance subgroups widened across progressively longer measurement windows, indicating that the market's negative assessment of culturally distant deals persisted and even intensified as more information became available. The authors interpreted this result through two complementary mechanisms: high cultural distance leads to an inadequate understanding of the foreign market, which can cause acquirers to overpay for targets, and it raises the anticipated administrative and consolidation costs of post-acquisition integration, which efficient capital markets incorporate into the share price upon announcement.

Interestingly, Datta and Puia (1995) found the effect of acquisition relatedness on value creation to be far less clear-cut than that of cultural fit, with much of the apparent difference

between related and unrelated deals attributable to pre-announcement price movements rather than to the deals themselves. This contrast is itself analytically significant: it suggests that, at least in the perception of investors, the cultural compatibility of merging firms can be a more salient determinant of expected value than the more conventional strategic criterion of business relatedness.

A particularly instructive observation from Datta and Puia (1995) is that managers involved in cross-border acquisitions *systematically underestimate* the difficulties of merging two cultures, a tendency they link to the long-documented finding that managerial underestimation of cultural integration challenges is a major contributor to M&A failure. This insight is central to the thesis advanced in this work: cultural distance destroys value not because it is inherently unmanageable, but because it is frequently ignored or discounted at the decision stage. The financial penalty observed at announcement is, in this reading, the market's rational pricing of an integration risk that acquiring managers have failed to internalise. The broader difficulty of explaining acquisition performance was underscored by King et al. (2004), whose meta-analysis of 93 studies found that none of the most commonly examined antecedents: the acquirer's degree of diversification, the degree of relatedness, the method of payment, or prior acquisition experience, reliably predicted post-acquisition performance, leading them to conclude that significant unidentified moderators must be at work. It is precisely the search for such moderators that motivates the more disaggregated analyses of cultural distance discussed below.

The relationship between cultural distance and investment value becomes structurally different when the investor is itself from an emerging market. Aybar and Ficici (2009) examined 433 cross-border acquisitions by emerging-market multinationals (EMMs) and found that cultural proximity, contrary to conventional theory, was associated with negative abnormal returns across multiple event windows, while acquisitions in culturally distant developed markets produced higher returns, with the cultural distance coefficient positive and statistically significant in multivariate specifications. The finding inverts the standard transaction cost prediction. Unlike developed-market multinationals, which minimise integration costs by acquiring near home, EMMs target culturally distant developed-market firms precisely because that distance is the value source: it delivers access to advanced governance standards, proprietary technology, established brands, and organisational capabilities unavailable in the

acquirer's home institutional environment. For these firms, cultural distance is not a friction to be managed but a premium paid for resources the acquirer cannot generate domestically.

Deng (2012) contextualizes this finding within the broader phenomenon of accelerated internationalisation by emerging-market multinational corporations (EMNCs), arguing that the most strategically sophisticated reject the incremental, proximity-first model and instead target culturally and institutionally distant advanced economies from the outset. Two structural motivations drive this pattern. The first is institutional escapism: firms operating in home environments characterised by institutional voids, weak property rights, unreliable legal systems, state intervention in capital allocation, go abroad to secure the governance protections unavailable domestically, with culturally distant developed markets offering exactly the institutional quality gap that motivates the transaction. The second is strategic-asset-seeking: the deliberate acquisition of brands, technologies, and organisational capabilities that upgrade the acquirer's competitive position globally. Deng further notes that EMNCs increasingly allow acquired targets to retain organisational independence and their management teams post-acquisition, thereby preserving the very resources that justified the cultural distance premium in the first place. This reframes the investment decision from a risk tolerance question to a strategic resource question: which culturally distant targets offer the complementarity and institutional quality that maximises long-term capability accumulation?

The organisational capability that separates firms able to profit from cultural distance from those penalized by it has a concrete, observable proxy. Chari, Devaraj and David (2007) investigated the conditions under which international diversification enhances rather than destroys firm value and found that IT investment, as a proxy for the information processing and coordination capacity needed to leverage assets across culturally and institutionally distinct markets, moderates the internationalisation-performance relationship significantly and positively. Firms with high IT investment realised a performance gain of $\beta = 0.23$ for each unit increase in geographic scope; firms with low IT investment incurred a performance penalty of $\beta = -0.28$ from the same expansion.

The mechanism is the one identified by Bartlett and Ghoshal (2000): recognizing and exploiting opportunities across diverse country contexts requires enhanced information processing and coordination that general organisational resources do not provide automatically. The investment decision and the capability investment decision are therefore inseparable. Firms

that invest in the information systems and coordination mechanisms required to operate across cultural boundaries convert distance from a performance drag into a performance multiplier; those that do not remain rationally proximate.

Taken together, the evidence reviewed in this section reveals that the proximity heuristic rests on a decision rule that conflates the management of cultural distance with its avoidance. Cultural distance reduces FDI likelihood and biases establishment mode toward greenfield, but the same literature demonstrates that the greatest practice transfer returns accrue precisely in culturally distant settings; the EMM evidence shows that the sign of the relationship can reverse entirely when the investor profile changes; and Chari et al. identify the organisational capability that determines on which side of that divide any given firm lands. What translates capability into financial performance, however, is not the investment decision alone but the post-investment monitoring and integration structure that determines whether the value embedded in cultural distance is actually extracted, the subject of the following section.

2.2 Post-Investment Monitoring

The investment decision determines the strategic configuration; post-investment monitoring determines whether that configuration realises its intended value. Cultural distance introduces two overlapping sources of monitoring difficulty. First, it distorts the quality and reliability of information flowing between headquarters and distant subsidiaries, degrading the visibility that governance requires. Second, it complicates the organisational mechanisms through which value is actually created after a cross-border deal closes: capability transfer, knowledge sharing, and operational coordination, by imposing friction at every point where the two cultural systems come into contact. Understanding these mechanisms is analytically prior to understanding long-term performance outcomes: firms that cannot monitor what is happening in their culturally distant subsidiaries cannot correct, adapt, or learn from the integration experience.

The most granular evidence on how distance impairs information flows within the MNC is provided by Ambos and Ambos (2009), who examined 324 knowledge transfer relationships across European multinationals and distinguished between two transfer mechanisms: personal coordination mechanisms (PCM) (face-to-face meetings, personal communication, socialization) and technology-based coordination mechanisms (TCM) (formal information systems, digital communication tools).

Their central finding is that PCM effectiveness is significantly moderated by all three dimensions of distance: geographic, cultural, and linguistic, while TCM functions largely context-free and distance-insensitive. As cultural distance increases, the return on personal coordination investment declines steeply; TCM shows only a slightly negative slope. The implication for post-investment governance is structurally important: the coordination mechanism that headquarters managers deploy most naturally (personal involvement, expatriate oversight, direct management contact) is precisely the one that degrades fastest with cultural distance. Firms that respond to monitoring difficulty in culturally distant subsidiaries by increasing personal coordination are therefore compounding rather than solving the problem. Technology-based systems provide more robust information flows across cultural boundaries, but carry their own limitation: they capture explicit, codified information efficiently while systematically failing to surface the tacit, context-dependent knowledge where cultural misalignment is most consequential.

Björkman, Stahl and Vaara (2007) open the integration process as an analytical object and develop an integrative model of how cultural differences affect capability transfer in cross-border acquisitions, the mechanism through which M&As create, or fail to create, the value promised in deal announcements.

They propose three mediating channels, each with distinct implications for post-acquisition governance. The first is capability complementarity: cultural differences bear a complex relationship with the complementarity of the combining firms' capabilities, such that moderate cultural distance is associated with the highest complementarity, each firm possessing distinctive resources the other lacks, while extreme distance produces incompatibilities that undermine implementation. This finding identifies the monitoring challenge inherent in the acquisition rationale itself: the moderate distance that justifies the deal is also the condition under which capability transfer is most valuable, and therefore the one that demands the most deliberate governance attention. The second channel is potential absorptive capacity: cultural differences reduce the acquiring unit's motivation to search for knowledge in the other organisation and its ability to evaluate and assimilate what it finds. The third is social integration: the development of shared identity, trust, and the absence of divisive conflict, which is negatively associated with cultural distance and yet essential for the cooperative behavior that enables capability exchange. Critically, Björkman et al. propose that both the absorptive capacity and social integration effects are moderated by the use of deliberate social integration mechanisms and the degree of operational integration chosen by the acquirer, establishing that governance choices made in the post-acquisition phase directly determine whether cultural distance becomes a permanent capability barrier or a manageable friction.

Longitudinal process-level evidence for this mediation mechanism is provided by Hajro (2015), who followed a cross-border merger between an Austrian and a German energy provider at four points in time, before the takeover, and at one, three, and six years post-acquisition. Drawing on 71 interviews with acquired and acquiring employees, the study demonstrates that the relationship between cultural differences and M&A outcomes is fully mediated by socio-cultural integration processes, specifically the formation of interpersonal relationships, the development of trust, and the construction of shared identity across the combining organisations. Where these processes succeed, cooperation levels are high, resistance is low, and turnover rates remain contained; where they fail, the consequences compound over time, generating a self-reinforcing cycle of distrust and disengagement that

erodes the operational performance of the combined entity, supporting the thesis that cultural distance can act as either a positive or a negative multiplier.

Hajro further finds that organisational cultural differences are more central to M&A outcomes than national cultural differences, because the daily working experience that shapes cooperation, conflict, and turnover is mediated more immediately by firm-level norms, procedures, and management practices than by national cultural values. The practical implication is that post-investment monitoring should be designed to track integration process quality, the progress of trust formation and shared identity construction, rather than treating cultural distance as a static risk parameter assessed once at the time of the deal.

The governance challenge documented by Ambos et al. and Björkman et al. operates at the cultural and organisational level; Xu and Shenkar (2002) demonstrate that it is compounded by a structurally distinct second layer of institutional distance. Distinguishing between regulatory, normative, and cognitive dimensions of institutional environments, they argue that each generates different and partially non-overlapping monitoring demands.

- Regulatory distance: differences in laws, regulations, and enforcement mechanisms, creates compliance costs and legal uncertainty that are in principle measurable but that escalate in complexity as the two countries' systems diverge.
- Normative distance: differences in professional standards, industry norms, and accepted corporate behavior, generates subtler misalignments: practices that appear legitimate from the parent's perspective may violate local expectations of appropriate conduct, and vice versa, without either party recognizing the divergence as a governance problem until it has already generated reputational or relational damage.
- Cognitive distance: differences in the taken-for-granted assumptions underlying organisational decision-making, is the least visible and most insidious dimension, because it shapes the frame within which both sides interpret the information flowing through their monitoring systems. Two organisations separated by high cognitive institutional distance may observe the same performance data and draw structurally incompatible inferences about its meaning, making coordination not merely costly but epistemically unreliable. Xu and Shenkar's framework clarifies why post-investment governance in culturally and institutionally distant acquisitions is so persistently difficult: it requires simultaneously managing three separate sources of misalignment, each of which demands a different monitoring architecture.

The cumulative effect of these monitoring and integration difficulties on realised financial outcomes has been assessed most systematically in meta-analytic form.

The third stage, the long-term post-integration performance, is where the most theoretically significant and counter-intuitive evidence emerges, and where the simple proposition that cultural distance uniformly destroys value breaks down. The pivotal contribution is the meta-analysis by Stahl and Voigt (2008), who synthesized 46 studies covering a combined sample of 10,710 mergers and acquisitions. Their central argument is that the culture-performance relationship in M&A is far more complex than the conventional cultural distance hypothesis suggests, and that the contradictory findings accumulated over decades of research stem from a failure to distinguish between different levels of culture (national versus organisational), different performance measures (accounting-based versus stock-market-based), and different units of analysis (acquiring versus target firms). In their words, M&A researchers have too often been comparing "apples and oranges."

The results of their disaggregated analysis are striking. Cultural differences are negatively associated with *sociocultural integration*, the formation of shared identity, trust, and positive attitudes within the combined organisation, confirming the intuitive expectation that cultural distance complicates the human dimension of integration. Notably, differences in *organisational culture* proved more damaging to sociocultural integration than differences in *national* culture. Yet on *synergy realisation* measured through accounting-based performance, cultural differences at the national level were found to be *positively* associated with outcomes, particularly in deals requiring lower levels of operational integration. The degree of relatedness between the merging firms emerged as a key moderator: when relatedness was high and thus when extensive operational integration was required, cultural differences were more negatively associated with synergy realisation, whereas at low to moderate levels of relatedness the association turned positive. The effect on shareholder value, in turn, proved sensitive to the timing of measurement: acquisition announcement returns were positively associated with cultural distance, whereas returns measured 120 days or more after announcement turned negative. Stahl and Voigt's overarching conclusion is that cultural differences can be "both an asset and a liability" in M&A, a double-edged sword whose net effect depends on the degree of relatedness between the firms and the specific dimensions of culture that come into contact,

a finding that decisively undermines any unidirectional reading of the cultural distance hypothesis.

The most recent evidence reinforces and extends this contingent perspective, while shifting the analytical vocabulary from cultural *distance* to cultural *friction*, a concept defined by Luo and Shenkar (2011) as the extent to which entities from different countries actively resist one another in real interaction, and which captures the situated, bilateral dynamics of cultural contact more faithfully than the static notion of distance. Campagnolo and Vincenti (2022) examined the post-acquisition performance of Italian target firms acquired by foreign investors, using a difference-in-differences design combined with coarsened exact matching to construct a control group of comparable domestic firms, thereby isolating the genuine effect of foreign ownership from the confounding tendency of foreign investors to "cherry-pick" the best-performing targets. Contrary to their own institutional-theory-based hypotheses, they found that foreign ownership did not deteriorate the growth of target firms and actually *enhanced their profitability*, as measured by the EBITDA margin, with a positive and statistically significant aggregate effect. Most strikingly, this profitability gain held even when cultural friction between the two national cultures was high and even stronger when the target firm's CEO was replaced or flanked by a new appointee after the deal.

The mechanism that Campagnolo and Vincenti (2022) propose to explain this pattern is both elegant and directly relevant to the argument of this thesis. Drawing on the distinction between *strategic control* and *operational control*, they argue that acquirers facing high cultural friction tend to adopt a more disciplined, operationally focused integration approach, capturing efficiency gains through restructuring and the elimination of overlapping activities rather than pursuing the deeper, growth-oriented strategic integration that would require imposing strong pressure on the target's norms and values. Operational control yields profitability improvements that become visible within a relatively short horizon, whereas strategic control aims at longer-term growth that depends on extensive resource sharing and learning and that materializes, if at all, only over a longer period. The appointment of a new CEO is interpreted as the institutional signal of precisely this kind of deliberate, integration-conscious management. The deeper implication is that high cultural friction does not passively damage performance; rather, by making the integration challenge salient, it prompts acquirers to *manage more carefully*, and it is this heightened managerial attention that converts potential friction into realised profitability.

The evidence reviewed in this section converges on a single analytical point: the costs of cultural and institutional distance are not paid at the moment of investment but accumulate progressively through the failure of post-investment governance mechanisms. Monitoring systems calibrated for culturally proximate subsidiaries degrade systematically as distance increases; capability transfer chains are blocked by low absorptive capacity and social fragmentation; trust and shared identity, the social infrastructure on which cross-cultural value creation depends do not form automatically but require deliberate governance investment.

Stahl and Voigt's (2008) meta-analytic finding that cultural differences impair sociocultural integration but can simultaneously enhance synergy realisation under certain conditions is entirely consistent with this picture: the conditions under which value is realised are precisely those in which post-investment governance succeeds in converting cultural difference into organisational learning rather than allowing it to produce operational friction and value destruction. The conditions under which those capabilities accumulate raise the central question of the following section: whether the monitoring and integration capabilities required to manage culturally distant operations can themselves be accumulated through experience, and whether the long-term financial performance of internationally active firms reflects a learning trajectory that progressively shifts the balance from cultural distance as liability toward cultural distance as asset.

2.3 Cultural Distance and Long-Term Financial Performance

Whereas Section 1.3 specified the mechanisms through which cultural differences generate costs and benefits, and the preceding sections examined how those mechanisms operate at the decision and post-investment stages, this section examines financial performance as a temporal outcome, asking whether the costs of cultural distance persist or decay as firms accumulate experience.

If the liability of foreignness is permanent, the proximity bias documented in Section 2.1 is justified; if it declines with experience and learning, culturally distant operations become more attractive as the firm builds the relevant capabilities. The evidence supports the second view. Galavotti, Cerrato and Cantoni (2020), examining the survival of 396 Italian firms acquired by foreign multinationals between 2005 and 2015, found that prior host country experience was the strongest predictor of target survival ($\beta = 0.92$, $p < 0.01$), with business relatedness exerting a weaker positive effect, while cultural distance itself had no significant effect on survival once experience and relatedness were taken into account. The result is informative in two respects. It indicates that the costs of foreignness are not static but decline as the acquirer accumulates knowledge of the host environment, and it suggests that what appears in cross-sectional studies as a cultural distance penalty is in part a penalty of inexperience that experienced acquirers have already absorbed.

Vermeulen and Barkema (2001) developed the learning argument further by reversing the direction of causality: acquisitions are not only a context in which learning occurs but a means through which firms learn. Analysing the complete domestic and international expansion histories of 25 large Dutch multinationals over a 27-year period, comprising 1,349 expansions, they found that firms expanding exclusively through greenfield investments become progressively narrow and inert, as the repeated exploitation of the existing knowledge base reduces the firm's ability to respond to changed conditions. Acquisitions, by contrast, introduce unfamiliar routines and knowledge structures into the organisation, reducing inertia and improving the viability of the firm's later ventures, including subsequent greenfield investments. The acquisition premium and the integration difficulties documented throughout this chapter are therefore only one side of the assessment; the other is a revitalisation effect whose returns accrue not within the focal deal but across the firm's subsequent expansion trajectory. On this account, culturally distant acquisitions provide the strongest stimulus to

organisational learning available to the internationalising firm, since the unfamiliarity that raises integration costs is also what makes the acquired knowledge valuable.

The value of this stimulus depends, however, on the acquirer's capacity to absorb it. Moura, Falaster and Silva-Rêgo (2022), analysing 101 cross-border acquisitions by Brazilian multinationals over a twenty-year period, found that cultural distance was positively associated with post-acquisition performance ($\beta = 0.27$, $p < 0.05$), and that this effect was moderated by the acquirer's absorptive capacity: the interaction between cultural distance and absorptive capacity was significant across specifications, with the performance benefit of distance increasing in the firm's capacity to identify, assimilate, and exploit external knowledge. The authors state the managerial implication directly: a firm with well-developed absorptive capacity choosing between a culturally close country and a culturally distant one may rationally prefer the latter in order to benefit from the cultural distance. The finding gives empirical precision to the contingency argument developed throughout this thesis. Cultural distance is neither an asset nor a liability in itself, but a *contingent resource* whose realised value is determined by the absorptive capability the firm brings to it, a conclusion consistent with the meta-analytic evidence on practice transfer reviewed in Section 2.1.

A second refinement concerns the cultural distance construct itself. The composite indices examined in Section 1.1 assume that all cultural dimensions matter equally and that distance is symmetric, that it does not matter which of the two firms sits on which side of the cultural gap. Huang, Zhu and Brass (2016) show that both assumptions fail. Analysing 2,115 cross-border acquisitions in the global information technology industry, they isolate the Power Distance Value (PDV) dimension and find that PDV differences undermine acquirers' long-term post-acquisition performance, measured by Tobin's Q over a multi-year horizon, but do so asymmetrically: a 10-point PDV difference reduces Tobin's Q by approximately 4% when the acquirer is lower than the target in PDV, and by approximately 8% when the acquirer is higher. The mechanism is relational. Integration places acquirer and target individuals in a hierarchical role relationship; when a high-PDV acquirer expects deference from a low-PDV target workforce that values equality, the resulting conflict is more emotionally charged, more readily generalised into negative national or cultural stereotypes, and more damaging to the cooperation on which integration depends than the reverse configuration. The asymmetry extends to learning: prior acquisition experience in the target country reduces the damage when the acquirer is the lower-PDV party but increases it when the acquirer is the higher-PDV party,

because conflict-laden experience reinforces stereotypes rather than correcting them. The Illusion of Symmetry identified by Shenkar (2001), discussed in Section 1.1 as a conceptual critique, here acquires a measurable financial magnitude, and the learning curve on which the long-run case for cultural distance rests is shown to be itself culturally contingent.

A final contribution questions the assumption, implicit in much of the distance literature, that foreignness is a fixed condition whose costs and benefits are determined by the country pair. Edman (2016) reconceptualises foreignness as a matter of organisational identity rather than nationality: the advantages and liabilities of being foreign derive not from the firm's country of origin but from the identity attributes, such as expatriate cognitions, foreign language, organisational culture, network position, and public image, that the firm chooses to retain, adapt, or discard in the host environment.

Each attribute generates opposing effects. A distinctly foreign identity raises operating costs through misunderstanding and exclusion from local networks, but it can also strengthen innovation through reflexivity, attract human capital seeking differentiated incentive systems, and command consumer preference precisely because it is recognisably foreign. Because identity is partly within managerial control, the balance between these effects is a strategic variable rather than an exogenous parameter: firms can accentuate foreign identity attributes where being different is an advantage and localise where it is a liability. This reframing completes the progression traced across the chapter, from cultural distance as a country-level constraint to be avoided, to a firm-level interface to be monitored, and finally to a configurable strategic position whose financial consequences depend on managerial choices.

The evidence assembled in the sections of this chapter supports a coherent answer to the question posed at its outset. Cultural distance biases investment decisions toward proximity, yet the highest practice transfer returns are found in culturally distant markets; it impairs the monitoring and integration mechanisms on which post-investment value creation depends, yet deliberate governance choices determine whether that impairment is suffered or managed; and its long-term financial consequences are not fixed but contingent on experience, absorptive capacity, the directional configuration of specific cultural dimensions, and the identity strategy the firm adopts. The recurring pattern is that the negative effects of cultural distance documented in the literature are conditional on managerial failures that the same literature identifies as avoidable, while the positive effects are conditional on capabilities that firms can

build. Whether firms do so, and what distinguishes those that convert cultural distance into financial value from those that do not, is an empirical question that aggregate studies can frame but not resolve.

The following chapter addresses it through the detailed examination of three cross-border operations whose outcomes span the three empirically distinct effects the literature predicts: a deal that did not close, a deal that closed and destroyed value, and a deal that closed and created it.

Chapter 3: Empirical Analysis: Three Case Studies

3.1 Methodology of the Analysis

3.1.1 Research Design

The empirical analysis of this chapter adopts a multiple-case study design based on the in-depth vertical examination of three cross-border transactions. The choice of method follows from the nature of the research question. Chapters 1 and 2 established that the financial consequences of cultural distance are contingent on how firms manage it: on the monitoring structures they build, the integration choices they make, and the capabilities they bring to the transaction. A contingency claim of this kind cannot be adequately tested by cross-sectional statistical analysis alone, because the explanatory variable, the quality of distance management, is a process that unfolds over time within each transaction and is only partially captured by observable proxies. The case method is the established instrument for examining such process-dependent phenomena in their real context, particularly where the boundaries between the phenomenon and its context are not clearly separable (Yin, 2018), and it supports the confrontation of theoretical propositions with rich longitudinal evidence in a way that aggregate data cannot (Eisenhardt, 1989).

The design follows a replication logic rather than a sampling logic. The three cases were not selected to represent the population of cross-border transactions statistically; they were selected because they instantiate the three outcome configurations that the theoretical framework of Chapter 2 identifies as possible, thereby permitting what Yin (2018) terms analytic generalisation: the comparison of each case's process evidence against the same set of theoretical propositions. The propositions under examination are those developed in Chapters 1 and 2: that composite cultural distance metrics describe differences between national populations rather than the differences that become consequential between particular organisations; that friction arises at specific organisational and institutional interfaces; that the negative financial effects of distance are conditional on identifiable failures of monitoring and integration; and that the positive effects are conditional on absorptive capacity and host-country experience.

3.1.2 Case Selection

The three transactions were selected through purposive, criterion-based sampling. Four criteria governed the selection. First, outcome variation: the cases were chosen to span the full range of possible outcomes, a transaction that never closed (Deutsche Börse–London Stock Exchange Group, 2016–2017), a transaction that closed and destroyed value (SoftBank–WeWork, 2017–2023), and a transaction that closed and, on the evidence available, created value (LVMH–Tiffany, 2019–2021). The qualification attached to the third outcome is not decorative: as Section 3.4.5 sets out, the acquirer does not disclose the target's standalone performance, so the direction of the effect can be established from the divisional record while its magnitude cannot. This is a selection on the dependent variable. It permits the comparison of the mechanisms present in transactions with different outcomes, and it precludes any estimate of how often those mechanisms produce those outcomes; the consequences of this choice are stated among the limitations below. Second, variation in measured cultural distance: the three country pairs, United Kingdom–Germany, Japan–United States, and France–United States, occupy different positions on the Hofstede dimensions, so that the illustration of the mechanisms is not confined to a single level of measured distance. This design does not permit a test of the predictive power of any distance measure, and no such test is attempted: with three cases selected on their outcomes, no inference is available about the association between measured distance and financial results in the wider population of cross-border transactions. Third, scale and significance: each transaction was among the largest of its kind, the largest proposed European exchange combination, one of the largest single venture investments ever made, and the largest acquisition in the history of the luxury industry, ensuring extensive documentation and material financial stakes. Fourth, data availability: each case is documented by official primary sources, regulatory decisions, securities filings, court records, and audited financial statements, sufficient to reconstruct the transaction without reliance on any single account.

The temporal window, 2016 to 2023, holds the macro-institutional environment approximately constant: all three transactions occurred in the same era of globalised capital markets, active merger-control enforcement, and, for two of the three, the common exogenous shock of the COVID-19 pandemic, whose sharply different consequences across the cases are analytically informative. The restriction to developed-economy counterparts excludes the emerging-market configurations examined in Section 2.1, a boundary condition discussed among the limitations below.

The three cases also differ substantially in structure. A prohibited merger between exchange groups, a venture capital investment that became a controlling position, and an industrial acquisition involve different control structures, different regulatory regimes, different time horizons and different measures of performance. The comparison developed in Section 3.5 is therefore conducted at the level of mechanisms, and not at the level of financial outcomes, which are not commensurable across the three settings. Where financial figures are reported, they are reported within each case and against the benchmark relevant to that setting.

3.1.3 Data Sources

The analysis relies exclusively on secondary data, drawn from four classes of sources in descending order of evidentiary authority. The first class comprises official and primary documents: the European Commission's prohibition decision and accompanying statements in Case M.7995; securities filings, including WeWork's Form S-1 registration statement and Tiffany's filings with the Securities and Exchange Commission; documents from the litigation in the Delaware Chancery Court; and the published financial reports of Deutsche Börse, the London Stock Exchange Group, SoftBank Group, and LVMH. The second class comprises academic treatments of the individual cases, including the Harvard Business School case on the LVMH–Tiffany transaction (Subramanian, Zlatev & Farook, 2021) and published analyses of the WeWork collapse and the Tiffany integration. The third class comprises reporting in the international financial press, principally the Financial Times, The Wall Street Journal, Reuters, and CNBC, used for the reconstruction of event chronologies and for contemporaneous market context. The fourth class comprises specialised industry sources used for corroborating detail.

3.1.4 Operationalisation of Cultural and Institutional Distance

Cultural distance is operationalised at two deliberately distinct levels, reflecting the conceptual argument of Section 1.1. At the first level, each case reports the Hofstede dimension scores of the two countries involved. These scores are used as descriptive context only. No composite index is computed, because the design cannot put such a measure to informative use: with three cases selected on their outcomes, a computed value could neither be tested against them nor used to order them. No inference is drawn in this chapter from national scores to the corporate governance arrangements or to the specific decisions of the organisations involved, since such

an inference would reproduce the level-of-analysis problem discussed in Section 1.2. At the second level, each case traces the friction actually generated at the interfaces between the two organisations, following the reconceptualisation of Shenkar (2001) and Shenkar, Luo and Yeheskel (2008): the specific episodes, the headquarters dispute and regulatory resistance in the first case, the founder relationship and governance vacuum in the second, the political intervention, litigation, and workforce integration in the third, in which cultural and institutional differences became activated and consequential. Institutional distance is analysed qualitatively along the regulatory, normative, and cognitive dimensions of Xu and Shenkar (2002), with particular attention to differences in corporate governance regimes and in the relationship between firms and the state.

Financial outcomes are measured with the instruments appropriate to each case's structure: foregone synergies and process costs where the transaction did not close, capital committed against capital recovered and recognised write-downs in the venture investment, and post-acquisition divisional performance in the industrial acquisition. The heterogeneity of these measures is a direct consequence of the outcome variation that motivates the design. It is addressed not by converting them to a common metric, which would be spurious, but by confining the cross-case comparison to mechanisms and by assessing each case against the counterfactual defined in the following section.

3.1.5 Identification Strategy and Rival Explanations

A design of this kind requires that cultural friction be identified from observable evidence rather than inferred from the existence of measured distance. If friction were assumed wherever two culturally distant organisations interact, the analysis would be circular: the phenomenon would be established by the same fact that it is meant to explain. This section states the observable indicators used to identify friction, the indicators used to identify the two managerial variables of interest, the rule by which an episode is attributed to one category rather than another, the evidence that would count against the argument advanced here, and the counterfactual against which each case is assessed. The evidence associated with each is as follows.

Cultural friction. Disagreement over items of high symbolic content and low direct economic value, such as the location of the headquarters, the corporate name, the parity of board representation, or the operating language; documented misreading of the counterpart's decision

norms, expectations or communication practices; managerial departures attributed by participants to integration practice rather than to terms.

Economic conflict. Disagreement over price, exchange ratio, valuation, the allocation of expected synergies, or the disposal of assets with material standalone value.

Regulatory conflict. Formal objections, statements of objections, remedy requirements, conditions or prohibition decisions issued by competition or prudential authorities.

Political conflict. Statements by government officials or public authorities framing the transaction in terms of national interest; intervention by ministries or regional authorities outside the formal regulatory process.

Governance and control conflict. Disputes over board composition, control rights, or the allocation of the company's capital; opposition or campaigns by shareholders; departures of executives following such opposition.

An episode is attributed to cultural friction only where two conditions hold jointly: the disputed item has low direct economic value relative to the size of the transaction, and the disagreement persists after the economic terms have been agreed. The first condition is applied to the content of the disagreement as it appears in the contemporaneous record, not to the economic consequences that the resolution of the item may subsequently have carried. The location of a headquarters, for instance, carries fiscal and regulatory consequences of some magnitude; it is recorded as culturally contested only where the documented disagreement concerned the attribution of the seat itself rather than those consequences, and where no valuation of the item was placed on the negotiating table. The second condition is the more demanding, because disagreements that dissolve once price is settled are more plausibly explained as bargaining over value. Where a transaction has no single point at which economic terms were settled, as in a commitment of capital staged across successive financing rounds, the condition is applied to each round in turn: the disagreement must be documented after the terms of the round in question were agreed and must recur across at least two of them. Where either condition fails, the episode is recorded under the corresponding rival category. Where the available evidence supports more than one category, both are reported and the ambiguity is stated rather than resolved by assumption.

The indicators that rest on attribution by participants require a further qualification. Retrospective accounts in the financial press tend to invoke cultural explanation where economic explanation is incomplete, so evidence of this kind is liable to be produced in the direction of the hypothesis rather than independently of it. Attributions are therefore recorded only where they appear in sources contemporaneous with the episode described; accounts published after the outcome was known are treated as corroborating an attribution already established on other evidence, and not as establishing one.

Monitoring is identified through the information available to the investor or acquirer and the channels through which it flowed: the frequency and content of reporting, the presence of board representation and of contractual information rights, documented instances in which information held by local management did not reach the investor, and the timing of any revision of the investor's valuation relative to information already in the public domain. A monitoring deficiency is recorded where the party acted on a materially incomplete picture and where the arrangements that would have supplied the missing information were standard for commitments of comparable size and stage at the time the capital was committed. The benchmark is therefore the practice observably available *ex ante*, not the arrangements that the outcome would in retrospect suggest to have been prudent.

Integration capability is identified through observable organisational arrangements rather than through outcomes: the existence and staffing of a dedicated integration function, the retention or replacement of the target's management, the decisions taken on the operating autonomy of the acquired unit, and documented transfers of practices between the parties. Assessing integration capability from performance alone would again be circular.

The counterfactual against which each case is assessed is deliberately modest. It is not a hypothetical transaction between culturally identical parties, which is not observable and cannot be constructed from a sample of three. It is the alternative course of action that was available to the parties at the time and that is documented in the record: in the first case, the divestment required by the Commission, which was technically feasible and was declined; in the second, the governance and information rights that were standard for commitments of that scale at the time and that the investor did not obtain; in the third, the abandonment of the transaction, which was available and was not pursued. This counterfactual establishes what the

parties could have done. It does not establish what the outcome would have been had they done it, and no such claim is made.

Pattern matching requires that the rival explanations carry observable implications distinct from those of the argument advanced here, so that the evidence is capable of running against it. Three such implications are stated in advance. If the disagreements recorded as culturally contested were resolved at the point at which economic terms were settled, or appeared only in accounts published after the outcome was known, the economic reading would be the better supported. If the parties that had the more developed integration and monitoring arrangements showed no difference in the incidence or persistence of friction from those that did not, the managerial proposition would not be sustained. If the friction recorded in each case were concentrated in the periods of most intense regulatory or political intervention, its attribution to cultural distance rather than to those interventions would not be warranted. Each case is examined for evidence of these three kinds as well as for evidence consistent with the argument.

Finally, each case closes with an explicit statement of the alternative explanations that the evidence does not exclude. Since the cases were selected on their outcome, the exclusion of rival explanations is the principal safeguard available to the design, and it is a partial one.

3.1.6 Analytical Protocol and Limitations

Each case is analysed through a common template, deal overview and rationale, characterisation of the counterparts, measurement of cultural and institutional distance, process reconstruction, financial outcome, and interpretation against the theoretical framework, ensuring that the cross-case comparison of Section 3.5 operates on structurally parallel material. Within each case, the interpretation proceeds by pattern matching: the observed process is compared with the mechanisms documented in Chapters 1 and 2, monitoring degradation, absorptive capacity, behavioural underestimation, identity configuration, and the case is assessed on whether those mechanisms are present, absent, or contradicted, and on which of the rival explanations identified in Section 3.1.5 the evidence leaves standing.

Five limitations bound the conclusions. First, three cases support analytic, not statistical, generalisation: the findings illustrate the theoretical propositions but cannot estimate effect sizes. Second, the outcome heterogeneity that gives the design its comparative power also limits it, since a transaction that never closed generates no post-closing evidence and its value implications rest partly on counterfactual reasoning. Third, attribution in the third case is complicated by divisional consolidation and by the post-pandemic recovery of the luxury sector. Fourth, the analysis inherits the known limitations of the Hofstede instrument discussed in Section 1.1, including the staticity of national scores and their reference to national populations rather than to firms; confining those scores to descriptive context mitigates but does not eliminate this dependence. Fifth, and most importantly, the cases were selected because their outcomes differ. Selection on the dependent variable makes it impossible to observe transactions in which comparable friction arose and the outcome was nonetheless favourable, or in which no friction is documented and the outcome was nonetheless poor. The chapter therefore describes how cultural distance was managed in three transactions; it does not estimate the effect of that management. Within these bounds, the three cases provide the empirical material against which the central claim of the thesis, that the financial consequences of cultural distance depend on how it is managed rather than on its magnitude alone, is illustrated and examined in the sections that follow.

3.2 Case Study 1: Deutsche Börse and the London Stock Exchange Group (2016–2017)

3.2.1 Deal Overview and Strategic Rationale

On 16 March 2016, Deutsche Börse AG (DBAG) and the London Stock Exchange Group plc (LSEG) announced a recommended all-share merger of equals valued at approximately €29 billion (£21 billion). The combination would have created the largest financial-market infrastructure group in Europe, the largest exchange operator in the world by revenue, and the second largest by market capitalisation, positioned between the two dominant United States operators, CME Group and the Intercontinental Exchange (ICE). The transaction was structured through a newly incorporated United Kingdom holding company, UK TopCo, into which both operating companies would be folded. Under the agreed exchange ratio, each DBAG share would convert into one UK TopCo share and each LSEG share into 0.4421 UK TopCo shares, leaving DBAG shareholders with 54.4% and LSEG shareholders with 45.6% of the combined entity (LSEG, 2016). The combined group would have operated a unitary board with equal representation from both sides, with Carsten Kengeter, the DBAG chief executive, as CEO and Donald Brydon, the LSEG chairman, as chairman of the board.

The strategic logic of the combination was widely regarded as sound. The two groups were largely complementary rather than overlapping. LSEG was strong in cash equities, in indexing through FTSE Russell, and in fixed-income trading through its Italian subsidiary Borsa Italiana and the MTS platform, while DBAG was dominant in exchange-traded derivatives through Eurex and in post-trade services through its Clearstream settlement business. Management projected annual cost synergies of €450 million, to be realised three years after completion, alongside revenue synergies arising from the cross-selling of complementary products and the consolidation of clearing operations (LSEG, 2016). The industrial rationale was reinforced by the regulatory environment: post-crisis reforms, in particular the European Market Infrastructure Regulation, had pushed a growing share of derivatives trading into central clearing, making scale in clearing and collateral management a decisive competitive parameter.

The transaction also unfolded in a competitive context that underscored its strategic stakes. Within two weeks of the first confirmation of merger discussions, ICE announced that it was considering a rival cash-and-share offer for LSEG, and CME Group was also reported to be assessing its options (Bloomberg, 2016). ICE formally withdrew in early May 2016 without

submitting an offer, but the episode demonstrated that LSEG was regarded as the pivotal asset in the final phase of global exchange consolidation, and that a failure of the European combination would leave the field open to the American operators. The deal, finally, fitted the broader policy narrative of the European Capital Markets Union: its proponents presented it as the creation of a European-based champion capable of competing globally, and as a market-infrastructure bridge between the continent and the City of London (PitchBook, 2017).

Two features of this case should be stated at the outset, because they condition what the analysis can claim. First, the transaction did not close, so no post-closing evidence is available: outcomes are measured here as foregone synergies and as the direct costs of an abandoned process, and not as realised performance. These measures are not comparable with those used in the two cases that follow, and the comparison developed in Section 3.5 accordingly operates at the level of mechanisms. Second, the transaction has a documented proximate cause of failure, examined in Section 3.2.5, in the form of a prohibition decision taken by a competition authority on competition grounds. The interpretation offered in Section 3.2.6 does not displace that cause; it asks the narrower question of what, in the record, bears on the parties' inability to agree the remedy that would have avoided it.

Table 3.1. *Key terms of the proposed Deutsche Börse–LSEG merger (2016).*

Dimension	Term
Announcement date	16 March 2016
Structure	All-share merger of equals via new UK holding company (UK TopCo)
Combined value	≈ €29 billion (£21 billion)
Exchange ratio	1 UK TopCo share per DBAG share; 0.4421 per LSEG share
Ownership split	DBAG 54.4% / LSEG 45.6%
Registered seat	London (UK TopCo)
Leadership	CEO: Carsten Kengeter (DBAG); Chairman: Donald Brydon (LSEG)
Board	Unitary board, equal representation
Projected synergies	€450 million annual cost synergies within three years
Shareholder votes	Approved by both shareholder bases, July 2016 (DBAG: 89% in favour)
Outcome	Prohibited by the European Commission, 29 March 2017

Source: Author's elaboration based on LSEG (2016), Bloomberg (2016), and European Commission (2017).

3.2.2 The Previous Attempts (2000 and 2004–2005)

The 2016 transaction was the third attempt in sixteen years to combine the two exchanges. The two earlier attempts are summarised here because they establish that the questions of identity, governance and control raised in 2016 were not new. They are not treated as manifestations of a single underlying cause: as the following paragraphs show, the three episodes turned on materially different disputes, and reading them as one recurring phenomenon would assume what the evidence does not establish.

The first attempt, in 2000, was structured as a merger of equals branded iX and led by the DBAG chief executive Werner Seifert. It collapsed amid resistance from LSE member firms and was further destabilised when the Swedish technology and exchange operator OM Group launched a hostile counter-bid for the LSE in August 2000; the bid was rejected, but the LSE chief executive Gavin Casey resigned in its aftermath. Contemporary accounts attribute the failure of iX in part to the difficulty, within the London financial community, of accepting that a historic institution of the City might come under German control, a national-identity objection that would resurface, in mirror image, in 2016 (PitchBook, 2017).

The second attempt, in 2004–2005, took the form of a proposed cash acquisition of the LSE by DBAG at 530 pence per share. It failed not over national identity but over a governance conflict internal to the German acquirer: The Children's Investment Fund (TCI), a London-based activist hedge fund holding approximately 8% of DBAG, led a shareholder revolt opposing the use of the company's balance sheet for the acquisition and demanding that capital be returned to shareholders instead. DBAG withdrew its offer on 6 March 2005, and the episode subsequently forced the resignation of Seifert and of the supervisory-board chairman Rolf Breuer (PitchBook, 2017; MarketsWiki, 2026). Seifert subsequently published an account of the period, and the episode was widely discussed in Germany in terms of the tension between an investor orientation focused on shareholder returns and the stakeholder orientation of German corporate governance. That framing is reported here as part of the contemporary debate rather than as a finding: the dispute concerned the allocation of the company's capital, an item of substantial direct economic value, and under the coding rule set out in Section 3.1.5 it is recorded as a governance and control conflict rather than as cultural friction.

What the sequence establishes is narrower than a pattern of recurring cultural friction. The three episodes turned on different disputes: in 2000, resistance among London member firms and a competing bid; in 2005, a conflict between a listed company and its own shareholders over the use of its capital; and in 2016, as the following sections describe, the location of the headquarters and, ultimately, a competition remedy. What they have in common is that the question of which institution would control the combined group, and where it would be seated, was raised on each occasion and was not resolved on any of them. That is a recurring tension of identity, governance and control, and it is reported as such, without attributing the three outcomes to a single cause.

3.2.3 Cultural and Institutional Distance Between the Counterparts

Measured through the composite indices discussed in Chapter 1, the cultural distance between the United Kingdom and Germany is moderate rather than extreme. On Hofstede's dimensions the two countries are identical in power distance and masculinity and differ principally on individualism, where the United Kingdom scores higher, and on uncertainty avoidance, where Germany scores higher (Table 3.2). The dimensional gaps are modest by comparison with those typically observed between Western and East Asian counterparts. These scores are reported as descriptive context only. Consistently with Section 3.1.4, no inference is drawn from them to the governance arrangements of either organisation or to the specific decisions examined below.

Table 3.2. *Hofstede cultural dimension scores, United Kingdom and Germany.*

Cultural dimension	United Kingdom	Germany	Gap
Power distance	35	35	0
Individualism	89	67	22
Masculinity	66	66	0
Uncertainty avoidance	35	65	30

Source: Hofstede (1980) framework; scores from Hofstede Insights country-comparison data. Gap reported as absolute difference.

The dimensional composition of the gap is more informative than its aggregate size. The largest single difference concerns uncertainty avoidance, on which Germany scores 65 against the United Kingdom's 35. This dimension captures the degree to which a society relies on codified rules, formal procedures, and structured planning to manage ambiguity, and the gap is often discussed alongside the two countries' contrasting regulatory traditions, namely the

German preference for rule-based, codified supervision and codetermined governance against the British tradition of principles-based regulation and flexible, board-centred governance. The correspondence is noted as descriptive context; the regulatory traditions are documented independently of the scores and are not inferred from them. The second material difference concerns individualism, where the United Kingdom's score of 89 is among the highest recorded, against Germany's 67. It is tempting to observe that these are also the areas in which the transaction encountered difficulty. The observation is recorded, but it carries no evidential weight: a correspondence between two national scores and the subject matter of a dispute does not establish that the former produced the latter, and treating it otherwise would reproduce the level-of-analysis problem discussed in Chapter 1.

The case nonetheless illustrates the limitation of composite indices identified by Shenkar (2001) and discussed in Section 1.1. An aggregate score cannot capture what the record here shows, namely that the difficulties arose not from an average cultural gap but at specific and highly charged points of contact: national identity attached to financial-market infrastructure, the symbolic significance of the headquarters location, and divergent regulatory traditions. The friction lens proposed by Shenkar, Luo and Yeheskel (2008), and formalised by Luo and Shenkar (2011) as a function of the actual contact interface between the organisations rather than of their static difference, is more informative here than any distance metric.

What mattered was not how culturally different Britain and Germany are on average, but how their differences became activated and amplified at the specific interfaces where the merger had to be implemented. The case also carries a trace of the psychic distance paradox documented by O'Grady and Lane (1996): precisely because the two countries are close Northern European neighbours with long-standing commercial ties, the parties appear to have underestimated the differences that remained, preparing carefully for the antitrust review while leaving the political and identity dimension of the combination essentially unmanaged.

Institutional differences, in the sense of Xu and Shenkar (2002), are documented along all three of its dimensions, and unlike the Hofstede scores these are attributes of the organisations and of their legal environments rather than of national populations. Regulatory difference was embodied in the two governance regimes: LSEG maintained a one-tier board characteristic of the Anglo-Saxon model, whereas DBAG operated a two-tier system subject to German co-determination rules, under which employee representatives hold supervisory-board

seats; the merged entity would have had to reconcile these architectures, and the choice of a UK-incorporated holding company already signalled an asymmetry that German stakeholders found difficult to accept.

Normative distance surfaced in the divergent expectations about the appropriate relationship between financial infrastructure and the state: German political actors treated the location and supervision of the exchange group as a matter of legitimate public concern, while the British side treated it primarily as a commercial question for shareholders.

Cognitive distance, finally, appeared in the two sides' incompatible readings of the same facts. Most visibly in the belief, reportedly held in German circles, that the London headquarters could be relocated to Frankfurt after completion, a step that would in fact have required a 75% majority of a board composed equally of British and German representatives and was therefore practically unachievable (CNBC, 2017).

Two organisations reading the same merger agreement and deriving incompatible expectations about its consequences is consistent with cognitive institutional distance, although the extent to which the belief was actually held, and by whom, rests on press reconstruction rather than on documentary evidence.

3.2.4 The Headquarters Question and the Breakdown of the Negotiation

In the 2016 attempt, the disagreement that proved most persistent concerned the location of the headquarters. It is the one element of this case that satisfies both conditions of the attribution rule set out in Section 3.1.5, and the reasons are given in Section 3.2.6. The original terms placed the registered seat in London and installed the German chief executive at the head of the combined group, a trade-off intended to balance national sensitivities on both sides. The June 2016 Brexit referendum destabilised this equilibrium. With the United Kingdom voting to leave the European Union, German officials found it increasingly untenable that the dominant European market-infrastructure group should be headquartered outside the Union. Felix Hufeld, the president of the German financial regulator BaFin, publicly questioned whether London could host the combined group, and the Hessian authorities responsible for supervising the Frankfurt exchange signalled reluctance to approve a London-seated entity (CNBC, 2017; MarketsWiki, 2026). The headquarters question, ostensibly a matter of corporate logistics,

became a proxy for the deeper issue of which national financial centre would hold symbolic and regulatory primacy in post-Brexit Europe.

The escalation dynamics followed the relational mechanism identified by Huang, Zhu and Brass (2016) and the identity logic developed by Edman (2016), both examined in Section 2.3. The conflict was not about operational integration, where the two firms were genuinely complementary, but about status and identity: each side experienced the proposed allocation of the headquarters as a loss of national standing and identity gap rather than as an efficiency choice. Once the referendum had converted the seat question into a matter of European political principle, neither side possessed a governance mechanism capable of de-escalating it. The joint structures created by the merger agreement, the unitary board and the balanced leadership, had been designed to signal parity, not to resolve a zero-sum symbolic conflict, and the record is consistent with the behavioural underestimation of integration difficulty identified by Datta and Puia (1995) in Section 2.1: the parties had prepared for the antitrust review in detail, and the political dimension appears to have been addressed only as it arose.

The transaction was further undermined by a governance failure at the level of the prospective chief executive. In early 2017 German prosecutors opened an insider-trading investigation into Carsten Kengeter concerning DBAG shares he had purchased in December 2015, shortly before the merger talks became public. Kengeter denied wrongdoing, and the purchases had been made under a company remuneration programme, but the investigation weakened his authority precisely when the combined group needed a credible designated leader, and it handed sceptics on both sides a reason to withhold the trust on which the integration depended. He ultimately resigned from DBAG in October 2017, months after the deal had already collapsed (PitchBook, 2017; MarketsWiki, 2026). The episode illustrates a proposition developed in Section 2.2: the social and reputational infrastructure of an integration, hence the trust in leadership and the confidence in the counterpart's good faith, can be eroded before integration even begins, and once eroded it is not restored by contractual mechanics.

The terminal breakdown of trust between the counterparts was made explicit in the final weeks. When the European Commission indicated that the divestment of LSEG's Italian fixed-income platform MTS would be required as a condition of approval, LSEG announced its refusal publicly, and informed DBAG of that refusal with only thirty minutes' notice before the announcement (PitchBook, 2017). By this point the two organisations were negotiating as

adversaries protecting national and institutional positions rather than as partners constructing a combined entity. The shared identity and trusting relationships that Björkman, Stahl and Vaara (2007) and Hajro (2015) identify as the social infrastructure of successful integration are not evident in the record of these final weeks. Whether their absence contributed to the refusal of the remaining structural remedy, or whether that refusal is sufficiently explained by the standalone value of the asset and by its political sensitivity in a third member state, is considered in Section 3.2.6.

3.2.5 The Prohibition Decision

On 29 March 2017, by coincidence the same day the United Kingdom formally triggered Article 50 to begin the withdrawal process, the European Commission prohibited the merger under the EU Merger Regulation (Case M.7995). The Commission concluded that the combination would have created a *de facto* monopoly in the clearing of fixed-income instruments, namely bonds and repurchase agreements, by combining the parties' clearing houses in Frankfurt, London, Milan, and Paris, with knock-on effects on the downstream markets for settlement, custody, and collateral management. The Commission further found that the transaction would have removed horizontal competition in the trading and clearing of single stock equity derivatives based on Belgian, Dutch, and French underlyings, where the merged entity's Eurex would have faced the exchange operator Euronext, whose derivatives depended on clearing services provided by LSEG's Paris-based clearing house (European Commission, 2017).

The procedural record documents how the remedy negotiation failed. The merger was formally notified on 24 August 2016; the Commission opened an in-depth Phase II investigation in late September and issued a Statement of Objections in December 2016, followed by a Letter of Facts on 26 January 2017.

On 6 February 2017, shortly before the Phase II remedy deadline, the parties offered a first package consisting of the divestment of LSEG's Paris-based clearing house. The Commission accepted that this divestment resolved the concerns relating to single stock equity derivatives, but found that it did not remove the fixed-income clearing monopoly. The fixed-income clearing business depended on trading feeds from LSEG's own MTS platform, so the divested entity could not be guaranteed to operate as a viable standalone competitor once separated from its feed source (European Commission, 2017; Osborne Clarke, 2017). The

Commission indicated that divesting MTS itself would have constituted a clear-cut structural remedy. LSEG publicly refused, offering instead a set of behavioural commitments that the Commission judged impractical to monitor and impossible to market-test in the time remaining. Commissioner Margrethe Vestager noted that the parties had left the Commission without a workable remedy in the crucial area of fixed-income clearing.

The prohibition decision is the proximate and documented cause of the failure of the transaction, and it rested on competition grounds and on the absence of a structural remedy that the Commission considered adequate. That much the record establishes without qualification. The refusal to divest MTS admits of more than one reading. MTS was a small business relative to the combined group, but it was the primary electronic market for Italian government bonds, its disposal carried consequences for LSEG's position in Italy, and its sale to a third party raised political sensitivities in a third member state. Under the coding rule of Section 3.1.5 the refusal is recorded as an economic conflict with a political component, since the disputed asset had material standalone value and the disagreement concerned the terms on which the transaction could proceed. The counterfactual, defined as in Section 3.1.5, is what the parties could have done and did not: the structural remedy was identified, technically available, and modest in scale relative to the combination, and it was declined. That establishes that a different course was open to them. It does not establish what would have followed had they taken it, and whether other factors contributed to their inability to agree it is considered in Section 3.2.6.

The 2012 precedent is relevant background. In that year DBAG's merger with NYSE Euronext was prohibited, and the Commission had already demonstrated that it would block exchange consolidations creating dominant positions in a core market segment, and that it would do so even against the approvals of national and foreign regulators (European Commission, 2012). A firm that had internalised that experience would have anticipated that the fixed-income clearing overlap was existential for the 2016 transaction and would have structured the remedy strategy accordingly. That DBAG and LSEG instead arrived at the final weeks of Phase II without an agreed structural remedy is consistent with the proposition, examined in Section 2.3, that acquisition experience does not convert into improved subsequent performance automatically, and with the boundary condition identified by Huang, Zhu and Brass (2016), under which experience accumulated in conflict-laden circumstances may harden positions rather than improve capabilities. It is also consistent with simpler explanations,

including a judgment by the parties that the remedy the Commission would ultimately require was more costly than the risk of prohibition.

Figure 3.1. *Timeline of the Deutsche Börse–LSEG merger attempt (2016–2017).*

Date	Event
Feb–Mar 2016	Merger discussions confirmed; ICE announces it is considering a rival offer
16 Mar 2016	All-share merger of equals announced (≈ €29 bn)
4 May 2016	ICE formally withdraws without submitting a counter-offer
23 Jun 2016	UK votes to leave the EU; headquarters question destabilised
Jul 2016	Both shareholder bases approve the merger (DBAG 89% in favour)
24 Aug 2016	Merger notified to the European Commission
28 Sep 2016	Commission opens in-depth Phase II investigation
Dec 2016	Commission issues Statement of Objections
26 Jan 2017	Commission issues Letter of Facts
6 Feb 2017	Parties offer to divest LCH.Clearnet SA; Commission finds remedy insufficient
Feb–Mar 2017	LSEG refuses the divestment of MTS; behavioural commitments rejected
29 Mar 2017	Commission prohibits the merger; UK triggers Article 50 the same day
Oct 2017	Kengeter resigns from DBAG amid insider-trading investigation

Source: Author's elaboration based on European Commission (2017), Bloomberg (2016), CNBC (2017), Osborne Clarke (2017), and PitchBook (2017).

3.2.6 Interpretation and Alternative Explanations

The economic rationale of the combination was regarded as sound, the strategic complementarity was genuine, and the measured cultural distance was moderate. The transaction was prohibited on competition grounds. The question addressed here is therefore narrow: whether the record contains evidence of cultural friction in the sense defined in Section 3.1.5, and what weight that evidence can bear alongside the alternative explanations set out below.

One episode satisfies both conditions of the attribution rule. The location of the headquarters of the combined group carried limited direct economic value relative to a combination valued at approximately €29 billion, and the disagreement over it persisted after the economic terms had been agreed: the exchange ratio and the ownership split were settled in March 2016, while the headquarters question remained open, intensified after June 2016, and was never resolved. Under the coding rule adopted in this chapter this is recorded as cultural

friction, in the specific and limited sense of a dispute over an item of symbolic rather than economic content that the parties proved unable to settle. The item is classified by the content of the disagreement as it appears in the contemporaneous record: no valuation of the seat itself was placed on the negotiating table, and the fiscal and supervisory consequences of its location were pursued separately through the prudential and political channels recorded below. The disconfirming implication follows. Had the seat question been settled once the exchange ratio was agreed, or had it surfaced only in accounts published after the prohibition, the economic and political readings would exhaust the record; neither is the case, since the dispute is documented in sources contemporaneous with the summer of 2016 and remained open when the transaction collapsed.

Other elements of the record do not meet the rule and are classified elsewhere. The refusal to divest MTS is recorded as an economic conflict with a political component, for the reasons given in Section 3.2.5. The Commission's objections are recorded as regulatory. The interventions of German public actors, including the regulator and the Hessian authorities, are recorded as political. The shareholder revolt of 2005 is recorded as a governance and control conflict. Treating these as expressions of cultural distance would extend the concept until it ceased to discriminate between categories, which is the weakness Chapter 1 identified in the construct.

The case illustrates why the friction and identity perspectives are more informative here than the static distance metric. A composite cultural-distance score would have predicted no serious obstacle to a United Kingdom–Germany combination, and the economic consensus indeed held the deal to be sound. What the score could not capture, and what the friction lens does, is that moderate average distance can still produce deal-breaking conflict when it concentrates at symbolically charged interfaces and is amplified by an external political shock. The Brexit referendum functioned, in Luo and Shenkar's (2011) terms, as a drag parameter that multiplied the friction generated at a fixed level of underlying distance: the same headquarters compromise that was acceptable in March 2016 became politically untenable in July 2016 although the cultural distance between the two countries had not changed. Whatever weight is given to the cultural and institutional differences between the two organisations, it is not their average magnitude that the record makes visible, but the fact that particular differences were activated and politicised at a small number of points of contact and were not settled there.

The case also documents the failure of organisational learning under adverse conditions. Vermeulen and Barkema (2001), examined in Section 2.3, establish that acquisition experience can revitalise a firm and improve its subsequent expansion performance; Galavotti, Cerrato and Cantoni (2020) show that host-country experience is the strongest predictor of post-acquisition survival. DBAG entered 2016 with more relevant experience than almost any firm in its industry: two failed combinations with the same counterpart and one regulatory prohibition on closely analogous grounds. The 2016 attempt nonetheless exhibited the same features: limited advance treatment of the political dimension, no pre-agreed structural remedy, and reliance on formal parity mechanisms that were designed to signal balance rather than to settle a symbolic dispute. The learning failure is consistent with the asymmetry identified by Huang, Zhu and Brass (2016), whereby experience accumulated in conflict-laden interactions reinforces defensive positions instead of correcting them, and it is consistent with the thesis argument that experience converts into capability only where the firm processes it through deliberate absorptive mechanisms rather than through repetition alone.

Four alternative explanations are consistent with the evidence and are not excluded. The first is that the competition problem may have been intractable on its own terms: a remedy sufficient to remove a de facto monopoly in fixed-income clearing might have removed a material part of the commercial rationale for the combination, in which case no configuration of the parties' preferences would have produced an acceptable package. The second is that the referendum of June 2016 was an exogenous shock that altered both the commercial value of a London-seated group and the political acceptability of the arrangement, and its effect cannot be separated from any prior disposition of the parties. The third is that the objections raised in Germany operated through prudential and governance channels, in which supervisors and regional authorities acted within their formal competences rather than as expressions of national culture. The fourth is that the insider-trading investigation opened in relation to the DBAG chief executive in early 2017 coincided with the closing stage of the negotiation; its effect on the parties' capacity to negotiate is not documented, and it cannot be excluded. The interpretation offered above is compatible with all four.

This first case thus establishes the baseline of the comparative analysis. It illustrates that cultural distance which is neither extreme nor, in principle, unmanageable can coincide with the failure of a strategically sound transaction where the friction it generates is concentrated at a small number of symbolic interfaces, is left unaddressed, and is amplified by an external

shock. The evidence is consistent with that reading; it does not establish that the prohibition would have been avoided had the interfaces been managed differently. The financial consequences took the form of foregone value rather than destroyed value: the projected €450 million of annual synergies was never tested, the European exchange landscape remained fragmented in the face of consolidated American competitors, and both firms absorbed the direct costs of a thirteen-month transaction process that produced nothing. The two subsequent cases examine what happens once a deal does close.

3.3 Case Study 2: SoftBank and WeWork (2017–2023)

3.3.1 Deal Overview and Strategic Rationale

Between 2017 and 2019, the Japanese conglomerate SoftBank Group Corporation, directly and through its Vision Fund, invested more than ten billion dollars in WeWork, a New York-based provider of flexible office space founded in 2010 by Adam Neumann and Miguel McKelvey. Unlike the transaction examined in Section 3.2, which never reached completion, the SoftBank–WeWork relationship was fully consummated: capital was committed, deployed, and progressively expanded until SoftBank became the company's controlling shareholder. The outcome was one of the largest documented episodes of value destruction in the history of venture investment. WeWork's valuation, which SoftBank's own successive investment rounds had raised to 47 billion dollars in January 2019, collapsed within nine months to less than eight billion dollars following a failed initial public offering, and the company ultimately filed for Chapter 11 bankruptcy protection on 6 November 2023 (Reuters, 2023; Nguyen, 2023). By the third quarter of 2023, SoftBank's cumulative losses on the investment exceeded 14 billion dollars against total commitments that had grown to roughly 16 billion dollars (Reuters, 2023). The case therefore provides the second configuration in the comparative design of this thesis: a cross-border investment that closed and destroyed value.

Two features of this case require statement at the outset, because they condition what the analysis can claim. First, the transaction is structurally different from the merger examined in Section 3.2 and from the acquisition examined in Section 3.4: it is a minority investment that became a controlling one, in a privately held company, subject to no merger control review and to no disclosure regime until the registration statement of August 2019. Outcomes are therefore measured here as capital committed against capital recovered and as recognised write-downs, not as announcement returns or as post-acquisition divisional performance. These measures are not comparable with those used in the other two cases, and the comparison developed in Section 3.5 accordingly operates at the level of mechanisms rather than of results.

Second, the case involves an unusually strong set of alternative explanations. WeWork's difficulties have been attributed by most observers to the structure of its business model and to the concentration of control in its founder, neither of which requires cultural distance to be understood. The analysis that follows does not set those explanations aside. It examines a narrower question: whether the information available to the investor, and the arrangements

through which that information reached it, differed in ways that the mechanisms described in Chapter 1 would lead one to expect, and what weight that observation can bear alongside the alternatives.

SoftBank's initial commitment was made in August 2017, when the group invested 4.4 billion dollars in WeWork in conjunction with the Vision Fund, the approximately 100-billion-dollar technology investment vehicle that SoftBank had launched in 2016 with backing primarily from Gulf sovereign wealth funds (Sherman, 2019). The investment valued WeWork at approximately 20 billion dollars. Two further rounds followed: three billion dollars in November 2018 and an additional commitment in January 2019 that brought SoftBank's total pre-IPO exposure to 10.65 billion dollars and lifted WeWork's paper valuation to 47 billion dollars (Sherman, 2019; Reuters, 2023). The significance of this sequence for the analysis of the present chapter is that each successive valuation was set by SoftBank itself, in rounds in which SoftBank was the sole or dominant investor. The last valuation of WeWork established by an investor other than SoftBank dated to 2016, when a round led by a Chinese hotel group valued the company at 16.9 billion dollars (Sherman, 2019). The valuations of November 2018 and January 2019 were therefore not subject to the external validation that a broader investor base would have supplied. This does not in itself indicate that they were unwarranted, but it does mean that the difference between them and the last externally established figure had not been tested by a party without an interest in the result.

The strategic rationale articulated for the investment followed the logic of the Vision Fund as a whole: the identification of category-defining technology platforms, the deployment of capital at a scale intended to guarantee market dominance, and the acceleration of growth ahead of profitability. WeWork was presented, and presented itself, as a technology company that would transform the commercial real-estate industry through a global network of flexible workspaces, a community-based membership model, and proprietary data on space utilisation. Its revenue trajectory appeared to validate the thesis: revenue grew from 822 million dollars in 2017 to approximately 3.5 billion dollars two years later (Postl, 2021). The difficulty, fully visible only when the company's accounts were exposed to public-market scrutiny, was that losses grew at essentially the same rate as revenue. In 2018 WeWork lost 1.9 billion dollars on revenue of 1.8 billion dollars (Reuters, 2023), a structure fundamentally different from that of the software platforms whose valuations WeWork's implied: the company's growth required

proportional increases in long-term lease obligations, fit-out costs, and operating expenses, so that scale brought no operating leverage (Lietz & Bracken, 2019; Postl, 2021).

Table 3.3. *SoftBank's principal commitments to WeWork, 2017–2019.*

Date	Commitment	Implied valuation
Aug 2017	$4.4 billion (SoftBank Group and Vision Fund)	≈ $20 billion
Nov 2018	$3 billion	rising toward $47 billion
Jan 2019	Additional round; total pre-IPO exposure $10.65 billion	$47 billion (peak)
Oct 2019	$9.5 billion rescue package; ≈ 80% economic ownership	≈ $7–8 billion

Source: Author's elaboration based on Sherman (2019), Reuters (2023), and The Washington Post (2019).

3.3.2 The Counterparts: A Japanese Conglomerate and an American Founder-Led Start-up

The two organisations brought to the relationship could hardly have been more different in structure, history, and governance logic. SoftBank Group, founded by Masayoshi Son in 1981 and headquartered in Tokyo, is a listed Japanese holding company whose identity combines elements of the traditional Japanese conglomerate with a personalised, founder-centred investment style that is itself atypical within Japanese corporate culture. Son's approach to investment decisions was famously intuitive and relationship-based: contemporaneous press reported that his initial 4.4-billion-dollar commitment to WeWork followed a tour of the company's headquarters lasting roughly twelve minutes and a subsequent conversation in his car (The Wall Street Journal, 2019). Son himself later confirmed the personal character of the decision, acknowledging that he had overestimated Neumann and had, in his own words at the November 2019 results presentation, shut his eyes to the founder's negative aspects (The Wall Street Journal, 2019).

WeWork, by contrast, was a privately held American start-up whose governance was concentrated in its founder to a degree unusual even by the standards of the venture-capital industry. Neumann controlled the company through a multi-class share structure that granted his shares multiple votes each, a mechanism that was scaled back only under investor pressure during the IPO attempt (Postl, 2021; Wu, 2024). The corporate culture he built combined a quasi-spiritual mission statement, aggressive growth targets, a charismatic and personalised leadership style, and a pattern of related-party transactions that would later prove decisive: the

company's IPO prospectus disclosed, among other arrangements, that properties partly owned by Neumann had been leased back to WeWork and that an entity he controlled had received 5.9 million dollars for the rights to the company's own name, a payment Neumann returned after public criticism (Nguyen, 2023; Wu, 2024). The academic literature on the case has emphasised the systematic weakness of internal controls: Wu (2024) identifies the concentration of decision rights in the founder, the confusion of personal and corporate interests, and the absence of effective board oversight as central causes of the eventual bankruptcy.

The structure of the Vision Fund itself contributed to the weakness of the monitoring architecture. The fund's competitive strategy in the late-2010s venture market rested on deploying capital in amounts no rival could match, on deciding faster than the diligence-intensive processes of traditional venture firms allowed, and on cultivating a reputation as the most founder-friendly source of capital available, a reputation that functioned as a weapon in the competition for access to the most sought-after companies. Each of these three features had a governance shadow. Scale meant that a single position could be built to a size at which its failure would be material to the parent group; speed meant that commitments preceded verification; and founder-friendliness meant that the standard protective instruments of venture investing, including staged financing conditional on milestones, independent board representation, and contractual limits on related-party dealings, were negotiated away or left unexercised as a matter of commercial positioning. In WeWork, all three features converged on a founder whose governance conduct most required exactly the instruments the fund's model had renounced. The monitoring arrangements described in Section 3.3.4 are therefore consistent with the fund's investment model rather than with an isolated lapse: the limited exercise of control rights was a feature of how the fund positioned itself in the competition for access to founders (Sherman, 2019). Whether that model was decisive for the outcome is a separate question, since the same model was applied to investments with materially different results.

The pairing of these two organisations created a specific structural condition that distinguishes this case from the previous one. In the Deutsche Börse–LSEG transaction, two mature, listed, and heavily regulated organisations of comparable size confronted each other as equals, and the friction arose between two national institutional systems. In the SoftBank–WeWork relationship, the asymmetry was extreme: a large foreign investor held the capital, while a domestic founder held the control rights. The investment therefore took the form of a principal–agent relationship rather than an integration of two organisations, and the distance

between the parties was organisational and institutional as well as national. In that configuration the monitoring mechanisms discussed in Section 2.2 were the principal channel through which the investor's interests could be protected, and Section 3.3.4 describes the extent to which they were in place.

3.3.3 Cultural and Institutional Distance Between the Counterparts

Measured through the composite indices examined in Chapter 1, the cultural distance between Japan and the United States is among the largest ordinarily encountered in cross-border investment between developed economies, and it is far greater than the United Kingdom–Germany distance documented in the previous case. On Hofstede's dimensions the two countries diverge substantially on every axis: the United States is among the most individualist societies measured, while Japan is comparatively collectivist; Japan scores very high on masculinity and uncertainty avoidance, where the United States is moderate; and power distance is higher in Japan than in the United States (Table 3.4). These scores are reported as descriptive context. Consistently with Section 3.1.4, no inference is drawn olfrom them to the governance arrangements of either organisation or to the specific decisions examined in this case. The dimensional gaps are considerably wider for this pair than for the United Kingdom the ordering of the cases against the ordering of the index should be resisted, and it is worth stating why. This dyad shows the widest dimensional gaps of the three and it is also the case with the least favourable outcome. Since the three cases were selected on their outcomes, and since three observations admit of many configurations, the coincidence supports no conclusion in either direction. It is reported because omitting it would be misleading, not because it carries evidential weight.

A further consideration limits what the national measure can capture here. The investment decisions examined below were taken by an individual whose approach has been widely described as atypical within Japanese corporate practice, in a holding company whose investment style was itself unusual by the standards of its domestic peers. Attributing that approach to the national scores in Table 3.4 would reproduce precisely the level-of-analysis problem identified in Chapter 1, in which population means are used to characterise particular firms and particular decision-makers.

Table 3.4. *Hofstede cultural dimension scores, Japan and the United States.*

Cultural dimension	Japan	United States	Gap
Power distance	54	40	14
Individualism	46	91	45
Masculinity	95	62	33
Uncertainty avoidance	92	46	46

Source: Hofstede Insights country-comparison data. Gap reported as absolute difference.

The friction perspective of Shenkar, Luo and Yeheskel (2008) and Luo and Shenkar (2011) offers a more useful reading of the relationship than the national measure. Distance becomes consequential only at the interfaces where the two cultural systems actually come into contact, and the nature of those interfaces is shaped by the governance structure of the relationship. In this case the primary interface was not operational integration, since SoftBank never attempted to integrate WeWork's operations into its own, but the bilateral relationship between two founders, conducted largely in person and mediated by mutual admiration rather than by formal control systems. At that interface, the specific cultural configuration of the two parties did not generate restraining friction; it generated mutual amplification. Son's investment philosophy explicitly prized founder audacity and scale over financial discipline, and Neumann's expansive style supplied exactly the signals that this philosophy rewarded. What can be observed is therefore not a clash at the interface but its opposite: the points of contact between the two organisations were kept narrow, personal, and informal, so that the differences between them were neither tested nor, on the evidence available, examined.

Institutional distance, in the sense of Xu and Shenkar (2002), operated at a second and ultimately decisive level: the distance between the private governance regime in which the relationship was formed and the public-market institutional regime to which it was eventually exposed. WeWork's valuation, governance structure, related-party arrangements, and bespoke performance metrics, including a profitability measure labelled community-adjusted EBITDA that excluded substantial categories of cost (Lietz & Bracken, 2019), were sustainable within the normative environment of late-stage private venture capital, where a single dominant investor sets prices and discipline is contractual rather than public. They were not sustainable within the regulatory and normative environment of a United States public listing, where disclosure obligations, analyst scrutiny, and institutional-investor governance standards apply.

The August 2019 registration statement brought the first regime into contact with the second. The repricing that followed is more readily explained by that contact than by any bilateral Japanese–American misunderstanding, and in the terminology of Chapter 1 the distance that appears analytically relevant here is normative and cognitive institutional distance between two systems of capital allocation, activated at a single, concentrated point of contact.

3.3.4 Post-Investment Monitoring Arrangements

Section 2.2 established that the costs of cultural and institutional distance are paid primarily in the post-investment phase, through the degradation of monitoring and integration mechanisms, and that the coordination instrument most vulnerable to distance is precisely the one managers deploy most naturally: personal coordination. Monitoring is identified here through the indicators set out in Section 3.1.5: the information rights and board representation obtained by the investor, the channels through which operating information reached it, and the timing of any revision of its assessment relative to information already available. The description that follows is confined to those indicators; whether the arrangements were a cause of the outcome, or one of several conditions accompanying it, is considered in Section 3.3.6. SoftBank's monitoring of its largest single exposure rested overwhelmingly on the personal relationship between Son and Neumann, a mechanism that Ambos and Ambos (2009) would classify as a personal coordination mechanism of the purest form. Formal instruments, including independent board oversight, financial covenants tied to profitability, and staged capital release conditional on governance reform, were either absent or unexercised, although each was standard for commitments of comparable size and stage at the time they were made. The consequence was that the information reaching the investor was filtered through the very founder whose conduct required monitoring, and that the corrective interventions available to a controlling capital provider were never triggered.

The channels identified by Björkman, Stahl and Vaara (2007) clarify why this governance vacuum was so damaging. The first channel, absorptive capacity, requires the investor to be motivated and able to evaluate what is actually happening inside the investee organisation; Son's later admissions, including his statement that his own investment judgment was, in his words, *really bad* (The Wall Street Journal, 2019), are consistent with a suspension of that evaluative function. They were made after the outcome was known, and are treated here as corroborating the arrangements described above rather than as establishing them. The second

channel, social integration, normally refers to the construction of trust and shared identity between merging organisations; here an abundance of interpersonal trust existed at the apex of the relationship, but it was precisely the kind of unconditional trust that substitutes for monitoring rather than enabling it. Hajro's (2015) longitudinal finding that outcomes are mediated by the quality of socio-cultural integration processes has a mirror image in this case: where those processes are replaced by a single charismatic dyad, the organisation loses the distributed relationships through which problems are ordinarily surfaced.

The behavioural mechanism identified by Datta and Puia (1995) in the context of acquisition premia, the systematic managerial underestimation of the difficulty of realising value across cultural and institutional boundaries, is also visible in an extreme form. SoftBank did not merely underestimate integration difficulty; it capitalised its own optimism into the asset's price through successive self-set valuation rounds, so that the gap between internal belief and external verification widened with each round. The 47-billion-dollar valuation of January 2019 embedded assumptions about growth, profitability, and governance quality that no external investor had tested. When the IPO process finally subjected those assumptions to testing, the repricing was not gradual but discontinuous, because the entire distance between private belief and public assessment had accumulated unexamined. The prospectus published on 14 August 2019 disclosed the loss structure, the lease obligations, the related-party transactions, and the governance concentration simultaneously, and within six weeks the transaction environment had collapsed: the offering was postponed in mid-September amid indications that the achievable valuation had fallen toward 10 billion dollars, Neumann resigned as chief executive on 24 September under pressure from the principal investors, and the registration was formally withdrawn on 30 September 2019 (Nguyen, 2023; Reuters, 2023).

Two observations can be drawn from this sequence, and their limits should be stated with them. Much of what the prospectus disclosed was, in principle, available to an investor holding the contractual rights that a commitment of this size could have supported; the evidence does not establish what SoftBank knew and when, and no such claim is made here. What can be observed is narrower: that the investor did not hold board representation proportionate to its exposure, that its successive commitments were not conditioned on operating milestones, and that its revision of the company's value followed rather than preceded the disclosure of the accounts to the public market. In the vocabulary of Section 2.2, the arrangements through which

distance is ordinarily converted into manageable information flows were largely absent, on both sides, from a relationship built on the premise that they were unnecessary.

3.3.5 The Collapse: Bailout, Litigation, Relisting, and Bankruptcy

The withdrawal of the IPO transformed a valuation problem into a liquidity crisis, since the offering had been designed to unlock, in addition to the equity proceeds, an associated six-billion-dollar credit facility. In October 2019 SoftBank assembled a rescue package of approximately 9.5 billion dollars, comprising new financing, an accelerated existing commitment, and a tender offer of up to three billion dollars for shares held by Neumann, employees, and early investors. The package took SoftBank's economic ownership to approximately 80 per cent of the company at an implied valuation below eight billion dollars, and installed SoftBank's chief operating officer, Marcelo Claure, as WeWork's executive chairman (The Washington Post, 2019; Reuters, 2023). The terms negotiated for Neumann's exit, reported at up to 1.7 billion dollars including a share purchase of up to 970 million dollars, a 185-million-dollar consulting fee, and a 500-million-dollar credit facility, attracted sustained criticism as a reward for failure and became a symbol of the governance pathology the episode exposed (Sherman, 2019; Reuters, 2023).

The board's acceptance of the SoftBank package was itself a constrained choice, and it indicates how far the company's bargaining position had deteriorated. The principal alternative under consideration was a five-billion-dollar debt package arranged by JPMorgan Chase, the bank that had led the abandoned offering; the financing would have avoided further dilution but at a cost of high-yield terms that the company's already distressed bonds suggested the market would receive poorly (Sherman, 2019). Choosing the equity rescue meant accepting that the investor whose successive rounds had constructed the 47-billion-dollar valuation would now reacquire control of the company at less than one-fifth of that figure. The sequence has an analytically relevant property: the investor that had set the successive private valuations was also the party that absorbed the difference when those valuations were repriced. The episode is consistent with the proposition that valuations established without external validation are not thereby made durable, and that a cooperative relationship between investor and founder does not substitute for the arrangements through which an investor verifies what it is financing.

The financial consequences for the investor materialised immediately. In November 2019 SoftBank reported its first quarterly operating loss in fourteen years, approximately 6.5

billion dollars, driven by a Vision Fund loss of 8.9 billion dollars that included a write-down of 4.6 billion dollars on WeWork alone; at the accompanying results presentation Son described the episode as a very harsh lesson and acknowledged serious misjudgment (SoftBank Group, 2019; The Wall Street Journal, 2019; Reuters, 2023). The relationship then deteriorated into open litigation. In April 2020 SoftBank withdrew the three-billion-dollar tender offer, citing unmet closing conditions; WeWork's special board committee sued SoftBank, and Neumann filed his own suit the following month. The dispute was settled in February 2021, with SoftBank agreeing to purchase roughly half the shares originally committed (Reuters, 2023). In May 2020, Son publicly stated that he had been foolish in his investment in WeWork, by then carried on SoftBank's books at 2.9 billion dollars, a decline of more than 90 per cent from the peak valuation sixteen months earlier (CNBC, 2020).

Under new management, WeWork pursued cost reduction, lease renegotiation, and a second route to the public markets. In March 2021 it agreed to merge with BowX Acquisition Corp., a special purpose acquisition company, at a valuation of approximately nine billion dollars, and began trading on the New York Stock Exchange on 21 October 2021 (Reuters, 2023; Nguyen, 2023). The listing did not resolve the underlying economics: the company remained loss-making, its long-duration lease liabilities remained mismatched against short-duration membership revenues, and the pandemic-era contraction of office demand compounded both problems. In August 2023 WeWork disclosed substantial doubt about its ability to continue as a going concern, and on 6 November 2023 it filed for Chapter 11 bankruptcy protection, reporting approximately 15 billion dollars of assets against 18.6 billion dollars of debt; its shares, which had ended their first trading day in 2021 up 13 per cent, were quoted at 84 cents, corresponding to a market capitalisation of roughly 44.5 million dollars (Nguyen, 2023). SoftBank's cumulative recognised losses on the investment stood at 14.4 billion dollars as of its results for the quarter ended 30 September 2023, before the effects of the bankruptcy itself (Reuters, 2023; Fortune, 2023). Commentary in the Japanese financial press framed the outcome explicitly in terms of the founder's credibility, noting the damage to Son's standing as an investor that the decade-long episode had produced (The Japan Times, 2023).

Figure 3.2. *Timeline of the SoftBank–WeWork investment (2017–2023).*

Date	Event
Aug 2017	SoftBank and Vision Fund invest $4.4 billion; valuation ≈ $20 billion
Nov 2018 – Jan 2019	Further rounds bring SoftBank exposure to $10.65 billion; valuation $47 billion
14 Aug 2019	IPO prospectus filed; losses, lease obligations, and related-party dealings disclosed
24 Sep 2019	Neumann resigns as CEO under investor pressure
30 Sep 2019	IPO registration formally withdrawn
Oct 2019	SoftBank $9.5 billion rescue; ≈ 80% ownership; Claure executive chairman
Nov 2019	SoftBank's first quarterly operating loss in 14 years; $4.6 billion WeWork write-down
Apr 2020 – Feb 2021	Tender offer withdrawn; litigation; settlement on reduced share purchase
May 2020	Son calls the investment foolish; carrying value $2.9 billion
21 Oct 2021	Listing via SPAC merger with BowX at ≈ $9 billion valuation
6 Nov 2023	Chapter 11 filing; market capitalisation ≈ $44.5 million

Source: Author's elaboration based on Reuters (2023), Nguyen (2023), Sherman (2019), and CNBC (2020).

Table 3.5. *WeWork valuation trajectory, 2016–2023.*

Date	Valuation	Basis
2016	$16.9 billion	Last round not led by SoftBank
Aug 2017	≈ $20 billion	SoftBank Series G
Jan 2019	$47 billion (peak)	SoftBank-led round
Sep 2019	≈ $10 billion	Indicated IPO pricing before withdrawal
Oct 2019	< $8 billion	SoftBank rescue package
May 2020	$2.9 billion	SoftBank carrying value
Oct 2021	≈ $9 billion	SPAC merger valuation
6 Nov 2023	≈ $44.5 million	Market capitalisation at Chapter 11 filing

Source: Author's elaboration based on Sherman (2019), Reuters (2023), CNBC (2020), and Nguyen (2023).

3.3.6 Interpretation and Alternative Explanations

Read against the framework of Chapters 1 and 2, the SoftBank–WeWork case occupies the position complementary to the Deutsche Börse–LSEG case. In the first case, a transaction with sound economics and moderate measured distance failed to close because friction at symbolically charged interfaces was never managed. In the second, a transaction across one of the largest measured cultural distances between developed economies closed effortlessly, and value was destroyed afterwards, in the post-investment phase where Chapter 2 located the decisive mechanisms. The two cases therefore differ in ways that the composite index does not order. That observation is reported for completeness and not as evidence: with three cases

selected on their outcomes, no inference about the predictive value of the index is available. What the pair does permit is a comparison of how the interfaces between the parties were managed, and it is to that comparison, and not to the outcomes themselves, that Section 3.5 is directed.

Before the framework is applied, the attribution rule adopted in Section 3.1.5 should be applied to the record, because it excludes a good deal of it. The disagreements that are documented here all concerned items of substantial direct economic value, and all concerned the terms of the relationship rather than persisting after those terms had been agreed. Since the capital was committed in successive rounds rather than at a single closing, the persistence condition is applied to each round in turn, and no disagreement is documented as recurring after the terms of two or more rounds had been settled. Under the coding scheme adopted in this chapter, they are recorded as governance and control conflicts, and the litigation of 2020 and 2021 is recorded in the same category. Classifying them as cultural friction would extend the concept to cover any disagreement between parties of different nationality, which is the elasticity that Chapter 1 identified as the principal weakness of the construct. This is the case in which the disconfirming test set out in Section 3.1.5 bears most directly, and the record largely meets it: the disagreements dissolve into the terms on which they were negotiated, and the governance reading accounts for them without residue. The interpretation offered below is correspondingly narrow.

One element is closer to the boundary. The decision procedure through which the initial commitment was made: a personal assessment of the founder, reached rapidly and on the basis of a brief direct encounter, and subsequently acknowledged by the investor himself as a misjudgment of character, is consistent with a mode of evaluation in which relational judgment substitutes for procedural verification. Whether this is properly described as a cultural attribute is doubtful. It was the practice of a particular individual, described by contemporaneous observers as unusual within Japanese corporate practice, and applied by the same investor to companies in many countries including Japan. It is recorded here as a firm-level and individual-level attribute of the investor rather than as a national one, for the same reason that the national scores in Table 3.4 were confined to descriptive context.

The case gives concrete form to three propositions developed in Chapter 2. First, the record is consistent with the proposition of Section 2.2 that monitoring mechanisms are the

channel through which distance becomes cost: the investor's reliance on a personal coordination mechanism, the founder-to-founder relationship, in precisely the configuration in which Ambos and Ambos (2009) show such mechanisms to be least reliable, allowed observable governance failures to accumulate for two years before an external institutional shock, the IPO process, performed the verification function that the investor's own arrangements had not. Second, the finding of Stahl and Voigt (2008) that cultural differences damage sociocultural integration while their effect on value realisation depends on the integration approach chosen is reflected in the asymmetry of the relationship: SoftBank chose, in effect, a zero-integration approach, preserving the target's autonomy completely, and thereby also preserved intact the governance pathologies that autonomy protected. Third, the behavioural underestimation mechanism of Datta and Puia (1995) appears here in a compounded form, because the acquirer did not merely overpay against an external market price; it manufactured the price against which it overpaid.

The case also qualifies the learning argument of Section 2.3 in an instructive way. Vermeulen and Barkema (2001) show that acquisitions inject the unfamiliar knowledge that revitalises subsequent expansion, and Section 2.3 argued that the costs of distance decline as firms accumulate experience. SoftBank was not an inexperienced investor; the Vision Fund existed precisely to industrialise Son's investment experience at scale. What the case suggests is that experience produces learning only when the organisation's governance converts outcomes into corrected behaviour, a condition Huang, Zhu and Brass (2016) formalise in their finding that experience can amplify rather than attenuate damage when the relational configuration is adverse. Son's own public acknowledgments, from the very harsh lesson of November 2019 to the admission of foolishness in May 2020, document the recognition phase of learning; whether the recognition translated into structural reform of the fund's monitoring architecture lies beyond the scope of this case, but the sequence illustrates that organisational learning from culturally distant investment is itself a governance outcome rather than an automatic by-product of activity.

The counterfactual, defined as in Section 3.1.5, is the set of arrangements that were available to the investor at the time and were not obtained. The instruments were standard and available: financing staged against governance milestones rather than committed in advance; independent directors with information rights not mediated by the founder; contractual restrictions on related-party transactions of the kind the prospectus later disclosed; and a valuation discipline anchored to at least one external investor in each round, which would have

prevented the accumulation of the untested gap between private belief and public assessment. None of these instruments required cultural proximity to design or operate; each was a routine feature of the domestic venture market in which WeWork was embedded. Their absence is consistent with the investment model described in Section 3.3.2 and with the personal character of the founding relationship. The counterfactual establishes that the investor could have been differently positioned. It does not establish that the company would have succeeded, or that the losses would have been avoided, had it been, and the case is offered as an illustration of the mechanism rather than as a demonstration of a causal relation.

Four alternative explanations account for a substantial part of the outcome and are not excluded by the evidence. The first, and in the judgment of most observers the principal one, is the structure of the business itself: long-duration lease obligations financed against short-duration membership revenues, with expansion requiring proportional increases in fixed commitments and therefore producing no operating leverage. A business with this structure would have been exposed to the same difficulties under any investor of any nationality. The second is the governance structure of the target, in which multiple share classes concentrated control in the founder to a degree that would have constrained any outside investor, domestic or foreign. The third is the investment model of the fund itself: scale, speed, and the deliberate non-exercise of control rights, which was a firm-level strategy applied across a portfolio in many countries and not an expression of a national practice. The fourth is exogenous: the contraction in demand for office space that followed 2020 affected the entire flexible workspace sector and was not foreseeable when the commitments were made. The interpretation offered above is compatible with all four, and on the evidence available it is not the largest of them.

Finally, the case sharpens the identity-based perspective of Edman (2016) introduced in Section 2.3. WeWork's rise was built on a deliberately constructed identity, that of a technology company rather than a real-estate company, which determined the legitimacy it enjoyed, the capital it attracted, and the valuation logic applied to it (Postl, 2021). SoftBank's foreignness played a paradoxical role in sustaining that identity: a distant investor, operating through personal conviction rather than through the dense verification networks of the domestic venture ecosystem, was structurally less exposed to the local information that contradicted the constructed identity. Distance, in this reading, may have operated less by raising the cost of information than by lowering the probability that disconfirming information would be sought. The final case of this chapter examines a different configuration: a cross-border acquisition in

which the distance between a French acquirer and an American target was addressed explicitly during the transaction and the post-acquisition period.

3.4 Case Study 3: LVMH and Tiffany & Co. (2019–2021)

3.4.1 Deal Overview and Strategic Rationale

On 25 November 2019, LVMH Moët Hennessy Louis Vuitton and Tiffany & Co. jointly announced that LVMH would acquire the American jeweller for 135 dollars per share in cash, in a transaction with an equity value of approximately 16.2 billion dollars, the largest acquisition ever undertaken in the luxury goods industry (Subramanian, Zlatev & Farook, 2021; Liu, Zhang & Zhu, 2023). The price represented a 37 per cent premium over Tiffany's unaffected share price, and the market's initial assessment of the combination was positive on both sides: on the day of the announcement LVMH's shares rose by 2.3 per cent and Tiffany's by 6.2 per cent, against an increase of 0.8 per cent in the S&P 500 index and 1.3 per cent in the S&P Global Luxury index (Subramanian et al., 2021). The transaction closed on 7 January 2021, after a renegotiation examined below, at a reduced price of 131.50 dollars per share, approximately 15.8 billion dollars (Liu et al., 2023). It thus provides the third configuration in the comparative design of this chapter: a cross-border acquisition that closed and, on the evidence available, created value.

The strategic rationale addressed a structural weakness in the acquirer's portfolio. LVMH, the largest luxury group in the world with revenue above 50 billion euros in 2019, derived the great majority of its revenue from fashion and leather goods, selective retailing, and perfumes and cosmetics, while its watches and jewelry division, home to Bulgari and TAG Heuer, contributed less than nine per cent of group revenue despite branded jewelry being among the fastest-growing segments of the luxury market (Zheng, 2022; Liu et al., 2023). Tiffany, founded in 1837 and among the most recognised jewelry brands in the world, offered exactly the assets the division lacked: an iconic American heritage brand, leadership in the United States market, a strong position in Asia, and a vertically integrated diamond supply chain. Tiffany, for its part, had been struggling: sales and profits had declined from 2015, and its shareholder returns had underperformed both the S&P 500 and the consumer discretionary index over the preceding five years, a configuration that made the substantial premium economically defensible for a buyer capable of reversing the trajectory (Subramanian et al., 2021).

The negotiation itself was rapid and contested. LVMH approached Tiffany on 15 October 2019 with an unsolicited offer of 120 dollars per share, approximately 14.4 billion

dollars, at a time when Tiffany's stock traded near 91 dollars. News of the discussions leaked on 27 October, and Tiffany's shares rose more than 30 per cent. Tiffany's board rejected the initial offer on 4 November; LVMH raised its bid five times before agreement was reached at 135 dollars on 24 November (Subramanian et al., 2021). Two features of the merger agreement deserve emphasis because they proved decisive in the crisis that followed. First, the agreement set a completion deadline of 24 August 2020, extendable by either party to 24 November 2020. Second, it contained a material adverse effect clause with carve-outs for eight broad categories of events, including general economic and political conditions and natural disasters, with specific examples such as the Hong Kong protests and the Yellow Vest movement in France explicitly listed (Subramanian et al., 2021). As argued in Section 3.4.6, this contractual architecture amounted to an ex-ante codification of political and institutional risk, and its precision materially shaped the outcome of the subsequent dispute.

Table 3.6. *Key terms of the LVMH–Tiffany acquisition (2019–2021).*

Dimension	Term
Announcement date	25 November 2019
Structure	All-cash acquisition of 100% of Tiffany common stock
Original price	$135 per share (≈ $16.2 billion; 37% premium over unaffected price)
Renegotiated price	$131.50 per share (≈ $15.8 billion), agreed October 2020
Completion deadline	24 August 2020, extendable to 24 November 2020
Key clause	MAE clause with carve-outs for eight event categories
Closing date	7 January 2021
Post-closing leadership	CEO: Anthony Ledru; EVP: Alexandre Arnault; Chairman: Michael Burke
Outcome	Completed; strong divisional performance growth from 2021

Source: Author's elaboration based on Subramanian et al. (2021), Liu et al. (2023), and WWD (2021).

3.4.2 The Counterparts: A French Family Conglomerate and an American Heritage Brand

The acquirer and the target embodied two distinct national models of the luxury industry. LVMH, formed in 1987 and controlled by the Arnault family, is a Paris-based conglomerate of some seventy-five brands built through more than three decades of systematic acquisition. Its organisational model combines centralised family control, an explicitly long-term investment horizon insulated from quarterly market pressure, and a repeatable playbook for acquired

brands: heavy investment in product elevation, retail experience, and brand communication, executed by managers rotated across the group's houses (Liu et al., 2023). Its chairman and chief executive, Bernard Arnault, had personally directed this acquisition strategy, and the group's 2011 acquisition of the Italian jeweller Bulgari, for approximately 5.2 billion dollars, had given it direct, recent experience in acquiring and developing a family-rooted jewelry house from a different national culture (Subramanian et al., 2021).

Tiffany was, by contrast, a publicly listed American company answerable to dispersed shareholders, with the governance culture that follows from that structure: an independent board, exposure to activist pressure, and accountability measured in quarterly results. Its identity was inseparable from its American origins; its Fifth Avenue flagship, its signature blue box, and its place in American popular culture constituted, in the vocabulary of Edman (2016), identity attributes of considerable economic value. The company had nonetheless cycled through four chief executives since 2015 while its performance deteriorated, suggesting an organisation whose brand assets exceeded its ability to monetise them (Subramanian et al., 2021; JCK, 2022). The complementarity between the two organisations was therefore close to the configuration that Björkman, Stahl and Vaara (2007) associate with the highest transfer potential: distinctive resources on each side, the brand heritage and market position of the target and the capital, retail expertise, and brand-elevation capability of the acquirer, separated by a cultural distance large enough to make those resources genuinely different, but not so extreme as to preclude their combination.

The Bulgari precedent deserves separate emphasis, because it converts what might otherwise be described as generic acquisition experience into directly applicable integration knowledge. In acquiring the Roman jeweller in 2011, LVMH had already confronted the specific problem structure that Tiffany would present a decade later: a jewelry house with a strong national identity, a heritage brand whose value resided in attributes the acquirer must preserve, and an organisation requiring substantial investment in product and retail elevation to realise its potential within a conglomerate. The group's watches and jewelry division was, by 2019, the organisational repository of that accumulated knowledge, including the managerial routines for elevating a jewelry brand's price architecture and the demonstrated practice of developing rather than absorbing an acquired house (Subramanian et al., 2021; Liu et al., 2023). In the framework of Section 2.3, the Tiffany acquisition was therefore not a first draw from an unfamiliar distribution but a repeated draw informed by prior sampling: the acquirer entered

the transaction with the specific absorptive capacity relevant to this class of target, which is precisely the condition under which Moura, Falaster and Silva-Rêgo (2022) find cultural distance to be positively associated with post-acquisition performance.

3.4.3 Cultural and Institutional Distance Between the Counterparts

On Hofstede's dimensions, France and the United States present a distance profile intermediate between the two previous cases. The largest gaps concern uncertainty avoidance, where France scores far higher, and power distance, where France's score of 68 against the American 40 places the acquirer distinctly on the hierarchical side; the United States is markedly more individualist, while France scores lower on masculinity (Table 3.7). The dimensional gaps are wider than those between the United Kingdom and Germany reported in Section 3.2 and narrower than those between Japan and the United States reported in Section 3.3. That ordering is reported as descriptive context and not as evidence: with three cases selected on their outcomes, no inference about the predictive value of the scores is available. Two configurational features deserve emphasis. First, on these national scores the acquirer's country is the higher power distance party, the configuration that Huang, Zhu and Brass (2016) associate with more damaging integration dynamics in their cross-border sample. Whether the two organisations reproduced their national profiles is a separate question, which the scores cannot answer and which is addressed below against the organisational record. Second, unlike the previous case, distance here would be activated across a genuine organisational integration, with the acquirer replacing management and transferring practices into the target.

Table 3.7. *Hofstede cultural dimension scores, France and the United States.*

Cultural dimension	France	United States	Gap
Power distance	68	40	28
Individualism	71	91	20
Masculinity	43	62	19
Uncertainty avoidance	86	46	40

Source: Hofstede Insights country-comparison data. Gap reported as absolute difference.

Institutional distance was equally structured. The governance gap between a family-controlled French société européenne and a Delaware-incorporated public company entailed different obligations toward shareholders, different disclosure regimes, and different relationships with the state. The French dimension of that last difference proved unexpectedly

material: as the dispute of 2020 demonstrated, the boundary between LVMH and the French government was porous in a way that has no equivalent for an American public company, and the target's protections lay in the institutional machinery of its own jurisdiction, above all the Delaware Chancery Court, whose specialised merger jurisprudence and capacity to compel completion constituted the institutional counterweight on which Tiffany ultimately relied (Subramanian et al., 2021). In the vocabulary of Xu and Shenkar (2002), regulatory distance was bridged by contract and forum: the merger agreement was governed by the legal institutions of the target's home state, which meant that the normative expectations applied to the parties' conduct in the dispute would be American, not French.

3.4.4 The Pandemic Crisis, the Dispute, and the Renegotiation

The COVID-19 pandemic subjected the agreement to a stress test of historic severity between signing and closing. Tiffany's worldwide net sales fell by roughly 45 per cent in the first quarter of 2020, while LVMH's own first-quarter revenue declined 17 per cent on an organic basis (Liu et al., 2023). Tiffany nonetheless continued to pay its regular dividends, approximately 140 million dollars during the pandemic period, a decision LVMH would later attack as inconsistent with the conduct of business in the ordinary course (Liu et al., 2023; Subramanian et al., 2021). In June 2020, reports emerged that LVMH's board was reconsidering the transaction, an unusual leak from a famously disciplined boardroom, and Tiffany's shares fell 8.9 per cent (Subramanian et al., 2021).

The escalation that followed brought the political dimension of institutional distance to the surface. On 31 August 2020, LVMH received a letter from Jean-Yves Le Drian, the French Minister of Foreign Affairs, referring to the American decision to levy additional tariffs on French goods and asking LVMH to support the French government's response by deferring the closing beyond the contractual deadline, to 6 January 2021. Suspicions immediately arose that LVMH had solicited the letter; the company denied it, but the Financial Times observed that the letter's timing was difficult to attribute to coincidence given Arnault's standing in France, and its legal authority was doubtful since trade matters fall within European Union competence (Subramanian et al., 2021). On 9 September 2020, LVMH informed Tiffany that it could not complete the merger by the 24 November deadline; Tiffany filed suit in the Delaware Chancery Court the same day, seeking to compel completion. LVMH advanced three justifications, that a material adverse effect had occurred, that Tiffany had failed to operate in the ordinary course,

and that the ministerial letter prevented closing, and filed its counterclaim on 28 September; the court set a trial date for January 2021 (Subramanian et al., 2021).

What distinguishes this episode from the superficially similar crisis of the first case study is its resolution. With a January trial looming and the pandemic depressing luxury demand, the parties renegotiated: at the end of October 2020 they agreed to reduce the price from 135 to 131.50 dollars per share, a saving of approximately 400 million dollars on a total consideration of roughly 15.8 billion, in exchange for which the litigation was withdrawn and the transaction proceeded to close on 7 January 2021, one day after the deferral date named in the ministerial letter (Liu et al., 2023). The friction generated by the pandemic, by national tariff politics, and by the porous boundary between the acquirer and its home state was therefore real and severe; but it was discharged through a bounded, priced adjustment rather than through the destruction of the transaction. The contrast with the Deutsche Börse–LSEG case, in which the analogous political intrusion, the German regulatory resistance to a London headquarters, was never converted into a negotiable term, and with the SoftBank–WeWork case, in which no contractual protections existed to be enforced, defines the central lesson of this chapter's comparative design.

The legal structure of the dispute explains why litigation strengthened rather than destroyed the transaction. Each of LVMH's three justifications faced a specific contractual obstacle. The material adverse effect claim had to overcome the carve-outs that the parties themselves had negotiated: by listing broad categories such as general economic conditions and natural disasters among the events that could not trigger termination, the agreement had allocated precisely the class of systemic, industry-wide shocks to which the pandemic belonged to the buyer, and Tiffany's filing argued that a downturn affecting the entire luxury sector could not constitute a Tiffany-specific adverse effect (Subramanian et al., 2021). The ordinary-course claim, centred on the continued payment of dividends, confronted the fact that the dividends were regular, previously declared, and consistent with the company's established practice. The ministerial letter, finally, was of uncertain legal authority, since trade policy lies within European Union rather than national competence, and its evidentiary value was undermined by the suspicion, which LVMH denied but could not dispel, that the acquirer had solicited it (Subramanian et al., 2021). A buyer facing trial in January on three weak claims, before a court with the power to order completion, had strong incentives to settle; a seller whose shareholders

preferred certainty at 131.50 dollars to litigation risk at 135 had symmetrical incentives. The renegotiated price was, in effect, the judicially disciplined market value of the friction.

Figure 3.3. *Timeline of the LVMH–Tiffany acquisition (2019–2021).*

Date	Event
15 Oct 2019	Unsolicited LVMH offer at $120 per share (≈ $14.4 billion)
4 Nov 2019	Tiffany board rejects initial offer; LVMH raises bid five times
25 Nov 2019	Agreement announced at $135 per share (≈ $16.2 billion)
Q1 2020	Pandemic: Tiffany sales fall ≈ 45%; LVMH organic revenue −17%
31 Aug 2020	Letter from French Foreign Minister requests deferral of closing
9 Sep 2020	LVMH declares inability to close; Tiffany sues in Delaware the same day
28 Sep 2020	LVMH files counterclaim; trial set for January 2021
Oct 2020	Renegotiation at $131.50 per share (≈ $15.8 billion); litigation withdrawn
7 Jan 2021	Transaction closes; LVMH executives installed at Tiffany

Source: Author's elaboration based on Subramanian et al. (2021) and Liu et al. (2023).

3.4.5 Post-Acquisition Integration and Financial Performance

Integration began on the day of closing and followed the acquirer's established model. LVMH immediately replaced Tiffany's senior leadership: Anthony Ledru, previously executive vice president for global commercial activities at Louis Vuitton, was appointed chief executive; Alexandre Arnault, son of the LVMH chairman and previously chief executive of the group's luggage brand Rimowa, became executive vice president for product and communications; and Michael Burke, chairman and chief executive of Louis Vuitton, became chairman of Tiffany's board (WWD, 2021). The composition of this team is analytically significant. Ledru had spent much of his career in the United States luxury market and had himself run Tiffany's North American business in 2013 and 2014; the integration was thus led not by culturally distant outsiders but by acquirer executives with deep host-country and even target-company experience, the precise variable that Galavotti, Cerrato and Cantoni (2020) identify as the strongest predictor of acquired-firm survival. Delisting from the New York Stock Exchange simultaneously removed the quarterly earnings pressure under which the brand's previous repositioning attempts had operated (WWD, 2021).

The strategy applied to the brand was the group's standard elevation playbook, adapted to an American icon: substantial investment in product innovation and higher price points,

renewal of marketing toward younger consumers, renovation of the flagship retail estate, and integration into the group's supply of retail real estate and communication capability. The declared intention was not to absorb Tiffany's identity but to reposition it: Bernard Arnault stated that he wished to make the brand, in his words, a little bit French, while Alexandre Arnault publicly denied any intention to de-Americanise the company, insisting that the group's practice was to respect the heritage of acquired houses (JCK, 2022). The tension between those two formulations was real and visible inside the organisation. Contemporary reporting documented a culture clash between the incoming French management and the American workforce, with departures among long-serving employees, complaints about a more hierarchical and demanding management style, and unease at the pace of change (The Wall Street Journal, 2021). The complaints reported concern hierarchy and the pace of change, which is the direction the configuration in Table 3.7 would suggest, although the record does not permit the friction to be traced to national attributes rather than to the change of ownership itself, which would have produced comparable disturbance under a domestic acquirer. What distinguishes the case is that the disturbance was met by an integration architecture rather than left to accumulate.

The financial results must be read subject to a limitation that constrains what can be claimed from them. LVMH does not disclose Tiffany's standalone performance (Zhu, 2024), so the figures below describe the division into which the target was consolidated and not the target itself. LVMH's watches and jewelry division, into which Tiffany was consolidated from January 2021, recorded revenue of 8,964 million euros in 2021 against 3,356 million in 2020, an increase of 167 per cent as reported, of which 40 per cent was organic growth against 2020 and 7 per cent organic growth against pre-pandemic 2019; profit from recurring operations for the division reached 1,679 million euros in 2021, with an operating margin of 18.7 per cent, rising to 20.1 per cent in the first half of 2022 (Liu et al., 2023). The division's share of group revenue rose from approximately 9 per cent before the acquisition to roughly 16 per cent after it (Zheng, 2022). Growth was strongest precisely where the strategic rationale had predicted: organic revenue in the United States and in Asia excluding Japan grew 23 and 29 per cent respectively over nine months of 2021 against 2019 (Liu et al., 2023). Academic assessments of the transaction concur in classifying it as successful: Liu et al. (2023) describe an acquisition that offset the acquirer's structural weakness in jewelry, and Zheng (2022) documents the improvement in group profitability in the first post-acquisition periods, while Zhu (2024) notes

that cultural differences remained a live management challenge requiring continuing adaptation.

Equally instructive is what the integration deliberately did not do. The headquarters remained in New York; the brand name, the blue box, and the American iconography were retained and reinvested in rather than replaced; and the company continued to be presented as an American house within a French group rather than as a French subsidiary. The contrast with the first case study is direct. In the Deutsche Börse–LSEG merger, the location of the headquarters became the unpriced symbolic battleground on which the transaction died; in the present case, the same category of symbolically charged asset, the national identity of the acquired institution, was treated from the outset as part of the value being purchased and therefore as something to be protected rather than contested. The acquirer's willingness to leave the most identity-laden attributes untouched removed from the integration precisely the class of friction that proved fatal in the German–British case, and concentrated managerial change where the acquirer's advantage was real and the target's identity was not at stake: pricing, product development, communication, and retail execution (WWD, 2021; JCK, 2022).

Table 3.8. *LVMH watches and jewelry division, key figures before and after the Tiffany consolidation.*

Indicator	2019	2020	2021
Revenue (€ million)	4,405	3,356	8,964
Reported growth 2021/2020	–	–	+167%
Organic growth 2021/2019	–	–	+7%
Profit from recurring operations (€ million)	–	–	1,679
Operating margin	–	–	18.7%
Share of LVMH group revenue	≈ 9%	≈ 8%	≈ 14–16%

Source: Author's elaboration based on Liu et al. (2023) and Zheng (2022), drawing on LVMH annual results publications. Division figures include Bulgari, TAG Heuer, and other maisons; Tiffany consolidated from January 2021.

Two interpretive cautions are required. First, because the division aggregates several brands and Tiffany's standalone accounts are not published, the divisional figures overstate what can be attributed to Tiffany alone; the reported growth of 167 per cent largely reflects the mechanical effect of consolidation, and the organic measures are the more informative indicators. Second, 2021 was a year of exceptional post-pandemic recovery across the luxury industry, so part of the improvement reflects sector-wide conditions rather than acquisition-specific value creation. Even under these qualifications, however, the direction of the evidence

is consistent with value having been created: the division's organic growth exceeded its pre-pandemic baseline, its margin expanded rather than contracted through the integration period, and the acquirer's own continued investment in the brand, including the multi-year renovation of the Fifth Avenue flagship, signals internal confidence in the trajectory (Liu et al., 2023; JCK, 2022). What the published figures do not permit is the apportionment of that growth between the acquisition and the conditions under which it occurred, since the organic measures are divisional and 2021 was a year of exceptional recovery across the industry. The case therefore supports a judgment about the direction of the effect and not a measurement of its magnitude, and the interpretation that follows is confined to the former.

3.4.6 Interpretation Through the Theoretical Framework

Read against the framework of Chapters 1 and 2, the case illustrates what the deliberate management of cultural and institutional distance can look like in practice, under conditions that were in several respects less favourable than those of the two preceding cases. The dimensional gaps between the two countries were wider than those of the Deutsche Börse–LSEG pair; the power distance configuration was the one that Huang, Zhu and Brass (2016) associate with more damaging integration dynamics; the transaction was struck at a full premium immediately before the largest demand shock in the industry's history; and the intervention of the acquirer's home state was at least as direct as the German regulatory resistance recorded in the first case. That the transaction nonetheless closed, and that the division into which the target was consolidated performed as described in Section 3.4.5, is consistent with the argument advanced in this thesis, which locates the financial consequences of distance in how it is managed rather than in its measured magnitude. It does not establish that relation, for the reasons set out in Section 3.1.5 and returned to in the alternative explanations below.

Before the framework is applied, the attribution rule of Section 3.1.5 should be applied to the record, which it sorts into more than one category. One episode satisfies both conditions: the friction reported inside the organisation after closing, which concerned management style and the pace of change rather than the terms of the transaction, which attached to no separately negotiated price, and which is documented in sources contemporaneous with the first post-acquisition years rather than only in later accounts. It is recorded as cultural friction in the same limited sense used in the two preceding cases. The disposition of the target's identity attributes,

the headquarters, the name, the iconography, and the presentation of the house as an American brand within a French group, does not satisfy the rule and is not recorded as friction. The rule requires a disagreement that persists after the economic terms have been settled, and on the record there was no disagreement to persist: the acquirer undertook to preserve these attributes, did so, and did not reopen them. What the record shows at this point is the absence of a dispute rather than a dispute that was resolved. That absence is analytically relevant, and it is treated below as evidence bearing on integration capability, which is where it belongs. Recording a decision that removed the occasion for a dispute as though it were a dispute would make the category unfalsifiable, since both the presence and the absence of conflict over symbolic items would then count equally as evidence of cultural friction.

The remainder of the record falls elsewhere. The dispute of 2020 concerned price and the allocation of pandemic risk under the merger agreement, and is recorded as an economic conflict. The letter of the French foreign minister is recorded as a political conflict, and the tariff dispute that furnished its occasion as the same. The Delaware proceedings are recorded as the forum in which the economic conflict was resolved rather than as a category of their own. Treating the ministerial intervention as an expression of national culture would extend the concept until it ceased to discriminate between categories, which is the weakness Chapter 1 identified in the construct.

Three mechanisms from the theoretical framework are the ones the record makes visible. The first is contractual codification of institutional friction. The merger agreement's material adverse effect clause, with its enumerated carve-outs explicitly naming political disruptions, converted open-ended institutional uncertainty into allocated risk before any of it materialised; when the pandemic and the tariff dispute arrived, the parties disagreed about interpretation, but they disagreed within a shared contractual frame, enforceable in a specialised forum, that made renegotiation cheaper than destruction. The second is host-country experience and absorptive capacity. LVMH entered the transaction with three decades of acquisition experience, a recent and directly analogous jewelry acquisition (Bulgari), extensive operations in the United States, and an integration team whose leader had run the target's own American business; in the terms of Vermeulen and Barkema (2001), the acquirer had already paid, on earlier transactions, the learning costs that first-time acquirers pay on their focal deal, and in the terms of Moura, Falaster and Silva-Rêgo (2022), it possessed the absorptive capacity that converts cultural distance from a penalty into a source of value. The third is identity configuration in the sense

of Edman (2016). The integration neither preserved Tiffany untouched nor absorbed it into a French template: it retained and reinvested in the American identity attributes that constituted the brand's value, while replacing the management practices, pricing architecture, and communication approach where the acquirer's foreign capabilities were superior. In this configuration the distance between French and American luxury culture was associated with practice transfer of the kind that Beugelsdijk et al. (2018) identify as the largest positive effect of cultural distance in the internationalisation literature, rather than with a cost to be minimised.

A comparative observation on the location of friction sharpens the contrast with the two preceding cases. In the Deutsche Börse–LSEG transaction, the decisive friction arose in the pre-closing phase, at politically symbolic interfaces, and was never converted into a negotiable object: the headquarters question had no price, no contractual expression, and no forum in which it could be settled, and so it accumulated until it destroyed the transaction. In the SoftBank–WeWork relationship, no episode satisfying the attribution rule is established, and what accumulated in the post-investment phase was governance conflict over control rights and the use of capital, which the absence of monitoring structures allowed to develop unobserved until an external institutional event repriced it all at once. In the LVMH–Tiffany case, friction appeared in both phases, politically before closing and organisationally after it, and in both phases it encountered structures designed to process it: a contract and a court before closing, an experienced integration team and a deliberate identity strategy after it. The three cases therefore vary in two respects at once: in whether friction of the cultural kind arose at all, and in whether machinery existed for converting conflict of any kind into priced, bounded, and absorbable adjustments. Cultural friction is recorded in the first and third cases and is not established in the second, where the disagreements were negotiable throughout and were negotiated. The outcomes vary with the machinery rather than with the magnitude of the distance, though with three cases selected on their outcomes this covariation is an observation about the sample and not a finding that can be generalised beyond it.

The counterfactual, defined as in Section 3.1.5, is the abandonment of the transaction, which was available to the acquirer during 2020 and was not pursued. The acquirer had advanced a public and at least arguable basis for withdrawal, the target's trading had contracted sharply, and the litigation risk of walking away was known to both parties. That they instead settled on a reduced price and closed establishes that continuation was a choice rather than a

necessity. It does not establish what the outcome would have been had the transaction been abandoned, and no such claim is made.

Four alternative explanations account for a substantial part of the outcome and are not excluded by the evidence. The first is the recovery of the luxury sector after 2020, which lifted comparable brands under a wide range of ownership arrangements and which the qualifications stated in Section 3.4.5 do not fully separate from acquisition-specific effects. The second is the price reduction obtained in the renegotiation, which improved the acquirer's return on the transaction independently of anything done after closing. The third is the repositioning of the target begun under its previous management, which continued into the post-acquisition period, so that part of what is recorded here as integration success may be the continuation of a trajectory already under way. The fourth is the composition of the division into which the target was consolidated, which contains several established brands whose performance the published figures do not separate from the target's. The interpretation offered above is compatible with all four, and the evidence does not establish its priority over them.

The disconfirming implications set out in Section 3.1.5 apply to this case in the following form. What would count against the interpretation offered here is evidence that the identity attributes were in fact contested rather than conceded, with the resulting friction masked by favourable trading conditions; the record does not show this, since the decisions on headquarters, name, and national presentation were taken at the outset and were not reopened. It would equally count against the interpretation if the target's standalone performance, were it published, proved to have tracked the sector rather than exceeded it, in which case the divisional performance described in Section 3.4.5 would have to be assigned wholly to the alternative explanations above. That decomposition is not available from published sources, and testing this implication would require segment-level data that LVMH does not report.

The case also disciplines any temptation to romanticise the outcome. The culture clash documented in the American workforce was real; the power distance friction predicted by the framework materialised in departures and discontent; and the renegotiation itself involved conduct, including the ministerial letter, that sits uneasily with the norms of the target's institutional environment. Whatever value cultural distance may yield, this case gives no reason to expect it to arrive without friction. What the record shows is friction that was priced where it could be priced, bounded where it could be bounded, and absorbed by an organisation that

had invested in the capability to absorb it. The comparative implications of the three cases, a strategically sound merger that failed amid unmanaged friction at moderate distance, a closed investment that failed amid the absence of monitoring at high distance, and a closed acquisition that, on the evidence available, created value at intermediate distance under an experienced acquirer, are drawn together in the following section.

3.5 Comparative Assessment of the Three Cases

The three cases were selected on their outcomes and differ substantially in structure, so the comparison developed here is conducted at the level of mechanisms and not at the level of financial results, which are not commensurable across a prohibited merger between exchange operators, a staged equity investment in a private company, and the completed acquisition of a listed one. What the three records permit is a comparison of where friction arose, whether it was assigned to the cultural category or to a rival one under the rule of Section 3.1.5, what arrangements were in place to process it, and what alternative course was available to the parties and not taken. What they do not permit is an estimate of how frequently such arrangements produce such outcomes, or a demonstration that the arrangements caused them. Table 3.9 sets out the comparison in summary form; the discussion that follows draws out the four observations it supports.

Table 3.9. *Comparative summary of the three cases.*

Dimension	**Deutsche Börse–LSEG**	**SoftBank–WeWork**	**LVMH–Tiffany**
Transaction and control structure	Merger of equals, prohibited before closing	Staged equity investment becoming a controlling position	Negotiated acquisition, completed
Dimensional gaps (descriptive)	Narrowest of the three	Widest of the three	Intermediate
Episodes meeting the attribution rule	Seat of the combined group	None established on the record	Post-closing friction over style and pace
Principal rival categories recorded	Regulatory; economic; political; governance	Governance and control	Economic; political
Phase in which friction arose	Pre-closing only	Post-investment only	Both phases
Monitoring arrangements	Not observable; no continuing relationship	Formal instruments absent or unexercised	Consolidated ownership; reporting internalised
Integration arrangements	Designed but never applied; parity mechanisms signalling balance	Autonomy preserved; no integration undertaken	Dedicated team led by host-country-experienced executives; identity attributes retained
Available course declined	Divestment required by the Commission	Governance and information rights standard at that scale	Abandonment of the transaction during 2020

Source: Author's elaboration based on Sections 3.2 to 3.4.

The first observation concerns the incidence of cultural friction itself, and it runs against the expectation with which the chapter opened. Applying the attribution rule uniformly, cultural friction is recorded in the first and third cases and is largely absent from the second. In Deutsche Börse–LSEG the seat of the combined group satisfied both conditions, having carried no separately negotiated price and having remained in dispute after the exchange ratio was agreed. In LVMH–Tiffany one episode satisfied them, the friction reported inside the organisation after closing over management style and the pace of change; the disposition of the target's identity attributes did not, since the acquirer undertook to preserve them and no disagreement arose to persist, and it is recorded instead as evidence bearing on integration capability. In SoftBank–WeWork the documented disagreements concerned items of substantial direct economic value and did not persist beyond the terms of the rounds in which they arose; they are recorded as governance and control conflicts. The case with by far the widest dimensional gaps is therefore the case in which the least cultural friction can be established on the record. This is reported as it stands. It gives concrete form to the divergence between measured distance and observed friction set out in Section 3.1.4, and under the disconfirming test of Section 3.1.5 it counts against any reading in which the two move together.

The second observation follows from the first and bounds the argument more sharply than the individual cases do. Cultural friction is recorded in the case that failed and in the case that succeeded, and is largely absent from the second case that failed. Its presence therefore does not distinguish the outcomes, and the comparison offers no support for a reading in which friction is by itself the operative variable. It also establishes that cultural distance is not necessary for the destruction of value in a cross-border transaction: the largest loss in the sample occurred in the relationship where the least cultural friction can be documented, and is accounted for on the record by the structure of the target's business and by the governance arrangements the investor accepted. Whatever the first and third cases illustrate about the management of distance, they do not support the proposition that distance is where such losses generally originate.

The third observation concerns the form in which friction appeared rather than its quantity. In the first case the disputed item had no price, no contractual expression, and no forum in which it could be settled, and it remained open from the announcement in March 2016 until the prohibition thirteen months later. In the third, the corresponding items were conceded at the outset and were not reopened, while the disagreements that did arise, over price and over

the allocation of pandemic risk, were of a kind the merger agreement had anticipated and a specialised court could resolve. In the second, the disagreements were negotiable throughout and were negotiated; what was absent was not a channel for dispute but any mechanism for observing the target between disputes. The distinction the comparison makes visible is therefore not between more and less friction, but between friction that was given a channel and friction that was not, and this is closer to the friction perspective of Luo and Shenkar (2011) than to any account framed in terms of aggregate distance.

The fourth observation concerns the two managerial variables, and it must be stated together with a limitation of the design. Monitoring capability and integration capability are not observable to the same degree in all three cases, which is a direct consequence of the structural heterogeneity acknowledged in Section 3.1.2. Monitoring is the salient variable only where a continuing relationship existed and information had to travel between separate organisations, which is the configuration of the second case; in the first there was no post-closing phase, and in the third consolidated ownership internalised the reporting. Integration capability, conversely, is observable in the second and third cases and only in anticipation in the first, through arrangements the parties designed but never applied. The comparison across the two variables is therefore incomplete by construction, and the propositions it supports are correspondingly local. Within that limit, the contrast between the second and third cases is the informative one: the same category of decision, how much of the target's organisation to leave undisturbed, was taken in opposite directions and for different reasons, autonomy by default in one and selective retention by design in the other. This is consistent with the finding of Stahl and Voigt (2008) that the effect of cultural differences on value realisation depends on the integration approach adopted rather than on the differences themselves, and with the evidence of Galavotti, Cerrato and Cantoni (2020) and Moura, Falaster and Silva-Rêgo (2022) on the roles of host-country experience and absorptive capacity, both of which were present in the third case and neither of which was engaged in the second.

A feature common to all three records deserves separate notice. In each case, the counterfactual defined in Section 3.1.5 is an action that was documented, available, and not taken: the divestment the Commission required, the governance and information rights that were standard for commitments of that scale, and the abandonment of the transaction during 2020. That each party declined an available alternative is the one respect in which the three cases are directly comparable despite their structural differences. It establishes that the courses

taken were choices rather than necessities. It does not establish what would have followed from the alternatives, and no such claim is made in this chapter.

The alternative explanations stated at the close of each case are not eliminated by placing the cases side by side, and in two instances they are strengthened by it. The competition problem in the first case and the business model of the target in the second are each sufficient, on the evidence available, to account for a substantial part of the outcome without reference to cultural distance at all, and the recovery of the luxury sector after 2020 has a comparable standing in the third. A design of three cases cannot rank these against the interpretation offered here, because the rival explanations differ across the cases and there is no common variable on which they could be held constant. The exclusion of rival explanations was identified in Section 3.1.5 as the principal safeguard available to this design and as a partial one, and the comparison does not improve on that position.

Subject to these qualifications, the comparison is consistent with three propositions, each stated at the level the design can carry. First, measured distance and observed friction are distinct quantities, and the second case shows that they can diverge sharply in either direction. Second, where friction did arise, it arose at a small number of identifiable interfaces rather than diffusely across the relationship, which is what a friction perspective would lead one to expect and what a composite index of national values cannot represent. Third, the outcomes in these three cases vary with the arrangements available for processing friction rather than with the magnitude of the measured distance, although with three cases selected on their outcomes this covariation is an observation about the sample and not a finding that can be generalised beyond it. Read against the meta-analytic evidence reviewed in Chapter 2, and in particular against the heterogeneity that Beugelsdijk et al. (2018) report across studies, the three cases are best understood as an illustration of why that heterogeneity arises rather than as a resolution of it.

Conclusions

This thesis asked through what mechanisms the financial consequences of cultural distance in cross-border M&A depend on how that distance is managed, and what observable evidence distinguishes cultural friction from economic, regulatory, political or governance conflict. The first question was addressed theoretically and through the empirical literature; the second through an identification strategy stated in advance and applied to three documented transactions. What follows summarises what those records support, what they do not, and what would be required to test the argument beyond three cases.

The comparison in Section 3.5 yields four observations, none of which is a finding about a population. The first is that measured distance and observed friction are distinct quantities and can diverge sharply: applying the attribution rule uniformly, cultural friction is recorded in the Deutsche Börse–LSEG and LVMH–Tiffany cases and is not established in SoftBank–WeWork, the case with by far the widest dimensional gaps between the countries involved. The second bounds the argument. Cultural friction is recorded in a transaction that failed and in one in which value appears to have been created, and is absent from a second that failed; its presence therefore does not by itself distinguish the outcomes, and the largest destruction of value occurred where the least cultural friction can be documented. The third observation concerns the form friction took rather than its quantity. In the first case the disputed item carried no price, no contractual expression and no forum, and remained open until the transaction was prohibited; in the third, items of the same kind were conceded at the outset, and the disagreements that did arise were of a kind the merger agreement had anticipated and a specialised court could resolve; in the second, disagreement was negotiable throughout, and what was missing was any arrangement for observing the target between disputes. The distinction is between friction that was given a channel and friction that was not. The fourth concerns the two managerial variables, which are not equally observable across the cases, since a prohibited merger has no post-closing phase and a consolidated acquisition internalises the reporting a staged investment must obtain by contract. Within that limit the contrast between the second and third cases is the informative one: the same decision, how much of the target's organisation to leave undisturbed, was taken by default in one case and by design in the other. In each case the party declined a course of action that was documented and available.

The contribution is specific and limited. It is not a new measure of cultural distance, and it does not resolve the inconsistency in the literature reviewed in Chapter 2. It consists in giving operational content to the distinction between distance measured at the level of nations and friction observed between organisations; in demonstrating that the resulting rule does work a looser criterion would not, since applied to the third case it excluded an episode the argument would have been better served by counting; and, more tentatively, in suggesting why the aggregate literature reports effects varying in sign as well as in magnitude, since if the consequences of distance depend on arrangements that composite indices do not observe, studies regressing outcomes on those indices leave much of the variation outside the model.

The limitations are substantial and were stated at each stage. The cases were selected on the variation in their outcomes, which permits mechanisms to be compared and precludes inference about frequency or causation; they differ in structure and in the measures available, so the comparison was confined to mechanisms rather than to financial results. The alternative explanations stated at the close of each case are not eliminated by comparison, and in two instances are strengthened by it. Two further limitations bear on the opening question. The first concerns the dependent variable: the theoretical and empirical chapters are organised around financial consequences, while what the records support is narrower, a set of claims about transaction outcomes and about how friction was processed. In one case no financial outcome exists, because the transaction never closed; in another the acquirer does not disclose the target's standalone performance. The second concerns the sources, which are public throughout: internal documents and interviews would have allowed attributions to be tested against what participants believed at the time rather than against what they said publicly, and their absence is why the identification strategy relies as heavily as it does on rules stated in advance. For practice, three observations follow, offered as considerations rather than as prescriptions. Composite distance scores are better treated as screening devices than as decision rules, since two of the three cases would have been misranked by any such score. Disagreements over items that carry no price and admit no contractual expression cannot be settled by negotiation, which works by trading value; where such items are foreseeable, the question is whether to create a forum for them in advance or to remove the occasion altogether. Monitoring arrangements standard for commitments of a given size are worth obtaining irrespective of confidence in the target's management, since their value is realised precisely when that confidence proves misplaced.

The evidence that would test the argument beyond three cases is identifiable and largely obtainable. A sample coded by the attribution rule of Section 3.1.5 would establish whether the incidence of cultural friction, as distinct from the magnitude of measured distance, is associated with outcomes in the direction these cases illustrate; the coding requires judgment but is replicable in the sense that matters, since the rule is stated and another researcher could reach a different classification and say why. A complementary line would pair distance scores with observable measures of the two managerial variables and test whether those measures absorb variation that the score alone leaves unexplained.

The three transactions were chosen because their outcomes differed and because each was documented in sufficient detail to be examined against a rule. They illustrate that comparable levels of measured distance are compatible with sharply different outcomes, that friction arises at a small number of identifiable interfaces rather than diffusely, and that the arrangements through which organisations process it are observable before the outcome is known. Read against the meta-analytic evidence of Chapter 2, they are best understood as an illustration of why those estimates vary as they do rather than as a resolution of the variation.

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Declaration on the Use of Artificial Intelligence (AI) Tools

The undersigned Simone Cecchin, student ID number 888958, enrolled at Ca' Foscari in the Master's Degree Programme in Global Accounting and Finance, author of the degree thesis Financial Implications of Cultural Distance in Cross-Border M&A, thesis supervisor Ugo Rigoni, aware of the penalties provided for in Article 76 of the Consolidated Act set out in Presidential Decree no. 445 of 28 December 2000, and of the loss of benefits provided for in Article 75 of the same Consolidated Act in the event of false or misleading statements, under his/her own responsibility pursuant to Articles 46 and 47 of Presidential Decree no. 445 of 28 December 2000,

DECLARES

☐ that he has **NOT** used generative artificial intelligence technologies to support various aspects of the research and writing of the degree thesis;

☒ that he **HAS** used generative artificial intelligence technologies to support various aspects of the research and writing of his/her final paper/degree thesis, in particular:

- Indicate the name of the tool, with reference to the specific version;
  Claude (Anthropic), model Claude Opus 5, released 24 July 2026.
- If more than one tool has been used, specify each of them by indicating its name and version;
  No other tool was used.
- Provide information on how the tool was used:

  ☒ revision and optimisation of texts to improve clarity and coherence;
  ☐ generation of charts and diagrams for data presentation;
  ☒ support for the automatic drafting of sentences;
  ☐ production of illustrative images to complement the methodological section;
  ☐ other;

- Indicate the sections or chapters concerned;
  Chapters 1, 2 and 3.
- Indicate how the accuracy, quality and reliability of any information or text that may have been generated were verified.
  All factual statements were checked against primary sources: the decisions and press releases of the European Commission (Case COMP/M.6166 and Case M.7995), the filings of the parties with the U.S. Securities and Exchange Commission, the pleadings filed in the Delaware Court of Chancery, and the annual reports and regulatory announcements of the companies concerned. The academic claims were checked against the peer-reviewed articles cited in the References. The text was further revised through successive rounds of review with the supervisor, which produced substantive corrections to the classification of evidence and to the formulation of the argument. The author has read, verified and reworked all the material and assumes full responsibility for it.

DECLARES FURTHER

that all material generated by AI has been carefully checked, reviewed and reworked by the author, who assumes full responsibility for the quality, accuracy and scientific integrity of the work.