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Consumers' reactions to cross-border acquisitions

The role of psychic distance and acquirer's corporate reputation

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Abstract

Purpose – The purpose of this paper is to focus on consumers' reactions to cross-border acquisitions (CBA) by exploring the role of consumer perceptions of the psychic distance between the country of the acquirer and that of the target firm when the acquiring corporation has a good or poor reputation.

Design/methodology/approach – A 2×2 experimental design which manipulated psychic distance and acquirer's corporate reputation was conducted in Italy. The study considers an Italian food target firm and compares four foreign acquiring firms with different combinations of corporate reputation (good/poor) and psychic distance to Italy (small/large).

Findings – The authors found that the degree of psychic distance between the countries of the acquiring and targeted firms was inversely related to Italian consumers' intentions to repurchase the products of the post-acquisition target, and unrelated to the acquirer's corporate reputation.

Originality/value – This is the first study focusing on psychic distance in the context of CBA, especially from the perspective of consumer behavior, which can help to better understand certain negative reactions toward the acquisition of a business.

Keywords Consumer behaviour, Corporate reputation, Psychic distance, Cross-border acquisitions

Paper type Research paper

1. Introduction

Cross-border mergers and acquisitions (M&As) have become increasingly popular in recent decades and represent an important alternative for strategic growth. It is a common practice for multinational companies (MNCs) augmenting their brand portfolio through local acquisitions, hence managers need to make decisions in a global context. Literature focused on cross-border M&As performance in order to define and suggest good practices and reduce the number of failures of such operations (Teerikangas and Very, 2006; Christofi *et al.*, 2017). The success of a company mainly depends on consumers buying its products (Smith, 1990); thus, managers involved in a cross-border acquisition (CBA) should also implement a marketing-oriented strategy directed to consumers, instead of focusing only on financial and strategic outcomes. A lack of focus on the consumer's perspective may be a contributing factor to the CBA's failure (Heinberg *et al.*, 2016). Some scholars investigated the impact of customer loyalty on financial performance in CBAs (Homburg and Bucerius, 2005), but the acquisition literature dealing with the consumer remains limited (Fong *et al.*, 2013).

Consumers' dispositions toward a CBA could shed more light on the prospects of acquisition (Heinberg *et al.*, 2016) representing a critical factor affecting its success (Fong *et al.*, 2013). Furthermore, the role of consumers could assist companies in better segmenting and targeting international consumer markets (Bartsch *et al.*, 2016). One of the most important

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organizational and marketing questions arising in the CBAs field is to what extent this managerial decision influences consumers of the target company. In the regard, Bekier and Shelton (2002) stated that there is considerable risk of losing consumers in CBAs. A CBA may create uncertainty for consumers with respect to service level, price, quality and assortment (Homburg and Bucerius, 2005), and that uncertainty could lead them to switch to a competitor.

CBAs' basic principles are largely similar to those of domestic M&As. Indeed, as with all the domestic acquisitions, acquiring a foreign existing business allows the acquiring firm to rapidly obtain its resources, such as its knowledge base, technology and human resources, internalize an activity to reduce or avoid transaction costs and expand the market share (Shimizu *et al.*, 2004). However, owed to their international nature, cross-border M&As also involve unique challenges, as countries have different economic, institutional (i.e. regulatory) and cultural structures (Hofstede, 1994). These differences are perceived by individuals, managers, employees and consumers of the acquired firm, affecting company internationalization in numerous ways (Ellis, 2007). They are the substance of the concept of "distance" that is a central theme in international business. Among the numerous constructs that capture this phenomenon, psychic distance is one of the most used to understand the effects of managers' strategic decisions, for example, in the realm of foreign market entry modes and more specifically of CBA (Santos *et al.*, 2018). Sousa and Bradley (2006, p. 51) defined psychic distance as the "individual's perception of the differences between the home country and the foreign country," and we also adopt this perspective in this study by analyzing consumer's reactions to CBA. Despite the largely negative perspective prevails in most International Business studies there is some research on positive consequences of distance (Verbeke *et al.*, 2019). Negative consumer's reactions to psychic distance between the acquirer and the acquired country could contribute to losing or gaining consumers in CBAs. Specifically, the notion that distances can create value has long been acknowledged in the team-diversity literature. Research in this field suggests that diversity can enhance team creativity, learning and problem solving because of the wider knowledge base present in more different team architectures. In the context of CBA larger distance may increase knowledge transfer potential. Thus, exposure to larger distances is connected to learning benefits, leading to better decisions, improved problem solving, greater adaptability and finally higher performance.

The present study focuses on CBAs in which a foreign acquiring firm buys a majority of the target company's shares outstanding assuming ownership of both assets and liabilities, while the target will continue as it existed prior to the acquisition. Existing CBAs literature highlighted the relevance of resources (knowledge base, technology and human resources) as the key reason for the success of an acquisition (Shimizu *et al.*, 2004). However, the present study indicates that consumer-related factors (consumers' perceptions) are also very important. In international markets, consumers' perceptions of a large psychic distance (LPD) between their own country and the acquirer's country may have a negative impact on the success of the acquisition, because they may decide not to buy anymore the products of the target firm after its acquisition. For the company this means losing consumers and as consequence market share and profits. Drawing on the theories of identity (social identity theory (SIT)) (Tajfel *et al.*, 1979) and social categorization (Tajfel *et al.*, 1971), Chang *et al.* (2015) state that in the context of CBA, consumers could perceive the purchasing country as a dissociative group and, consequently, develop a negative attitude toward the company and its products/brands after the acquisition. If the acquirer's country has a LPD from the acquired firm's country, host country consumers may perceive it as a dissociative country producing negative effect on consumers' repurchase intention of the products of a post-acquisition target. In addition, a low psychic distance between the acquiring and the acquired firm reduces uncertainty and fosters trust. Moreover, an acquiring firm with a positive corporate reputation could shift consumers' reaction toward the post-acquisition target. Firms having a good reputation may reduce the uncertainty consumers feel regarding the acquisition target's products (Rindova *et al.*, 2005). However, there is a conspicuous lack of reputation studies focusing on consumers (Walsh and Beatty, 2007). Prior research on CBAs from the consumer's perspective has focused on the relationships between consumer ethnocentric tendencies (CETs), brand image fit and post-CBA brand attitudes (Lee *et al.*, 2011; Shi *et al.*, 2017); country of origin (COO) and post-CBA brand attitudes (Chang *et al.*, 2015; Heinberg *et al.*, 2016) and consumers' brand ownership (Chung *et al.*, 2014); consumer animosity and consumer attitude toward a product launched by a foreign firm's subsidiary established through a CBA (Fong *et al.*, 2013); acquirer's corporate reputation and post-CBA consumers' repurchase intentions (Fong *et al.*, 2013; Matarazzo, De Vanna, Lanzilli and Resciniti, 2018; Matarazzo, Lanzilli and Resciniti, 2018) and the interaction effects of acquirer's cause-related marketing, corporate ability (CA) and country image (CI) on host country consumer's repurchase intentions (Matarazzo *et al.*, 2019). Psychic distance has never been investigated in the context of CBA from the consumer's perspective which can help to better understand certain negative reactions toward the acquisition of a business. The concept of psychic distance was popularized by a group of scholars from the Uppsala School (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Vahlne and Wiedersheim-Paul, 1973). Consequently, scholars have investigated the impact of psychic distance on firms' performance (Dow and Ferencikova, 2010), market selection (Przybylska, 2013), entry mode (Baack *et al.*, 2015), power of foreign distributors (Griffith and Harvey, 2001), knowledge transfer practices (Minbaeva *et al.*, 2003), buyer and seller interaction (Hallén and Wiedershiem-Paul, 1999). The majority of literature in CBA considers cultural differences a source of problems for synergy creation because they are argued to increase misunderstandings, animosity and conflicts between members of the merging organizations (Yildiz and Fey, 2016; Ojala, 2015). Psychic distance is viewed as a factor that determines firms' pattern of internationalization, in accordance with which, firms first establish business in psychologically near markets rather than farther markets (Nordman and Tolstoy, 2014; Håkanson *et al.*, 2016). For the first time the paper considers psychic distance as a consumer perception and not as a managerial one, as it is usually dealt with in literature.

The aim of this research is to fill this gap by investigating, in CBA: first, the effect of psychic distance between an acquiring firm and a local target, in order to understand whether different degrees of distance affect consumers' intention to repurchase the products of the post-acquisition target; second, the impact of the acquirer's corporate reputation on consumers' behavior toward a post-acquisition target; and third, the moderating role of the acquirer's reputation on the relationship between psychic distance and the consumers' intention to repurchase the products of the post-acquisition target. We focus on the host country consumers because one of the biggest challenges that firms face after an acquisition is customer retention. In terms of contribution, this research could be of value and interest for foreign MNCs that decide to enter in a foreign market through a CBA.

The reminder of the paper is organized as follows: the next section presents the theoretical background on psychic distance, corporate reputation and their theoretical relationship. This is followed by the explanation of the methodology used. After an analysis of the context on food industry, we explained the stimuli, the design, the procedure and the variables used. Afterwards, a results section is presented. Additionally, we explain discussion and conclusions, providing also implications and future lines of research on CBA.

2. Theoretical background

2.1 Psychic distance

The term "psychic distance" was coined by Beckerman (1956), who defined it as the subjectively perceived distance to a given foreign country. He found that countries concentrate their trade more on nearby countries than distant ones. Johanson and Vahlne

(1977, p. 24) defined psychic distance as "the sum of factors preventing the flow of information from and to the market." Examples of factors contributing to psychic distance are differences in language, culture, political systems, level of education, level of industrial development (Johanson and Wiedersheim-Paul, 1975), dominant religion, business language, form of government, economic development and levels of emigration (Boyacigiller, 1990). Cultural distance and psychic distance are the most well-known constructs for capturing cultural variation between the home and the host country (Avloniti and Filippaios, 2014). However, cultural distance ignores differences in political systems, the level of economic development and other factors that define the total distance between countries (Drogendijk and Martín, 2015). Studies have shown that measures of cultural differences based on cultural dimensions such as those defined by Hofstede (1980) and Kogut and Singh (1988) are less appropriate as denominators of measures of psychic distance (Gerschewski, 2013; Drogendijk and Martín, 2015). Ojala (2015) stated that cultural distance refers to the differences between groups of people regarding values, communication styles and stereotypes, whereas psychic distance refers to actors' perception of a foreign country. Some scholars restated the concept of psychic distance as a construct that captures individuals' or collective's perception of foreign countries (Dow, 2000; Dow and Karunaratna, 2006; Evans and Mavondo, 2002; Håkanson and Ambos, 2010; Magnusson *et al.*, 2014; Sousa and Bradley, 2006). In this study, psychic distance is conceptualized as the subjective distance perceived by consumers between the country of an acquired firm and that of the acquiring one. This definition focuses on the decision-maker point (Sousa and Bradley, 2006) rather than the information flow between multiple parties (Vahlne and Wiedersheim-Paul, 1973).

Some research has found evidence of a positive relationship between psychic distance and performance (psychic distance paradox) (Magnusson *et al.*, 2014; O'Grady and Lane, 1996), that is, the notion that perceived or assumed similarities between interacting parties belonging to different countries, unable decision makers to learn about the new countries. Hence, larger distance should create value by leading to learning benefits and better internationalization outcomes.

Exposure to larger cross-country distance is associated to diversification benefits, cross-border knowledge sharing and learning, synergy creation in cross-border M&As, improved problem solving, greater adaptability and ultimately higher performance (Stahl *et al.*, 2016).

Nevertheless, the majority of the literature states that firms perform best in foreign markets most similar to their domestic market (Hutzschenreuter *et al.*, 2014). They argue that psychic distance causes communication problems, which, in turn, increases costs and risks of making a mistake (Dow and Ferencikova, 2010). It happens because difficulties in understanding more psychically distant countries create uncertainty and erode trust in any human relationship (Nordström and Vahlne, 1994; Prime *et al.*, 2009; Jiménez and San Martín, 2010). The majority of international business literature analyses the psychic distance as a managerial perception influencing the development and implementation of strategic decisions (Evans *et al.*, 2008; Griffith and Dimitrova, 2014; Johanson and Vahlne, 1977; Johnston *et al.*, 2012). The current study for the first time examines psychic distance between the country of an acquiring firm and a local target as a consumer perception in order to investigate its effect on consumers' behavior toward the post-acquisition target.

To this aim we draw on the theories of identity (SIT) (Tajfel *et al.*, 1979) and social categorization (Tajfel *et al.*, 1971). Consistent with these theories consumers tend to identify themselves with certain groups (in-group), to whom they attribute a positive value, not to identify themselves with others (out-group) and to avoid any possible association with others to whom they have a strong aversion (dissociative group). For example, for US consumers China is a dissociative country because of cultural and social differences. Starting from this assumption, Chang *et al.* (2015) state that in the context of CBA, due to a

LPD, consumers could perceive the purchasing country as a dissociative group and, consequently, develop a negative attitude toward the company and its products/brands after the acquisition. Thus, we argue that LPD has a negative effect on consumers' repurchase intention of the products of a post-acquisition target.

The above discussion leads to the following hypothesis:

H1. In a CBA, LPD between the country of the acquirer and that of the target firm has a negative effect on consumers' intention to repurchase products of the post-acquisition target.

2.2 Corporate reputation

Literature has recognized the critical role of corporate reputation in customer's buying behavior (Nguyen and Leblanc, 2001).

Authors of marketing studies of reputation state that the better firms' reputations, the better their financial performance (Roberts and Dowling, 2002), sales and market share (Shapiro, 1982), customer satisfaction and loyalty (Bartikowski *et al.*, 2011), customer trust (Walsh and Beatty, 2007), word-of-mouth reputation (Walsh and Bartikowski, 2013) and perceived product quality (Weigelt and Camerer, 1988). Furthermore, firms' reputation is positive related with stronger customers' purchase intentions (Yoon *et al.*, 1993). Some scholars consider corporate reputation as an intangible asset that can contribute to a competitive advantage in the marketplace of goods and services (Brønn and Brønn, 2015).

The effective management of corporate reputation should be treated as a key element in the successful implementation of CBA, particularly given the amount of confusion and uncertainty that tends to surround such events. Some studies indicate that many CBAs failed to produce the synergistic benefits that were expected by them. Balmer and Dinnie (1999) stated that some of these reasons could be attributable to corporate identity and corporate communication issues.

When two firms perform a CBA, they are creating a new corporate identity that must be nurtured in order to allow its consumers to identify with the new organization (Balmer and Dinnie, 1999). By using CBA, the acquirer can receive all the assets of the acquired firm, including the tangible and intangible assets (Lee *et al.*, 2011).

In general, it is more common for acquisitions to change the name and/or symbol of the acquired company (Ettenson, 2006) in order to be associated more readily with the (stronger) acquirer. Nevertheless, sometimes the acquirer company does not want to create a new identity, because the acquired company has a strong local heritage that needs to be preserved in order to make the acquired brand recognizable for the consumer (Heinberg *et al.*, 2016). Psychologically, it is important to ensure that consumers remember the history of the brand, so that they can feel that their free will to choose a traditional local brand without foreign influences is limited.

An acquisition can create uncertainty for consumers, and therefore a good reputation on the part of the acquired company could reduce it (Saxton and Dollinger, 2004; Walsh and Beatty, 2007). Consumers may have concerns regarding the acquiring firm's ability to maintain the quality or image of the acquired firm after the CBA (Lee *et al.*, 2011). Consumers perceiving a firm to have a good reputation are more likely to believe that it is competent, acts honestly in daily operations and considers interests of others in the relationship when making decisions (Keh and Xie, 2009).

Additionally, according to Lafferty and Goldsmith (1999), corporate reputation has a significant influence on consumers' purchase intentions. Prior research on CBAs from the consumers' perspective showed that corporate reputation is positively related with stronger customers' repurchase intentions (Matarazzo *et al.*, 2017, 2019; Matarazzo, De Vanna, Lanzilli and Resciniti, 2018; Fong *et al.*, 2013). Thus, we argue that a good reputation positively influences consumers' repurchase intentions toward the post-acquisition target:

H2. In a CBA, the better the acquirer's corporate reputation, the more likely it is that consumers will repurchase the post-acquisition target's products.

2.3 Psychic distance and corporate reputation

Higher psychic distance between the acquirer and the target firm can lead consumers to feel more uncomfortable and have more misunderstandings and lower expectations (Adler, 1997). The literature on psychic distance has identified some factors that may increase or decrease the distance between countries.

The perception of psychic distance between the country of the acquirer and that of the acquired firm by consumers could be facilitated by distance-bridging factors, which can bridge the distance between countries, such as knowledge, experimentation (Nordström and Vahlne, 1994), international experience, choice of a mode of entry, etc. The presence of a high corporate reputation can bridge the psychic distance between the home country and the country of the acquirer, reducing the perceived uncertainty of a CBA (Saxton and Dollinger, 2004).

An acquiring firm with a high corporate reputation could shift consumers' reaction toward the post-acquisition target, because it could reduce uncertainty in consumers arising from an acquisition (Helm and Gritsch, 2014; Rindova *et al.*, 2005; Saxton and Dollinger, 2004). Corporate reputation is in part a measure of future prospects, and customers view a firm's reputation as a signal that helps them to predict the firm's future behavior (Bartikowski *et al.*, 2011). These future prospects may be clouded by an acquisition (Saxton, 2004). Acquisitions can create uncertainty for consumers, but that uncertainty could be reduced if the acquiring firm has a good reputation (Saxton and Dollinger, 2004). Consumers who are impressed with a firm's reputation are more likely to believe that it is competent, acts honestly in daily operations and considers interests of others in the relationship when making decisions (Keh and Xie, 2009), and also is more likely to have good emotional appeal, excellent products and services, high financial performance, vision and leadership, a good workplace environment and social responsibility (Fombrun, 1996). A positive reputation is likely to attract and keep loyal customers (Walsh and Beatty, 2007). Despite the distance between two countries involved in an acquisition, it may happen that, due to the international strength and visibility of the acquiring brand, consumers view acquisition of a local brand more favorably. Indeed, in this case, the acquirer acts as collateral for the quality promises of the acquired local brand (Swaminathan *et al.*, 2008). Additionally, a firm with a more credible reputation will also be more trusted by the customer (Walsh and Beatty, 2007), who will attribute higher levels of competence and quality to a firm with a good reputation (Bartikowski *et al.*, 2011).

Previous literature indicates a moderating effect of the sub-constructs of corporate reputation (corporate social responsibility (CSR) and CA). Van Hoye and Lievens (2005) demonstrate that perceived CSR could mitigate the effects of negative publicity on organizational attractiveness (e.g. identification attractiveness). Other studies show the moderating role of perceived CA in controlling quality variation on the proneness of private label products (Jin and Yong, 2005; Batra and Sinha, 2000; Richardson *et al.*, 1996). More recent research has suggested the moderating effects of perceived CA and CSR on the influence of negative publicity upon trust and affective identification (Lin *et al.*, 2011).

Thus, we argue that an acquiring firm with a high reputation may positively influence consumers' intention to repurchase the products of the post-acquisition target despite the presence of LPD between the acquirer and the acquired firm:

H3. In a CBA, the high reputation of the acquirer will moderate the impact of psychic distance on consumers' intention to repurchase the products of the post-acquisition target.

Figure 1 summarizes the conceptual model of this study. It further displays CI, country familiarity and country typicality as the control variables, to ensure that consumers' reactions toward the post-acquisition target depend mainly on the effect of the main factors (acquirer's CR and psychic distance) rather than on other variables. We wanted to be sure to "isolate" the effect of psychic distance from those of others country-based constructs that in the same way may influence purchase behavior, as largely shown by international marketing literature. CI was defined as "the total of all descriptive, inferential and informational beliefs one has about a particular country" (Martin and Eroglu, 1993, p. 193), which can be divided into three sub-dimensions: political, economic and technological. Consumer's reactions vary according to the CI of the acquirer's country. CI is used as a control variable as it may be an important determinant of post-acquisition consumers' repurchase intentions (Matarazzo, De Vanna, Lanzilli and Resciniti, 2018). As consequence, if the acquirer is a Chinese firm consumers' intentions to buy the products of the post-acquisition target could be negatively influenced by acquiring CI rather than acquiring distance and/or corporate reputation. Familiarity is considered because an increase in customers' knowledge about a product facilitates the decision-making process and increases purchase intentions (Chiou *et al.*, 2002). This is because consumers may be comfortable with their level of knowledge of those particular markets. Laroche *et al.* (1996) argue that a consumer's attitude toward a specific brand will be positively affected by his/her familiarity with the brand. In a similar way, a consumer's intention to repurchase the products of the post-acquisition target could be positively affected by his/her familiarity with the country of the acquirer, rather than by its distance and/or corporate reputation. Concerning country typicality, consumers consider more favorably products that are representative of a certain country (Tseng and Balabanis, 2011). Thus, a consumer's intention to repurchase the product of the post-acquisition target could be positively affected by his/her perception of the acquirer's country as the typical producer of the product, rather than its distance and/or corporate reputation.

3. Methodology

3.1 Contest of analysis: food industry

We decided to focus on the food industry because it distinguishes itself from other industrial sectors by having a high integration of the products with the culture and the territory (Azar, 2014, p. 76). Therefore, it is interesting to explore consumers' reaction to CBA in this context, using a fictitious firm operating in the confectionery sector in Italy with high reputation. Food industry is considered mature and slow growing compared to other industrial sector (Santoro *et al.*, 2017); moreover, the food industry is experiencing increasing changes with growing

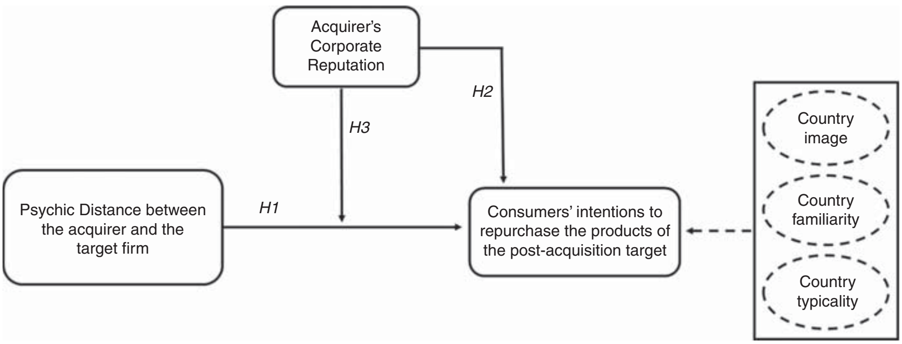


Figure 1.
Research model

pressures from consumers (Vrontis *et al.*, 2016; Bresciani, 2017; De Bernardi *et al.*, 2019). Food firms are facing new challenges, such as the increasing competition and the establishment of new disruptive technologies, such as IoT and big data (Franceschelli *et al.*, 2018). These challenges are calling for new innovative and creative business models (Bresciani *et al.*, 2016; Santoro *et al.*, 2017). For example, customers can easily access information about products and require both greater product variety with specific dietary and customized facets and healthier food that does not affect the natural environment and human health. These factors have increased the pressure on food firms to be more innovative. For these reasons, the topic is interesting and required a deep investigation. Several factors are influencing the Food industry: the difficult to align innovation initiatives with constant changes in consumer demands and volatile economic conditions; difficulties in differentiating products; high-price competition. In response to these challenges, firms operating in the food industry have shifted the strategic approach through local acquisition, augmenting their brand portfolio. Food is directly correlated to CI, country familiarity, culture of territory and people. As a consequence, we deem that this industry fits perfectly with the aim of the research.

3.2 Design and subjects

A 2 (LPD/small psychic distance (SPD))×2 (good/poor corporate reputation (GCR/PCR)) between-subjects factorial design was used in this experiment. We use experimental design to test for differences (treatment effects) in the mean value of the dependent variable across groups. In the absence of any treatment effect, we expect the underlying group means to be the same. In our study we have $2\times2=4$ distinct treatment groups involving all possible combinations of levels from each of the two factors. We test for a main effect of Factor 1 (acquirer's psychic distance) and of Factor 2 (acquirer's corporate reputation) by using the variability of the two factors across groups. Then we test for an interaction effect between the two factors in order to understand whether a high level of acquirer's psychic distance combined with a high level of acquirer's corporate reputation might lead to a smaller decrease in consumer's repurchase intentions after the acquisition. In total, 662 undergraduate students participated in this study (Table I). In all 30 students of different Italian universities were asked to recommend up other Italian students who were randomly exposed to one of four types of acquirer. The questionnaires were created with Google Forms, sent and answered by participants via e-mail or shared via social media. The use of students as respondents is a common practice in consumer behavior studies (Fong *et al.*, 2013). They are a more homogeneous group than individuals who are not students. All participants were university students from all over Italy (Male 51.8 percent and Female 48.2 percent). Specifically, 71.3 percent were from Faculties of Economics.

3.3 Stimuli

We did a pre-test on 60 Italian students in order to make sure that the information about CBAs affects consumer product judgment and purchase decision and select a suitable product for hypothesis testing (Fong *et al.*, 2013). Participants were asked what products they may adjust their evaluation and purchase decision after an acquisition; 52 percent of respondents answered that CBAs related to food sector may alter their purchase decisions.

Table I. Numbers of participants using 2×2 factorial design

	Good corporate reputation	Poor corporate reputation
Large psychic distance	161	165
Small psychic distance	169	167
Tot. replies	662	

Confectionary products were selected as relevant products for the sample population. These products were selected because they are equally available to the members of the samples, the participants of each sample use the product for essentially the same reasons and purposes and the product is purchased regularly by the members of the samples (Lee and Green, 1991).

In order to manipulate corporate reputation, four fictitious acquiring firms (SK_{GCR}/SK_{PCR} and SP_{GCR}/SP_{PCR}) and a fictitious local target firm (ITA) were used. Fictitious firms were created to prevent any bias due to existing perceptions of a known firm and brand (Fong *et al.*, 2013). In the study materials, the local target firm ITA was presented as if it was very famous in Italy and its products were very popular, and thus is characterized by a high reputation. It manufactures confectionery products (wafers, long-life confectionery, chocolate-based confectionery, sweets, cocoa and a variety of seasonal products), which are completely made and packaged in Italy. Buying a firm perceived to have a strong reputation reduces uncertainty for the acquirer; in this way, the acquirer has the benefits of reduced customer search and enhanced customer satisfaction (Saxton and Dollinger, 2004). Corporate reputation was operationalized at two levels, good and poor, varying the level of CA and CSR at the same time. A scenario that provided high CA and high CSR information was supposed to generate a GCR, whereas the scenario with low CA and low CSR was supposed to generate a PCR. In line with previous studies (Berens *et al.*, 2005; Fong *et al.*, 2013) in this work, corporate reputation was evaluated following Brown and Dacin's (1997) criteria that considered six corporate reputation attributes: three CA attributes (technological innovation, manufacturing ability and employee expertise and training) and three CSR attributes (corporate giving, social participation and community involvement of the firm), to represent consumer perception on a firm's corporate reputation. The valence was manipulated using ratings from 1 to 5 stars (*) on six corporate attributes considered. The greater the number of stars, the higher the reputation status (see Table II).

We operationalized psychic distance with two levels, large and small. A second pre-test was developed before conducting the experiment in order to select countries for testing the hypotheses. The pre-test was administered to 30 undergraduate students from Italy to understand the degree of psychic distance they perceived between their home country and a foreign one. In this study, we extended Håkanson and Ambos (2010) using some of Ghemawat's (2001) items in order to measure psychic distance. The items used to measure psychic distance are also listed in Table III. Following previous studies, we expect that psychic distance between the home and foreign country is influenced by the perceptions of national differences in various aspects such as cultural and language differences, geographic distance and economic development (Ghemawat, 2001; Håkanson and Ambos, 2010; Campbell *et al.*, 2012; Magnusson *et al.*, 2014).

We asked participants to rate on a five-point scale (anchored as "very different" and "very similar) how similar/different seven foreign countries (Belgium, France, Spain; China, India, South Korea and USA) were from their own country, based on different dimensions

Table II. Brown and Dacin's (1997) dimensions to measure acquirer's corporate reputation in both scenarios with poor and good corporate reputation

Poor Corporate reputation	Good Corporate reputation
Technological innovation:*	Technological innovation:*****
Manufacturing ability:**	Manufacturing ability:*****
Employee expertise and training:*	Employee expertise and training:****
Corporate giving (donations made by firms to non-profit associations):*	Corporate giving (donations made by firms to non-profit associations):****
Social participations:*	Social participations:*****
Community involvement of the firm:*	Community involvement of the firm:*****

such as cultural differences (differences in religious beliefs, race and social norms), language differences, geographic distance and differences in economic environment (Ghemawat, 2001; Håkanson and Ambos, 2010). Afterwards, participants were asked to rate the overall degree of difference between their home country and each of the foreign ones on the same scale (Magnusson *et al.*, 2014). We selected the seven countries based on previous studies conducted by Håkanson and Ambos (2010), in which three of them (Belgium, France and Spain) had a SPD compared to the other four (China, India, South Korea and USA).

Italian respondents perceived South Korea significantly more dissimilar to Italy than Spain, both for the overall degree of psychic distance ($M_{SK} = 4.6$, $M_{SP} = 1.7$; $p < 0.001$) and in every aspect of psychic distance, with Spain scoring significantly higher on similarity ($p < 0.001$). Thus, we selected Spain and South Korea as countries for this study (Sánchez *et al.*, 2012; Kim and Hemmert, 2016).

3.4 Procedure

Four booklets were prepared containing the different manipulations. The first page contained a cover story stating that the study was interested in consumers' reaction toward a CBA of a local firm by a foreign one. Furthermore, both the acquired and the acquirer firm profile were described in order to allow participants to better understand the relevant points of research. We made the following assumptions (Fong *et al.*, 2013): the foreign firm acquires all shares of a local firm; the corporate name of the acquired target remains unchanged; the foreign acquirer is assigned a new CEO and key positions in the firm; and participants were asked to assume that they were regular and habitual customers of the local firm. We assume that the name remains unchanged so that the local heritage of the acquired brand remains recognizable for the consumer. Thus, the acquirer company does not want to establish a new identity (Heinberg *et al.*, 2016).

As anticipated, the present study used one fictitious local firm (ITA) and four fictitious foreign acquiring firms (SK_{GCR}/SK_{PCR} and SP_{GCR}/SP_{PCR}): the first one with GCR and LPD to local target (South Korea); the second firm with PCR and LPD (South Korea); the third one with GCR and SPD (Spain); and the last one with PCR and SPD (Spain).

3.5 Independent variables

The first page also contained the manipulation for acquirer's corporate reputation and for psychic distance. Psychic distance between the country of the acquired and that of the acquiring firm was manipulated by picking the countries of the acquiring firms arbitrarily following the results of the pre-test. To manipulate psychic distance, we considered four acquiring firms coming from two different countries: the first one showing LPD from Italy (South Korea), and the

Table III. Håkanson and Ambos' (2010) dimensions extended with Items representing the structure of Ghemawat's (2001) dimensions

Dimensions of psychic distance	Items	Authors
Language	Language	Ghemawat (2001), Håkanson and Ambos (2010)
Cultural distance	Religion	Ghemawat (2001), Håkanson and Ambos (2010)
	Values and norms	Ghemawat (2001), Håkanson and Ambos (2010)
Geographic distance	Adequate transportation or communication links	Ghemawat (2001)
	Climatic conditions	Ghemawat (2001)
Economic development	Gross domestic product (GDP) per capita	Håkanson and Ambos (2010)
	Urban population (i.e. share of people living in cities)	Håkanson and Ambos (2010)
	Consumer incomes	Ghemawat (2001)

other one SPD (Spain). Prior to seeing the questions in the booklet, subjects were given a paragraph where there were written details about the acquisition by the foreign firm.

The corporate reputation of the acquiring firm was manipulated by providing information pertaining to six corporate reputation attributes using number of stars (*) ratings from 1 to 5 (see Table II).

3.6 Dependent variable

The next page contained the dependent variable. Subjects were asked to express their repurchase intentions toward the products of the post-acquisition target on nine-point scale anchored at "strongly disagree" and "totally agree" (see Table IV) (Heitmann *et al.*, 2007).

The scale demonstrated high reliability ($\alpha = 0.891$), and therefore items were summed to evaluate intentions to repurchase the products of the post-acquisition target.

3.7 Manipulation checks

The next page contained manipulation checks for both acquirer's corporate reputation and psychic distance between the country of the local target and that of the acquirer firm. A single item, seven-point scale measured subjects' ratings of the acquiring firm's corporate reputation (Brown and Dacin, 1997). Subjects were asked: "Based on the information given, provide an overall judgment on acquirer's corporate reputation" (see Table IV). A single item, five-point scale measured perceived psychic distance (Magnusson *et al.*, 2014). Participants were asked: "Based on your knowledge about cultures around the world, please rate the overall degree of difference between the country of the local target and the country of the acquirer" (see Table IV).

3.8 Control variables

First, we included CI because it may influence consumers' repurchase intentions toward the post-acquisition target (Martin and Eroglu, 1993). We measured CI using six items, seven-point scale ($\alpha = 0.77$) (Oberecker and Diamantopoulos, 2011) applied to each country. Second, we considered country familiarity as a control variable (Chiou *et al.*, 2002). We measured familiarity using a single item, seven-point scale (unfamiliar/familiar) applied to each country (Kristensen *et al.*, 2014). We also control for country typicality in producing the product considered in the study. Typical products relating to a certain country received more favorable consumer attitudes (Tseng and Balabanis, 2011). Country typicality was measured with a seven-point scale (Tseng and Balabanis, 2011) for each country considered in the study (not typical/typical).

4. Results

4.1 Manipulation checks

The independent *t*-test ensured that the manipulation check for psychic distance was successful. The results indicate that there was a significant difference in the means for small and LPD ($t = -16.452$, $p < 0.0001$). Respondents considered South Korea to have a LPD and Spain a SPD from Italy ($M_{\mathrm{LPD}} = 2.45$; $M_{\mathrm{SPD}} = 3.82$) on a five-point scale.

The manipulation check for acquiring firms' corporate reputation was also successful. There was a significant difference in the means ($t = -26.586$, $p < 0.0001$) for PCR ($M_{\mathrm{PCR}} = 2.46$) and GCR ($M_{\mathrm{GCR}} = 5.24$) on a seven-point scale.

4.2 Repurchase intentions

Hypotheses were assessed using an analysis of covariance (ANCOVA). We ran a 2×2 ANCOVA with consumers' repurchase intentions as dependent variable, psychic distance and corporate reputation as factors, and CI, country familiarity and country typicality as control variables.

Variable	Repurchase intention
Source	Heitmann *et al.* (2007)
Items/questions	It is very likely that I would purchase this same product (or its successor) again I am willing to pay a price premium over competing products to be able to purchase this product (or its successor) again Commercials regarding competing brands are not able to reduce my interest in buying the same product (or its successor) again I would purchase this product (or its successor) again, even if it receives bad evaluations by the media or other people
Scale	Strongly disagree/totally agree (1–9)
Variable	Psychic distance
Source	Ghemawat (2001), Håkanson and Ambos (2010), Magnusson *et al.* (2014)
Items (used in the pre-test)	Language Religion Values and norms Adequate transportation/communications links Climatic conditions GDP per capita Urban population (i.e. share of people living in cities) Consumer incomes
Question	Based on your knowledge about cultures around the world, please rate the overall degree of difference among Italy and "SOUTH KOREA/SPAIN"
Scale	Very similar/very different (1–5)
Variable	Corporate reputation
Source	Brown and Dacin (1997)
Items	Technological innovation Manufacturing ability Employee expertise and training Corporate giving (donations made by companies to non-profit associations) Social participation Community involvement of the firm
Question	Based on the information given, provide an overall judgment on acquirer's corporate reputation
Scale	Bad/good (1–7)
Variable	Country image
Source	Oberecker and Diamantopoulos (2011)
Items	Low–high level of industrialization Low–high standard of living No Existence–existence of a good welfare system Dictatorial–democratic system Poorly–highly developed economy Low–high level of technological research
Question	How do you perceive "SOUTH KOREA/SPAIN" considering the following descriptors?
Scale	Low/high (1–7)
Variable	Country familiarity
Source	Kristensen *et al.* (2014)
Items/questions	How familiar are you with "SOUTH KOREA/SPAIN" of the acquirer?
Scale	Unfamiliar/familiar (1–7)
Variable	Country typicality
Source	Tseng and Balabanis (2011)
Items/questions	How typical are CONFECTIONERY PRODUCTS as "SOUTH KOREAN/SPANISH" products?
Scale	Not typical/typical (1–7)

Table IV. Measurement details (source, items and scale)

The aim of the study was to demonstrate the main effect of psychic distance and corporate reputation on consumers' repurchase intentions and investigate if there is an interaction effect between the two considered factors.

As hypothesized, the result of the ANCOVA was a significant main effect of psychic distance ($F = 4.420$, $p < 0.05$; see Table V), indicating that regardless of reputation, on average consumers' repurchase intentions tend to be significantly stronger in a scenario with SPD rather than LPD ($M_{\mathrm{SPD}} = 4.4$, $M_{\mathrm{LPD}} = 4.1$; see Table VI). The findings support *H1*.

The results show evidence that psychic distance has a strong effect on consumer repurchase intention. When there is a LPD between the home country of an acquiring firm and the acquired firm's own country, consumers may be more hesitant to repurchase products from the acquired firm. By contrast, sharing the same culture of the target firm reduces uncertainty and fosters trust. Our respondents exhibit stronger willingness to repurchase the products of the post-CBA target when the acquirer is Spanish rather than it is a South Korean firm regardless of whether the acquiring firm has a good or a PCR. Therefore, the smaller is the perceived distance between the home country and that of the acquiring firm, the higher will be intentions to repurchase the products of the acquired firm.

Similarly, we found a significant main effect of corporate reputation ($F = 141.774$, $p < 0.001$; see Table V) indicating that on average consumers' repurchase intentions tends to be significantly better when the acquirer's corporate reputation is better ($M_{\mathrm{PCR}} = 3.4$, $M_{\mathrm{GCR}} = 5.0$; see Table VII). The findings support *H2*. Acquirers' corporate reputation also plays a role in the consumers' reactions. Our respondents exhibit stronger intentions to repurchase the products of the post-CBA target when the acquirer's CR is good.

However, there was not a significant interaction between psychic distance and corporate reputation (see Table V and Figure 2), showing that the effect of psychic distance does not depend on the level of corporate reputation. *H3* was not supported. The acquiring firm's

Source	Type III sum of squares	df	Mean square	F	Sig.	Partial η^2
Corrected model	747.715[a]	6	124.619	43.791	0.000	0.286
Intercept	110.239	1	110.239	38.738	0.000	0.056
C_FAM	2.727	1	2.727	0.958	0.328	0.001
C_TYP	17.260	1	17.260	6.065	0.014	0.009
COI	91.623	1	91.623	32.196	0.000	0.047
PD	12.577	1	12.577	4.420	0.036	0.007
CR	403.459	1	403.459	141.774	0.000	0.178
PD × CR	0.373	1	0.373	0.131	0.718	0.000
Error	1,863.997	655	2.846			
Total	14,418.688	662				
Corrected total	2,611.712	661				

Note: [a]$R^2 = 0.286$ (Adjusted $R^2 = 0.280$)

Table V. Results

PD	Mean	SE	95% confidence interval Lower bound	Upper bound
Small PD	4.385[a]	0.100	4.188	4.581
Large PD	4.062[a]	0.102	3.862	4.262

Notes: [a]Covariates appearing in the model are evaluated at the following values: C_FAM = 3.3338, C_TYP = 2.8369, COI = 4.3583

Table VI. The effect of psychic distance on repurchase intentions corporate reputation does not interact with psychic distance to influence consumers' intentions to repurchase the products of the acquired firm. Thus, due to the special relevance of psychic distance, the acquiring firm's corporate reputation has been proven not to have enough strength to exert any influence on the relationship between psychic distance and consumers' responses. In the presence of LPD between the country of the acquiring firm and their home country, Italian respondents will have less intention to repurchase the acquired firm's products even if the acquiring firm has a GCR.

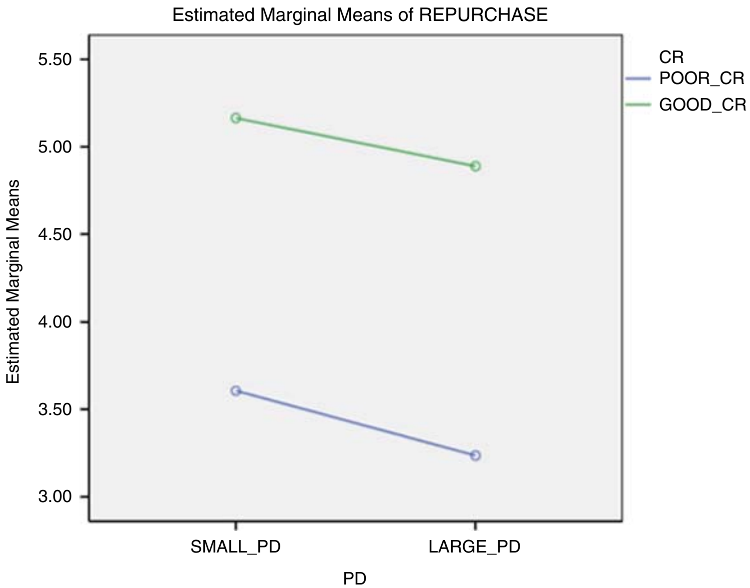
Summarizing, the ANCOVA showed a significant main effect of psychic distance and corporate reputation on consumers' repurchase intentions, but it did not show a significant interaction effect of psychic distance and corporate reputation on consumer's repurchase intentions. Larger psychic distance was associated with lower repurchase intentions, whereas better corporate reputation of the acquiring firm was associated with higher repurchase intentions. However, corporate reputation does not moderate psychic distance. Thus, having a GCR does not change the perception of psychic distance.

With regard to the control variables, CI and country typicality (C_TYP) had a significant influence on consumer repurchase intentions ($p < 0.001$ and $p < 0.05$; see Table V).

Table VII. The effect of acquirer's corporate reputation on repurchase intentions

			95% confidence interval	
CR	Mean	SE	Lower bound	Upper bound
Poor CR	3.420[a]	0.094	3.236	3.605
Good CR	5.026[a]	0.094	4.841	5.2111

Notes: [a]Covariates appearing in the model are evaluated at the following values: C_FAM = 3.3338, C_TYP = 2.8369, COI = 4.3583



Notes: Covariates appearing in the model are evaluated at the following values: C_FAM = 3.3338, C_TYP = 2.8369, COI = 4.3583

Figure 2. Profile plot

Results suggest that a positive acquirer's CI and typical products relating to the country of the acquiring firm increase the probability that they will repurchase products of the post-acquisition target.

5. Discussion and conclusions

In the current scenario, the construct of psychic distance is very relevant in the context of CBAs because many MNCs from emerging countries are acquiring firms from developed ones.

In contrast with previous research that studied psychic distance as a managerial perception, this study has examined it as a consumer perception. In this research, we tried to investigate the effect of psychic distance between the country of an acquiring firm and a local target, as well as the acquiring firm's corporate reputation, on consumers' behavior toward a post-acquisition target.

First, we analyzed the impact of psychic distance on consumers' repurchase intentions in CBA. Previous studies put more emphasis on objective data stressing managerial, organizational and financial issues (Bandick, 2011). The results represent evidence that psychic distance has a strong effect on consumer repurchase intention. When there is a LPD between the home country of an acquiring firm and consumers' (and the acquired firm's) own country, consumers are more hesitant to repurchase products from the acquired firm. Conversely, an acquiring firm sharing the same culture as the target firm reduces uncertainty and fosters trust. Therefore, the smaller is the perceived distance between the home country and that of the acquiring firm, the higher will be intentions to repurchase the products of the acquired firm. By contrast, sharing the same culture of the target firm reduces uncertainty and fosters trust. Our respondents exhibited stronger willingness to repurchase the products of the post-CBA target when the acquirer was a Spanish firm rather than a South Korean firm, regardless of whether the acquiring firm had GCR or PCR. Therefore, the smaller the perceived distance is between the home country and that of the acquiring firm, the higher the intentions to repurchase the products of the acquired firm.

Second, acquirers' corporate reputation also plays a role in the responses of consumers. Specifically, the better the acquiring firm's reputation, the higher consumers' intention to repurchase the products of the post-acquisition target will be. Psychic distance has a strong effect on consumer repurchase intentions, by lowering the probability of success for CBA involving an acquiring firm with LPD. Our respondents exhibited stronger intentions to repurchase the products of the post-CBA target when the acquirer's CR was good. To the best of our knowledge, no other study has investigated the effects of psychic distance on consumers in CBAs, which can help to better understand certain negative reactions toward the acquisition of a business. In fact, prior research has focused on the relationships between CETs, brand image fit and post-CBA brand attitudes; COO and post-CBA brand attitudes and consumers' brand ownership; consumer animosity and consumer attitude toward a product launched by a foreign firm's subsidiary established through a CBA; and the acquirer's corporate reputation and post-CBA consumers' repurchase intentions. We extend the literature on psychic distance, by showing that psychic distance significantly impacts consumer behavior. Furthermore, for the first time, this paper considers psychic distance as a consumer perception and not as a managerial one, as it is usually dealt with in the literature.

Third, the results also showed that the acquiring firm's corporate reputation does not interact with psychic distance to influence consumers' intentions to repurchase the products of the acquired firm.

Thus, due to the special relevance of psychic distance, the acquiring firm's corporate reputation has been proven not to have enough strength to exert any influence on the relationship between psychic distance and consumers' responses. In the presence of LPD between the country of the acquiring firm and their home country, Italian respondents will have less intention to repurchase the acquired firm's products even if the acquiring firm has a GCR. An acquirer with a GCR should shift consumers' reaction toward the acquired firm, because it could reduce uncertainty in consumers arising from an acquisition when the acquirer comes from a distant country. Our hypothesis stating that the acquiring firm having a GCR should positively influence consumers' intention to repurchase products from the acquired firm despite the presence of LPD between the acquiring firm and the acquired firm. This was not the case, as evidenced by the lack of a significant interaction between the two considered factors. Consumers are less sensitive to the influence of the acquiring firm's corporate reputation, focusing more on the differences between their culture and that of the acquiring firm rather than its corporate reputation. There are several possible reasons for why a high acquirer's corporate reputation did not interact with psychic distance in this study.

5.1 Theoretical implications

The findings have some theoretical. First, the findings contribute to research on cross-border brand acquisitions by identifying psychic distance as a consumer-level variable in order to enrich the understanding consumers' reactions to brands after an acquisition. Indeed the current study for the first time considers psychic distance as a consumer's perception rather than as a managerial one. The findings highlight the importance of psychic distance for consumers in the context of CBAs.

In line with SIT (Tajfel *et al.*, 1979), our study shows that disidentification with a group makes the change of ownership more salient for consumers. Our respondents are less likely to repurchase the products of the firm acquired by a South Korean firm because they perceive South Korea as a dissociative country with which they avoid being associated because of the LPD (White and Dahl, 2007). In contrast, they are more likely to repurchase the products of the firm acquired by a Spanish firm because they perceive Spain as an out-group rather than a dissociative group because of the SPD.

Our results are consistent with Chang *et al.* (2015), who show that when a dissociative group acquires the brand, higher levels of brand ownership negatively affect consumers' post-acquisition brand attitudes and undermine their intentions to purchase the product.

Our results are in line with prior findings which demonstrate that high corporate reputation generally has a positive influence on customer satisfaction and loyalty (Bartikowski *et al.*, 2011), consumers' product demand (Fuchs *et al.*, 2010), customer trust (Walsh and Beatty, 2007), word-of-mouth reputation (Walsh and Bartikowski, 2013) and perceived product quality (Weigelt and Camerer, 1988).

In contrast with previous studies, the findings from this research suggest that LPD leads to negative perceptions of products of the target regardless the acquirer has a poor or a GCR.

5.2 Managerial implications

In terms of practical implications, it is especially important for global marketing managers to be aware of the negative effect on consumer repurchase intentions when a firm from a country with a LPD from the target country acquires another firm, even though a firm might have been highly reputable before the acquisition. Managers have to face additional challenges when crossing borders and operating in a host country whose culture differs markedly from their home country. The results underscore the importance of consumers' perceived psychic distance from the countries of acquiring firms in CBA, playing an important role in international markets. Managers need to carefully decide which country to enter, bearing in mind consumers' perceived psychic distance. The acquiring firm needs to manage psychic distance between the firms and ensure that consumers will remain loyal to the acquired firm. Managers should implement actions that aim to gain consumers' trust; relying on a general GCR seems not to be enough to this purpose.

In CBAs, some firms can de-emphasize the ownership change to avoid possible negative reactions from consumers. Furthermore, managers could communicate that the foreign acquirer wants to preserve and strengthen the heritage of the local firm. By doing this, managers could introduce the brand of the local firm to other countries, enforcing its visibility and brand awareness worldwide.

In this way they may try to strengthen the connection of host country consumers with their country in order to avoid association with the acquired distant country. Managers have to actively communicate that the target firm's values and beliefs remain in agreement with the value system of the target firm's COO.

Donatella Versace, the day after the acquisition of the Italian Versace by the American Michael Kors at the end of September 2018, made the following official communication to Versace's customers on twitter: "[…] I also want to reassure you that Versace will remain ITALIAN and Made in Italy and that it will keep its GLAMOUR, DARING and INCLUSIVE attitude that have made you all love it."

Managers who are planning CBA may consider using measures of psychic distance in order to be aware of the liabilities they have to face after entered the target country; they may invest in market research in order to deeply understand local consumers.

5.3 Limitations and future research

This study is not without limitations, which provide avenues for further research. First, the current research consisted of data collected on only Italian consumers. Future research could investigate additional consumers' samples originated from different countries in order to understand the different reactions of foreign consumers to the acquisition of a firm of the made in Italy. Second, we rely on data from a single sector, which may affect its generalizability. We considered the food sector that is characterized by a favorable product/country match, because food products belong to the Italian traditional manufacture. Future research could consider other product categories that do not exhibit the same favorable match in order to investigate the possible moderating role of different product categories on the effect of firm's ownership. Third, the current research has examined only the situation when an acquiring firm has an image no better than that of the acquired firm. In particular the hypothesis that the acquiring corporate reputation has a moderating role on the relationship between acquirer psychic distance and host country consumers' repurchase intentions was not supported. Future research could investigate the case in which the acquiring corporate reputation is better than that of the acquired firm. In this case indeed the corporate reputation could have the moderating role that was not confirmed by the current research. Finally in addition to full acquisitions other entry mode choices of foreign direct investments, such as greenfield investment and joint ventures, exist. Further research should examine whether the findings are applicable to other entry modes.

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