Modeling the „Visitors to Rome" effect: Reputation Building in Anglo-Saxon Buyout Funds in Japan

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Abstract

Stereotypes pose a major challenge to agents entering a foreign market. In order to overcome these stereotypes, visitor agents may decide to emulate domestic behavior. We develop a simple model of reputation building in transactions where identities are revealed and show that this tendency may even imply over-assimilation if stereotypes are sticky and assimilation efforts are not overly costly.

The model predictions are tested using data on private equity-led buyout transactions in Japan from 1998 to 2015. While early transactions by Anglo-Saxon investors display marked differences, there is a strong tendency toward approximation of domestic standards, which eventually leads to over-compensation.

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1. Introduction: The "visitors to Rome" effect

Si fueris Romae, Romano vivito more. When in Rome, do as the Romans do.
(attributed to Ambrosius Aurelius, 3rd century CE)

Social norms are intimately linked to preferences (Guiso, Sapienza, and Zingales 2006; Gibson, Tanner, and Wagner 2013). As the former differ across cultures and as the latter matter for economic behavior, culture-specific differences in economic outcomes are to be expected. Indeed, significant differences have variously been evidenced in, for instance, public goods experiments (Willinger et al. 2003), a study of solidarity experiments (Ockenfels and Weimann 1999) and empirical investigations of entrepreneurial activity (Hayton, George, and Zahra 2002).

When agents with systematically differing preferences meet to engage in transactions, a further class of phenomena arises. These have been referred to, among others, as homophily (the tendency of agents to associate with similar others; see Kandel 1978; McPherson, Smith-Lovin, and Cook 2001), in-group bias (the tendency to evaluate one's own group or its members more favorably; see Ruffle and Sosis 2006; Chen and Li 2009), and simply stereotypes (the association of out-group agents with a collective reputation; Coate and Loury 1993). In essence, these framings all involve making trivial judgments about groups of individuals in an effort to compensate for incomplete information.

Judgments of this kind referring to the preferences of out-group agents are significant for economic interaction. For instance, public goods experiments find that contributions are higher in culturally homogeneous groups (Castro 2008), and may depend on physical attractiveness (Andreoni and Petrie 2008) or gender (Solow and Kirkwood 2002). In turn, evidence from field data frequently refers to ethnicity (e.g., employers judging the productivity of applicants as in Bertrand and Mullainathan 2004), and also extends to financial topics, for example when pension fund investments depend on (foreign-sounding) names of fund managers (Kumar, Niessen-Ruenzi, and Spalt 2015).

Agents who are starting to compete in a foreign market therefore face a double challenge. First, they hail from a culturally different background where different norms prevail, so they need to learn to adapt to local norms. Second, they are likely to be subject to stereotyping. To paraphrase Akerlof and Kranton (2000:737), visitors who make what domestic agents regard as

"bad decisions" may want to use strategically revealed preferences to signal a change of identity. Accordingly, one can expect that rational agents entering foreign markets will tend to emulate domestic behavior in an attempt at reputation building.

(Qualitative) evidence on what we may term the "visitors to Rome" effect has been variously gathered in the business literature. For instance, there is an entire canon of literature on cultural dynamics pertaining to market entry (e.g., Rothaermel, Kotha, and Steensma 2006), localization (Fayol-Song 2011), post-merger integration (Vaara 2012), and various other phenomena (Park and Ungson 1997, Sarala and Vaara 2010). Within economics, however, the phenomenon has not yet been analytically framed, nor empirically tested.

This paper aims to fill this gap by proposing and testing a model for the "visitors to Rome" effect. The model is constructed with reference to extant literature on labor market discrimination and identity, then tested using a data set on private equity buyout investments conducted in Japan by domestic and visiting agents (chiefly of Anglo-Saxon origin) between 1998 and 2015. The choice of the empirical case is promising for two reasons. First, the likelihood of being able to discern significant effects increases with the degree of heterogeneity between visitor and native agents, which is arguably at its maximum among advanced economies in interactions between Anglo-Saxon and Japanese agents. Second, private equity transactions feature a number of characteristics supportive of the "visitors to Rome" effect, such as the "direct personal relations" between suppliers and demanders (Arrow 1998: 94), with the substantial extent of personal interaction during the purchasing process creating a "social event" (ibid: 98).

The remainder of this paper is structured as follows. In section 2 we combine elements of reputation-building models with game-theoretic argument to arrive at an analytical representation of the "visitors to Rome" effect, which we then use to develop a set of generic predictions. Section 3 tests model predictions for the case of Anglo-Saxon private equity investors in Japan. Section 4 discusses findings and section 5 concludes.

2. Model

Our model of the "visitors to Rome" effect distinguishes visitor (foreign) from domestic (native) agents. Visitors v and domestic players d are competing for purchase transactions from local sellers, thus engaging in a series of one-shot games with revealed identities as in Healy's model of labor market reputation building (2007). The utility of local sellers U depends on bid price p and reputation r of the acquirer in a quasi-linear utility function.

(1) $U = p + r^k, \quad k \in [0,1].$

Visitors depart on their journey with an expectation of higher profits with the expected difference determining their travel budget $B > 0$. This budget may be used to compensate for a negative reputation differential by paying a premium. However, investors will only provide capital for bids until risk-adjusted expected returns are on a par with opportunity cost in terms of returns they could earn in their reference market. Thus, the maximum premium over domestic bid prices is:

(2) $p_v^{max} = B + \bar{p}_d$

We further assume a market structure where the chances of repeat transactions of a particular native seller with a particular visitor are approximately zero, preventing private reputation building through experimentation (in terms of individual track records with specific counterparts). Accordingly, we argue that reputation is informed by the following two factors: stereotype S pertaining to the country of origin; and individual reputation r^I. Arguing with Arrow that "prior beliefs can remain relatively undisturbed" (1998:97), we employ "sticky stereotypes" by keeping S constant. As stereotypes obviously require a domestic *numéraire* for reference, domestic reputation r^d only depends on individual reputation. For reasons of simplicity, we set the latter constant at r^*. Thus we have:

(3) $r_v = \alpha S + (1 - \alpha)r^I, \quad \alpha \in [0,1].$

         $r_d = r_d^I = r^*.$

Substituting p and r in (1) with (2) and (3) yields:

(4) $U = p_i + \left[\alpha S + (1 - \alpha)r_i^I\right]^k \quad$ for $i \in v.$

         $= p_i + r^{*k} \quad$ for $i \in d.$

Other than by paying a premium, negatively stereotyped visitors can increase their odds of winning a transaction through assimilation efforts e aimed at increasing their individual reputation r^I. These efforts can be seen as strategically revealed preferences taking the form of conscious and costly deviations from original preferences. With the average of original visitor preferences OP corresponding to their stereotype S, displaying revealed preferences RP beyond their original preferences requires effort:

(5) $r^I = RP = OP + e = S + e$

As is apparent from (5), the individual reputation of visitors is no different from their stereotypes in the absence of effort. Thus, if visitor bids are turned down in favor of a lower domestic bid, i.e. in spite of $p_v > p_d$, this may only happen in the presence of negative stereotypes, i.e., $S < r^*$. Inversely, visitors are subject to positive stereotypes if they happen to win a contract in spite of higher bids from domestic players, i.e., $S > r^*$. Similar to Becker's classical model (1957), our model includes the notion of disutility $d = -(r^* - S)^k$ as arising from the tastes of domestic agents.

Efforts compensating for negative stereotypes are obviously costly. This corresponds to the net "lower economic returns" that Akerlof and Kranton suggest for activities that do not correspond to an agent's minority group identity (2000: 740). We posit that the opposite holds for positive stereotypes (foreign origin perceived as linked to more virtuous behavior from a domestic perspective). In that case, approximating domestic preferences corresponds to negative efforts implying negative cost, i.e., benefits. We note this as:

(6) $C(e) = c(RP - OP)$, with $c \in [0,1]$.

To maximize their odds of winning a transaction, bidders need to maximize the utility of sellers given their own budget constraints. We specify the target function for an n-period case, in which efforts made at time t lead to a better reputation in $t + 1$, i.e., $r^I_{v,t} = S + e_{t-1}$. As no efforts can be made prior to market entry, i.e., $e_{t=0} = 0$, initial reputation $r^I_{v,t=1}$ equals stereotype S. In turn, with no reputation benefits accruing from effort in the final period, a reversion to original preferences is to be expected in the last period, i.e., $e_{t=n} = 0$. From the domestic agents' perspective this reversion is likely to be perceived as "shirking". As both profits and reputation building critically depend on striking a deal, we further add a sustainability condition demanding

equal seller utility in all periods, i.e., $U_{1,2,\,...,\,n}$ = constant. Substituting r^I in (4) with (5) we obtain:

$$(7) \quad \max \sum_t^n U_t = \sum_t^n \left\{ p_{v;t} + \left[S + (1-\alpha)e_{t-1} \right]^k \right\}$$

$$+ \lambda \left[n(B + p_d) - \sum_t^n (p_{v;t} + ce_t) \right]$$

$$+ \mu_{1,2,...,n} \left\{ p_{v;1} + S^k - p_{v;2,3,...,n} - \left[S + (1-\alpha)e_{1,2,...,n-1} \right]^k \right\}$$

Solving (7) provides optimality conditions for the n-period case:

$$(8) \quad \hat{e}_{1,2...,n-1} = \frac{1}{1-\alpha} \left\{ \left[\frac{c}{k(1-\alpha)} \right]^{\frac{1}{k-1}} - S \right\}$$

$$\hat{e}_n \quad = 0$$

$$\hat{p}_{v;1} \quad = B + p_d - \frac{c(n-1)}{n(1-\alpha)} \left\{ \left[\frac{c}{k(1-\alpha)} \right]^{\frac{1}{k-1}} - S \right\} + \frac{n-1}{n} \left\{ \left[\frac{c}{k(1-\alpha)} \right]^{\frac{k}{k-1}} - S^k \right\}$$

$$\hat{p}_{v;2,3,...,n} = B + p_d - \frac{c(n-1)}{n(1-\alpha)} \left\{ \left[\frac{c}{k(1-\alpha)} \right]^{\frac{1}{k-1}} - S \right\} - \frac{1}{n} \left\{ \left[\frac{c}{k(1-\alpha)} \right]^{\frac{k}{k-1}} - S^k \right\}$$

From the differences in bid prices between the initial and subsequent periods we further obtain the additional utility that sellers derive from earlier efforts in terms of total utility from reputation less the part resulting from stereotype S:

$$(9) \quad \hat{p}_{v;1} - \hat{p}_{v;2,3,...,n} = \left\{ \left[\frac{c}{k(1-\alpha)} \right]^{\frac{1}{k-1}} \right\}^k - S^k$$

Over-compensation through efforts larger than the differential between domestic reputation r^* and stereotype S corresponds to the inequality $e > r^* - S$. Substituting e with its optimality condition (8) and solving for r^* we obtain:

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$$(10) \quad r^* < \frac{1}{1-\alpha}\left\{\left[\frac{c}{k(1-\alpha)}\right]^{\frac{1}{k-1}} - \alpha S\right\}$$

From this, we understand that over-compensation becomes more likely with increasing k (as the importance attached to reputation). In contrast, the likelihood of over-compensation becomes smaller with cost c of assimilation efforts and with increasing α as the weight attributed to stereotype in determining reputation (see Appendix A.1 for partial derivatives).

For visitors to succeed in their bids, seller utility derived from visitor offers needs to be larger than that linked to offers from natives:

$$(11) \quad U(p_v, r_v) = p_v + r_v^k > p_d + r^{*k} = U(p_n, r^*)$$

Substituting p_v and p_n in (11) with the side condition of (7) and the optimum condition for e in (8) via (3) and (5) and solving for B gives the travel budget required to strike a deal:

$$(12) \quad B > r^{*k} + c\hat{e} - \left[S + (1-\alpha)\hat{e}\right]^k = r^{*k} + \frac{c}{1-\alpha}\left\{\left[\frac{c}{k(1-\alpha)}\right]^{\frac{1}{k-1}} - S\right\} - \left\langle \frac{1}{1-\alpha}\left\{\left[\frac{c}{k(1-\alpha)}\right]^{\frac{1}{k-1}} + (1-\alpha)S\right\}\right\rangle^k$$

While the required level of B increases with the cost of reaching a certain reputation level (less the fraction derived from S), it decreases with the total benefits of reputation. The higher – or, normatively, the more positive – the value of S, the less budget is required for striking a deal.

All of the preceding only holds under the assumption of complete information. If, however, agents are unaware of the relevance of reputation, i.e., of $k > 0$ at time $t = 1$, they will act according to their original preferences. This, in turn, means emulating their stereotypical behavior during early transactions, effectively reducing (12) to a much simpler budget under incomplete information as $B^{II} > r^{*k} - S^k$, where B^{II} needs to provide for compensating reputational deficiencies entirely by paying a premium.

Learning

Hayek held that markets are learning processes where "individual participants [are] gradually learning the relevant circumstances" (1948:100). Starting from a state of relative ignorance, entering a learning trajectory is not to be taken for granted: if visitor budgets are sufficient to compensate for their still unknown reputation gap by offering a premium price, i.e., if $B^{II} > r*^k - S^k$ holds, agents may continue to unconsciously follow an inefficient strategy. Thus, for the market to encourage Hayekian learning in our model, B^{HL} needs to satisfy:

(13) $B^{HL} < r*^k - S^k$

There are plenty of "relevant circumstances" initially unknown to the visitors in our model: the very existence and extent of stereotype S and its weight α in determining reputation, as well as the possibility of reputation building through effort. The domestic *numéraire* $r*$ and its difference from original preferences $OP - r*$ may also not be known; ignorance may even apply to the sign of that difference. In contrast, group sizes v and d of visitors and domestic players are known in transactions with revealed identities. A larger group of visitors helps to identify systematic differences in success rates as the number of observations increases.

Learning curves have traditionally been conceptualized as unit cost of production declining with accumulated production volume, which suggests an inverse square root function (Spence 1981; Saviotti and Metcalfe 1984). Turning this reasoning around, we suggest that knowledge vector κ of visitor i pertaining to relevant circumstance j is subject to a learning process with $\kappa_{i,j} \in$ [0;1] where 1 represents complete information and all other states fractions thereof. Vector loadings are informed by the number τ of transactions observed since market entry. We have suggested that visitors face a double challenge as they need to learn about both the preferences of domestic sellers and the extent of stereotyping. Whereas visitors may infer the importance attached to reputation k by domestic sellers from all market transactions τ_m, the extent of stereotyping α can only be inferred from transactions involving peers τ_p (compare equation 4). Accordingly, as in Ghemawat and Spence (1985), the number of fellow visitors v, and more exactly the visitor share of the agent population $v/(d+v)$ and the resulting share of transactions won by visitors, positively contributes to learning speed. Relating the learning of visitors directly to transactions as in itself the "teaching material" rather than indirectly only via the likelihood of

transactions won by visitors, the function informing vector κ is:

(14) $\kappa_{i,j} = \beta_1 \tau_{o,m}{}^{\phi} + \beta_2 \tau_{o,p}{}^{\phi}$, with $0 < \phi < 1$.

In light of (4), β-parameters thus reflect learning about the relevance of reputation k in the utility function of sellers as drawn from observing all market transactions (β_1), and to the extent of stereotyping (β_2) as drawn from the observation of peer transactions. With $K_\tau > 0$ and $K_{\tau\tau} < 0$, this representation also incorporates the decreasing marginal knowledge returns on learning.

As τ accumulates over time, we may expect visitors to experience an iteration process characterized by $|e_{\tau=0}| < |\hat{e}|$ and $e_\tau \rightarrow \hat{e}$ as $\tau \rightarrow \infty$. Absolute values of e are noted here in order to account for cases of positive visitor stereotyping, in which visitors gradually learn to bank on their stereotypes, realizing cost savings from relaxing their efforts.

Extensions

In our simple model, the effect of efforts is limited to the subsequent period, which opens up the opportunity of a fresh start at the very same optimum conditions (8). However, it would be more realistic to assume that the reputation of visitors accrues from the history of their efforts, i.e., the sum of differentials between revealed and mean original preferences.

(15) $r_{i,t}^I = t^{-1} \sum_t \left(S + e_{i,t} \right)$

As a consequence, the marginal effect of efforts on reputation declines with each own transaction, i.e., $r_{et}^I < 0$. Depending on a visitor's budget, this may have two different consequences. First, visitors with Hayekian budgets according to (13) may find their learning speed outpaced by the increase in cost of optimum effort, which will cause them to abandon their journey. Second, visitors with budgets sufficient for continuously compensating negative stereotypes through premium prices, i.e., $B > r^{*k} - S^k$, may find themselves already in a lock-in situation when they eventually happen to learn through spillovers. Thus, the marginal cost of reputation building from a given level of reputation $r_{v,t-1} > r^*$ monotonously increases over time, i.e., $C_t(r_{v,t}|r_{v,t-1}) > 0$.

While the learning process is still ongoing, i.e., $|\kappa| < 1$, the absolute values of visitors' efforts are systematically biased down and those of bid prices are biased up as compared to outcomes in a state of complete information $|\kappa| = 1$ eventually to be reached with transaction t^*.

Here, the quasi-linear utility function of sellers enables four types of outcome to be inferred. Given finite time horizons, it may become impossible to reach optimum allocation when marginal reputation benefits from effort reach below par with marginal utility from prices offered, i.e., $U_e \mid r_{v,t-1} < U_p = 1$. Depending on visitor budgets, this may cause either lock-in or exit. Figure I summarizes these considerations.

Figure I: Convergence of Visitor Behavior

	$B > B^{HL}$	$B \leq B^{HL}$
$U_e \mid r_{v,t-1} < 1$ for $t \leq t^*$	Lock-in	Exit
$U_e \mid r_{v,t-1} \geq 1$ for $t \leq t^*$	Optimum	Optimum

A further refinement to the model would imply the introduction of a decay function describing how the weight attached to an instance of revealed preferences in the formation of reputation decreases with time as in Carlson and Rowe (1976) or similar models involving "forgetting" (e.g., Jaber and Bonney 1997). Obviously, the "forgetting" property alleviates the increase in marginal cost of reputation building implied by (15) and will cause t^* to increase.

Finally, if domestic players perceive the ratio of visitor to domestic agents v/d as substantial, visitor behavior may cause domestic reputation to become endogenous. This is because domestic agents may start to also deviate from their original preferences in a strategic move to fight off what they perceive as increasing competition from visitors. This tendency will be particularly strong if domestic players are not aware of the stereotyping that visitors are subject to. In that case decisions of domestic players are guided by superior visitor bid prices $p_v > p_d$ and visitor efforts in terms of revealed preferences approaching, or even exceeding, their own standards, i.e., $e > r^*$. As visitors, in turn, will rightly perceive this type of strategic move by domestic players as an attempt to build reputation, i.e., $e_n = RP_n - r^* > 0$, this may effectively elevate the equilibrium level of revealed preferences in terms of virtuous behavior as judged from the perspective of domestic sellers (and vice versa in case of positive stereotypes).

Predictions

To begin with, let us consider visitors competing with domestic agents for a transaction at time 0. Due to the earlier absence of activity, individual reputation is nil at time 0. Given uniform maximum bid prices, an inverse reading of equation (4) thus suggests:

> *Prediction 0: In the presence of stereotypes the initial market success of visitors is markedly different from that of domestic competitors at equal bid prices.*

While agents entering a foreign market as visitors may have some notions of the cultural differences linked to their country of origin, it is through the observation of market outcomes that they learn the effect of these differences on their success rates from participation in and observation of transactions with natives. Differences may take either sign according to whether they result from positive or negative stereotyping. Given uniform alternative returns, equation (8) implies that these differences create incentives to either compensate for stereotype or to bank on it: success rates higher than domestic ones imply an incentive for less virtuous behavior (from a domestic perspective), while lower success rates encourage more effort. This suggests:

> *Prediction 1: Visitors show a tendency to mimic domestic behavior.*

If – in line with the conjecture about taste-based discrimination resulting from dependence on the taste of other stakeholders – stereotypes are effectively sticky, and if assimilation efforts are not overly costly, i.e., as long as marginal benefits are larger than marginal cost $U_e > C_e$, equation (10) means that attempts at improving success rates may even imply over-compensation. The latter becomes more likely if visitors start their journey with incomplete information. This is because early – ill-informed – visitor behavior may eventually produce statistical evidence to reinforce existing stereotypes as reputation accrues through the history of their transactions.

Where sizeable numbers of visitors eventually improve their success rates through reputation building, leading to them winning a substantial number of deals, i.e., $\tau_v/\tau_d \gg 0$, the market outcomes of domestic agents will not remain unaffected. This, in turn, creates incentives for natives to reinforce their original reputational positioning (as behaving more virtuously than foreigners, or vice versa) elevating (negative stereotype), or lowering the equilibrium level of revealed preferences (positive stereotype):

Prediction 2: Where the ratio of transactions won by visitors relative to domestic agents is perceived as significant, domestic agents will show a tendency to reinforce their original reputational positioning.

Building on (4) we understand that visitors may infer the relevance k attached to reputation by domestic sellers through observation of all market transactions τ_m. However, the extent of stereotype S and the weight α attached to stereotype in forming reputation can only be inferred from peer transactions τ_p. This suggests

Prediction 3: Learning from fellow visitors leads to faster assimilation than learning from natives.

Finally, we expect visitors to defect in their ultimate transaction before withdrawing from the market, analogous to non-infinite games, i.e., $\hat{e}_n = 0$ as noted in (8):

Prediction 4: Behavior in ultimate transactions corresponds to original preferences.

3. Empirical tests

There are broadly two ways of testing the model proposed here: experimental designs and field data. Experimental study is generally praised for its reliability based on its capacity to minimize bias from unobserved variables. Critics, however, question the validity of experiments on the grounds that reality is insufficiently represented in laboratory settings (Collier and Siebert 1991; Harrison, List, and Towe 2007). This conceptual critique certainly applies to the challenge of constructing groups with significant "otherness" characteristics as displayed by visitors and domestic agents in our model. In turn, field data, by its very definition, defies any criticism of insufficient representation of reality. Criticism of the use of field data rather refers to its reliability, particularly so for cross-cultural comparisons where unobserved variables may turn findings upside down (Blind and Lottanti von Mandach 2015).

For the specific purpose of testing the "visitors to Rome" effect, however, much of this latter issue is canceled out. This is because interaction between foreign and domestic agents happens in a single market embedded in a homogeneous cultural and institutional environment. Against that background, we argue that field data represents the better option for testing the

"visitors to Rome" effect as it scores high on validity and minimizes threats to reliability.

Measuring the interaction effects of cultural differences on economic outcomes from field data poses two challenges. First, culture has to be operationalized and measured in order to study its impact. Second, inferences from observed behavior are challenging because of the reflection problem (Manski 1993; 2000). Attempts to face the first challenge date back to the mid-20th century (Kuhn and McPartland 1954; Kluchhohn and Strodtbeck 1961; Haire, Ghiselli, and Porter 1966; England 1967; Rokeach 1973), but it was with Hofstede (1980; 2001) that the interest in measuring culture exploded. Although it is only one of 121 instruments identified in a recent review of attempts to measure culture (Taras, Rowney, and Steel 2009) and is not undisputed (see, e.g., McSweeney 2002; Ailon 2008 and 2009), it remains by far the most pertinent approach, not least because operationalization is straightforward. Furthermore, drawing on probabilistic argument, one may argue that differences in cultural dimensions are reasonably well represented for very large distances in Hofstede's indices. Manski's reflection problem, in turn, only arises if group composition is not known *a priori*. In our field data, the revealed identities of agents involved in buyout transactions implies that this criterion is met.

Case background

To test our predictions we use a unique dataset covering the population of buyout investments conducted by all private equity funds registered in Japan between 1998, the year known as the onset of the Japanese buyout industry (Wright, Kitamura, and Hoskisson 2003), and September 2015. The choice of the empirical case comes with two major advantages. First, differences in initial values (i.e., original preferences of Japanese and Anglo-Saxon agents) are very likely to be substantial enough to enable assimilation effects to be discerned. Second, revealed identities, together with the personal interactions that come with private equity transactions, creates a setting in which taste-based discrimination may effectively play out. The dataset, assembled and cross-evaluated using government reports, fund websites, press searches and data provided by an independent Japanese advisor, includes 545 buyout transactions.

A buyout transaction is usually a one-off investment by a general partner (GP), the fund manager, which results in outright or majority control of the investee company (portfolio

company). The time between investment and exit is known as the holding period (HP). During the holding period, the fund manager seeks to increase the value of the investee company.

We discern between three types of fund managers: *keiretsu* funds, Japanese independent funds, and foreign funds. *Keiretsu* funds are affiliated to large institutions from the inner circle of Japanese big business, such as banks, insurance companies, institutional asset managers, or large general trading houses. Independent fund managers are not affiliated to any institution and are typically owned by management. In our data, there are 35 dependent, 28 independent, and 21 foreign fund managers. Out of the 21 foreign fund managers, 18 are headquartered in the United States or the United Kingdom.

Buyout is used as an umbrella term for four transaction types: business succession, divestment, management support (MBO), and turnaround. These four types of buyout may be applied to either a privately held business or a publicly listed business. The latter are referred to as "take-private transactions" (TP), in which a buyout firm or a consortium thereof acquire the stock of a publicly traded company and then delist the acquired firm.

Investments can be exited either via an Initial Public Offering (IPO), through a trade sale, i.e., selling the portfolio company to another firm, or by selling it to another buyout firm. The acquisition of a business from another buyout fund is called a secondary buyout deal, or simply "secondary". In our dataset, this also includes tertiary investments.

Operationalization

In Japan, buyout investing represents a distinct Western business model that stands in stark contrast to the so-called Japanese model, which values the interests of stakeholders (especially employees) over those of shareholders, co-operation rather than competition, and long-term orientation rather than short-term maximization (Katzner 2008). This orientation is reportedly one reason for the reluctance of potential buyout targets to associate with a buyout fund in general, and with a foreign fund in particular. Deal sourcing has frequently been mentioned as the biggest challenge for foreign buyout fund managers, and to a lesser degree for Japanese fund managers as well (*The Economist* 2010). Accordingly, reputation matters for deal origination (Ljungqvist, Richardson, and Wolfenzon 2008; Haynes 2009). The vast majority of foreign funds active in Japan hail from Anglo-Saxon economies, chiefly the US and the UK. The ensuing homogeneity

among the "visitors" in our data is instrumental to discerning the cultural dynamics conceptualized in our model.

Recalling our earlier probabilistic argument that Hofstede's dimensions of culture correctly report the sign of differences for very large distances of his measures, we select the two dimensions with the largest distances between the Japanese and Anglo-Saxon societies, which are uncertainty avoidance (UA; index values of 92 for Japan vs. 46 for the US) and long-term orientation (LTO; 88:26). UA refers to the tendency of agents to avoid situations of uncertainty, quite in the Knightian sense of uncertainty as risk under unknown probabilities. In the buyout investment business, turnaround deals represent ultimate uncertainty. Accordingly, we expect Anglo-Saxon visitors to display stronger original preferences for turnaround deals.

In turn, the high index score on Hofstede's LTO dimension in Japanese society reflects a general preference for long-term stable situations. In this cultural environment, ownership by a buyout fund represents merely a transitory state on the road to becoming part of a larger group – as the fund eventually exits the business to a strategic investor, or to becoming fully independent through an IPO. As this transitory state is typically characterized by uncertainty, the high level of uncertainty avoidance in Japanese individuals suggests domestic preferences for shorter holding periods. In contrast, such considerations do not arise in the case of Anglo-Saxon investors. Abstracting from any negative spillovers on reputation, pure profit maximization may even suggest extending holding periods beyond the time necessary for restructuring as long as the expected exit prices increase at a higher rate than opportunity cost.

Initial values and hypotheses

Let us consider an Anglo-Saxon buyout fund competing for a deal with domestic players in Japan. Its chances of successful deal sourcing depend on bid price, associated stereotype, and reputation based on the fund's history of revealed preferences. In terms of stereotype – or country reputation – the Japanese parties will perceive Anglo-Saxon funds as having the antithesis of Japanese business values. Thus, the assessment of foreign investors is reduced to the corresponding stereotype in early transactions (compare equation 5). In line with prediction 1, we thus expect foreign fund managers to adapt to local norms in order to improve their deal-sourcing capabilities. In the case under scrutiny in this paper such learning through observation suggests:

Hypothesis 1: Share of turnaround deals and duration of holding periods by Anglo-Saxon

investors relative to domestic agents decreases with τ as the number of transactions observed in the market.

With 95 of 545 transactions (17.4 %) in our data set won by visitors, we argue that condition τ_v/τ_d >> 0 is met. Building on prediction 2 this suggests:

Hypothesis 2: Share of turnaround deals and duration of holding period of transactions by domestic investors decrease over time.

Prediction 3 argues that the extent of stereotype S and its weight α in determining reputation can only be inferred by learning from peer transactions τ_p, whereas insights into the relevance of reputation k in the utility function of domestic sellers can equally well be gained from transactions involving visitor and domestic buyers, hence from total market activity τ_m. This suggests:

Hypothesis 3: Learning from observing peer transactions τ_p leads to faster assimilation than observing total market activity τ_m.

Finally, building on (8), prediction 4 suggests "defecting" in ultimate transactions:

Hypothesis 4: In ultimate deals by Anglo-Saxon investors, turnaround deals turn more likely and duration of holding periods becomes longer.

Data and descriptive statistics

In order to obtain the subset relevant to our assessment of the "visitors to Rome" effect, we exclude 16 investments by non-Anglo-Saxon funds from the population of 545 deals. As calculating our test statistic for uncertainty avoidance further depends on the availability of data on the transaction type, we need to exclude another 23 transactions due to missing data, thus yielding a net of n_{UA} = 506 (or 92.8% of the population).

In turn, our test statistic for LTO depends on data on the duration of holding periods, so we can only include investments already concluded, i.e., exited from the portfolio of the acquiring fund. The population of investments exited by 30 September 2015 consists of 415 transactions. Excluding 11 cases of investments with unknown entry years and nine investments by non-Anglo-Saxon foreign funds yields a gross sample size of 395 cases. As the complexity of a transaction increases with the size of the investee company, we use the log of deal value as control variable.

Owing to missing data, this reduces sample size by 47 cases. The data also still includes 15 so-called "flip deals" of less than one year, in which a buyout fund merely acts as a business broker. As the holding periods of these deals are by their very nature short, irrespective of the efforts of fund managers, they do not contribute to reputation building. Consequently, the effective sample size is reduced to n_{LTO} = 333 (or 80.2% of the population). Table I documents descriptive statistics for the two samples.

Table I: Descriptive Statistics

Numerical variables	Mean	SD	Median	Min	Max
Sample UA (n = 506)					
Transactions observed (entries) τ	146.75	137.78	108.5	0	532
Sample LTO (n = 333)					
Transactions observed (exits) τ	51.60	64.59	19.0	0	273
Size (transaction value; 100 million JPY)	149.51	436.06	35.0	1	4152

Categorical variables						
(Frequency)	*Sample UA (n = 506)*			*Sample LTO (n = 333)*		
Fund type	*Keiretsu*	Independent	Anglo-Saxon	*Keiretsu*	Independent	Anglo-Saxon
- *Keiretsu* fund	244			171		
- Independent		183			115	
- Anglo-Saxon			79			47
First deal	32	28	18	27	23	16
Ultimate deal	18	13	8	18	11	8
Market exit	57	35	20	54	29	20

Results

Our test statistic for the first reputational dimension is the dichotomous variable of the "turnaround" deal type versus other deal types, indicating the use of logit regression. Given the low value of uncertainty avoidance in Anglo-Saxon cultures, we expect the parameter estimate of the corresponding dummy to load with a positive sign, indicating a *c.p.* higher share of turnaround

deals for Anglo-Saxon investors. In terms of independent variables causing increases in relevant items of knowledge vector κ (14) we use the number of acquisitions τ concluded since a fund's market entry. This measures the gaining of experience through observation by individual funds. To model the marginal returns to learning postulated in (14), we use square roots of the number of observations, i.e., $\phi = 0.5$. We further distinguish transactions won by any market participant τ_m from transactions won by peers τ_p. Finally, we test for shirking in ultimate transactions, by introducing a corresponding dummy.

Independent of any differences in culture, a buyout fund's capacity to successfully complete a transaction from investment to exit is crucial for proving operational abilities in a newly entered market. Hence, we may expect funds to be hesitant to incur the risk of a failed turnaround deal in their first transaction. We control for this effect by introducing and interacting a corresponding first-deal dummy. We introduce a further dummy for Japanese independent funds (non-*keiretsu*). Consequently, *keiretsu* buyout funds, which account for the majority of transactions, become the reference category.

Testing *Hypothesis 1* ("visitors to Rome" effect) and *Hypothesis 2* (endogeneity of revealed domestic preferences) requires different set-ups. In the former case, we include fixed effects for the years 2000 through 2015 (making 1998 and 1999 the base category). This standard precaution against unobserved variables, however, precludes the evidencing of endogeneity in domestic transactions because any general trend will be leveled out. Therefore, we add a second set-up without year-fixed effects. *Hypothesis 4* (shirking) can be tested in both set-ups. Table II documents regression output labeled according to hypotheses tested.

Table II

Estimation Output for Turnaround Deals (Odds)

Variable	Logit-Estimate (SE)			
	(1)	(1-4)	(2)	(2-4)
Intercept	**-1.6566**	**-1.7216**	**-0.7916**	**-0.7875**
	(0.8572)	**(0.8640)**	**(0.3149)**	**(0.3156)**
Anglo-Saxon	**2.0995**	**2.2563**	**2.2140**	**2.3176**
(Dummy)	**(1.0141)**	**(1.0475)**	**(0.9987)**	**(0.9987)**
Observation of market transactions τ_m	-0.0224	-0.0214	**-0.0553**	**-0.0555**
(Number of deals observed since entry^.5)	(0.0324)	(0.0328)	**(0.0238)**	**(0.0238)**
First deal	0.1562	0.2261	0.1033	-0.0756
(Dummy)	(0.4534)	(0.4742)	(0.4031)	(0.4296)
Ultimate deal		-0.1592		-0.0872
(Dummy)		(0.4988)		(0.4698)
Interactions with Anglo-Saxon				
Observation	**-0.2321**	**-0.2456**	**-0.2430**	**-0.2516**
	(0.1101)	**(0.1144)**	**(0.1062)**	**(0.1077)**
First entry	**-1.5247**	-1.4802	**-1.7710**	**-1.7132**
	(1.1523)*	(1.1837)	**(1.1378)***	**(1.1477)***
Ultimate deal		-0.7791		-0.6632
		(1.1241)		(1.0902)
Controls				
Non-*keiretsu*	**0.4927**	**0.4956**	**0.4171**	**0.4162**
(Dummy)	**(0.2393)**	**(0.2396)**	**(0.2305)**	**(0.2306)**
Year-fixed effects	Yes	Yes	No	No
p of total model**	.0003	.0005	.0001	.0003

Notes: * 90% one-sided CI; **(1-chisquare(Δdeviance, Δdf))

Estimates for Anglo-Saxon and non-*keiretsu* funds are significant for all scenarios in both set-ups, and coefficients confirm our assumptions pertaining to initial values: Anglo-Saxon funds are much more likely to invest in a turnaround transaction, and domestic funds not linked to a *keiretsu* are about 50 to 60% more likely to do so. These differences level out as visitors accumulate experience: interaction effects on learning from observation produce significant estimates for learning parameter β_1 (compare equation 14) for all scenarios in both set-ups. When fixed effects

are removed from the second set-up, main (domestic) effects turn significant. In relative terms, the interaction effect (visitors) is about four times stronger than the main effect (domestic). Taken together, these results provide solid evidence supporting *Hypotheses 1* and *2*. As the learning of visitors continues, the odds of Anglo-Saxon investors are reaching par with independent domestic funds after observing about 50 to 60 market transactions and with *keiretsu* funds after about 80 transactions. Thus, with an average of 30 transactions per year, over-compensation becomes a reality for many visitors after just two to three years in the market.

In order to test *Hypothesis 3* pertaining to the additional information on the extent of stereotype S and its weight α in determining reputation – which visitors may draw from the observation of peer transactions – we cannot test both variables (peer versus market transactions) simultaneously due to obvious concerns about multi-collinearity.[1] Instead, we replace main and interaction effects with separate z-normalized variables and re-run regressions 1-4 and 2-4 based on peer and market observations of visitors. Having done so, however, we find parameter estimates β_2 for learning from peers indistinguishable from those relating to market observation β_1.

The dummy for ultimate deals introduced for evidencing defecting agents (*Hypothesis 4*) did not produce any significant estimates in this first behavioral dimension. In contrast, the dummy controls for Japanese independent funds (non-*keiretsu*) were significant in all set-ups and scenarios. Similarly, interactions for the first-deal dummy were significantly different from zero in three of the four regressions (1, 2, and 2-4), and very to close to significant in set-up 1-4.

For our second test statistic, length of holding period, we are able to use ordinary least squares. As learning about the holding period can only be drawn from investments already exited, the number of transactions available for observation takes the exit date as reference. While we generally use the same regression set-ups as before, devising year-fixed effects requires particular care. In concrete terms, transactions with early exits or late entries during the observation period will naturally be biased toward shorter holding periods. To account for this, we base fixed effects on exit years for the first part of the sample (until 2005) and on entry years for the latter part (from 2006). For the same reason set-up 2 cannot completely dispense with fixed effects. As a compromise, we retain fixed effects for exits until 2005, and for entries from 2010. This suffices to capture about 90% of biased cases and – for distributional properties – an even larger share of

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[1] Peer transactions are a strict subset of market transactions and highly correlated.

total bias resulting from early exits and late entries.[2]

We add further controls for independent Japanese funds (non-*keiretsu*, as before) and for the secondary deal type. The latter reflects our assumption that previous buyout investors will already have realized most available quick wins. Finally, we include a first-deal dummy in order to separate the intention to prove full operability (by quickly exiting one's first deal) from efforts at assimilation. Table III documents regression output.

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[2] The share of deals with a holding period exceeding five years is 27.3% in the entire sample, and 29.0% in a reduced sample with entries up to 2005. Applying this latter – more conservative figure to the 37.4% of deals exited between the early exit and late entry brackets, we understand that the remaining year-fixed effects still cover 89.2% of biased cases.

Table III

Estimation Output for Length of Holding Period (Days)

Variable	OLS Estimate (SE)			
	(1)	(1-4)	(2)	(2-4)
Intercept	1402.47	1397.58	1232.35	1275.05
	(197.79)	(197.69)	(166.69)	(166.32)
Anglo-Saxon	994.30	913.72	929.73	848.82
(Dummy)	(273.28)	(278.04)	(27464)	(277.25)
Observation of market transactions τ_m	22.85	12.76	-10.98	-16.67
(Number of deals observed since entry^.5)	(19.00)	(19.79)	(15.13)	(15.19)
First deal	69.37	59.98	-105.84	-72.90
(Dummy)	(165.27)	(165.51)	(156.23)	(156.82)
Ultimate deal		-248.17		-361.41
(Dummy)		(166.29)*		(159.71)
Interactions with Anglo-Saxon				
Observation	-99.00	-99.06	-95.57	-97.34
	(32.89)	(32.85)	(32.98)	(32.79)
First	-597.60	-666.15	-542.55	-651.29
	(340.75)	(342.03)	(343.11)*	(343.22)
Ultimate deal		598.51		768.11
		(350.18)		(342.97)
Controls				
Non-*keiretsu*	150.84	149.85	135.25	136.64
(Dummy)	(90.49)	(90.30)	(91.04)*	(90.39)*
Size	37.56	45.41	53.89	61.04
(log of transaction value)	(28.85)*	(29.10)*	(28.36)	(28.30)
Secondary deal type	315.51	339.21	255.05	305.36
(Dummy)	(159.87)	(160.06)	(158.66)*	(158.73)
Year-fixed effects	Yes	Yes	Partial	Partial
Adjusted R^2	0.1153	0.1191	0.0985	0.1114

Notes: * 90% one-sided CI

The visitor dummy is significant for all four regressions, and coefficients confirm our assumptions pertaining to initial values: Anglo-Saxon investors initially pay little attention to the local preference for minimizing time in conditions of uncertainty (i.e., under fund ownership) before a

long-term solution (strategic investor or IPO) can be found. The corresponding estimates indicate that holding periods are almost three years longer than the reference category of *keiretsu* funds, and about two years longer than independent Japanese funds (non-*keiretsu*). As visitors start to accumulate learning, holding periods become shorter: the interaction effect estimating β_1 from equation 14 is significant for all four models. Parameter estimates suggest that visitors reach par with independent funds after observing about 70 transactions and with *keiretsu* funds after about 100 transactions. Accordingly, many visitors assimilate beyond domestic standards in their third to fourth year in the market.

In the second set-up which reduces fixed effects to a necessary minimum, the main (domestic) effects of learning from observation load with the expected signs, but are not significant. However, taking into consideration the similar value of estimates for regressions 2 and 2-4, the relatively small standard errors, and the size proportion of interaction to main effect of about 5:1, we argue that this adds further indicative evidence in support of *Hypothesis 2*.

Using the same approach as before for testing an additional learning effect pertaining to stereotype S and its weight α in determining visitor reputation (*Hypothesis 3*), we re-run models 1-4 and 2-4, replacing the interaction effect with normalized variables. As it turns out, parameter estimates β_2 for peer-based learning of visitors are about 60 to 65% larger than estimates β_1 for market-based observations. While there is miniscule overlap between one-sided 90% confidence intervals, no overlap remains if confidence levels are reduced to 85% (1-4) and 89% (2-4), respectively.

Estimates of the dummy for ultimate deals produced significant estimates in both set-ups, providing solid evidence on visitor shirking (*Hypothesis 4*). The main (domestic) effects for ultimate deals also produced significant estimates in both set-ups (1-4 and 2-4). Interestingly, however, the sign is opposite to the interaction.

The secondary deal type proves a valid control, with estimates indicating that holding periods last about 8 to 12 months longer for this type. Similarly, controlling for size as approximated in terms of value produces significant estimates with the average holding period increasing between one and two months for every tenfold increase in deal value. Finally, the control for initial efforts aimed at proving full operability (by swiftly exiting the first deal) produced significant estimates in all regressions, with the holding period of the first transactions of Anglo-Saxon funds shorter by about 18 to 22 months.

4. Discussion

Our findings add further evidence to earlier findings of culture-specific preferences resulting in differential outcomes. Our estimates for the visitor dummy document level differences in line with predictions derived from cultural studies: Anglo-Saxon investors initially display a lower degree of uncertainty avoidance than their domestic counterparts, and less – if any – respect for the domestic preference for stable long-term solutions. Over time, however, Anglo-Saxon investors engage in significant assimilation efforts. Rather than merely assimilating, Anglo-Saxon visitors to Japan exceed domestic standards, an over-compensation that suggests that negative stereotypes are substantial and sticky. Put into perspective, our findings provide robust evidence on the "visitors to Rome" effect modeled in section 2.

Existing theoretical work suggests that full assimilation should be sufficient to compensate for statistical discrimination. Accordingly, over-compensation as found in our data may indicate taste-based discrimination. As Schwab (1986) rightly noted, such taste-based discrimination cannot be characterized as either efficient or inefficient, if one accepts that taste informs utility. In a more recent interpretation, compensation efforts beyond statistical differences may be necessary to balance the identity externalities suffered by domestic agents (Akerlof and Kranton 2000: 740). However, in light of the extension suggested to our model, namely that reputation may accrue from the transaction history of visitors, over-compensation may also represent an attempt at balancing earlier non-assimilated behavior. From this inter-temporal perspective, the observed over-compensation may have resulted exclusively from statistical discrimination, provided that domestic sellers do not recognize assimilation tendencies in visitors.

Abstracting from a potential influence through unobserved variables, we also find evidence that domestic buyout funds are reacting to the assimilation efforts of visitors by enhancing their own initial positioning, albeit at a slower pace than visitor assimilation. In essence, this means that a sufficiently large group of visitors may cause domestic revealed preferences to become endogenous (strategic) in line with our second hypothesis. In a market with a reportedly limited, hence close to inelastic, supply this causes a marked increase in the equilibrium "virtue level" of revealed preferences.

With regard to the additional learning potential on the extent of stereotyping α as available

from the observation of peer transactions (*Hypothesis 3*), visitors have apparently not tapped that potential in the first behavioral dimension (odds of a turnaround deal). In contrast, we found close-to-significant evidence of visitors having drawn increased awareness on stereotyping from their observation of peers in the second dimension (length of holding period). These differential findings for the two dimensions may be related to the fact that *observing* the transactions of others is only one source of information, and arguably of less significance than information to be drawn from visitor *participation* in bids. In the face-to-face meetings that form part of any bid, domestic sellers are far more likely to openly and directly address the risk-seeking stereotype of Anglo-Saxon visitors (in terms of their involvement in turnaround deals) than visitor perceived disregard of employee preferences (for minimal time under uncertainty). As these hints on risk-related stereotyping from participation in bids are accessible regardless of whether a domestic player or a fellow visitor eventually wins a deal, ex-post observation of peers will likely produce little if any additional information on stereotyping.

If efforts at assimilation are genuinely strategic, i.e., if original preferences of both visitors and domestic agents remain unchanged, our model suggests that revealed preferences in ultimate deals should revert to original preferences (*Hypothesis 4*). In our data, we did not find evidence of "shirking" in the first behavioral dimension (share of turnaround transactions), but solid evidence was found in the second dimension (length of holding period). This is not entirely surprising. If revealed preferences are indeed strategic, shirking requires a prior decision to exit the market. As early as at the time of investment, however, many agents arguably do not know that the deal may ultimately become their last one, with that decision only being taken at some point in time during the holding period. Accordingly, evidence of shirking on the holding period is far more likely to be seen than for the odds of a turnaround deal.

Interestingly, we found inverse (negative) signs in significant parameter estimates for the main (domestic) effect of ultimate deals on the holding period in both set-ups (1-4 and 2-4). At first sight, this seems counter-intuitive as one would expect domestic players to equally revert to their original preferences, i.e., holding periods of ultimate domestic transactions should increase back to the levels seen before domestic agents eventually started to react to visitor behavior. One possible clue to this phenomenon may be drawn from the fact that to visitors, "ultimate deal" means market exit, whereas in many cases it only means strategic change to domestic players.

Keiretsu funds, in particular, have an obvious incentive not to jeopardize their group's overall reputation by smoothly and swiftly folding up a business that they are leaving.

Robustness

There are two potential objections to the validity of our findings. First, visitor funds may be self-selecting according to the fit of their preferences with domestic standards. In concrete terms, if visitor funds with the largest differences from domestic preferences decide to exit the market, the remaining group of agents will naturally become more similar to domestic players. Eventually, eight of 18 Anglo-Saxon buyout funds (and 31 of 60 domestic funds) withdraw from the market during our observation period. To test whether their withdrawals were caused by a slow or absent assimilation process according to Figure I, we introduced and interacted a market exit dummy marking these funds (and replacing the ultimate entry dummy in set-ups 1-4 and 2-4 for both behavioral dimensions). This procedure, however, did not produce significant parameter estimates in any of the corresponding regressions, suggesting that market withdrawal was motivated by factors external to the model. Most importantly, however, this also suggests that the assimilation tendencies observed are not the result of a selection effect caused by non-assimilating funds withdrawing from the market. Pertaining to the funds remaining in the market, the limited number of transactions per fund precludes statistical testing for the lock-in effect noted in FIGURE 1. Given the considerable assimilation efforts being made by visitors, however, we doubt that a substantial share of funds was subject to this effect.

A second potential objection is the possibility that unobserved variables are causing the assimilation tendencies in both behavioral dimensions documented. As regards the shortening of holding periods, one may argue that this happens simply because funds eventually learn how to create value at investee companies more swiftly. This would indeed imply that holding periods are not becoming shorter for the purpose of reputation building. In turn, the share of turnaround deals may be high in early transactions, simply because the sellers of distressed or insolvent businesses may care little (creditors), or not at all (courts) about the reputation of potential acquirers.

A first counter-argument against these latter two objections can be derived from the differential between the slopes of behavioral adaptation of visitor versus domestic agents as

documented in our data. If incentives for learning were equal for visitors and natives, one would expect natives to be learning faster than visitors, given their information advantage in terms of explicit and tacit knowledge. Our data, however, documents the opposite: visitor behavior changes much faster than native behavior. Taking this line of thought one step further, we argue that this differential will only arise if visitors have a substantial additional incentive for learning. And a very likely incentive is the perceived need to overcome stereotype.

Whereas this first counter-argument relies on (albeit realistic) conjectures, a second counter-argument directly builds on evidence from our analysis. We have argued that buyout funds entering a new market have an incentive to quickly prove their full operability by successfully bringing a first deal to conclusion (exit) regardless of potential culture-specific differences in preferences. Our empirical analysis has confirmed this assumption as we have documented that new entrants show a significant tendency to avoid risky turnaround situations in their initial deals and to exit their first deals more swiftly. This evidences that visitor agents are actually *able* to swiftly complete a deal, and to successfully acquire healthy businesses as early as on their very first deal. However, as they eventually reach their objective of proving operability, a willingness to *use* these abilities then only arises anew as they start to learn about the extent of the stereotyping they are facing.

5. Conclusion

This research has conceptualized the "visitors to Rome" effect as a tendency of foreign entrants to emulate domestic behavior in market transactions. Our model has shown that stereotypes imply an incentive to assimilation efforts if the reputation of the other party is an argument in the utility function of domestic agents. The model further shows that over-compensation is possible if assimilation efforts are not overly costly, and that it becomes more likely if stereotypes are sticky. Thus, our research adds conceptual bones to the many accounts of the need for localization documented in the management literature.

Putting model predictions to the test, our empirical analysis documents how visitor agents learn to build their reputation through strategically revealed preferences. Using two behavioral dimensions with substantial differences in initial values, our analysis has documented how Anglo-Saxon buyout funds in Japan have learned to avoid risky deals and to work on reducing time under

uncertainty for their investee companies in an attempt to counter negative stereotype. In line with game-theoretic reasoning, we also found evidence of agents reverting to their original preferences in ultimate transactions, which implies that visitor behavior is indeed strategic.

Our data does not enable inferences as to the premiums paid by visitors to compensate for stereotype. Nevertheless, the substantial and sustained assimilation efforts – with many funds even over-assimilating – suggest two conclusions. First, the initial premiums were considerable enough to trigger a decision to invest in reputation building. Second, the fact that funds sustain their efforts at reputation building implies that efforts are paying off in terms of the premiums asked of visitors decreasing.

Methodologically, our research documents that cultural dimensions in the preference structure of agents may indeed be used to track the dynamics ensuing from interactions between heterogeneous agents. We believe that to achieve this, meeting two conditions was critical. First, we selected for investigation an agent pair with very large distances (Japanese vs. Anglo-Saxon), which maximizes the likelihood of significant differences. Second, we linked the cultural dimensions to variables quantifiable from financial data. We are inclined to believe that meeting these two conditions will be important in enabling future research on the interaction dynamics between agents with different cultural backgrounds.

The agenda for further investigations of these kinds of interaction dynamics remains substantial. For instance, our prediction that visitor success in early transactions is markedly different from domestic success remains to be tested. Equally, future research may try to inquire the "price of ignorance" in terms of premiums paid to compensate for stereotype and insufficient effort. Finally, the model proposed and the extensions discussed in this research only represent a first attempt to conceptualize the "visitors to Rome" effect. We are looking forward to seeing the model evolve as other scholars join the debate.

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Appendix A.1: 1st Order Derivatives to (10)

Defining the right part of (10) as a function $g(c,k,\alpha)$ we obtain the following partial derivatives:

$$g_k = \frac{\left(\dfrac{c}{k}\right)^{\frac{1}{k-1}}}{1-\alpha}\left[\frac{1-k-kLog\left(\dfrac{c}{k(1-\alpha)}\right)}{k(k-1)^2}\right]$$

$$g_\alpha = \frac{S(1-k)+k\left(\dfrac{c}{k(1-\alpha)}\right)^{\frac{1}{k-1}}}{(\alpha-1)^2(k-1)}$$

$$g_c = \frac{\left(\dfrac{c}{k(1-\alpha)}\right)^{\frac{2-k}{k-1}}}{(1-\alpha)^2(k-1)k}$$

$g_k > 0$ holds as $1 - k - k\,Log(c/k) > 0$ for $c,\ k \in [0,1]$. In turn, with $k - 1 < 0$ and all other elements

positive, the signs of g_α and g_c are negative.