The influence of national cultural distance on cross-border M&A deal completion

The case of China

Abstract: While cross-border mergers and acquisitions (CBM&As) deals involving Chinese companies have been increasing in recent years, a high percentage of these deals fail before completion. This failure rate is much higher compared to deals from other BRIC countries. In the international business literature, (national) culture is among the usual suspects to blame for ruining an M&A deal. However, prior studies have mostly focused on its impact on post-deal performance and have failed to address the possible complications of national culture in the pre-completion stage of the M&A process. This study examines the influence of national cultural distance on the likelihood of Chinese CBM&A deal completion. Additionally, the study investigates how prior experience in CBM&A moderates the effect of these cultural differences. The hypotheses are tested using a sample of 790 announced CBM&A deals from China during the period of 2001-2016. The main finding of this study is contradictory. Greater cultural differences between home and host country increase the likelihood of deal completion. The results also indicate that not every component of national culture may be of equal influence during the pre-completion procedure of Chinese companies. In addition, the study fails to find any empirical evidence for the moderating effect of prior experience.

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Date of publication: 16-08-2018

Place of Publication: Nijmegen, the Netherlands

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Chapter 1 | Introduction

In recent years, an increasing amount of Chinese firms have undertaken cross-border mergers and acquisitions (hereafter CBM&As) after the Chinese government announced their 'go global' policy in 2001 (Sun et al., 2012). Currently, China is the second largest acquirer of the world, with a deal value of $802.0 billion in 2017 (Thomson Reuters, 2018). This 'go global' initiative of China has established a growing research body on CBM&As involving Chinese firms (e.g. Buckley et al., 2007; Boateng et al., 2008; Chen & Young, 2010, Du & Boateng, 2015). These studies have advanced our understanding of various M&A strategic issues, such as M&A motivations and determinants of post-M&A performance. However, previous research has not paid much attention to a crucial issue within the M&A process: the failure to complete publicly announced M&A deals (Zhou et al., 2016). Advancing our knowledge on this issue is vital since a significant amount of announced CBM&As deals involving Chinese firms are abandoned before completion. For example, the failure rate of announced CBM&As deals between 1992-2012 involving Chinese companies is 35.3% (Popli & Kumar, 2015). This failure rate is much higher than the 18% failure rate of CBM&As from developed countries (Zhou et al., 2016). Also, compared to the other BRIC countries – which are Brazil (20.3%), Russia (21.4%) and India (28.9%) - the Chinese failure rate is significantly higher (Popli & Kumar, 2015). This high failure rate of China makes it interesting to investigate the determinants of CBM&As failure of China.

Within the CBM&As literature, cultural differences between home and host country (i.e. national culture distance) are often argued to impact the success of an M&A deal. This cultural disparity is said to have an influence on the (post-deal) integration process and long-term performance of an M&A deal (Chakrabarti et al., 2009). However, national cultural distance could already have an impact on the *pre*-deal process. Not only could the awareness of cultural differences and their potential difficulties provide the acquirer with additional selection criteria in choosing their target, cultural differences could also create a number of challenges or conflicts during the process of negotiation after the public announcement of the deal (Tse, Francis & Wall, 1994). For instance, cultural differences create problems for understanding non-verbal cues (Dikova et al., 2010) or may blur information exchange (Popli et al., 2016). These cultural differences could influence the ability to renegotiate the initial contract to an end that is satisfactory for both parties and, hence, may negatively influence the likelihood of deal completion.

Yet, previous literature on the relationship between national cultural distance and the likelihood of CBM&A deal completion is rather limited. While most of these studies are performed within developed countries (e.g. Dikova et al., 2010), there are a few that focus on CBM&As from emerging economies. For instance, Popli et al. (2016) found a positive significant effect between national cultural distance and deal abandonment within a sample of Indian service firms, indicating that cultural differences decrease the likelihood of deal completion. Moreover, Zhou et al. (2016) investigated the relationship between national culture and deal completion within a sample of deals from the four largest emerging economies (i.e. BRIC). The results of their study indicate that cultural distance negatively impacts the likelihood of deal completion for deals involving Indian and Brazilian companies. However, the results for deals involving Chinese companies are inconclusive. Therefore, this study wants to explore the relationship between national cultural distance and CBM&A deal completion in the case of China. Hence, the study will answer the following research question:

What is the effect of national cultural distance on the likelihood of cross-border merger and acquisition deal completion of Chinese companies?

Furthermore, earlier studies have revealed that experiential learning can enhance the performance of acquisitions in any stage of the M&A process (Lei et al., 1996; Dikova et al., 2010). Also during the public take-over phase, previous experience in mergers or acquisitions may help the acquirer to address various critical issues, enhance the negotiation process and help to determine specific strategies in overcoming complications (Zhou et al., 2016). Especially prior CBM&A experience within the same host country as that of the current deal may help the Chinese acquirer to manage the typical cultural characteristics present in that country. This can facilitate the public take-over process in the focal deal. Hence, the impact of national cultural distance on the likelihood of deal completion may be moderated by the previous CBM&A experience of the Chinese acquiring company.

The hypotheses in this study are tested using a sample of 790 CBM&As attempts from Chinese companies between 2001 and 2016 of which 428 (54%) were later announced as completed. The findings of this study are rather mixed and no final conclusions on the influence of national cultural distance could be drawn. Although the main analysis shows that national cultural distance has a positive and significant effect on the likelihood of deal

completion, these results were not confirmed in further analyses. Furthermore, the results show that not every component of national culture has an equal influence during the pre-completion phase of Chinese companies, since only the distance in masculinity and individualism index shows a significant effect. With regard to previous CBM&A experience, the study fails to find any evidence of its moderating relation with national culture.

This study contributes to the literature by providing a better understanding of the influence of national cultural distance on the likelihood of deal completion of emerging market firms. Previous studies on emerging market M&As focus largely on the motivations and impacts on the post-completion phases. This study draws attention to a crucial issue within the M&A process that previous research has failed to address: the failure to complete deals that have already been announced. The limited prior research on this topic has mainly focused on developed countries. Compared to firms from developed countries, emerging market firms often follow a more risky and non-evolutionary path in order to acquire the resources needed (Luo & Tung, 2007). This makes it vital to increase our knowledge of the determinants of CBM&A deal completion from emerging markets. This study is one of the first to investigate the impact of national cultural differences on CBM&A deal completion in the context of China. Thereby, this research adds new evidence on the determinants of deal completion from emerging economies to the existing literature of Zhou et al. (2016) and Popli et al. (2016). The study also provides potential managerial implications by identifying the determinants of deal completion. Avoiding deal abandonment would help firm managers to save time, financial losses and unneeded frustrations. If the problems and determinants of deal abandonment can be addressed *ex ante*, it could save the company from high costs *ex post*.

The rest of this study is structured as follows. The next chapter provides the literature review and the development of hypotheses. The third chapter will address the methodology, in which the empirical model, sample selection and variables are described. The fourth chapter presents the results of the data analysis. The fifth chapter will discuss the results and provide explanations for the findings. Lastly, the sixth chapter concludes the study and provides the limitations and propositions for further research.

Chapter 2 | Theory and Hypotheses

2.1 | National cultural distance and CBM&A deal completion

According to Hofstede (1980) culture can be described as "collective programming of the mind which distinguishes the members of one group or society from those of another" (p. 21). Culture represents a characteristic profile of a society regarding norms, values and institutions that provides understanding in how a society manages exchanges (Hofstede, 1980). Moreover, culture is shaped by the shared history of the members in the group (path dependency), reinforced by institutions and affects the way members of organizations and companies interact (Schein, 1985). At the national level, culture can be seen as a collection of individual values. Since the view of each individual is shaped by their shared societal values and personal experiences, there could exist some variation in which each individual prioritize one value over another. The concept of national culture tries to capture these typical value priorities of each individual in the society, which 'reflect the central thrust of their shared enculturation' (Swartz, 1999; 26). In other words, individuals from different countries will differ from one another based on the collective mental programming that happens in each country and, therefore, will have a different take on things when they encounter similar problems.

Although many scholars have demonstrated the effects of national cultural differences between home and host country (i.e. national cultural distance) on *post*-deal performance of CBM&A, some studies suggests that cultural distance can also have an impact on the *pre*-acquisition procedure (e.g. Dikova et al., 2010; Popli et al., 2016; Chakrabarti et al., 2009). During the first phase of the pre-acquisition procedure, also known as *private take-over process*, the acquiring firm hires an investment banker and considers several potential targets (Boone & Mulherin, 2007). After one or more targets have signed a confidentiality/standstill agreement[1], the acquiring company performs due diligence (i.e. detailed analysis) to assess the strategic and organizational fit of the target based on criteria such as capital structure, type of business, organizational strengths and core competencies (Zhou et al., 2016). Typically, an acquiring firm negotiates with multiple target companies simultaneously, but only one target company is selected to make a public offer (Dikova et al., 2010). In this phase awareness of

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[1] By signing an confidentially agreement an acquiring firm can obtain access to private information of the target, agrees not to make unsolicited bid and indicate a preliminary indication of interest (Dikova et al., 2010)

cultural differences and their possible difficulties will provide the acquiring firm with stricter selection criteria in which deals that comprise high cultural disparity will only continue when the acquirer sees substantial economic potential (Chakrabarti et al., 2009).

After a public announcement of the deal in the financial press, the acquiring and target firm enter into the *public take-over process* which can take several months to complete (Dikova et al., 2010). This phase starts at the public announcement date and ends at the resolution date, which is the date on which the public gets informed whether the deal is completed or abandoned. In this phase the negotiation process continues by performing further due diligence on the target, which consists among others of financial issues, risk allocation and foreign government regulations (Zhou et al., 2016). During these negotiations complications may arise due to the uncertainties caused by various constraints. Although there are several institutional intermediaries (e.g. investment banks) involved in the process, CBM&A deals often remain complex due to the cultural misunderstanding created by a lack of cultural knowledge or unconscious cultural blindness (Popli et al., 2016). Hence, cultural differences between home and host country may influence the ability to renegotiate the initial contract to an end that is satisfactory for both parties and, thereby, may influence the likelihood of deal completion.

Cultural differences between the home and host country can lead to serious complications in the negotiation process and result in conflicts (Tse, Francis & Wall, 1994). According to Popli et al. (2016) cultural distance between the home and host country may blur information exchange. Since information exchange plays a crucial part in the public take-over phase, this can seriously harm whether or not the acquisition deal will succeed. Cultural differences can also create difficulties in understanding non-verbal signals (Dikova et al., 2010). Besides the behavior and perception of individuals, cultural may also affect firm-level processes, such as decision making, conflict resolution and management styles (Kirkman et al., 2006). Often conflicts arise when both acquisition partners have different business processes and ideologies (Zhang & Ebbers, 2010). Hence, cultural differences may increase the likelihood of these conflicts and disputes.

According to Jemison and Sitkin (1986) acquirers tend to abandon a deal when problems become too difficult to manage. Common problems during the public take-over phase of an acquisition deal arise in collecting information on the target firm and ensuring that this information is reliable (Very & Schweiger, 2001). Since the collection of sufficient

information happens under great time and competitive pressure (Jemison & Sitkin, 1986), the information transfer may be more challenging in culturally different environments. In addition, to ensure that the provided information of the target is reliable, the level of trust between the management team of the acquirer and the target plays an important role (Very & Schweiger, 2001). A lack of trust in the opposite management team can create serious complications in the negotiations process and is seen as an important deal-breaker in international business transactions (Very & Schweiger, 2001). According to Dikova et al. (2010) a lack of trust in the opposite party is a manifestation of national cultural differences, as trust is for a great deal determined by the national culture. Therefore, people from cultural more distant countries usually find more troubles in trusting each other (Doney et al., 1998).

Previous research on the impact of national cultural distance on the likelihood of M&A deal completion is rather limited. The study of Dikova et al. (2010) indicates that national cultural distance is negatively associated with the likelihood of completion. However, their sample only consisted of CBM&A deals of service industry companies from developed countries. In the context of emerging countries, Popli et al. (2016) investigated the impact of national cultural differences on cross-border deal abandonment of Indian service sector firms. Their findings suggest that cultural distance has a positive effect on the likelihood of deal abandonment, which also indicates that cultural differences between home and host country has a negative impact during the public take-over phase. Moreover, Zhou et al. (2016) investigated the same relationship in an overall sample of all four emerging countries (i.e. BRIC). Their results indicate that cultural distance negatively influences the likelihood of deal completion of CBM&A deals from Brazil and India. However, the results for the other two emerging countries – Russia and China – remain inconclusive.

Although the above suggests that national cultural differences negatively impact the likelihood of deal completion, there are some special features about China that may exacerbate this effect. First of all, there are big differences between the culture of (western) developed economies and that of China (Hofstede et al., 2010). Before the industrial revolution, interaction between China and the western world was relatively little. Due to this long and independent evolution both developed a very distinct collective mental programming system. Moreover, Chinese culture put great emphasis on personal relationships, which makes Chinese managers more focused on building social, interpersonal relationships (*guanxi*) before they enter into the international business relationships. Developed economies, on the other hand, are usually more focused on the business deal and achieving performance rather

than interpersonal relations. The study of Pan and Zhang (2004) showed that firm managers from a cultural distant country (i.e. United States) are often not patient enough to first build interpersonal relationships before they propose their business deal to a Chinese firm. This could lead to complications between both parties as they try to finalize the M&A deal. Also, the strong collectivistic culture of China has an impact on the way conflicts are managed during the negotiations process. Due to the emphasis on personal relationships, Chinese managers tend to use indirect ways in resolving disputes to avoid direct and open conflict (Pan & Zhang, 2004). Often they involve the assistance of a third party to avoid losing faces, whereas western economies are more used to a direct and open confrontation of issues. This roundabout way of conflict solving, even for solving problems that seem very simple, may confuse Chinese acquisition partners and can cause hurdles in the negotiation process.

Furthermore, Dietz et al. (2008) argue that it is more likely for Chinese multinationals to face a clash of culture when conducting M&As overseas, since many Chinese managers often lack crucial skills in communication, experiences in foreign management, cross-cultural knowledge and fluency in English. In fact, according to the International Institute of Management Development (IMD)[2], China ranks at the bottom of 63 countries in terms of international managerial skills (IMD, 2014). The problems arising due to the cultural differences of both nations can become even more difficult when managers lack the adequate skills to handle them. Altogether, the typical (cultural) characteristics and economic environment of China may enhance the effect of cultural differences within the negotiation process. Accordingly, the following hypothesis is formulated:

Hypothesis 1: Cultural distance between China and the host country has a negative effect on the likelihood that the CBM&A deal will be completed.

2.2 | The moderating effect of M&A experience

Organizational learning is a constant and dynamic process where firms learn by engaging in experiences, take inferences from these experiences and store the inferred material in order to use them in future experiences (Levitt & March, 1988; Hayward, 2002). The new knowledge that is produced during the organizational learning process can provide the firm with

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[2] The IMD is an independent business school who annually releases the World Competitiveness Yearbook. The report measures the performance of 63 countries based on more than 340 criteria

competitive advantages and may lead to better firm performance (Hitt et al., 2000). According to Barkema and Schijven (2008) firms benefit from previous acquisition experience, since some of the acquired knowledge and skills from previous deals can be transferred towards current deals. For instance, firms that have been involved in multiple CBM&A deals may develop general routines on how to acquire other international companies, source external legal or financial resources (Hitt et al., 1998) or achieve optimal levels of integration (Vermeulen & Barkema, 2001).

In the context of CBM&A completion, previous CBM&A completion experience enables firms to collect important information that should be anticipated (e.g. existing regulatory barriers in the host country). It could also help them to better negotiate and determine specific strategies to overcome complications during the public take-over process (Zhou et al., 2016). This can facilitate the public take-over process and makes it more likely that the deal is completed. Moreover, there exist multiple studies that provide evidence for the positive effects of prior CBM&A experience. For instance, Dikova et al. (2010) showed in their study that gained experiences in previous merger or acquisitions deal increase the possibility of deal completion. Similarly, the results from Muehlfeld et al. (2012) indicate that on average past acquisition experience with more than one completed CBM&A deal has a positive effect on CBM&A deal completion.

However, Buckley et al. (2014) argue that not all kinds of experiences are beneficial for a firm, but learning from prior experiences in similar contexts can be beneficial for future overseas investments. For instance, firms with previous acquisition experience in a particular host country may be more experienced with managing the typical cultural characteristics that are present in that country. Firms that have conducted previous international M&A deals gain familiarity with the nation-specific barriers and the local management styles (Very & Schweiger, 2001). Also, accumulate d knowledge within a specific host country helps to develop organizational routines for the acquirer on how to implement strategies during the public take-over phase and access outside financial, legal or other resources that could facilitate the process (Shimizu et al, 2004).

As mentioned in the previous chapter, the CBM&A public takeover process is a complicated and time consuming process in which cultural differences can provide additional challenges. When the acquiring firm already has experience with CBM&A deals, and in particular in the same host country, it will be able to cope in a better way with the complications that arise

from cultural differences. Since China has relatively little experiences with CBM&A (Peng, 2006), the necessary infrastructure to facilitate these mergers or acquisitions is rather underdeveloped (Li et al., 2016). Also, the Chinese acquirers are often not familiar with the M&A procedure in other countries. According to Boyle and Winter (2010) common practices and rules, such as the due diligence procedure, are quite different in China from M&A procedures that are common in more developed economies. Therefore, Chinese firms need to learn the 'rules of the game' trough actual experiences. The accumulated (cultural) knowledge of Chinese acquirers from previous CBM&A deals in addressing various critical issues will enhance the negotiations during the public take-over phase. Hence, previous CBM&A experience may moderate the negative effect of cultural distance on the likelihood of deal completion. Accordingly, the following hypothesis is formulated:

Hypothesis 2: Previous CBM&A experience moderates the effect of cultural distance on the likelihood of deal completion: the negative relationship becomes weaker if CBM&A experience increases.

Chapter 3 | Research Method

In this chapter, the methodology of the study will be explained. At first a description of the data and sample is given. Afterwards, the measurement of the dependent, independent and control variables are described, the regression models are developed and lastly, the additional robustness checks will be discussed.

3.1 | Data and Sample description

The data on acquisitions are derived from the *Thomson One Financial Merger & Acquisition* database (henceforth Thomson). This database collects data on mergers and acquisitions worldwide from various sources, such as news media in different countries, trade publications and fillings at the Securities and Exchange Commission and its international counterparts. Thomson offers information on deal status, date of the cross-border announcement, individual deal details, and target and acquirers profiles (e.g. industry and experience). This database is a commonly used database for M&A within the context of developed as well as emerging economies (e.g. Zhang et al., 2011; Muehlfeld et al, 2012). To ensure the accuracy of the information, random cross-checks of the data between Thomson and company annual reports are done. Furthermore, information about the ownership of the Chinese acquirers is retrieved from the CSMAR database. This database collects financial and governance data from Chinese listed companies on the Shanghai and Shenzhen stock exchange since 1990. Missing ownership variables were supplemented with data from Thomson. Finally, national cultural dimensions of each target country in the sample are retrieved from the website of Geert Hofstede (https://www.geerthofstede.com).

The sample contains all announced CBM&A deals by public Chinese firms in the period from 2001 to 2016. This period includes the time after which the Chinese government carried out the 'go global' initiative, which led to an increasing flow of overseas investments by Chinese enterprises. The year 2016 includes the most recent year in which the deal and firm-specific variables are available. To construct the final sample, observations to Bermuda, British Virgin Islands and the Bahamas are excluded from the sample in order to avoid the inclusion of 'shell' operations. Deals of which the status was marked as 'unknown' were also excluded from the sample. Finally, after deleting the observations with missing data the sample consists of 790 CBM&A attempts of which 428 (54.18%) were later announced as completed. Appendix A and B present an overview of the data in the sample.

3.2 | Dependent Variable

The dependent variable in the empirical analysis is *Deal Completion*. Following the literature (e.g. Muehlfeld et al., 2012; Dikova et al., 2010), deal completion is measured by creating a dummy variable that equals 1 if the announced M&A deal is completed and 0 if it is not. All deals that were announced and stated as completed (even in absence of a completion date) are considered as completed transactions. M&A deals whose deal status was marked as "withdrawn", "intended withdrawn", "discontinued rumor" or "rumored" are marked as abandoned. According to Muehlfeld et al. (2012), the median number of days in which a deal is completed is around 62 days, with 94% of deals completed within a year. Hence, deals that were not completed (marked as 'pending') by 2017 are considered as withdrawn.

3.3 | Independent variable

The key explanatory variable is national cultural distance. Due to the difficulties involved in measuring and defining culture, there are multiple alternative measurements available for use. The most common measurement, and by far, the most established in international business studies is based on Hofstede's (1980) cultural dimensions (Kirkman et al., 2006). Although Hofstede's measures are, like any other measurement of culture, not free from criticism, there exists a considerable amount of evidence on the reliability and validity of the cultural scores (Kogut & Singh, 1988; Morosini & Singh, 1994; Drogendijk & Slangen, 2006). The main cultural dimensions of Hofstede are individualism (IDV), power distance index (PDI), uncertainty avoidance index (UAI) and masculinity (MAS). Each of the dimensions can be defined as follows[3]:

(1) *Individualism (IDV)* refers to the degree to which the members in a society are integrated into groups. Within an individualistic society, ties between individuals are loose and people are expected to take care of themselves. On the opposite site, in a collectivistic society, people are integrated within strong, cohesive groups that protect each other in exchange for unquestionable loyalty.

(2) *Power Distance (PDI)* refers to the attitude of society towards power inequalities and is defined as the extent to which the less powerful members of the society expect and accept that power is unequally distributed.

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[3] Definitions are taken from Hofstede (2011).

(3) *Uncertainty Avoidance (UAI)* refers to the way in which the members of a society feel uncomfortable by uncertain or ambiguous situations and have created institutions and beliefs in order to avoid these situations.

(4) *Masculinity (MAS)* refers to the distribution of values between genders within a society. A masculine society (high score) is characterized by a preference for competition, achievement and success, while a feminine society (low score) is characterized by values as cooperation, caring for the weak and quality of life.

In line with previous research (e.g. Kogut & Singh, 1988; Chakrabarti et al., 2009; Zhou et al., 2016) a composite measure of cultural distance is calculated based on the numerical values of the four Hofstede dimensions:

$$CD\_COMPOSITE = \frac{\sqrt{\sum_{i=1}^{4}(S_{A,i} - S_{T,i})^2}}{4}$$

where $S_{A,i}$ represent the cultural scores of the home country (i.e. China) and $S_{T,i}$ the cultural scores of target country for each cultural dimension i (= IDV, PDI, UAI or MAS). Greater values of cultural distance indicate greater differences or distance between China and the target firm's country regarding the cultural dimension.

Also, the cultural distance on each individual cultural dimension between home and host country is calculated. Following Nicholson & Salabar (2013) and Aybar and Ficici (2009), the CD_i for each dimension i is calculated by taking the absolute difference between the home and host country dimension score. This is given by: CD_i = $|S_{A,i} - S_{T,i}|$.

3.4 | Moderator variable

To test the effect of acquisition experience on the relationship between cultural distance and deal completion, the moderator variable *CBM&A experience* is added. As argued earlier, not all experiences are beneficial for the firms, but prior experiences within similar contexts can be beneficial to the firm (Buckley et al., 2014). Previous M&A experience in the same host country[4] as the focal deal can provide the Chinese acquirer with important knowledge about the cultural characteristics in that country, which can enhance the negotiations during the public take-over process. Following Zhou et al. (2016), past *CBM&A experience* is measured

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[4] The host country refers to the country in which the target company is located, which can represent any target nation in the sample (except China).

as the total number of (un)completed CBM&A deals by Chinese acquirers within the same host country as the focal M&A deal prior to that deal.

3.5 | Control variables

In accordance with prior literature (e.g. Dikova et al., 2010; Zhang et al., 2011; Muehlfeld et al., 2012; Zhou et al., 2016), multiple control variables are included in the logistic regression model to account for potential alternative factors that influence CBM&A deal completion.

Industry relatedness indicates whether the acquirer and target are in the same industry or not. When deals take place in unrelated industries, the announced M&A deal may be received negatively by investors and the market (Zhang et al., 2011). This is because investors often assume that unrelated M&A deals tend to damage the stockholders of the acquiring firm, the market believes that the acquiring firms has overpaid for the target or that the combination of both firms lead to diseconomies (Flanagan, 1996). The variable is measured as a dummy that has a value of 1 if the target and acquirer have the same four-digit SIC code, and 0 otherwise.

Target subsidiary is added to indicate whether the target company was a subsidiary of a larger enterprise (1), or not (0). Negotiations with a subsidiary are often more complex than a conventional transaction, due to the power issues associated with the parent company (Muehlfeld et al., 2012).

To identify the ownership of the acquirer a dummy variable *SOE acquirer* is added that equals 1 if the acquirer is state owned and 0 otherwise. China is characterized by active government involvement in businesses by way of regulation and ownership (Peng, 2000). This government support can evoke negative reactions from the public and politicians in the host country (Zhang et al., 2011). Moreover, host country's authorities are likely to turn down the acquisition or merger attempt of these companies by reason of local industry protection and national security. Since Chinese state-owned enterprises (SOEs) are more likely to be attacked by protectionism in the host country, an unfavorable environment is created which decreases the likelihood of deal completion.

Target public status indicates whether the target company is a publicly owned company. According to Muehlfeld et al. (2012), publicly owned targets might increase the likelihood of deal completion as dispersed ownership reduces the ability to fight off unwanted bids. Target public status is measured as dummy variable that equals 1 if the target company is public, 0 otherwise.

The model also controls for *formal institutional distance* between China and the target firm countries. When there is a greater distance in legal and regulatory environment between the home and host country, Chinese firms may encounter problems in fully understanding regulatory requirements of the host country based on their native skills and knowledge. This may lead to misinterpretation or negligence of some important aspects during the public take-over phase, which can impede the likelihood of deal completion (Meyer et al., 2009). In line with Zhou et al. (2016) and Meyer et al. (2009), the variable is constructed with the use of the Heritage Foundation's Index of Economic Freedom. This index provides freedom scores in 10 categories that measure the ease of which firms and individuals can pursue their business activities in their country graded on a scale from 0-100.[5] Formal institutional distance is measured as the absolute difference in the average freedom scores between the target country and China in the year the deal was announced. Accordingly, a higher value indicates a greater distance in law and regulation between the two countries.

The method of payment is also included as a control variable. The method of payment (cash, debt, stock or a combination) may influence the likelihood of deal completion. Cash offers may create more wealth for the stockholders of the target. Additionally, cash facilitates deal valuation, which decreases the scope for disagreement during the public take-over phase (Muehlfeld et al., 2012). Hence, the dummy variable *Cash Payment* is included, which equals 1 if the final consideration structure of the deal is predominantly cash and 0 otherwise.

Percentage sought is the ownership stake of the target sought after by the acquirer in the transaction. A higher percentage indicates that there is more at stake for acquirer's and target's shareholders. This can have an effect on approval procedures in the public take-over phase (Dikova et al., 2010).

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[5] The categories of the index are: property rights, juridical effectiveness, government integrity, tax burden, government spending, fiscal freedom, business freedom, labor freedom, monetary freedom, trade freedom, investment freedom and financial freedom (Heritage Foundation, 2017),

3.6 | Description of all variables

Table 1 shows all the variables used in the analyses.

Variable Name	Measurement	Source
Table 1 - Description of all variables and data sources		
Dependent Variable		
Deal completion	Dummy variable equal to: 1 if the announced M&A deal is completed 0 if the announced M&A deal is marked as 'withdrawn', 'intent withdrawn' or 'rumored only'	Thomson Financial Merger & Acquisition database
Independent Variable		
National cultural distance	Composite index based on the numerical values of the four Hofstede dimensions: $$CD\_COMPOSITE = \frac{\sqrt{\sum_{i=1}^{4}(S_{A,i} - S_{T,i})^2}}{4}$$ where $S_{A,i}$ represent the cultural scores of the home country (i.e. China) and $S_{T,i}$ the cultural scores of target country for each cultural dimension i	Website of Geert Hofstede (https://www.geerthofstede.com)
Moderator Variable		
CBM&A experience	Total number of (un)completed CBM&A deals by acquirers within the same host country as the focal M&A deal prior that deal.	Thomson
Control Variables		
Industry relatedness	Dummy variable that equals 1 if target and acquirer have the same two-digit SIC code, 0 otherwise	Thomson
Target subsidiary	Dummy that equals 1 if the smaller partner in the transaction was a subsidiary of a larger enterprise, 0 otherwise	Thomson
SOE acquirer	Dummy that equals 1 if the acquirer is state owned and, 0 otherwise	CSMAR database and Thomson One
Target public status	Dummy variable that equals 1 if the target company is publicly owned, 0 otherwise.	Thomson
Formal institutional distance	Absolute difference in the average freedom scores between the target country and China in the year the deal was announced.	Index of Economic Freedom (Heritage Foundation
Cash payment	Dummy variable that equals 1 if the deal is predominantly cash-financed and 0 otherwise	Thomson
Percentage sought	Ownership stake of the target sought by the acquirer	Thomson

3.7 | Research method

In this study, the dependent variable is a dummy variable that indicates 1 if the announced merger or acquisition deal is completed and 0 if not. Since the dependent variable is dichotomous, a logistic regression model is the appropriate model to analyze the effect of national culture distance on the outcome of a merger of acquisition attempt from China. Using an OLS regression model would be problematic, since the OLS will produce predictions beyond 0 and 1 which is not possible for probabilities (Long et al., 2006). Also, the OLS assumption of homoscedasticity (i.e. variance is constant for each combination of the independent variables) is violated if the dependent variable is binary. Hence, the logistic regression model is preferred. The logistic regression model generates coefficients of a formula to predict the 'logit transformation' of the change. These coefficients are not as easy to interpret as from regular OLS regression, since they lack an intuitive metric (Long et al., 2006). A positive coefficient of, for instance, *Industry relatedness* would indicate that the likelihood of deal completion increases when the target and acquiring firm belong to the same industry. However, the magnitude of the coefficient would indicate little or nothing about the increase in probability.

Furthermore, while the unit of analysis in this study is an announced M&A deal, the announcements are made by a sample of firms of which some attempt multiple M&As over the observation period. In other words, the data includes multiple M&As by the same Chinese acquiring company. Since the number of M&A attempts varies per firm, the data makes up an unbalanced panel. If the data is treated as a pooled cross-section, the within-firm correlations in the error term would be ignored and each observation would be treated as independent. Although a random (or fixed) effects specification would account for these within-firm correlations, the dataset is technically not a panel as the firms are not followed over time and only observed when they announce an M&A deal. Hence, the models are estimated using clustered standard errors that account for the within-firm correlation. This approach is similar to the random effects estimation, but has the advantage that it produces consistent estimates over a wide range of possible correlations (Cameron & Trivedi, 2009). This approach is in line with Muehlfeld et al. (2012).

In order to test the hypotheses, a series of logistic regressions will be estimated. The basic model specification consists of only control variables and is presented as follows[6]:

Logit (*Deal completion*) = α + β_1 Industry Relatedness + β_2 Target Subsidiary + β_3 SOE acquirer + β_4 Target public status + β_5 Formal institutional distance + β_6 Cash payment + β_7 Percentage sought + ε

where α represents the constant of the equation, β_1- β_7 the coefficients of the corresponding control variables and ε the error term. The definitions of the control variables can be found in section 3.5. Similar logistic regression models are ran by including the explanatory variables in the basic model. Model 2 adds national cultural distance (*CD_COMPOSITE*) in order to test the role of national cultural distance on the likelihood of deal completion. Model 3 includes *CBM&A experience* to test for the separate effect of CBM&A experience on the likelihood of deal completion. Finally, model 4 includes the interaction term of national cultural distance and CBM&A experience (*CD*Experience*) to test for the moderating effect of CBM&A experience. The model specifications of model 2-4 can be found in appendix C.

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[6] Logit (Deal completion) is equivalent to $\log \frac{\text{Pr(Deal completion=1|X)}}{\text{Pr(Deal completion=0|X)}}$

Chapter 4 | Results

This chapter contains the results of the logistic regression analyses. First, the descriptive statistics of all variables are presented. Next, the correlation between the variables is shown. Afterwards, the hypotheses are tested in the logistic regression analyses. Lastly, additional robustness checks are performed to check whether the results are robust to changes.

4.1 | Descriptive statistics

Table 2 shows the descriptive statistics for all dependent and independent variables for the study period of 2001-2016. The mean national cultural distance (CD_COMPOSITE) is 15.45, which reveals that most of the deals made by Chinese companies are performed in countries that have relatively dissimilar cultures. However, there is a lot of variance between the highest and lowest national cultural distance. The lowest cultural distance observed is 3.96 (Hong Kong), while the highest cultural distance measured is 24.12 (Denmark). In appendix D an overview is given of the national cultural distance of each country in the sample. Not surprisingly, China has the most similar culture with other Asian developing countries, such as the Philippines (5.81), Indonesia (6.91) or Vietnam (6.96) and encounters the most cultural disparity with western Northern European countries, such as Sweden (23.35), the Netherlands (23.18) or Norway (23.14). The appendix also shows the frequency that each target country occurs within the sample.

Table 2 - Descriptive Statistics					
Variable	**Obs.**	**Mean**	**St. dev.**	**Min.**	**Max.**
Deal completion	790	0.542	0.499	0	1
CD_COMPOSITE	790	15.45	6.851	3.96	24.12
CD_PDI	790	28.64	15.52	0	69
CD_IDV	790	38.48	27.96	0	71
CD_MAS	790	12.48	12.15	0	61
CD_UAI	790	23.84	18.84	0	74
CBM&A Experience	790	0.315	0.790	0	5
Industry relatedness	790	0.467	0.499	0	1
Target subsidiary	790	0.437	0.496	0	1
SOE acquirer	790	0.194	0.395	0	1
Target public status	790	0.171	0.377	0	1
Institutional Distance	790	23.84	10.01	0.10	38.70
Cash Payment	595	0.541	0.499	0	1
Percentage sought	746	64.10	35.82	2.30	100

In terms of previous CBM&A experience, table 2 shows that most acquiring companies in the sample do not have any prior deal experience in the same host country. Almost 81 percent of the deals were initiated without any previous CBM&A experience (n = 637). Moreover, 12.5 percent initiated and/or completed CBM&A one deal in the same host country (n=99). Less than 1 percent of the deals (n=5) have initiated 5 deals before. In appendix E more statistics are included on CBM&A experience.

4.2 | Correlation matrix

Table 3 reports the correlation matrix of all explanatory variables in the model. The significant correlations are highlighted. Most correlations in the table vary from -0.43 to 0.47. This suggests that there is no or only little correlation between the independent variables in the sample. However, there are some variables that show high values of the correlation coefficients. First of all, it can be seen that CD_COMPOSITE is highly correlated with CD_PDI (0.798) and CD_IDV (r = -0.858). This correlation can be justified, because the cultural composite index (CD_COMPOSITE) is made out of each of the four individual cultural dimensions. Also CD_PDI and CD_IDV show a high positive correlation coefficient (0.805). However, since each of the different proxies for cultural distance are not used in the same regression model this is not a problem. Another remarkably high correlation coefficient can be found between *F*ormal Institutional Distance and CD_UAI (r = -0.659), which indicates that target countries that have a greater distance in regulation and law score lower on the uncertainty avoidance Index. To check whether multicollinearity is a problem in this study, the variance inflation factor (VIF) of each independent variable is calculated. All values are between 1.37 and 4.92 (not tabulated), which is well below the critical value of 10. Hence, the VIF confirms that multicollinearity is not an issue in this study.

Table 3 - Correlation matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13
1. CD_PDI	1												
2. CD_IDV	0.805***	1											
3. CD_MAS	-0.184***	-0.301***	1										
4. CD_UAI	0.0277	0.0440	0.342***	1									
5. CD_COMPOSITE	0.798***	0.858***	0.0582	0.469***	1								
6. CBM&A Experience	-0.00532	0.0103	-0.141***	-0.128**	-0.0762	1							
7. Industry relatedness	0.0300	0.0565	-0.0384	0.0462	0.0639	0.221***	1						
8. Target subsidiary	-0.102*	-0.0748	-0.0763	-0.0705	-0.122**	-0.0287	-0.0196	1					
9. SOE acquirer	-0.113**	-0.148***	0.0635	-0.0212	-0.125**	0.208***	0.143***	0.0838*	1				
10. Target Public Status	-0.00577	-0.0303	-0.0300	-0.104*	-0.0703	0.199***	0.103*	-0.411***	0.0813	1			
11. Formal Institutional distance	-0.0544	-0.161***	-0.282***	-0.659***	-0.432***	0.147***	-0.168***	0.0860*	-0.0505	0.146***	1		
12. Cash payment	0.0582	0.0777	-0.0180	0.0232	0.0704	0.0673	0.0313	-0.169***	-0.198***	0.196***	0.0125	1	
13. Percentage sought	0.0373	0.0607	-0.0163	0.00262	0.0457	-0.183***	-0.136**	0.319***	0.0253	-0.356***	-0.0120	-0.239***	1

* correlation coefficient is significant at the 0.05 level (two-tailed)
** correlation coefficient is significant at the 0.01 level (two-tailed)
*** correlation coefficient is significant at the 0.001 level (two-tailed)

4.3 | Test of hypotheses

Table 4 presents the results of the logistic regression models. Model 1 only includes the control variables. Model 2 presents the results with the first independent variable added: national cultural distance (CD_COMPOSITE). Model 3 adds CBM&A experience in order to test the separate effect of previous experience on the likelihood deal completion. Model 4 presents the results in which the interaction terms is included. The dependent variable in each model is deal completion. In accordance with Dikova et al. (2010), each model reports the coefficients, standard errors, value of log-likelihood, the pseudo R² and the value of the Wald Chi-square tests. The latter tests whether all coefficients that are associated with the independent variables are simultaneously equal to zero. Since the Wald Chi-square statistics of each model is significant at the 1% level, it can be stated that the whole model fits significantly better than a model that has only a constant (Zhang et al., 2011). Furthermore, the pseudo R² of each model suggests that the explanatory power of the models is relatively low. This is in accordance with other previous studies (e.g. Dikova et al., 2010, Popli et al., 2016). Besides, the focus of this study is to contribute to the theoretically motivated determinants, rather than on explaining the variation of deal completion as much as possible.

Table 4 - Summary of logistic regression results

Variables	Expected relationship	Model 1 Controls only	Model 2 Culture	Model 3 Culture and experience	Model 4 Culture and experience interaction
			Deal completion		
Industry relatedness	+	0.406* (0.20)	0.400* (0.20)	0.317 (0.20)	0.318 (0.20)
Target subsidiary	-	-0.017 (0.21)	0.023 (0.21)	0.005 (0.21)	0.007 (0.21)
SOE acquirer	-	0.533[+] (0.29)	0.596* (0.29)	0.490[+] (0.29)	0.451 (0.29)
Target public status	+	0.617[+] (0.32)	0.636* (0.32)	0.599[+] (0.33)	0.619[+] (0.33)
Institutional distance	-	0.005 (0.01)	0.013 (0.01)	0.009 (0.01)	0.009 (0.01)
Cash payment	+	0.408* (0.19)	0.389* (0.19)	0.375* (0.19)	0.366[+] (0.19)
Percentage sought	?	0.011*** (0.00)	0.011*** (0.00)	0.012*** (0.00)	0.012*** (0.00)
CD_COMPOSITE	-		0.028[+] (0.01)	0.027[+] (0.01)	0.032* (0.02)
CBM&A Experience	+			0.320[+] (0.16)	0.579* (0.27)
CD*Experience	(+)				-0.018 (0.02)
Constant		-1.274*** (0.39)	-1.904*** (0.51)	-1.872*** (0.52)	-1.932*** (0.51)
Log-likelihood		-371.0636	-369.10176	-366.47651	-366.03506
Pseudo R²		0.0400	0.0451	0.0519	0.0530
Wald Chi-square		23.19**	26.63***	30.09***	33.71***

Table 4 presents the coefficients of the logistic regression analyses for the period of 2001-2016. The dependent variable of each model is CBM&A deal completion. [+], *, ** and *** denotes significant results at the 10%, 5%, 1% and 0.1% level respectively. Standard errors of the parameter estimates are clustered at the firm level and given in parentheses

Hypothesis 1 predicts that national cultural distance decreases the likelihood of CBM&A deal completion. In model 2 it can be seen that the coefficient of CD_COMPOSITE is positive and significant ($\beta = 0.028$, $p < 0.10$), which indicates that cultural differences between acquirer and target nation increases the likelihood of deal completion. This effect is stable in model 3 ($\beta = 0.027$, $p < 0.10$) and model 4 ($\beta = 0.032$, $p < 0.05$). This finding is not consistent with prior research which suggests that cultural difference may have a negative impact on the negotiations during the public take-over process (e.g. Dikova et al., 2010; Popli et al., 2016). Hence, hypothesis 1 cannot be accepted.

Table 5 in Appendix F attempts a better understanding of the relative effect of each individual Hofstede dimensions of national culture on the likelihood of deal completion. Only two of the four dimensions show a significant effect. First of all, the masculinity dimension (CD_MAS) shows a negative significant effect (β = -0.022, p < 0.01), indicating that a high differences in the masculinity index between China and the target's country decreases the likelihood of deal completion. Furthermore, the coefficient of the individualism index (CD_IDV) has a positive and significant sign (β = 0.009, p < 0.01). This positive coefficient indicates that high differences in the individualism index between China and the target's country increase the likelihood of deal completion. The other cultural dimensions, power distance (CD_PDI) and uncertainty avoidance (CD_UAI) show no significant effect. Hence, it can be stated that the positive effect of the overall cultural distance measurement (CD_COMPOSITE) is not derived from a difference in one or multiple individual dimensions, but rather emerges in a non-linear way from the combined difference of the four dimensions.

Hypothesis 2 predicts that previous CBM&A experience moderates the negative effect of cultural distance on the likelihood of deal completion. The results of model 3 (see Table 4) show that CBM&A experience has a positive and significant coefficient (β = 0.320, p < 0.10). This means that previous experience in the same host country increases the likelihood of deal completion for Chinese acquirers. This finding is consistent with prior research on M&A experience and deal completion (e.g. Dikova et al., 2010; Zhang et al., 2011; Zhou et al., 2016). In model 4 the interaction variable between previous CBM&A experience and national cultural distance (CD*Experience) is added to test for the moderating effect of previous CBM&A experience. Although the interaction variable (CD*Experience) shows the expected positive sign, the coefficient is not significant. Therefore, hypothesis 2 cannot be confirmed.

With regards to the control variables, the models provide significant and positive results for *Industry relatedness, SOE acquirer, Target public status, Cash payment* and *Percentage sought*. As expected, announced CBM&A deals of which the target and acquirer belong to the same industry are more likely to succeed. Furthermore, the results show that CBM&A deals in which the Chinese company is state-owned are more likely to be completed. This is not in line with prior research that concluded that state-owned acquirers have more troubles in completing the deal (Zhang et al., 2011). The implication of this could be that state-owned enterprises are more determined to complete the deal and generally have, due to their state influence, more money to persuade the target company. As predicted, the coefficient of *Target public status* is positive and significant, indicating that deals are more likely to be

completed when the target company is also a public company. In compliance with extant studies (e.g. Dikova et al., 2010; Zhou et al 2016), deals that are considered to be pre-dominantly cash financed are more likely to be completed. Deals that are paid with cash create more wealth for the target's stockholders and facilitate the deal valuation. Moreover, the positive sign of the coefficient of *Percentage sought* indicates that deals in which the Chinese company want to acquire a higher ownership stake in the target are more likely to be completed. This is not in line with previous studies (e.g. Dikova et al., 2010; Popli et al., 2016). The other control variables in the model - *institutional distance* and *target subsidiary* – provide no significant results in any of the models.

4.4 | Robustness checks

Some additional tests are done in order to test the robustness of the results. First of all, the robustness of the results is tested by re-estimating the models by using two alternative measurements of CBM&A experience. These tests are done to see whether the results with different CBM&A experience variables are in line with the results of the original analysis. The first alternative measurement of CBM&A experience is the acquirer's global CBM&A experience. This variable is measured as the total amount of prior deals that the acquirer has announced, regardless of whether the host country is the same as in the focal M&A deal. This robustness check is in line with prior research of Dikova et al. (2010). The second alternative measurement of CBM&A experience is the acquirer's experience in culturally distant CBM&As. In this case, previous experience indicates the number of prior announced deals of which the target nation was considered as cultural distant. A prior deal is marked as culturally distant when the national cultural distance score was higher than the median value of the sample (> 18). The results of these additional tests are presented in table 6 of appendix G.

When previous experience is measured as the acquirer's total global CBM&A experience, the results are comparable to those in the main analysis. The results for the experience variable (Exp_global) are weaker than in the main analysis ($\beta = 0.316$ instead of $\beta = 0.579$). Interestingly, the moderating variable (CD*Expglobal) is now significant ($\beta = -0.016$, p < 0.05). This indicates that previous global CBM&A experience moderates the effect of national cultural distance on the likelihood of deal completion. In other words, when the acquiring company has more experience with prior M&A deals the positive effect of national cultural distance weakens. Also, when previous experience is measured as the acquirer's experience in culturally distant CBM&A (Exp_cultdist), the results remain similar to those in

the main analysis. Again, the results of the moderating variable (*CD*Expcultdist*) are now significant (β = -0.032, p < 0.10), indicating that previous experience in cultural distant mergers moderates the effect of national cultural distance on the likelihood of deal completion. Although both robustness checks indicate that the moderating effect of previous CBM&A exists, the relation is in the opposite direction of what was expected beforehand.

Furthermore**,** the robustness of the results are examined by re-estimating the models with two different subsamples, respectively (1) deals towards developed countries and (2) deals towards developing countries. Table 7 in appendix H shows the results of these analyses. In both subsamples it can be seen that there are considerably less significant results. With regards to the main independent variable (CD_COMPOSITE), both samples show a negative coefficient in all of the models. This indicates that cultural distance has a negative impact on the likelihood of deal completion. However, only in the developing sample (model 3) the coefficient shows significance (β = -0.081, p < 0.10). Since these results differ significantly from the main analyses, there can be no final conclusion drawn on the influence of national cultural distance on the likelihood of deal completion. Moreover, CBM&A experience shows the expected positive sign in both samples. However, only in the developing sample this coefficient is significant (β = 0.984, p < 0.01). With regard to the moderating variable (CD*Experience), the coefficients only show significance in the developing sample. This indicates that CBM&A experience moderates the effect of national cultural distance on the likelihood of deal completion for deals towards developing countries. In other words, the negative relationship between national culture and deal completion becomes larger when the acquiring Chinese company has more experience with prior CBM&A deals. However, this sign contradicts with what was expected from the literature.

Chapter 5 | Discussion

This chapter discusses the findings of the analyses in the previous chapter. The aim of this research is to examine the effect of national cultural distance on the likelihood of CBM&A deal completion involving Chinese firms. Based on prior research, two hypotheses were developed. Hypothesis 1 expects that national cultural distance decreases the likelihood of deal completion and hypothesis 2 expects that prior CBM&A experience moderates the effect of national cultural distance: the negative relationship becomes weaker when the acquirer has more experience in CBM&As.

The results of the main analysis show that national cultural distance has a significant and positive effect on the likelihood of deal completion. This suggests that greater cultural differences between home and host country increases the likelihood that an announced CBM&A deal is completed. This contradicts with previous research suggesting that large cultural differences complicate the negotiations in the public take-over phase and, hence, increase the probability that the CBM&A deal is abandoned before completion (Tse, Francis & Wall, 1994; Dikova et al., 2010). A possible explanation for this finding would be the uniqueness of emerging market multinational enterprises (EM MNEs) in the way they organize international expansion. According to Luo and Tung (2007), EM MNEs use international expansion as a 'springboard' in order to acquire the strategic resources needed to better compete with global rivals and reduce the market and institutional constraints they face at home. These firms are often characterized by their radical choice of location (country). While conventional internationalizations theories suggest that firms start internationalization in countries in which they are familiar and have low physic distance (e.g. difference in language, political system or culture) (Davidson, 1980), EM MNEs do not seem to refrain from high psychic distance (Luo & Tung, 2007). Often their first expansion takes place in advanced markets, such as North America or Europe, which have a high physical distant seen from their home countries. Hence, it could be that the results of the analyses are biased by the acquiring's choice of country, rather than that larger cultural differences increases the likelihood of deal completion.

Interestingly, when the analyses are re-estimated with each of the four Hofstede's cultural dimensions separately, the results of each dimension in relation with deal completion are considerably different. Of the four cultural dimensions, only the distance in masculinity and individualism index show a significant effect on the likelihood of deal completion. However,

only the distance in masculinity index showed the expected negative sign. The other two cultural dimensions, power distance and uncertainty avoidance, show no significant relationship with the likelihood of deal completion. These results are similar to the findings of Nicholson and Salabar (2013). Although these authors investigated the impact of cultural distance on the short-term performance of CBM&A deals from China and India, the signs and significance of each of the four dimensions in their research are comparable to those found in this study. This indicates that differences in the masculinity and individualism index may have a bigger influence on the success of a CBM&A deal from emerging economies. Hence, not every component of national culture may be of equal influence during the CBM&A deal procedure.

Furthermore, when the sample is divided into two different subsamples - towards developing and towards developed countries - the coefficient of natural cultural distance shows a negative sign. However, only in the developing sample the cultural distance variable shows some significance. This indicates that cultural differences between home and host country have a negative impact on the likelihood of deal completion when the target is located in another developing country. The fact that the developed sample shows no significant results may be caused by the springboard theory, as suggested above. Altogether, due to the contradicting findings in the robustness checks, no final conclusion could be drawn on the effects of cultural distance on the likelihood that a CBM&A deal is completed. Therefore, hypothesis 1 could not be confirmed.

This study also investigated whether previous CBM&A experience in the same host country moderates the effect of national cultural distance on the likelihood of deal completion. The results of the main analysis show no significant effects of the interaction variable, which indicates that previous CBM&A experience does not moderate the effect of cultural distance on the likelihood of deal completion. This contradicts with previous research suggesting that prior experiences with CBM&A may help the acquiring firm to better cope with the complications arising from cultural disparity (Dikova et al., 2010). In the robustness checks the interaction variable do provided some significant results. However, the relationship has the opposite sign as what was expected. Hence, hypothesis 2 cannot be accepted.

Also, the analyses show a positive and significant effect of the CBM&A experience variable itself, indicating that previous experience in the same host country increases the probability of deal completion. This is in line with previous research, which suggests that knowledge from previous M&A deals can be transferred towards focal deals (e.g. Dikova et al., 2010; Zhou et

al., 2016). These results remained constant when different measurements of previous experience were used. Therefore, it can be stated that prior CBM&A experience has a positive influence on deal completion from Chinese companies, regardless of how the variable is defined.

Chapter 6 | Conclusion and Limitations

With the rapid economic development of the past decades, China has become an important player of the world's M&A activity. Aligned with this trend, a growing research body has established on the various facets of international expansion from China, such as M&A motivations and post-deal performance. This study enriches the extant literature by focusing on a phenomenon that is often ignored in the IB literature: the failure to complete an announced M&A deal. More specifically, this study investigates the effect of national cultural distance on the likelihood of CBM&A deal completion from Chinese companies and the moderating effect of prior experience on this relationship.

The results of the logistic regression analysis show that national cultural distance has a positive effect on the likelihood of deal completion. This contradicts with prior research suggesting that cultural differences between home and host country make it more likely that a CBM&A deal is abandoned (Dikova et al., 2010; Popli et al., 2016). This finding could be explained by the 'springboard' theory, which states that firms from EM economies undertake riskier and non-evolutionary paths to acquire strategic resources (Luo and Tung, 2007). Since the robustness checks provided contradicting results, no final conclusion could be drawn on the influence of national cultural differences on the likelihood that the CBM&A deal is completed. Moreover, of the four cultural dimensions, only the distance in the masculinity and individualism index provided significant results. Hence, not every component of national culture may be of equal influence during the CBM&A deal procedure of Chinese acquirers. Further research should be done to take a closer look into the effects of each of the individual components of national culture. Furthermore, the results also show that prior experience of the acquirer in CBM&A has a positive influence on the likelihood of deal completion. However, the results of the interaction variable show no significance, which indicates that previous experience does not moderate the effect of culture on the likelihood of deal completion. This is contradictory to what was expected from the literature.

This study contributes to the literature by providing a better understanding of the impact of national cultural differences during the public take-over phase of emerging market firms. Thereby, this study brings attention to a phenomenon that has caused severe damages to EM firms, but is still rather understudied: the significantly high percentage of announced CBM&A deals that are abandoned before completion. Furthermore, this study is one of the first to research the impact of national cultural differences on the likelihood of deal completion

within the context of China. This study also carries potential managerial implications, since avoiding deal abandonment would help managers to save time, financial losses or unneeded frustrations. When problems that cause deal abandonment are directly addressed *ex ante*, it could prevent companies from incurring high costs *ex post*.

There are some limitations in this study which provide opportunities for further research. First of all, this study has chosen to measure national cultural distance based on Hofstede's (1980) cultural dimensions, which is the most frequently used measurement in international business (IB) studies (Kirkman et al., 2006). This makes it easier to compare and generalize the results of this study with other studies in the field. However, the measurement is not free from any criticism. Due to the subjective nature of culture, it remains questionable whether the composite index of national culture actually captures the differences in national culture or whether the four cultural dimensions of Hofstede are sufficient enough to capture the entire complexity of national culture. Besides, there are multiple alternative measurements of culture available for use. Further research could investigate whether the results hold up for other measures of national culture. Secondly, due to the lack of data availability, the study contains only public Chinese acquirers. Hence, the results of this study may not hold for private companies. Chinese private companies are relatively small and short in finance and, therefore, less competitive and developed in the global market (Zhang et al., 2011). These companies might have different motivations for conducting M&A, especially overseas (Nicholson and Salabar, 2013). Future research could examine if the same results hold for private Chinese acquirers. Thirdly, this study only focuses on the differences in national culture and does not take into account the differences in corporate culture, due to its complexities in measuring. According to Weber et al. (1996), differences in national culture better explain some critical success factors of international M&A deals, such as attitudes and cooperation. Also, a large part of corporate cultural differences are caught in the used metric. It is, however, possible that firms show considerable differences in corporate culture while belonging to the same country (Chakrabarti et al., 2009). A suggestion for future research is to also consider the impact of corporate culture on the likelihood of deal completion in China by investigating multiple (individual) cases of overseas M&A deals from China. Fourthly, due to the lack in data availability of Chinese enterprises the sample size is limited and may not represent the actual CBM&A activities from China. The failure rate of the announced CBM&A deals in the sample used is almost 46%, while the average CBM&A deal failure rate of China is only 35% (Popli & Kumar, 2016). This could have influenced the findings of the research. Lastly, due to

this lack in data availability it was not possible to control for the influence of international financial advisors. According to Zhang et al. (2011), an international advisor could facilitate the negotiations during the public take-over phase, which has a positive influence on the likelihood of deal completion. It would be interesting to investigate the influence of an international advisor on the failure of Chinese CBM&A deals. Another recommendation for future research is to examine the influence of national culture on the duration of the M&A process involving Chinese companies.

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Appendix A

	Number of deals	Percent
Total number of announced deals	790	100
Deal Status		
Completed	428	54.2
Not completed	362	45.8
Acquirer Industry		
Agriculture	10	1.3
Mining	59	7.5
Construction	2	0.3
Manufacturing	468	59.3
Transportation	45	5.7
Wholesale Trade	12	1.5
Retail Trade	14	1.8
Financial	96	12.2
Services	83	10.5
Public Administration	1	0.1
Target Market Status		
Developed	479	60.6
Developing	311	39.4
Acquirer Status		
State-owned	153	17.1
Others	637	82.9
Target Status		
Subsidiary	345	43.7
Public	135	17.1
Private	295	37.3
Other	15	1.9
Industry Relatedness		
Related at two-digit SIC	369	46.7
Unrelated	421	53.3
Payment method		
Cash Only	322	40.8
Stock Only	16	2.0
Cash and Stock combination	9	1.1
Other	248	31.4

The table presents the deal characteristics of announced Chinese CBM&A deals between January 2001 and December 2016.

Appendix B

Target nation	No. of acquisitions	Percentage
Hong Kong	148	18.7
United states	140	17.7
Australia	63	8.0
Germany	58	7.3
Canada	41	5.2
Singapore	33	4.2
Italy	29	3.7
Japan	25	3.2
France	24	3.0
United kingdom	24	3.0
Brazil	17	2.2
South Korea	16	2.0
Thailand	16	2.0
Netherlands	14	1.8
Indonesia	13	1.6
Taiwan	11	1.4
India	9	1.1
Russian federation	8	1.0
Spain	8	1.0
Denmark	7	0.9
Switzerland	7	0.9
Malaysia	6	0.8
Israel	5	0.6
Austria	4	0.5
Belgium	4	0.5
Luxembourg	4	0.5
Pakistan	4	0.5
South Africa	4	0.5
Sweden	4	0.5
Argentina	3	0.4
Chile	3	0.4
Hungary	3	0.4
New Zealand	3	0.4
Norway	3	0.4
Portugal	3	0.4
Turkey	3	0.4
Vietnam	3	0.4
Czech republic	2	0.3
Finland	2	0.3
Lithuania	2	0.3
Philippines	2	0.3
Poland	2	0.3
Colombia	1	0.1
Iran	1	0.1
Ireland-Republic	1	0.1
Jamaica	1	0.1
Nepal	1	0.1
Peru	1	0.1
Serbia	1	0.1
Slovak republic	1	0.1
Slovenia	1	0.1
United Arab emigrates	1	0.1
Total	790	100

Appendix C

Model specifications

Model 2: Logit (*Deal completion*) = α + β_1 CD_COMPOSITE + β_2 Industry Relatedness + β_3 Target Subsidiary + β_4 SOE acquirer + β_5 Target public status + β_6 Formal institutional distance + β_7 Cash payment + β_8 Percentage sought + ε

Model 3: Logit (*Deal completion*) = α + β_1 CD_COMPOSITE + β_2 CBM&A Experience + β_3 Industry Relatedness + β_4 Target Subsidiary + β_5 SOE acquirer + β_6 Target public status + β_7 Formal institutional distance + β_8 Cash payment + β_9 Percentage sought + ε

Model 4: Logit (*Deal completion*) = α + β_1 CD_COMPOSITE + β_2 CBM&A Experience + β_3 Industry Relatedness + β_4 Target Subsidiary + β_5 SOE acquirer + β_6 Target public status + β_7 Formal institutional distance + β_8 Cash payment + β_9 Percentage sought + β_{10} CD*Experience + ε

Appendix D

Target Nation	CD_COMPOSITE	Frequency
Denmark	24,12	7
Sweden	23,35	4
Israel	23,19	5
Netherlands	23,18	14
Norway	23,14	3
Hungary	22,28	3
Austria	22,02	4
Belgium	21,64	4
New Zealand	21,32	3
Australia	21,11	63
Portugal	20,97	3
United States	20,79	140
United Kingdom	20,63	24
Finland	20,15	2
Lithuania	20,12	2
France	20,02	24
Italy	19,49	29
Japan	19,42	25
Canada	19,04	41
Poland	18,90	2
Slovenia	18,88	1
Russian Federation	18,80	8
Germany	18,47	58
Ireland-Rep	18,08	1
Switzerland	18,06	7
Spain	18,03	8
Luxembourg	17,78	4
Chile	17,46	3
Argentina	17,45	3
Serbia	16,65	1
South Korea	16,12	16
Peru	16,00	1
Czech Republic	15,79	2
Slovak Republic	15,77	1
Turkey	15,71	3
South Africa	14,48	4
Brazil	13,35	17
Colombia	13,04	1
Pakistan	12,54	4
Taiwan	12,39	11
Thailand	12,34	16
Iran	11,98	1
United Arab Emigrates	11,00	1
Jamaica	10,84	1
Nepal	8,09	1
India	7,88	9
Malaysia	7,52	6
Singapore	7,26	33
Vietnam	6,96	3
Indonesia	6,91	13
Philippines	5,81	2
Hong Kong	3,96	148
Total	16,35	790

Appendix E

CBM&A experience	Frequency	Percent
0	637	80.63
1	99	12.53
2	30	3.8
3	11	1.39
4	8	1.01
5	5	0.63
Total	790	100

Appendix F

Table 5- Summary of logistic regression results for each cultural dimension

Variables	Deal Completion			
	Model 5	**Model 6**	**Model 7**	**Model 8**
	Power Distance	Individualism	Masculinity	Uncertainty avoidance
Industry relatedness	0.311	0.299	0.286	0.314
	(0.20)	(0.250)	(0.20)	(0.20)
Target subsidiary	-0.001	0.008	-0.062	-0.035
	(0.21)	(0.21)	(0.22)	(0.21)
SOE acquirer	0.464	0.535^{+}	0.493^{+}	0.427
	(0.29)	(0.29)	(0.29)	(0.29)
Target public status	0.592^{+}	0.601^{+}	0.580^{+}	0.573^{+}
	(0.33)	(0.33)	(0.32)	(0.32)
Institutional Distance	0.002	0.006	-0.006	-0.003
	(0.01)	(0.01)	(0.01)	(0.01)
Cash payment	0.384^{*}	0.367^{+}	0.395^{*}	0.398^{*}
	(0.19)	(0.19)	(0.19)	(0.19)
Percentage sought	0.012^{***}	0.011^{***}	0.012^{***}	0.012^{***}
	(0.00)	(0.00)	(0.00)	(0.00)
CBM&A Experience	0.321^{+}	0.299^{+}	0.284^{+}	0.327^{*}
	(0.16)	(0.16)	(0.16)	(0.16)
CD_PDI	0.009			
	(0.01)			
CD_IDV		0.009^{**}		
		(0.00)		
CD_MAS			-0.022^{**}	
			(0.01)	
CD_UAI				-0.004
				(0.01)
Constant	-1.516^{***}	-1.691^{***}	-0.761^{+}	-1.073^{*}
	(0.43)	(0.42)	(0.42)	(0.49)
Log-likelihood	-367.12056	-364.08567	-363.87245	-368.12078
Pseudo R2	0.502	0.0581	0.0586	0.0476
Wald chi 2	28.95***	33.03***	32.58***	26.79**

Table 5 reports the coefficients of the logistic regression analyses for the period of 2001-2016. The dependent variable of each model is CBM&A deal completion. $^{+}$, *, ** and *** denotes significant results at the 10%, 5%, 1% and 0.1% respectively. Clustered standard errors are given in parentheses.

Appendix G

Table 6 - Summary of logistic regression results with different measurements for CBM&A experience

	Deal completion			
	Global Experience		Experience cultural distant mergers	
	Model 3	**Model 4**	**Model 3**	**Model 4**
Variables	Culture and Experience	Culture and experience interaction	Culture and Experience	Culture and experience interaction
Industry relatedness	0.387	0.384[+]	0.383[+]	0.421[*]
	(0.20)	(0.20)	(0.20)	(0.19)
Target subsidiary	-0.001	0.032	-0.010	0.009
	(0.22)	(0.21)	(0.21)	(0.21)
SOE acquirer	0.496	0.444	0.533[+]	0.550[*]
	(0.31)	(0.31)	(0.28)	(0.28)
Target public status	0.598[+]	0.597[+]	0.572[+]	0.597[+]
	(0.32)	(0.32)	(0.33)	(0.32)
Institutional Distance	0.014	0.015	0.013	0.014
	(0.01)	(0.01)	(0.01)	(0.01)
Cash payment	0.393[*]	0.392[*]	0.382[*]	0.386[*]
	(0.19)	(0.19)	(0.19)	(0.19)
Percentage sought	0.011[***]	0.011[***]	0.011[***]	0.011[***]
	(0.00)	(0.00)	(0.00)	(0.00)
CD_COMPOSITE	0.027[+]	0.045[*]	0.025[+]	0.038[*]
	(0.01)	(0.02)	(0.02)	(0.02)
Exp_global	0.035	0.316[*]		
	(0.03)	(0.13)		
CD*Expglobal		-0.016[*]		
		(0.01)		
Exp_cultdist			0.151	0.705[*]
			(0.12)	(0.36)
CD*Expcultdist				-0.032[+]
				(0.02)
Constant	-1.922[***]	-2.289[***]	-1.893[***]	-2.166[***]
	(0.51)	(0.53)	(0.52)	(0.54)
Log-likelihood	-368.54429	-365.36753	-367.67614	-365.63984
Pseudo R2	0.0465	0.0548	0.0488	0.0541
LR chi 2	34.58***	42.21***	30.56***	40.03***

Table 6 presents the coefficients of the logistic regression analyses for the period of 2001-2016. The dependent variable of each model is CBM&A deal completion. [+], *, ** and *** denotes significant results at the 10%, 5%, 1% and 0.1% respectively. Clustered standard errors are given in parentheses.

Appendix H

Table 7 - Summary of logistic regression results with different subsamples

	Deal completion			
	Developed Countries		Developing Countries	
	Model 3	**Model 4**	**Model 3**	**Model 4**
Variables	Culture and Experience	Culture and experience interaction	Culture and Experience	Culture and experience interaction
Industry relatedness	0.207	0.204	0.477	0.479
	(0.26)	(0.26)	(0.37)	(0.36)
Target subsidiary	-0.046	-0.048	-0.056	-0.004
	(0.28)	(0.28)	(0.38)	(0.38)
SOE acquirer	0.386	0.401	0.557	0.623
	(0.33)	(0.33)	(0.45)	(0.46)
Target public status	0.137	0.149	1.100^{*}	1.182^{*}
	(0.39)	(0.40)	(0.52)	(0.53)
Institutional Distance	0.009	0.011	-0.009	-0.011
	(0.02)	(0.03)	(0.02)	(0.02)
Cash payment	0.133	0.121	0.519	0.489
	(0.25)	(0.25)	(0.32)	(0.31)
Percentage sought	0.009^{*}	0.009^{*}	0.013^{*}	0.013^{*}
	(0.00)	(0.00)	(0.01)	(0.01)
CD_COMPOSITE	-0.104	-0.086	-0.081^{+}	-0.064
	(0.09)	(0.09)	(0.05)	(0.05)
CMB&A Experience	0.293	3.865	0.326	0.984^{**}
	(0.19)	(3.89)	(0.22)	(0.35)
CD*Experience		-0.175		-0.126*
		(0.19)		(0.06)
Constant	1.373	0.956	-1.039	-1.109
	(1.84)	(1.87)	(0.85)	(0.83)
Log-likelihood	-219.21546	-218.7525	-138.62184	-137.12377
Pseudo R2	0.0277	0.0297	0.1119	0.1215
Sample Size	335	335	226	226
Wald Chi-Square	10.55	11.85	26.14**	37.41***

Table 7 presents the coefficients of the logistic regression analyses for the period of 2001-2016. The dependent variable of each model is CBM&A deal completion. $^{+}$, *, ** and *** denotes significant results at the 10%, 5%, 1% and 0.1% respectively. Clustered standard errors are given in parentheses