Cultural Distance and Chinese Cross-Border Merger and Acquisition Performance

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The researchers examined the relationship between national cultural distance and Chinese cross-border Merger and Acquisition (M&A) performance using an analysis about a sample of 119 cross-border M&A by Chinese firms from 1995 to 2008.They found that the national cultural distance will has an obvious positive effect on the result following the acquisition in the third year. In addition, they also examined the moderating effect from the contextual factors by hierarchical regression analysis and sub-group regression analysis. The results show that in the long run, the cultural differences are associated more positively with post-acquisition performance when the Chinese firms have the previous transnational M&A experience and the deals take place in a related industry.

INTRODUCTION

Cross-border M&A have been the leading pattern of Chinese enterprises' development in recent years. Some Chinese scholars have done a lot of studies about the conditions, motivation (Yu 2014). They had already had a deep understanding about whether Chinese enterprises have the ability and motive to implement transnational M&A, however, some Chinese scholars still worry about the influence from the national cultural differences. They even insist that Chinese enterprises should not make a deal in western country, and argue that there is a big difference between Chinese and western culture, which will produce negative effect on the performance following acquisition, and lead to the failure of foreign acquisition (Jenny and Michael 2016; Ni 2014). Besides, for most of Chinese enterprises that aim to seek for the overseas technology, strategic resources and the world-famous brands, they don't have the monopoly competitive advantage which is the condition of foreign direct investment, therefore, the problem of national culture difference is serious for the Chinese firms if they wish to implement transnational M&A in western country (Fan, Ma and Zhou 2016).

The problems of national culture difference during the process of international M&A have been concerned by the scholars from developed countries since the 1980s, but their results have been inconclusive. Some scholars think that the cultural differences will influence the mutual communication and trust, so it also brings negative impact to the performance of M&A (Roseline et al. 2015; Stahl and Voigt 2008). However, other scholars believe that the bigger the cultural differences are, the stronger the complement arity of knowledge and skills is, and the more helpful it is to enhance the international competitiveness of the companies after the deal, therefore, the cultural differences have the obvious positive influence on the performance after M&A (Chakrabartil et al.2009).

The researchers argue that culture involves various intangible factors such as individual psychology, cultural customs, laws, regulations and so on; therefore, it will bring a series of latent and unconscious influence to the process of integration. Certainly, it has a complex impact together with the contextual factors from the character of firm and industry on the performance of transnational M&A. In order to make the relationship of the national cultural distance and Chinese international M&A performance clear, researchers have to study it from the point of moderating effect of the contextual factors.

Undoubtedly, the research ideas, methods and results from western country have important significance for the further study of this field, but most of scholars from western countries take the sample from developed countries to do the empirical analysis. There is little research based on the developing countries, especially about China. Besides, the national cultural distance is very different between China and western countries. So, to a great extent, this issue is still a relatively new topic.

RESEARCH HYPOTHESES

Cultural Distance and the Performance of Cross-border M&A

Besides the theoretical arguments above, their research samples are mainly from European and American countries, where the national cultural differences are not obvious. However, due to differences in research methods and research samples, they have not yet achieved a consensus view. Some scholars believe that the larger the cultural difference of host country and host country is, the farther the psychological distance of people is. Foreign investors are relatively unfamiliar with the local social norms and habits, and not easily recognized by society, thereby it increases the difficulty in the process of integration (Chen and Wei 2015). Stahl and Voigt (2008) analyzed a sample of 10710 mergers and acquisitions published in 46 research reports, in which the Hofstede index was used to measure the national cultural difference, and found that the cultural distance has a significant negative influence on the acquisition results.

However, Mohammad and Keith (2011) investigated the sample from Britain firms and found that, on the one hand, the cultural differences among language differences obstruct the communication between acquirer and target firms, and have a negative influence on the M&A results; on the other hand, they can increase the opportunity to learn from each other, and play a positive effect on the performance. Furthermore, in some cases, this revenue caused by cultural differences is greater than the cost (Steigner and Sutton 2011), thus:

Hypothesis 1: The distance of national culture is positively related to post-acquisition performance

The Influence of the Contextual Factors from Firm and Industry

The relationship of national cultural difference and the performance of international M&A may also be regulated by other explanatory variables, so the interaction between two explanatory variables may have effects on the results of cross-border M&A in addition to the independent influence. Several hypotheses on the ground of the interaction are explained in this section.

Previous Transnational M&A Experience

According to organizational learning theory, the previous successful experience of cross-border M&A can enhance the cognitive abilities and solving skills of many hidden problems in the merger integration. With the expansion of the company in the world, they obtain the knowledge and technology which can be used in the next foreign investment (Manish et al. 2016). Athina (2011) analyzed the sample of 109 international M&A events made by British enterprises, and found that business leaders with international business experience quickly adapt to the country's cultural differences and improve the corporate performance. Therefore, the researchers predict:

Hypothesis 2: The cultural differences are more positively related to post-acquisition performance as the Chinese firms have the previous transnational M&A experience than when they don't have the previous transnational M&A experience.

The Relative Scale Between Two Sides

Takeovers of relatively large targets are more easily to achieve financial synergies and scale economy than small acquisitions, which can lead to stronger operating performance after acquisition. Furthermore, when the target firm is smaller relative to the buyer, the target firm's needs are often overlooked or ignored by the buyer; the executive may feel relatively unimportant, even insignificant and not worth mentioning in the new power structure (Hambrick and Cannella 1993). Linn and Switzer (2001) provided evidence that acquisitions of relatively large targets surpass those small targets. Considering the fact that most of acquired target is relatively smaller than Chinese firm, thus:

Hypothesis 3: The cultural differences are less positively related to post-acquisition performance when the relative scale for the Chinese firm to the acquired firm is higher than when it is low.

Industry Correlation

Compared with irrelevant diversification transnational M&A, M&A in a related industry provide many advantages because the company's intangible assets can be more easily shared, therefore, the key technology and skill and other strategic resource can be transferred and learned by each other, and the synergistic effect will be realized (Pavlos et al. 2016),.

Hypothesis 4: The cultural distances are more positively related to post-acquisition performance when the M&A take place in a related industry than in an irrelevant industry.

METHODOLOGY

Sample

The sample consisted of 119 Chinese listed enterprises which announce and complete international M&A from 1995 to 2008. The researchers obtained all sample enterprises and their announcement dates from Thomson one bank database. The sample is based on the following criteria:

（1）Date Announced of the M&A cases is between January 1, 1995 to December 31, 2008. The study aims to evaluate the post-acquisition enterprise performance in the following three years; therefore, the deadline of the M&A activities is December 31, 2008.

（2）The M&A cases in the sample must be completed and fulfill the disclosure of the transaction amount .

（3）The bidder should be Chinese enterprises and the target acquired should be foreign enterprises, regarding to the particularity of Hong Kong and Macao's economy and culture. Hong Kong and Macao' s enterprises are also being included in the target enterprises.

（4）Chinese acquirers must be listed in mainland China, Hong Kong and the United States.

（5）When the deal is completed, acquiring enterprises must already be listed in the stock market, and have the consecutive stock prices in the later period of 3 years.

Through statistics, the final sample comprises 119 cases of Chinese cross-border M&A, involving 76 listed enterprises, among them, 31 enterprises are listed at the Shanghai Stock Exchange , 13 at the Shenzhen Stock Exchange , 22 at the Hong Kong Stock Exchange , 2 at the New York Stock Exchange and 8 at NASDAQ.

THE DEFINITION AND MEASURES

The Definition

Dependent Variable: For the method of event studies designed to measure long term (one to five year) abnormal stock returns, BHARs is better than CARs (Shahin et al. 2016),. Therefore, the researchers used BHAR to measure the transnational M&A's performance.

Independent Variable: CD represents the national culture distance between acquiring country and acquired country.

Moderating Variables: EXPR represents the bidder's previous transnational M&A experience. It is a zero-one dummy variable with the value of 1 if the buyer had the experience, 0 otherwise. SIZE represents the relative size of both sides, which is calculated with the bidder's market value divided by the target's value. lnSIZE is the natural logarithm of SIZE. RELA represents the industry relevance of both bidders and target firms. It is equal to one if the bidders and target enterprises run in the same industry measured by the four-digit SIC code, 0 otherwise.

Control Variable: M&A results may be affected by variables other than cultural distances and the moderator variables. Thus, the researchers control some variables that previous research show that it is related to M&A outcomes. GOVT is a zero-one dummy variable, it is 1 if the target enterprise is state-ownership, 0 otherwise. SHAR is the shareholding ratio that the buyer holds in the target enterprise. The researchers control CASH and ADVI for the transaction-level variables. CASH represents the pattern of payment, which is a zero-one dummy variable. It is 1 if payment is cash, 0 otherwise. ADVI is also a zero-one dummy variable. It is 1 if M&A deal hires a professional consulting institution, 0 otherwise. EXRA is the middle rate of exchange between Dollars and RMB on the announcement day of M&A. DEVC represents the macro-environment of target firms; it is a zero-one dummy variable too. It is 1 if the target enterprise is located in developed country or area, 0 otherwise.

The Measure of BHAR

In order to measure the long-time performance of Chinese enterprises transnational M&A, the BHAR is adopted; the calculation of BHAR is as follows:

$$BHAR_{iT} = \prod_{t=0}^{T}[1 + R_{it}] - \prod_{t=0}^{T}[1 + E(R_{it})]$$

$BHAR_{iT}$ is the Buy and Hold Abnormal Returns for acquiring firm "i" in the period "T". In order to measure the performance in the first, second and third year after the announcement of transnational M&A, T is respectively equal to 12, 24, 36 months, $R_{i,t}$ and $E(R_{it})$ are the observed returns and expected return respectively for acquiring firm "i" in the period "t". The researchers follow standard-event study methodology (Chakrabarti et al. 2009; Steigner et al. 2011)

The Measure of National Cultural Differences

In line with previous statistical studies about the effect of national cultural distances on foreign acquisition performance, the researchers calculated the cultural distance on the basis of four dimensions of national culture (Hofstede 1991):

$$CD_j = \sum_{i=1}^{4}\left[(I_{ij} - I_{ic})^2 / V_i\right] / 4$$

Where CD_j is the cultural difference between country j and China, I_{ij} is country j's score on the ith cultural dimension, I_{ic} is the score of China on this dimension, and V_i is the variance of the score of the dimension. The greater the CD_j is, the larger the cultural difference between China and target country is.

Data Resource

For each cross-border M&A transaction, the researchers collected the most of deal data from the Thomson one bank database, such as acquiring firm type (state-ownership firm or private firm), industry character of the acquiring and target firms, the payment pattern, target firm's market value, the shareholding ratio between the acquiring and target companies and whether M&A deals hire a professional consulting institutions. The researchers collected the deal information that whether the bidders have the cross-border M&A experience from the website of listed firm and telephone interview. In addition, they used the CSMAR database to get the exchange rate and bidder's market value. The researchers calculated the cultural distance on based of four dimensions of national culture (Hofstede 1991).

Method

The researchers adopted Hierarchical regression analysis and sub-group regression analysis to identify moderating effect. Follow the Andreu (2014) and Zhang and Yu (2015), when the independent variable and moderator variables are continuous, they used hierarchical regression analysis methods, and when the independent variable is continuous and moderator variable is a zero-one dummy variable, they adopted sub-group regression analysis methods.

In this study, the independent variable CD is a continuous variable, and the moderating variables, except the relative size of both sides, are categorical variable. Therefore, the researchers tested the moderating effect of relative size by hierarchical regression analysis methods, and tested the moderating effect of other moderator variable by sub-group regression analysis methods.

To avoid the problems of multicollinearity, before the researchers deal them with hierarchical regression analysis methods, the researchers centered the cultural distance and moderating variable, namely the value of variable minus its mean.

RESULTS AND DISCUSSION

The Result of National Cultural Differences

The researchers get the cultural distance between China and the target country or region. The results are shown in Table1. From the Table 1, the researchers can find that in addition to Hong Kong and Singapore the cultural differences are relatively larger between China and other developed countries or regions, such as Europe, US, Japan, etc., but the cultural differences are relatively smaller between China and other developing countries or regions. Geographic distance and cultural differences are not so much relevant.

TABLE 1
THE CULTURAL DISTANCE BETWEEN CHINA AND THE TARGET COUNTRY OR REGION

Target country	*Cultural distance*	*Target country*	*Cultural distance*
Norway	5.75	Thailand	1.63
Dutch	5.22	South Africa	1.51
Belgium	3.91	Brazil	1.39
Australia	3.22	Pakistan	1.34
Japan	3.13	Columbia	1.21
British	3.02	Zambia	0.98
United States	2.97	Ecuador	0.66
azerbaijan	2.92	Nigeria	0.64
Russia	2.92	Malaysia	0.63
kazakhstan	2.92	Singapore	0.54
Mongolia	2.92	Indonesia	0.54
France	2.91	Sri Lanka	0.43
Canada	2.70	Philippines	0.26
Germany	2.61	Macau	0.18
South Korea	2.25	Hong Kong	0.18
Peru	2.12		

Source: Author

Descriptive Statistics of Other Variables

Table 2 summarizes the basic descriptive statistics of the moderator variable and control variables. It shows that 52% of Chinese enterprises have previous experience before they make the transnational M&A (at least a time). But after further statistics, the researchers find that the majority of them are state-owned enterprises, and private enterprises only take part in the one-third of the total. The median of variable SIZE is 16.344; it shows that more than half of the Chinese enterprises in the transnational M&A like to choose smaller target enterprise than themselves. The mean value of variables RELA is 0.7, which means that 70% of Chinese enterprise acquires the relevant industries' firms. The mean value of variable CASH is 0.24, which shows that only 24% of Chinese enterprises choose to pay the cash when they make a transnational M&A, and others tend to mix payment. The mean value of variable ADVI is 0.41, which shows that to make better deal, 41% of China's enterprises choose to pay high cost consultation to hire professional consulting institutions. The mean value of variable SHAR is 0.6, which shows that more than half of China's enterprises gain the control right over the target enterprise by the transnational M&A. Table 3 presents the descriptive statistics and the correlation matrix. The correlations among the independent variables show that the multi-collinearity is not a problem.

TABLE 2
DESCRIPTIVE STATISTICS OF OTHER VARIABLES

Variables	*Sample size*	*Mean*	*Median*	*Std. D*	*Min*	*Max*
EXPR	119	0.52	1	0.502	0	1
SIZE	119	93.03	16.34	223.88	0.05	1626
lnSIZE	119	2.79	2.79	2.121	-2.93	7.39
RELA	119	0.7	1	0.461	0	1
NATR	119	0.47	0	0.501	0	1
EXRA	119	7.85	8.07	0.495	6.82	8.33
GOVT	119	0.6	1	0.493	0	1
DEVC	119	0.78	1	0.415	0	1
CASH	119	0.24	0	0.431	0	1
ADVI	119	0.41	0	0.494	0	1
SHAR	119	0.61	0.60	0.37	0.03	1

TABLE 3
PEARSON CORRELATION COEFFICIENT MATRIX

	CD	*EXPR*	*lnSIZE*	*RELA*	*NATR*	*EXRA*	*GOVT*	*DEVC*	*CASH*	*ADVI*	*SHAR*
CD	1										
EXPR	0.117	1									
lnSIZE	-0.037	0.028	1								
RELA	0.173	0.357**	0.199*	1							
NATR	0.372**	0.352**	0.05	0.401**	1						
EXRA	-0.345**	0.017	0.069	-0.09	-0.131	1					
GOVT	0.156	0.309**	0.239**	0.055	0.295**	0.059	1				
DEVC	0.142	-0.344**	-0.321**	-0.215*	-0.357**	-0.181*	-0.310**	1			
CASH	-0.063	0.035	0.218*	0.246**	0.014	-0.133	0.068	-0.079	1		
ADVI	0.194*	0.221*	-0.076	0.068	0.169	-0.08	0.375**	-0.012	0.161	1	
SHAR	-0.003	-0.065	0.332**	-0.018	0.027	0.099	0.067	-0.143	0.323**	0.248**	1

*p<0.05； **p<0.01； ***p<0.001(2-tailed)

The Results of Direct Effects of Cultural Differences

The results of regression model 1 and model 2 in Table 4 show that national cultural distance does not have a directly important influence on international acquisition performance in the first and second year of post-acquisition integration. This can be explained by the time of post-acquisition integration. Most of the post-acquisition integration will cost one to two years, and acquisition performance may be influenced by national cultural distance actively or negatively. From model 3 in Table 4, the researchers find the regression coefficient of CD is 0.172, its significant level is 5%, and it indicates that cross-border acquisition performance will be positively impacted by national cultural distance in three years of post-acquisition integration. It reveals that the contradictions and conflicts between two sides exist in the process of integration due to the existence of the cultural differences (Stahl and Voigt 2008), however, along with the end of integration with the target enterprise, the negative influence of cultural differences is significantly weakened. At the same time, because the both sides adjust each other constantly, the synergy effect between two sides will increase, and the heterogeneous culture will bring about the innovation and absorption in technology and management, which provides support for hypothesis 1. This finding is in line with studies that show that culture difference may increase the opportunity to learn from each other and has an direct positive impact on economic behavior (Mohammad et al.2016; Steigner and Sutton 2011).

TABLE 4
THE DIRECT EFFECTS OF CULTURAL DIFFERENCES ON PERFORMANCE

	Model 1(BHAR12)	*Model 2(BHAR24)*	*Model 3(BHAR36)*
(Constant)	-1.087	0.342	1.974
CD	0.053	-0.036	0.172**
EXPR	0.100	0.017	0.600**
lnSIZE	-0.211***	-0.067*	-0.242***
RELA	0.380**	0.169	0.301
NATR	0.260	0.359*	0.406
EXRA	0.148	0.009	-0.144
GOVT	0.232	-0.096	-0.378
DEVC	0.065	-0.336*	-0.534*
CASH	0.087	0.018	0.012
ADVI	0.540***	0.126	0.291
SHAR	0.414*	0.104	0.282
R2	0.322	0.203	0.347
F value	4.193***	2.244**	4.686***
N	119	119	119

N = 119； *p<0.05； **p<0.01； ***p<0.001(2-tailed).

The Results of Moderating Effects

The Moderating Effect from Enterprise Previously Transnational M&A Experience

The researchers split the sample at whether enterprise previously had transnational M&A experience or not. Then, the researchers made a regression with each sub-sample's firm performance.

Table 5 shows the results of the sub-group analysis that the Chow test F value is 2.989, and the significant level reached 1%, which indicates the difference of result between two sub-samples is significant; the regression coefficient of CD in the second group (EXPR=1) is larger than the first group (EXPR=0). EXPR has an active influence on the relationship between cross-border acquisition performance and national cultural distance, the hypothesis 2 cannot be rejected. Other studies, such as that of Athina (2011) and Manish et al. (2016), have shown that business leaders with international business experience can quickly adapt to the country's cultural differences and improve Cross-Border M&A Performance.

TABLE 5
SUB-GROUP ANALYSIS OF MODERATING EFFECT FROM ENTERPRISE PREVIOUSLY TRANSNATIONAL M&A EXPERIENCE

	EXPR=0 (BHAR36)	EXPR=1 (BHAR36)
(Constant)	-0.971	3.900
CD	0.111**	0.202**
EXRA	0.131	-0.228
GOVT	0.059	-1.426**
DEVC	-0.341	-0.771
CASH	-0.273	0.334
ADVI	0.244	0.088
SHAR	-0.043	-0.423
R2	0.205	0.190
F value	2.210**	2.014**
Chow test(F)	2.989***	
N	57	62

N = 119, *p<0.05； **p<0.01； ***p<0.001(2-tailed).

Hierarchical Regression Analysis of Moderating Effect from Relative Size

Regression model 4, model 5, model 6 in Table 6 show that CD has an important influence on cross-border acquisition performance. The model 5 indicates that lnSIZE influences cross-border acquisition performance ($p < 0.01$) negatively, indicating that sizeable operating and financial synergies and economies of scale is more likely to achieved by acquiring relatively larger targets than smaller acquisitions (Hambrick and Cannella 1993). The interaction effect of CD and lnSIZE is added by Model 6. This influence is obviously negative at the 1% level, which supports hypothesis 3 that the cultural differences are less positively related with post-acquisition performance when the relative scale for the Chinese firm to the acquired firm is high than it is low. This finding is in line with that of Linn and Switzer (2001), Min and Agyenim Boateng (2015).

TABLE 6
HIERARCHICAL REGRESSION ANALYSIS OF MODERATING EFFECT FROM RELATIVE SIZE

	Model4 (BHAR36)	*Model5 (BHAR36)*	*Model6 (BHAR36)*
(Constant)	2.595	2.621	2.270
CD	0.209**	0.209**	0.192**
EXRA	-0.117	-0.154	-0.114
GOVT	-0.508*	-0.229	-0.201
DEVC	-0.884***	-1.110***	-1.074***
CASH	0.011	0.118	0.085
ADVI	0.190	-0.129	-0.110
SHAR	-0.593*	0.025	-0.006
lnSIZE		-0.246***	-0.228***
CD×lnSIZE			-0.108***
R2	0.124	0.228	0.282
ΔR2		0.104	0.054
F value	2.247**	4.055***	4.752***
N	119	119	119

N = 119, *p<0.05； **p<0.01； ***p<0.001(2-tailed)

The Moderating Effect from Industry Relevance

The researchers split the sample at whether the bidder company and target company belongs to the same industry or not. Then, they made a regression with RELA and their control variables in each sub-sample.

TABLE 7
SUB-GROUP ANALYSIS OF MODERATING EFFECT FROM INDUSTRY RELEVANCE

	RELA=0 (BHAR36)	RELA=1 (BHAR36)
(Constant)	-0.402 (-0.207)	2.172 (0.727)
CD	0.070*	0.260*
EXRA	0.076	-0.099
GOVT	-0.021	-0.644
DEVC	-0.243	-0.930**
CASH	-0.399**	-0.050
ADVI	0.102	0.249
SHAR	-0.218	-0.563
R2	0.122	0.144
F value	1.956*	2.378**
Chow test (F value)	2.088**	
N	36	83

N = 119, *p<0.05； **p<0.01； ***p<0.001(2-tailed).

Table 7 indicates the inclusion of the sub-group analysis that the Chow test F value is 2.088, and the significant level reached 5%, which indicates the difference of result between two sub-samples is significant; the regression coefficient of CD in the second group (RELA=1) is larger than the first group (RELA=0). RELA positively adjusted the relationship between the distance of national cultural and the performance of cross-border acquisition. It indicates that the key technology and skill can be easily transferred and shared by both sides in a related industry. It provides support for hypothesis 4.

CONCLUSION

The effects of national culture differences on foreign acquisitions performance have been concerned by the scholars, but their results have been inconclusive, especially there is little empirical research about Chinese firms. In this study, the researchers investigate the influence of national culture differences on the performance of foreign acquisitions by studying 119 events of international M&A of Chinese firms from the years 1995 to 2008. The method of buy-and-hold abnormal return (BHAR) can be used to measure the performance of cross-border M&As, and the Hofstede's four-dimensional model is used to measure the national cultural differences. From the descriptive statistics of sample, the researchers found that above half of the Chinese enterprises gained the success in the long-run through the transnational M&A.

The researchers examined cultural differences' direct impact on corporate cross-border M&A performance after 1-year, 2-year and 3-year. After that, they also examined the moderating effect of the character of firm and industry by hierarchical regression analysis and sub-group regression analysis. Based on their assumptions, the researchers found that cultural differences had a positive impact on cross-border M&A performance in the long time. Besides, the international experience and industry relatedness has positively moderating effect on the influence of cultural differences.

Until recently, most studies did not obviously address the contextual factors of the relationship between the cultural difference and cross-border M&A performance. This research analyses the moderating effect of the contextual factors and contribute to the existing literature in this fields. As far as we know, the direct influence of the related acquisitions have been previously examined with a sample from developed countries; but they have not studied the moderating effects (hypothesis 2-4) before. Researchers provide a unique perspective to study the relationship between cultural difference and cross-border M&A performance.

RECOMMENDATIONS

Policy making also be influenced by the empirical results. The fact that post-acquisition performance is positively associated with the national culture distance in the third year, but it does not exist in the first and second year, which means the firms should pay more attention to the national conflict in the process of integration, but Chinese firms should not worry about the problem of national culture distance. From the long-run, the national culture distance is helpful to improve the international competitiveness of the enterprises. Besides, Chinese firms' cross-border M&A performance will be better if Chinese firms have the previous transnational experience and make a transnational M&A in a related industry.

Chinese firms should try to recognize and comprehend the cultural difference's influence with cross-border M&A performance, try to take advantage of cultural difference and avoid cultural conflict, so that companies can better expand their businesses internationally.

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