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THE EFFECT OF CULTURAL AND LEGAL DISTANCE ON THE LIKELIHOOD OF CLOSING A CROSS-BORDER M&A DEAL: A QUANTITATIVE STUDY ABOUT ASIAN AND EUROPEAN M&A DEALS

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Abstract

A lot of researchers view cultural and legal distance as a critical factor in the post-acquisition period of cross-border merger and acquisitions (M&A). Yet, only little empirical research has been done to determine the role of these distances during the deal-closing period. Therefore, this thesis investigates the role of cultural and legal distance on the likelihood of closing a deal in cross-border M&As. Data was drawn from the Thomson Reuters Eikon database. The sample consists of 1 450 M&A deals of European and Asian companies. Results confirm that legal distance has a significant impact on deal completion, while cultural distance seems, against the initial expectations, not to have any significant negative impact on the completion of a cross-border M&A deal.

Keywords: cross-border M&As, cultural distance, legal and regulatory distance, likelihood of deal-closing

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Introduction | Literature review

Cross-border mergers and acquisitions (M&A) are a popular strategy of internationalization and entry mode into a foreign country. It has become a major strategic tool for growth of multinational companies and it offers value-creation opportunities. However, cross-border M&As demonstrate higher complexity and often they have to deal with unpredictable uncertainties and unfamiliarity (Zhou, Xie, Wang, 2016). Empirical evidence illustrates that quite a lot of firms still abandon their acquisition attempts at some point in the pre-completion stage (Holl & Kyriazis, 1996). Reasons for deal termination are dependent, among other things, on external factors such as financial, legal or political issues, foreign trade regulations and economic policies. Various differences between the home and target country can strongly affect the failure rate of cross-border M&As (Zhou, Xie & Wang, 2016). Also, the factor of distance - with different significances - has become central to international business research and to the entry mode strategy of companies. International business scholars have introduced the concept of distance to the international business field, in order to better understand the impact and fundamentals of cross-border conditions (Beugelsdijk et al., 2017). This paper investigates cultural distance and legal distance in specific. While many studies have focused on the outcomes and the organizational performance of M&A deals after the pre-completion stage (Brouthers, 2002; Warter and Warter, 2017), researchers have not paid much attention to the reasons of failing to complete announced M&A deals. Dikova, Sahib and van Witteloostuijn, (2010) suggested a closer examination of the period between the deal announcement and deal resolution, which could provide important insights into potential problems and mistakes that are made during the process of announced M&A transactions. Many M&A researchers have come to the conclusion that failures in those deals happen often because of the problems that arise in trying to combine the different cultures and workforces during the announcement and integration phase (Björkman, Stahl and Vaara, 2007; Chakrabarti, Gupta-Mukherjee and Jayaraman, 2008). Therefore, cultural distance appears often as a major issue to deal with when choosing the way of investing in a foreign country. If the legal and cultural distances are too big, already the pre-closing stage will be affected, as more complications and obstacles might arise and extend the decision-making process. On grounds of the importance and intensity of this topic, Zaheer, Schomaker & Nachum (2012) came to the conclusion that "essentially, international management *is* management of distance" (italics in original). As a result of these studies and based on Hofstede`s identification and measurement of cultural dimensions, this paper aims at analyzing the role of cultural and legal distance on the likelihood of completion of cross-border M&As. Here, it is important to underline that this study puts its emphasis on the distance of national culture and doesn`t consider corporate culture. Weber, Shenkar & Raveh (1996) came to the conclusion that in international M&A processes the difference in national culture explains better some critical success factors than corporate culture does. For empirical testing of the predictions, the Thomson Reuter`s Eikon database was used to collect the data from companies. The sample includes completed and withdrawn M&A deals of European firms that decided to enter the Asian market, as well as the other way around.

The paper has been organized in the following way. The next session provides a literature review and theoretical background that leads to the creation of some hypotheses on the likelihood of completion or abandonment of M&A deals based on cultural and legal disparity. Subsequently, the research design and the data are presented, as well as an analysis, which will provide an interpretation of the results. Finally, the last chapter summarizes the outcomes and discusses the implications and limitations of the research topic. The paper concludes also with suggestions for further research.

Literature review and theoretical background

As different authors and scholars have shown, the concept of cultural distance is an important topic in internationalization strategies (e.g.: Uppsala model, 1977; Beckermann, 1956; Barkema, Bell & Pennings, 1996; Shenkar, 2012). In general, cultural distance can be defined as the difference between the cultures of the home and the host countries (Beugelsdijk et al., 2017). In the M&A literature, cultural distance is described to have a substantial impact on the likelihood of closing a deal. Various researchers find that M&A failures and the problem of combining the different cultures are interlinked and correlated already in the pre-closing stage of a deal (e.g. Björkman, Stahl & Vaara, 2007). This view highlights the significant role of culture in the internationalization process of companies. Not only during the post-acquisition integration process cultural distance can appear as a major obstacle. Already during the deal closing period culture can become a major issue. In cross-border M&A deals cultural distance can become a problem, because they require "double-layered acculturation", as Barkema, Bell & Pennings (1996) argue in their paper. It is important to underline that national cultural differences compromise different aspects, like language, economic, legal and political disparities. Shenkar (2012) sees in cultural distance a reflection of existing differences in certain values, norms and behavioral rules between two nations. This distance may not only affect the cross-border M&A performance and integration, but it might have a big influence on the decision-making process in the pre-closing stage. Cultural distance can slow down negotiation processes at the initial stage and lead to confusion and ambiguity, it may act as a deterrent for one deal partner or disappoint expectations. Cultural patterns of one group might not be the same for the other cultural group and these disparities can then cause annoyance, stress or even hostility. To overcome these incompatibilities in cross-border M&A deals, cultural sensitivity is needed (Weber, Shenkar & Raveh, 1996; Dikova, Sahib & van Witteloostuijn, 2010), as it may affect the likelihood of deal completion. Both firms in cross-border M&As need to adjust to a different national culture and to other organizational values and practices (Barkema, Bell & Pennings, 1996). This adjustment of distances may be challenging in a culturally different environment and therefore influence the deal completion of a cross-border M&A. However, acculturative stress is in most cases not avoidable, but on the same time to a great extent predictable (Lee, Kim & Park, 2014). In general, cultural distance studies suggest that "the difficulties, costs and risks associated with cross-cultural contact increase with growing cultural differences between two individuals, groups or organizations" (Hofstede, 1980; Björkman, Stahl & Vaara, 2007). Zhou, Xie & Wang (2016) also find that the larger the country distance, the greater the differences in law, regulations, risk level and culture between two countries, the higher is the M&A completion failure rate. Another study reveals that cross-border deals tend to fail because of one party`s inability to accept or adapt to the underlying cultural norms and patterns of the other party (Malhotra & Gaul, 2014). Fact is, that whenever two unequal cultures collide in a business deal, cultural distances appear and become an unavoidable topic, as it affects already the pre-closing stage.

Consequently, one hypothesis is:

Hypothesis 1: A higher cultural distance of two companies in a cross-border M&A deal may increase the likelihood of deal failure.

At this point of the work, I would also like to mention briefly the importance of experience for the likelihood of closing a deal or not. Dikova, Sahib and van Witteloostuijn, (2010) state in their study that the negative effect of institutional distance on the completion likelihood of cross-border M&As was weaker if the acquirer had accumulated more experience with international deals in general. The experience literature argues that cultural distance can be a source of value creation, because culturally distant mergers can stimulate innovation, develop richer knowledge patterns and help break rigidities (Barkema & Vermeulen, 1998; Vermeulen & Barkema, 2001). Cultural distance can provide opportunities for the exploration of new capabilities and offers potential to learn from distant cultures and practices (Rahahleh & Wei, 2013). The understanding of a wider range of different cultures can be seen as a source of sustainable advantage for firms investing in the international market (Harzing, 2002) and can lead to a more extensive knowledge base. In summary, it can be expected that the deal completion likelihood will therefore also depend on the level of accumulated cross-border M&A experience of a firm. This topic won`t be discussed deeper and in more detail in this thesis. Nevertheless, it should be mentioned and considered, as it could be the initial point for further research.

Next to cultural distance, multiple other distances between home and host country can strongly affect the failure rate of cross-border M&As. One other major procedural hurdle is the distance in national and international law and the way of finding a compliance with both countries. Consequently, this might have an influence on the success of completing an M&A deal or not. The institutional and environmental complexity of international M&As is relatively high, as such deals are often subject to regulatory scrutiny (Dikova, Sahib & van Witeloostuijn, 2010). The larger the distance between the legal and regulatory environments of the home and host countries, the more challenges and barriers arise for the acquirer to overcome and consequently, these lead to a higher M&A completion failure rate (Zhou, Xie & Wang, 2016). Legal and regulatory distance measures status quo differences in the legal and regulatory environments that are related to business between the home and host country (Dikova, Sahib & van Witteloostuijn, A. 2010). When two countries differ greatly in terms of legal and regulatory environments, firms involved in cross-border M&A deals may face complexities and obstacles that are more difficult to interpret and comprehend (Dikova et al. 2010). It`s also important to mention that the way how companies handle such distances is also depending on the economic circumstances of the country: the regulatory requirements for M&As in developed countries are much more stable and transparent as compared to the high and strict requirements for companies in emerging markets (Zhou, Xie & Wang, 2016). The environmental complexity of the transaction increases significantly when the regulatory and legal circumstances of the target firm differ highly from those of the acquirer. Consequently, rules and laws that are difficult to understand for a foreign acquirer may obstruct the deal completion, as the environmental complexity of the cross-border M&A deal is elevated (Dikova, Sahib & van Witteloostuijn, 2010). As a result of these arguments, following hypothesis can be proposed:

Hypothesis 2: A higher legal distance between two countries may increase the likelihood of deal failure in cross-border M&As.

Methodology

Research Design

The data for this paper are drawn from the Thomson Reuters Eikon database, which covers all the major financial markets and is used in M&A research. To test the hypotheses, M&A attempts of European and Asian companies were selected, including both public and private firms. Data was collected from M&A deals carried out between 2007 and 2017 (deals closed or uncompleted before October 2017, still pending deals are not included). Only acquisitions where the company had acquired more than 50 percent were added to the sample. Deals which were valued at less than $1 million were excluded, as well as M&As recorded as 'partially completed', 'status unknown' or 'rumored only' were not included in the dataset. Furthermore, deals which involved companies from countries for which it was not possible to calculate all variables were sorted out. The screening resulted in a final sample of 1450 cross-border M&A deals (521 transactions from Europe to Asia, 929 from Asia to Europe). The deals were executed in 26 different Asian and 37 different European countries. This diversity should make the sample well suited to study the effects of cultural and legal distance on the likelihood of closing a deal. The dataset includes information on the dates of announcement and completion or abandonment of the transaction, acquirer and target information, industry of the companies, deal-specific and some few other financial information that are relevant for this research.

The **dependent variable** is the completion status of the cross-border M&A deal, with 1= if the deal was closed and 0= no deal completion. As already mentioned earlier, the announcement and completion date, as well as the completion status (e.g. withdraw, closed) was collected from the Thomson Reuters Eikon database.

Independent variables:

Cultural distance (hypothesis 1): to capture the distance between the culture of the home country of the acquirer and the one of the target Kogut and Singh`s (1988) cultural distance measure, which is based on Hofstede`s dimensions, was used. Hofstede (1980) developed four dimensions of culture that help explain the differences around different cultures in the world: 1) uncertainty avoidance (tolerance of the unpredictable); 2) power distance (acceptance of the unequal distribution of power); 3) individualism vs. collectivism; 4) masculinity vs. femininity (strength of masculine vs. feminine values in a society). For this work the more recent fifth dimension long-term orientation (Hofstede & Bond, 1988) was also included. Other researchers have also confirmed these dimensions in various cultures and the framework has become one of the most influential in cross-cultural business studies. Some researchers (Shenkar, Luo, 2003; Chakrabarti, Gupta-Mukherjee & Jayaraman, 2008) criticize Hofstede`s approach and the way of generalization of the data. However, and despite its criticism in the international business field, Kogut and Singh`s index is still one of the most commonly used measures of cultural distance (Cuypers, Ertug & Hennart, 2015).

Legal distance (hypothesis 2): To measure the legal and regulatory distance between the home and the host country, the economic freedom index developed by the Heritage Foundation was used (Zhou, Xie & Wang, 2016). The index is composed of different freedom scores, which measure the ease of doing business activities in a country. Scores are measured in 10 different categories graded on a scale of 0-100. As the focus of this work is on the freedom of a firm to acquire and merge a company in a foreign country, the scores of these four categories have been used: business, investment, financial and trade freedom. The average score (of the year when the deal was closed/abandoned) should then give a proxy of a country`s legal and regulatory environment. The legal and regulatory distance between two countries was measured as the absolute difference of their respective average freedom scores. Consequently, the higher the value of the variable, the larger the legal and regulatory distance between two countries.

Control Variables

Several factors that may influence the likelihood of completion of cross-border M&A deals were used and analyzed. (**1**) *Geographic distance*: geographic distance between national capitals in kilometers, computed as the absolute difference; (**2**) *linguistic distance:* Dow and Karunaratna's (2006) composite linguistic distance scale was used to measure the distance between the language of two different countries. This distance scale is composed of three items: the first measure (L1) is a five-point scale based on the Grimes and Grimes (1996) classification of 6609 languages. This scale allows to capture the syntactic distance between the languages of the different countries. The second and third measures (L2 and L3) look at the incidence of one country`s major language within the other countries; (**3**) the *religious distance* was measured with a dummy variable: value 1= when two countries share a common primary religion and 0 otherwise; (4) *Political system* (1= if the system is the same, 0= if different); (5) *industry relatedness* captures if two companies are operating in the same industry =1 or in different ones =0, to measure this variable, the fifth and highest level of the TRBC (Thomson Reuters Business Classification) was used; (6) the variables *public status acquirer* and *public status target* (1= if public, 0= if not) state whether a company is publicly owned or not. The public status of a company may affect the likelihood of closing a deal, as public firms are often subject to a more intense national and international regulatory scrutiny (Dikova, Sahib & van Witteloostuijn, 2010); (7) *economic distance*: computed as the natural logarithm of differences in the GDP between the countries of the home and host company; data was provided from the World Bank. Economic differences between two different countries may be expected to have a considerable effect on the performance of the whole cross-border M&A process; (8) the dummy *target origin* (1= if target is from developed country, 0= if different). If the target country is from an emerging or a developed country makes a difference and may affect the deal completion significantly; (9) the variable *size of the deal* shows the dollar value of the deal. A number of researches show that the size of an acquisition influences the performance of the deal (Morosini, Shane & Singh, 1998); (10) negotiations with a subsidiary differ from other conventional M&A deals because of power issues related to the parent company and may affect the deal completion (Muehlfeld, Sahib & van Witteloostuijn, 2012). The variable *target subsidiary* measures therefore whether the company of the target country was a subsidiary =1 or not =0; (11) a dummy *cash payment* was also included, where 1= if the predominant mode of payment was cash and 0= if otherwise. Cash offers appear to create more wealth for the shareholders of the country where the company was acquired (Muehlfeld, Sahib & van Witteloostuijn, 2012). Therefore, the method of payment may impact the completion likelihood of M&A deals; (12) *percentage sought*, which shows how much of the target company was acquired or not from the acquirer company; (13) a *year dummy* variable for the years 2007-2017; (14) a dummy variable *deal attitude*, to see if the deal transaction was friendly (=1) or hostile (=0).

Results

In order to test the hypotheses, other research literature suggests the use of logistic regression models for this type of investigation. These models are considered to be the appropriate tool to analyze the data, since the dependent variable (the likelihood of M&A

completion) is dichotomous. In these models, the likelihood that a cross-border deal was completed or not completed is explained by the independent variables: cultural distance and legal and regulatory distance (Dikova, Sahib & van Witteloostuijn, 2010; Muehlfeld, Sahib & van Witteloostuijn, 2012). Table 1 shows the descriptive statistics, as well as the correlations matrix of the variables used. The results do not reveal any multicollinearity problems. Following other papers, the coefficients, standard errors, the value of the likelihood function and value of the chi-squared test are reported. The standard summary statistics do not demonstrate multicollinearity problems and all correlations are below the commonly used cut-off threshold of 0.7 (Dikova, Sahib, & van Witteloostuijn, 2010). Also, as the sample of this study includes a lot of different host and home countries, in contrast to studies which have focused on a single home and host country, no problematic conspicuousness of collinearity between the different distance measures could be observed. Despite some similarities in measures, corrections (e.g. centering), which are sometimes used in the literature to correct multicollinearity (Dikova, Sahib, & van Witteloostuijn, 2010), were not used in this analysis. By reason of some error messages and the big amount of different acquirer countries, the variable acquirer nation was not used in the final analysis and the regression models (see Table 2). Nevertheless, a dummy variable Europe-Asia, which distinguishes between European and Asian deals, and a target country fixed effect was integrated in the models of the binary logistic regression analysis. For the variable year (2007-2017) a fixed effect was used and included into all the models. The years 2009 and 2011 are significant for all models. Furthermore, some other control variables like percentage sought and the dummy variable government acquirer (if company is state-owned or not) don`t seem to have a bigger effect on the relationship of cultural and legal distance between two countries.

Table 1: Descriptive statistics and correlations

Variables	Mean	St.Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
1 Deal-status	1.066	0.249																						
2 Cultural distance	2.023	0.827	-0.04																					
3 Legal distance	13.49	7.975	0.11	-0.06																				
4 Religion	0.176	0.381	-0.04	0.14	-0.30																			
5 Political system	0.294	0.456	-0.01	0.08	-0.33	0.37																		
6 Government dummy A	0.008	0.087	0.04	0.04	-0.05	0.00	0.07																	
7 Government dummy T	0.001	0.037	-0.01	-0.05	0.00	-0.02	-0.02	-0.00																
8 Geographic distance	9 892 543	3 555 694	-0.03	0.20	-0.35	0.84	0.38	0.04	-0.06															
9 Industry relatedness	0.483	0.500	-0.01	0.05	0.01	0.08	0.02	-0.04	0.04	0.04														
10 Target origin	0.690	0.463	-0.06	-0.04	-0.31	0.26	0.16	0.06	-0.02	0.32	-0.05													
11 Target subsidiary	0.481	0.500	-0.07	-0.01	0.01	-0.12	-0.08	0.01	-0.04	-0.09	-0.02	0.01												
12 Deal size (M USD)	379 003	5 098 923	0.13	0.01	-0.03	0.04	0.03	-0.00	-0.00	0.04	0.04	0.02	-0.01											
13 Percentage sought	86.414	27.106	-0.85	0.04	-0.14	0.11	0.07	-0.03	-0.02	0.13	0.00	0.14	0.14	-0.11										
14 Dummy Europe - Asia	0.359	0.480	0.03	0.04	0.13	-0.32	-0.14	-0.05	0.01	-0.35	0.04	-0.83	0.02	-0.01	-0.11									
15 Economic distance	-0.458	28.111	0.04	-0.08	0.08	-0.17	-0.08	-0.05	0.00	-0.21	0.00	-0.16	0.07	-0.01	-0.05	0.12								
16 Year	2 011 811	3 176	-0.04	-0.08	-0.05	-0.07	-0.06	-0.02	-0.01	-0.03	-0.06	0.20	0.10	-0.04	0.07	-0.21	0.10							
17 Acquirer nation	18 490	14 257	-0.03	0.08	0.06	-0.47	-0.26	0.02	0.02	-0.37	-0.00	-0.38	0.04	-0.03	-0.03	0.44	-0.06	-0.09						
18 Target nation	35 146	18 119	-0.02	0.04	-0.19	0.20	0.14	0.07	0.02	0.31	-0.03	0.37	-0.05	0.03	0.08	-0.31	-0.11	0.06	-0.13					
19 Deal attitude	1.002	0.046	0.05	-0.00	-0.00	-0.02	-0.03	-0.00	-0.00	-0.01	-0.04	-0.04	-0.01	0.00	-0.06	0.03	0.02	0.03	-0.01	-0.02				
20 Cash payment	1.260	0.468	0.00	0.03	-0.03	-0.00	0.03	-0.03	-0.02	0.03	-0.01	-0.02	0.05	0.00	0.02	0.02	0.01	-0.00	0.03	0.00	-0.03			
21 Public status A	1.726	0.461	-0.01	0.05	-0.05	0.17	0.07	0.23	-0.02	0.17	0.07	-0.01	-0.08	0.02	0.03	-0.00	-0.04	-0.07	-0.02	0.02	-0.01	0.04		
22 Public status Target	1.399	0.493	0.12	-0.02	0.03	-0.11	-0.07	0.03	0.12	-0.09	0.00	-0.08	0.40	0.05	-0.11	0.11	0.08	0.01	0.07	-0.02	0.06	0.04	0.02	
23 Language distance	-0.000	0.955	0.06	-0.16	0.35	-0.60	-0.32	-0.02	-0.03	-0.64	-0.04	-0.16	0.10	-0.04	-0.12	0.22	0.24	0.07	0.14	-0.35	0.03	-0.03	-0.12	0.08

Table 2 shows the results from 7 different logistic regression models. Regressions have been calculated using different specifications. The null hypothesis could not be rejected for all the models. Model 1 is the baseline model and contains the control variables. In Model 2 and 5, the independent variables (cultural and legal distance) were added respectively. Model 5 shows a negative and significant ($p<0.01$) relationship between legal distance and completion status of a deal, which is consistent with Hypothesis 2. Consequently, a higher legal and regulatory distance of two countries may have an impact on the deal status in cross-border M&As. In contrast to Model 5, Model 2, which includes the independent variable cultural distance, does not show any statistical significance. That leads to the assumption that cultural distance has, against the initial expectations, not a big influence on the likelihood of deal completion in cross-border M&As (Hypothesis 1). Interestingly, Cuypers, Ertug & Hennart (2015) found in a study about linguistic distance and its effects on the stake of the acquirer in cross-border M&As that linguistic distance has a much larger effect as cultural distance and geographic distance. A reason for the non-significant result of cultural distance in this analysis could be the fact that experience in prior cross-border M&A deals might moderate cultural distance and therefore affect the completion of deals. This effect was not measured in this study. Model 3 and 4 were conducted to see if a single dimension of the cultural distance index could have an effect on the dependent variable (all cultural dimensions are included in Model 2). Dimension 1 and dimension 2 of the cultural distance measure were selected to test any significance, as they are considered be specifically related to the likelihood of deal completion (Dikova, Sahib & van Witteloostuijn, 2010). Dimension 1 (uncertainty avoidance of a culture) expresses the degree to which people of a country feel uncomfortable with uncertainty. The degree of ambiguity of two different countries could have a significant impact on the decision and deal closing process of a deal. However, also this model did not exhibit any important significance. Even the results of Model 4, which included dimension 2 (power distance – the degree of acceptance of unequally distributed power), did not show to have any meaningful effect on the completion or non-completion of a cross-border M&A deal. In Model 6, the dependent variables were added. Again, legal distance shows a negative and significant ($p<0.01$) relationship, while cultural distance does not seem to have any meaningful statistical significance. One interaction model (Model 7) with the two independent variables (cultural distance, legal distance and the interaction of both) was added. The interaction is negative and significant. This shows that the effect of one predictor variable on the response variable is different at different values of the other variable. Therefore, it could be interpreted that the combination of cultural and legal distance has a higher impact on the likelihood of a deal failure. Furthermore, all models show consistently that the variable public status of the target country has a significant and negative effect, while the public status of the company of the acquirer nation is insignificant. This is consistent with other findings of previous studies (Dikova et al., 2010, Muehlfeld et al., 2012, Li et al., 2016), which found that a public company makes an M&A deal less likely to be completed.

Table 2: Logistic regression models

	MODEL 1	MODEL 2	MODEL 3	MODEL 4	MODEL 5	MODEL 6	MODEL 7
VARIABLES	*control variables*	*cultural distance*	*dimension 1*	*dimension 2*	*legal distance*	*cultural + legal distance*	*interaction independent variables*
LANGUAGE DISTANCE	0.103	0.092	0.109	0.110	-0.035	-0.062	0.060
	(0.150)	(0.152)	(0.151)	(0.148)	(0.156)	(0.158)	(0.153)
RELIGION	0.684	0.712	0.734	0.204	0.668	0.724	0.579
	(0.628)	(0.630)	(0.638)	(0.705)	(0.639)	(0.641)	(0.634)
GEOGRAPHIC DISTANCE	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
INDUSTRY RELATEDNESS	0.190	0.178	0.188	0.190	0.225	0.206	0.243

	(0.239)	(0.240)	(0.239)	(0.240)	(0.242)	(0.243)	(0.242)
TARGET ORIGIN	0.937*	0.938*	0.994*	0.938*	0.303	0.285	0.645
	(0.517)	(0.517)	(0.520)	(0.522)	(0.562)	(0.562)	(0.542)
TARGET SUBSIDIARY	1.284***	1.279***	1.290***	1.257***	1.261***	1.254***	1.279***
	(0.263)	(0.264)	(0.264)	(0.264)	(0.265)	(0.265)	(0.263)
DEALSIZE MUSD	0.000***	0.000***	0.000***	0.000***	0.000***	-0.000***	-0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
EUROPE – ASIA DUMMY	0.883*	0.864*	0.929*	0.895*	0.347	0.289	0.707
	(0.523)	(0.524)	(0.523)	(0.529)	(0.560)	(0.563)	(0.535)
ECONOMIC DISTANCE	-0.004	-0.004	-0.004	-0.004	-0.005	-0.005	-0.005
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
DEAL ATTITUDE	-0.823	-0.828	-0.768	-0.900	-0.837	-0.846	-0.840
	-1.370	-1.378	-1.370	-1.352	-1.428	-1.449	-1.379
PUBLIC STATUS ACQUIRER	0.108	0.108	0.105	0.101	0.123	0.124	0.121
	(0.256)	(0.256)	(0.257)	(0.256)	(0.259)	(0.259)	(0.257)
PUBLIC STATUS TARGET	-1.356***	1.350***	1.363***	1.343***	1.353***	-1.341***	-1.368***
	(0.254)	(0.254)	(0.254)	(0.254)	(0.255)	(0.255)	(0.254)
CASH PAYMENT	-0.008	-0.010	-0.010	0.002	-0.017	-0.022	-0.009
	(0.242)	(0.241)	(0.241)	(0.243)	(0.251)	(0.251)	(0.246)
CULTURAL DISTANCE		0.077				0.144	
		(0.150)				(0.160)	
DIMENSION 1			0.041				
			(0.061)				
DIMENSION 2				-0.064			
				(0.046)			
LEGAL DISTANCE					0.055***		
					(0.018)		
DEPENDENT VARIABLES						-0.057***	
						(0.018)	
CULT, LEG AND CULT X LEG DISTANCE							-0.012**
							(0.006)
YEAR EFFECTS	Included	Included	Included	Included	Included	Included	Included
TARGET COUNTRY EFFECTS	Included	Included	Included	Included	Included	Included	Included
CONSTANT	4.394**	4.315**	4.165**	4.472***	6.284***	6.211***	5.041***
	-1.718	-1.731	-1.747	-1.709	-1.890	-1.907	-1.764
OBSERVATIONS	1,433	1,433	1,433	1,433	1,433	1,433	1,433
CHI2	96.07	96.33	96.52	97.95	106.2	107.1	100.2
LOG-LIKELIHOOD	-282.7	-282.6	-282.5	-281.8	-277.7	-277.2	-280.7

STANDARD ERRORS IN PARENTHESES
*** P<0.01, ** P<0.05, * P<0.1

Discussion

In this paper, the focus was put on a topic that is not yet that deeply investigated in the International Business field: the consequences of distance factors on the likelihood of a deal completion in cross-border M&As. Many previous quantitative studies have studied the post-acquisition performance of different cross- border M&A deals with the impact of cultural distance (Björkman, Stahl & Vaara, 2007; Chakrabarti, Gupta-Mukherjee & Jayaraman, 2009) or other distances. Simultaneously, little attention has been paid to the deal-closing phase in general, as well as on the effects of cultural distance on the likelihood of closing an M&A deal. However, the failure to complete an announced M&A deal is a critical issue in the research of M&As. Also, the negative impact of cultural distance has been investigated in some studies. However, most of the papers focus on the post-acquisition phase.

This paper hypothesizes that cultural and legal distance might have an effect on the likelihood of closing a deal in cross-border M&As. In contrast to previous studies, this paper had a broader sample with many different acquirer and target nations and did not focus only on one or a few host and home countries. The collected data showed that a lot of the announced deals are completed, but also a meaningful number are abandoned. From the 521 transactions from Europe to Asia 7.68% of the deals were not completed, while 6.03% of the deals from Asia to Europe (929) failed. By reason of this finding, this paper intended to have a closer look at this question: do cultural and legal distance have a significant impact on the deal completion status of cross-border M&As? Cultural patterns vary across societies and can lead to misunderstandings and obstacles in international businesses. Therefore, it seems important to me to pay more attention to the topic of national cultural distance, as it might have an impact on the negotiation phase and consequently it can also have an influence on the deal-closing result. The results of the analyses confirm the intuition of the hypotheses only partially. An interesting and unexpected implication of this study is that regulatory and legal distance seems to have a bigger effect on the completion status of cross-border M&A deals. On the contrary, cultural distance seems not to have any statistical significance and bigger effect on the deal status.

To complete this work decently, some limitations to this study should be pointed out. Firstly, the effect of experience was not investigated in this study, but might have a significant impact on the outcome of cross-border deals, which other researchers have also reported. Findings of some studies reveal that more experience with completed cross-country deals is positive related to the likelihood of completing a M&A deal (i.e. Muehlfeld et al., 2008; Dikova et al., 2010). Secondly, an examination of the role of cultural and legal distances does not reveal the entire complexity of cross-border M&A deal-making. Many different other circumstances and problems can have an effect on the process of deal-closing in international alliances. Third, a lot of deals get blocked because of regulatory issues. This again is depending on the kind of deal and industry (sensitive data issues etc.), but also on the type of economy of the country (emerging or developed market). In this study, one variable was measuring if the host country has an emerged or developed market. However, it was not investigated further and with deep insight. While the focus of this study was specifically on national culture, future research could examine the impact of corporate cultural distance on deal abandonment and failure, as that may also have a crucial impact. Collecting data of differences in values, beliefs and practices at an organizational level rather than using country-level data can reveal new insights about the effects of the different corporate and national cultures on a deal completion.

Also, the relationship between corporate and national cultures could be an interesting topic for further research, in order to see how they are correlated and how they can have an impact on cross-country M&A deals. One recommendation for further research is also to move away from the predominant perception of distance as something negative. Several studies have shown that cultural distance can have positive effects on a company`s performance and behavior on future M&A deals, as different cultures provide the base for the flow of new knowledge and experiences.

Of course, this paper does not cover all important and interesting topics that are arising with the issue of cultural and legal distance in cross-border M&As. I`m aware that there is still room for a broader analysis and investigation of this topic. Therefore, it should be a first step and incentive for further research on that topic that will move beyond what I have been able to do here.

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Appendix

Countries of M&A deals (acquirer and target)				
A= as an acquirer – T= as a target				
Asia (continent)			Europe (continent)	
Australia	A: 238		Austria	A: 9 T: 7
Armenia	A: 7 T:1		Belgium	A: 24 T: 13
Azerbaijan	A: 2		Bosnia Herzegovina	A: 1
China	A: 103 T: 178		Bulgaria	A: 1
Hong Kong	A:48 T: 117		Croatia	A: 3
India	A: 104 T: 123		Cyprus	A: 6 T: 6
Indonesia	A: 17 T: 5		Czech Republic	A: 9 T: 2
Japan	A: 35 T: 74		Denmark	A: 14 T: 5

Kazakhstan	20		Finland	A: 14 T: 14
Kyrgyzstan	1		France	A: 68 T: 65
Laos	1		Georgia	A:1
Macau	1		Germany	A: 99 T: 48
Malaysia	A: 27 T: 34		Greece	A: 2 T: 1
Mongolia	3		Guernsey	A: 1 T: 1
New Zealand	14		Hungary	A: 2
Pakistan	A: 5 T: 1		Iceland	A: 1
Philippines	A: 4 T: 7		Ireland	A: 17 T: 19
Singapore	A: 63 T: 92		Isle of Man	A: 3 T: 3
South Korea	42		Italy	A: 51 T: 17
Sri Lanka	1		Jersey	A: 4 T: 7
Taiwan	A:14 T: 29		Liechtenstein	A: 1
Thailand	A: 9 T: 15		Luxemburg	A: 16 T: 16
Uzbekistan	5		Malta	A: 5 T: 1
Vietnam	6		Netherlands	A: 50 T: 47
			Norway	A: 23 T: 8
			Poland	A: 12 T: 2

			Portugal	A: 6 T: 1
			Romania	A: 1
			Russia	A: 10 T: 22
			Serbia	A: 4
			Slovakia	A: 2
			Spain	A: 41 T: 14
			Sweden	A: 22 T: 27
			Switzerland	A: 34 T: 29
			Turkey	A: 12 T: 1
			Ukraine	A: 3 T: 1
			United Kingdom	A: 358 T: 143