

City University of Hong Kong

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**The Impact of National Culture on
Cross-Border Mergers & Acquisitions**

文化差異對跨境企業併購的影響

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Abstract

Globalization, the rise of information technology, changes in international economic and regulatory environments, competition for talent, and the maturing of emerging markets are increasing the pressure on firms to expand internationally in order to remain competitive. Cross-border Mergers & Acquisitions (or 'M&A') provide an important alternative to respond versus only organic growth activity, and have significantly increased in volume over the past decade. However, results have been mixed and merit further study. This study uses data for M&A transactions from the Capital IQ and the Thomson One databases along with National Culture scores from the Hofstede Insights organization and attempts to answer two important research questions: (1) Does National Culture impact the successful closing of cross-border M&A attempts? (2) How does National Culture impact post-acquisition success for cross-border M&A?

This thesis leverages archival analyses to provide new insights into how culture impacts results of cross-border M&A by leveraging transaction data estimated using a multi-dimensional measure of National Cultural distance - Hofstede's 6 Dimension model consisting of Power Distance Index; Individualism versus Collectivism; Masculinity versus Femininity; Uncertainty Avoidance Index; Long-Term versus Short-Term Orientation; and, Indulgence versus Restraint - between the countries where the acquiring and target firms were headquartered, including when moderated by country and industry relatedness, thereby extending existing literature. In addition, semi-structured interviews are conducted with business executives who have extensive

M&A experience to qualitatively discuss the research findings. It is interesting to note that although all of them view culture as a very significant variable for M&A they do not use, or know of others who do, structured cultural variables in their current M&A processes.

Results confirm that increasing National Cultural Distance: (1) has a negative impact on closing M&A bids unless both firms belong to the same industry type; (2) has a negative impact on acquirer shareholder returns, except when distances for the *Individualism versus Collectivism* and/or *Indulgence versus Restraint* dimensions are high, and when acquirers and targets belong to either different country clusters or industries. This research also provides a practical guide to managers and boards of companies regarding likely outcomes of cross-border M&A, and towards potential areas of focus to counteract the impact of differences in National Culture whilst undertaking acquisition and integration.