LOST IN TRANSLATION? THE EFFECT OF CULTURAL VALUES ON MERGERS AROUND THE WORLD

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Abstract

We find strong evidence that three key dimensions of national culture (trust, hierarchy, and individualism) affect merger volume, synergy gains, deal structure, and the division of gains between bidders and targets in international mergers. First, the volume and combined gains of domestic mergers are significantly higher in countries where people are more trusting of others. Second, the volume and gains of cross-border mergers are lower when countries are more culturally distant. Third, firms from countries that are more trusting and hierarchical capture a larger share of combined merger gains. Finally, the use of termination fees, tender offers, and the form of payment vary systematically by cultural differences.

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Abstract

We find strong evidence that three key dimensions of national culture (trust, hierarchy, and individualism) affect merger volume, synergy gains, deal structure, and the division of gains between bidders and targets in international mergers. First, the volume and combined gains of domestic mergers are significantly higher in countries where people are more trusting of others. Second, the volume and gains of cross-border mergers are lower when countries are more culturally distant. Third, firms from countries that are more trusting and hierarchical capture a larger share of combined merger gains. Finally, the use of termination fees, tender offers, and the form of payment vary systematically by cultural differences.

Though the vast majority of research on mergers and acquisitions focuses on domestic mergers in the U.S., recent research documents that international mergers (both cross-border and domestic mergers in foreign countries) differ in systematic ways from U.S. mergers. Rossi and Volpin (2004) show that countries with less transparent accounting standards and weaker shareholder-rights laws have less active domestic merger markets. Research also shows that a country's legal system affects acquirer gains and target premiums in international mergers (Moeller and Schlingemann, 2005; Bris and Cabolis, 2008; Chari, Ouimet, and Tesar, 2010). Other research shows that cross-border mergers are facilitated by institutional investors (Ferreira, Massa, and Matos, 2010), but inhibited by protectionist governments (Dinç and Erel, 2010). Understanding how international forces affect mergers has become especially important recently — the number of cross-border mergers has almost doubled in the last decade, from 23 percent of total mergers in 1998 to 45 percent in 2007 (Erel, Liao, and Weisbach, 2009).

In this paper, we study how a completely different force affects mergers: national cultural values. Though culture has been shown to influence economic decision-making in many contexts (Guiso, Sapienza, and Zingales, 2006), little is known about its impact on mergers. We measure cultural values along the three dimensions most commonly identified in sociology and economics: 1. Trust versus Distrust (whether people believe that others can be trusted); 2. Hierarchy versus Egalitarianism (whether people believe they should follow the rules dictated by higher authorities); and 3. Individualism versus Collectivism (whether people believe they should sacrifice personal gains for the greater good of all). In a large sample of mergers from 52 countries between 1991 and 2008, we find that culture is a critical determinant of mergers across a variety of dimensions, including where mergers occur, how deals are structured, the amount of value they create, and how the gains are divided between the bidder and the target.

We first provide evidence that culture has a significant impact on domestic mergers. There are various reasons why this may be so, though we note that there exists no formal theoretical research to guide our investigation. One possibility is that firms in collectivist countries may be more willing to merge than firms in individualistic countries, since collectivist people believe in working towards a common good, rather than individual goals. In addition, the cost of post-merger integration may be reduced when employees have collectivist, rather than individualistic, values, which increases

the net synergy gains. Likewise, if trust facilitates trade as suggested by Arrow (1972), then mergers may be more common and create more value in countries where people are more trusting of others. Alternatively, mergers may be less common if greater trust or collectivism allow arms-length contracts, rather than the necessity of a formal merger. We find evidence consistent with the first explanation. Controlling for a host of country-level variables, we find significantly more domestic mergers in countries that are more trusting of others and in more collectivist countries. In addition, the average three-day abnormal bidder-target combined announcement return in domestic mergers is about 0.73 percentage points higher for a one standard deviation increase in trustfulness. This is a sizable difference, considering the average combined return in domestic mergers is 1.85 percent and the median is 1.16 percent. Though combined announcement returns are not a perfect proxy for value changes, these results suggest that culture has an important impact on the synergy gains in mergers.

Second, we investigate the role of cultural differences on the volume and gains in cross-border mergers. We find evidence consistent with the idea that cultural distance produces frictions between merging firms, just as geographic distance produces frictions in corporate decisions (Uysal, Kedia, and Panchapagesan, 2008; Landier, Nair, and Wulf, 2009). In particular, cultural differences between firms are likely to inhibit the post-merger coordination and cooperation that is necessary to realize synergy gains. We find that the greater is the cultural distance between two countries along the dimensions of hierarchy and individualism, the fewer are the number of cross-border mergers. In contrast, as long as one of two countries has a high level of trust, there are significantly more cross-border mergers between the two countries. Greater cultural distance also leads to lower combined announcement returns. Moving from the 25th percentile of distance in individualism to the 75th percentile leads to a reduction in combined gains of more than one percentage point (-1.11%), compared to an average gain of 3.46 percent and a median gain of 2.10 percent in cross-border mergers. Thus cultural differences have substantial economic impacts on cross-border mergers.

We next investigate the role of national culture on the division of merger gains in cross-border deals. The division of merger gains has received less attention in prior research than the separate

gains to targets and acquirers, but it is of primary importance for each firm involved.[1] We suggest that culture may affect the division of gains in multiple ways. First, a cynical view is that being trustful will lead to a smaller share of the gains if a trading partner can take advantage of one's trust. In contrast, trust may engender reciprocity, where a trading partner may reward trust by sharing more of the gains (Berg, Dickhaut, and McCabe (1995) presents experimental evidence consistent with this hypothesis). Second, firms that are more individualistic may capture more gains than firms that are more collectivist, since collectivist firms are more willing to sacrifice individual benefits to maximize combined gains. Third, egalitarian firms may wish to share the gains equally, whereas hierarchical firms believe that one firm should capture most of the gains. We do not claim to present an exhaustive list of explanations. Instead, we emphasize that empirical evidence that is consistent with any possible explanation would be important, since it would be the first evidence that cultural differences affect bargaining outcomes in mergers.

We find strong evidence that cultural differences do, in fact, have a strong impact on the division of merger gains. First, an acquirer's gain relative to the target's gain is larger when the acquirer is from a country with a higher level of trust relative to the target. A change from the 25th to the 75th percentile of the difference in trustfulness leads to an acquirer capturing an additional 1.7 percent of combined acquirer and target pre-merger market value. This is a substantial amount, compared to the mean of -3.4 and median of -2.2. In dollar terms, this additional gain is about $118 million for an average acquirer and target. This result is consistent with the experimental findings where greater trust leads to a larger share of the gains. Second, an acquirer from a country with a high level of hierarchy, relative to the target, captures more of the gains of the merger than if the acquirer was from a country with a high level of egalitarianism. This is consistent with our conjecture that target firms in egalitarian cultures are more willing to share gains with acquirers.

Since national culture affects bargaining outcomes, it is likely that it also affects deal structure in cross-border mergers. In the last part of the paper we explore this hypothesis for three aspects of the structure of a merger: form of payment, the use of target termination fees, and whether the deal is structured as a tender offer. In logit regressions, we find that mergers are more likely paid in cash, rather than stock, when the target is less trusting and more hierarchical and individualistic.

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[1]See Ahern (2009) for recent evidence on the division of merger gains.

Our intuition is that a target firm that has less trust in others will avoid the uncertainty of acquirer stock as payment, but egalitarian and collectivist targets are more willing to share the risks of the acquirer by accepting stock as a payment. Second, we find that targets are more likely to have termination fees when they are more hierarchical and individualistic. This possibly reflects that informal relations may substitute for formal contracts in egalitarian and collectivist countries. Finally, when acquirers are more trusting and less hierarchical than targets, they are more likely to negotiate with management, rather than make a tender offer. Again, this may reflect that in trusting and egalitarian countries, informal negotiations are preferred to formal offers. As before, we do not claim that these explanations are the only possible explanations, but rather, we believe that the biggest contribution of the paper is to simply document the prevalent effects of cultural values on many dimensions of merger negotiations.

Our results are robust to a multitude of country-level and deal-specific control variables, as well as important sample filters. In particular, in our main specifications, we use cultural value measures from the World Value Survey, a standard data source in the literature, which we describe in detail in Section II. However, we also find similar results if we use the alternative measures of cultural values developed in Hofstede (1980, 2001) or in Schwartz (1994). Second, since U.S. firms account for a large number of mergers, we exclude all U.S. firms from our sample in robustness tests. Our qualitative results are unchanged. Finally, one may argue that our results are driven by cultural differences in investor responses, rather than real merger effects. We address this criticism in two ways. First, we document that national culture affects the actual incidence of mergers as well as observed deal structures, not only the market responses to merger announcements. Second, we investigate the effects of national culture on long-run stock market returns. We do not find any evidence that changes our prior conclusions.

To the best of our knowledge, this is the first comprehensive study of the effect of national culture on merger outcomes. The richness of data on mergers allows us to study culture's influence on the gains from trade, the division of gains between the firms, and the structure of the deal, rather than just the volume of cross-border trade. Other research has investigated the role of culture in economics. Barr et al. (2009), Oosterbeek, Sloof, and Van de Kuilen (2004), Brett et al. (1998), and Adair et al. (2004) run experiments using participants from many different cultures

and find evidence that deep-seated values of fairness, trust, and individualism affect fundamental economic decisions. Evidence from non-experimental settings also confirms the importance of culture on economic decision-making: real and financial cross-border investment flows are larger when countries have greater bilateral trust (Guiso, Sapienza, and Zingales, 2009a), stock price momentum is greater in countries where individualism is higher (Chui, Titman, and Wei, 2009), countries where people are more trusting have greater stock market participation (Guiso, Sapienza, and Zingales, 2009b), national culture is related to risk-taking by firms (Griffin, Li, Yue, and Zhao, 2009), and interest rates are lower when borrowers share common cultural values with lenders (Giannetti and Yafeh, 2009).

The rest of this paper is organized as follows. Section I describes the three dimensions of cultural values studied in this paper and develops empirical predictions. Section II describes the data used in this paper and documents the prevalence of international mergers. In Section III, we present empirical tests of the effect of culture on merger volumes and combined returns. Section IV presents empirical results on the division of merger gains and deal structures. Robustness checks are presented in Section V. Section VI presents concluding remarks.

I. Theory and Hypotheses

Following Guiso, Sapienza, and Zingales (2006), we define culture as, "those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation." We are careful to differentiate our notion of national culture from corporate culture. Weber, Shenkar, and Raveh (1996) present evidence that national culture is defined by deep-held values, whereas corporate culture is defined by a set of operational practices. Since operating practices are less rigid than are values, Weber et al. argue that differences in national culture will impose a greater impediment to realizing synergy gains in mergers than will corporate culture. Using survey responses from CEOs, they find that national cultural differences predict stress, negative attitudes towards the merger, and lack of cooperation better than do corporate cultural differences.

We expect that the national cultural differences between firms will impact the surplus created from trade and the negotiation of the trade. To realize synergy gains in a merger, the combined

firm must be able to lower costs or increase revenue. Lowering costs typically involves firing workers or greater coordination between firms, whereas revenue synergies are generated by the fusion of knowledge capital. In either case, the employees of the two firms must work together. If they do not share common cultural values, communication and coordination will be inhibited.

Second, there is a large amount of experimental evidence that cultural differences impede bargaining (Brett et al., 1998; Adair et al., 2004; Metcalf et al., 2007). When CEOs do not use the same methods to communicate, have different social norms, or have differing concepts of time, truthfulness, or success, then negotiation is more likely to break down. In addition, it is plausible that differing cultural values will affect the division of gains. We are unaware of any prior research that tests this relationship, but we argue below why we think culture will affect the division of gains between firms.

Since not all beliefs and values would be expected to affect economic decisions, we focus on three values that prior research in economics, psychology, sociology, and negotiation studies has identified as important dimensions of culture: trust, hierarchy, and individualism. First, trust has been studied extensively in finance and economics in various contexts (see Guiso, Sapienza, and Zingales (2006) for references). Second, though the particular dimensions used in cultural classification systems tend to be idiosyncratic, both hierarchy and individualism are shared by the most widely cited classifications, with only minor variations. In particular, hierarchy and individualism are the only two dimensions common to the five-dimension classification system of Hofstede (1980, 2001), the three dimension system of Schwartz (1994), the seven dimension system of Trompenaars (1993), and the four dimension system of Fiske (1991). Thus, there is a large literature that suggests that these three dimensions are central to understanding cultural values. In the following section, we describe our measures of national culture in detail.

A. Trust versus Distrust

Trust is the dependence on another to fulfill an implicit or explicit obligation. As far back as Arrow (1972), economics scholars have recognized that trust facilitates trade.[2] In economic transactions characterized by uncertainty, trust is the confidence that a counter-party will fulfill

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[2]See Carlin, Dorobantu, and Viswanathan (2009) for a recent theoretical model that incorporates trust.

her side of the deal. In addition, trust may substitute or complement legal statutes that govern transactions. This is particularly relevant for cross-border mergers where accurate valuations are unlikely and where post-merger integration will require non-contractible effort by both firms.

One argument is that cultures that have greater amounts of trust in others will have more active domestic merger markets since trust facilitates trade. The total gains from mergers are also likely to be higher when cultures have higher levels of trust because trust may enable firms to realize synergies. If firms are distrustful of others on average, integration may be more difficult and hence total gains will be lower. A counter-argument is that mergers are likely to be observed when arms-length trading relations break down. The theories of transaction cost economics (Williamson, 1975, 1979, 1985) and the property rights theory of the firm (Grossman and Hart, 1986; Hart and Moore, 1990; Hart, 1995) predict that if the costs of incomplete contracts are too high, assets will be organized under common ownership to reduce hold-up and underinvestment problems. Thus if trust substitutes for written contracts, we may observe more mergers that produce more value where people are less trusting of others.

In cross-border mergers, we start from the finding in Guiso, Sapienza, and Zingales (2009a), that greater bilateral trust increases FDI flows. We do not have measures of bilateral trust, but we expect that the aggregate trust levels of country-pairs will be positively related to the volume of cross-border mergers between two countries. As long as one of the parties trusts the other, then mergers will be consummated. For the same reason, we also expect that combined returns will be larger when there is greater aggregate trust. Even if one firm has relatively less trust than the other, a higher level of trust in the other firm is likely to alleviate integration problems.

Trust is also likely to affect the division of gains in mergers, though for various and possibly conflicting reasons. Butler, Giuliano, and Guiso (2009) find evidence that individuals who have the 'right amount of trust' have higher incomes. The right amount of trust for an individual is equal to the median level of trust within the local economy: those who trust others too much get taken advantage of; those who do not trust others enough forego good opportunities. This argument predicts that a firm from a country with high levels of trust, relative to the merger partner, will capture a smaller percentage of the total gains since it is more likely to be deceived by its merger partner. An alternative hypothesis is that trust engenders reciprocity. In experiments of the trust

game, kind behavior is rewarded by a kind response (Berg, Dickhaut, and McCabe, 1995). Thus, firms that exhibit more trust may receive a larger share of the gains.

If trust affects the outcomes in mergers, it will likely affect how mergers are structured as well. In particular, if trust reduces the perceived uncertainty about a deal, stock payments may be more common when targets are more trusting. In contrast, if targets are less trusting, they may demand cash as payment. Similarly, if acquirers are more trusting, they may be less likely to use target termination fees, as trust may substitute for formal written contracts. It is also likely that less trustful acquirers may make direct tender offers to target shareholders, rather than negotiate with target management.

B. Hierarchy versus Egalitarianism

Egalitarian cultures rank the importance and social power of all members relatively equally, whereas hierarchical cultures delineate members into multiple vertical ranks of power. In hierarchical cultures, members from lower ranks defer to higher ranked members, who in turn have an obligation to ensure that the needs of lower ranked members are satisfied. When two equally ranked members disagree, they allow a higher ranked member to arbitrate. In a firm, this means that workers are more likely to follow instructions from superiors in hierarchical cultures. Egalitarian cultures, in contrast, are not likely to assign bargaining power solely by social status, but rather to rely on the outside options available to each agent. This means that bargaining power is temporary and case-specific in egalitarian cultures, as opposed to permanent in hierarchical societies (Brett and Okumura, 1998).

Since egalitarian cultures do not differentiate based solely on social status, there may be more opportunities for mergers in egalitarian cultures than hierarchical cultures, where only higher-status firms would initiate mergers. However, a strong hierarchical structure may make post-integration less costly than if both firms regarded themselves as equals. Hence, mergers may be more likely in hierarchical societies.

In cross-cultural mergers, as before, we expect that differences in culture will reduce the total volume of mergers, as well as the combined gains from mergers, since cultural differences may impede post-merger integration. It is not clear how cultural differences in egalitarianism will affect

bargaining positions since the social status rankings of hierarchical cultures may not extend across borders. This means that a low ranked firm in a local hierarchy may not regard a foreign merger partner as higher-ranked since it is not in the same culture.

Hierarchy may also affect the prevalence of certain deal characteristics. If targets are more egalitarian, and hence less likely to follow the orders of the acquirer's management post-merger, then stock payments may be needed to give incentives to the target's largest employee-shareholders. Since more hierarchical countries believe economic incentives are important, termination fees may be more likely used in order to provide an incentive to complete a merger. Finally, hierarchy may affect whether mergers are completed through negotiation or tender offers.

C. Individualism versus Collectivism

A society may view individuals as autonomous or as members of a larger social group. In societies where individualism is the norm, individual-level accomplishments are rewarded and goals are independent of the overall society's goals. In economic settings, in particular, it is accepted and expected that agents will seek to maximize their self-interest, without regard to the well-being of society-at-large. In contrast, collectivist cultures emphasize group goals, and the aspirations of individuals are tied to social obligations. It is expected that individuals will sacrifice personal self-interest for the benefit of the group (Brett and Okumura, 1998; Brett, 2000). As with other cultural values, there is little theoretical research in economics that tries to understand the role of individualism. A recent exception is Tabellini (2008), which models the trade-off between following economic incentives and following collective values.

If collectivist cultures value overall benefits, domestic mergers in these markets may produce greater gains since integration frictions will be less. Mergers in individualistic cultures, in contrast, may create more costs as employees from each firm try to assert their own goals without regard for the other. At the same time, mergers may be more likely in individualistic societies since arms-length contracting is a poor substitute due to greater hold-up costs and opportunistic renegotiation, as discussed above.

In cross-border mergers, we expect that firms from countries that differ in individualism are less likely to merge. When they do merge, we expect that the combined gains will be smaller since

cultural frictions will impede integration. In terms of bargaining, the naïve expectation is that firms from more individualistic nations will capture a larger share of the gains when merging with firms from more collectivist nations. Collectivist cultures will be more likely to sacrifice personal gains for the benefit of overall gains. However, collectivism is group-specific. If the firm with collectivist values does not consider the merger partner to be part of its group, it may resist the merger and reduce the overall gains. Indeed, collectivist cultures are more attuned to identities of group-membership than individualistic cultures (Brett, 2000).

Individualism may also affect how mergers are structured. It is possible that mergers of more collectivist firms will be more likely to use stock as payment, rather than cash, in order to share risk. Collectivist firms may also be more likely to negotiate mergers, rather than use tender offers, which are typically more hostile. We reiterate that these are simply conjectures and we do not claim that our explanations are exhaustive. Instead, we simply wish to provide some rationale for why we may observe an empirical relationship between national culture and mergers.

II. Data Sources

A. Merger Data

For our tests of aggregate domestic and cross-border merger activity, we start with as large a sample of mergers as possible, which due to constraints on other variables will be reduced in subsequent tests. Our initial sample includes all completed mergers from SDC Platinum database valued at $1 million or more from 1985 through 2008 where more than 50% of the target is acquired. We place no restrictions on the public status of the acquirer or target, which means we include public, private, and subsidiary acquirers and targets, though government entities are excluded. Since private firms account for the majority of merger targets, this sampling procedure provides a much more complete sample than is typically used in merger studies. For each deal we record the form of payment, the industry classifications of the acquirer and target, the attitude of the deal (friendly/hostile), and other deal-specific information from SDC.

The data filter yields a sample of 127,950 mergers, of which 30,907 are cross border deals, and 65,796 do not include a U.S. acquirer or target. A detailed cross-country matrix of the thirty nations

with the most firms that are acquired is presented in Table I. The top five target nations (including domestic deals) are the U.S. (55,407 targets), the U.K. (21,689), Canada (6,752), Australia (6,128), and Japan (3,513). The U.S. is the leader by far and there is a sharp dropoff in merger activity for the next most active market. Sweden, the tenth largest nation by targets had 1,688 deals over 1985 to 2008, which is less than half as many as Japan, the fifth largest, and only three percent of the U.S.'s total.

Figure 1 presents a map of worldwide merger activity for the 20 largest domestic markets to illustrate the complexity of international merger relations. The size of each country's abbreviation is proportional to the number of domestic mergers and the size of the arrows connecting countries is proportional to their cross-border merger activity over 1985 to 2008. The visualization is taken directly from the data, with the exception of the U.S., which is scaled by half and is still the largest domestic market. This picture reveals a complex network of cross-border merger flows where trading partners are clearly not random. For instance, both the U.S. and Canada, and the U.S. and the U.K., have strong cross-border merger ties, but Canada and the U.K. have relatively few cross-border deals. In addition, some of the largest domestic markets have few cross-border mergers. Japan is the most notable example, but Australia, and Malaysia are similarly isolated. The last row in Table I reports the percentage of foreign-made acquisitions in each of the forty top nations. Less than six percent of acquisitions of Japanese companies are made by non-Japanese firms, compared to 24 percent for the entire world. In contrast, over two-thirds of acquisitions are made by foreign acquirers in Germany, the seventh largest target nation. Clearly cultural differences are not the only reason that some countries have few cross-border mergers, as the geographic isolation of island nations, such as Japan and Australia, are likely important as well.

Though the U.S. has dominated worldwide activity on average over the 24 year period, foreign acquisitions have gained substantially in numbers relative to the U.S. over time. Figure 2 presents the time series of the numbers of domestic and cross-border mergers by country. In 1985, almost all domestic mergers worldwide occurred in the U.S.. Through the 1990s, other nations experienced increased domestic merger activity, notably the U.K.. However, since 1998 the number of domestic mergers in foreign countries has increased much faster than have U.S. domestic mergers. In fact,

domestic mergers in foreign countries in the 2000s were more common than during the 1990s wave, in contrast to the minor merger wave in the U.S. domestic market.

Panel B of Figure 2 shows cross-border mergers have increased substantially since the 1990s and that firms are buying targets in many more foreign countries. All five of the top target nations in cross-border mergers (U.S., U.K., Canada, Germany, and France) have witnessed increased numbers of acquisitions, but by far the most striking pattern is the number of cross-border mergers where targets are in countries that are not in the top five most active markets. In fact, the number of cross-border mergers at the peak of the 2000s wave was larger than the number of cross-border mergers in the 1990s wave, mainly due to acquisitions outside the top five target nations. Both of these figures provide strong evidence that research must account for cross-border and foreign-based acquisitions if it is to be relevant in today's M&A environment.

B. Empirical Measures of Cultural Values

To measure national cultural values we use the World Value Survey (WVS). The WVS is the largest study ever conducted on cultural values and covers 97 societies on six continents and samples from populations that represent more than 88 percent of the total world population. The survey is carried out in five waves of surveys in 1981–1984, 1989–1993, 1994–1998, 1999–2004, and 2005–2008. Sample respondents are randomly chosen to be representative across age, sex, occupation, and geographic region. The set of questions in each wave of the WVS is not stable over time. In order to have consistency, we start our study using the 1989–1993 wave because the survey questions we use to measure culture are in all of the following survey wave questionnaires. Though surveys are completed in waves, we know the exact year of each country's survey. Therefore, we match the most recent country-level and deal-level merger data to each survey year that includes all three questions we use to measure national cultural values. Following this, for the rest of our study, our data covers the years 1991 to 2008.

Each survey consists of about 250 questions on a variety of topics. We focus on the questions that are most relevant for our dimensions of national culture.

1. **Trust versus Distrust**:

To measure trust, we use the question from the WVS which is as follows:

> *Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?*

This measure has been used extensively in prior research to measure trust (e.g, La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997b), Sapienza, Toldra, and Zingales (2007), and Guiso, Sapienza, and Zingales (2009b)).

2. **Hierarchy versus Egalitarianism**:

To measure national attitudes toward hierarchy versus egalitarianism we use the following question from the WVS:

> *People have different ideas about following instructions at work. Some say that one should follow one's superior's instructions even when one does not fully agree with them. Other's say that one should follow one's superior's instructions only when one is convinced that they are right. With which of these two opinions do you agree?*
>   1. *Should follow instructions*
>   2. *Must be convinced first*

Those countries where people are more likely to follow instructions without question, are considered hierarchical. In egalitarian cultures, people look upon others as equals and so are more likely to require a satisfactory explanation before following orders (Au and Cheung, 2004)

3. **Individualism versus Collectivism**:

To measure individualism we use the following question from the WVS:

> *How would you place your views on this scale? 1 means you completely agree with the statement on the left; 10 means you agree completely with the statement on the right; and if your views fall somewhere in between, you can choose any number in between.*
>
> | *Incomes should be* | *We need larger income differences* |
> | *made more equal* | *as incentives for individual effort* |

Countries that are more individualistic place greater weight on individual effort than on ensuring everyone's benefit. This variables has also been used in prior research, including Guiso, Sapienza, and Zingales (2003) and Gabaix and Landier (2008).

We rescale the responses to each of the three questions to create measures that are bounded between zero and one and take the average response for each of the 97 countries in the sample.

Figure 3 presents a scatter-plot of the country-level measures of the three cultural values we study. The relationship of values represented in Figure 3 reveals a number of interesting patterns.

First, the three measures are not correlated. Using the 2001 wave, the correlation between trust and hierarchy has a $p-$value$= 0.157$, between trust and individualism the significance is $p = 0.703$, and the significance is $p = 0.253$ for hierarchy and individualism. Thus, each measure of cultural values is measuring something unique. Second, countries cluster together in predictable ways. Great Britain, Australia, New Zealand, Ireland, and South Africa form a tight cluster of countries that are slightly higher than the median in hierarchy and slightly below median in individualism, though with some variation in trust. Other clusters include Mexico, Spain, and Argentina; Guatemala and El Salvador; and Bosnia and Herzegovina, Bulgaria, Italy, and Albania.

Finally, we note that the U.S. is substantially separated from other countries on the hierarchy versus egalitarianism scale. The U.S. scores the highest of all nations on our hierarchical measure, indicating that people in the U.S. are most likely to follow instructions without the need to be convinced. This reinforces our claim that understanding U.S. merger markets may not be enough to understand world merger markets. In a later section of the paper, we show that our results are robust if we exclude U.S. firms from our analysis.

Implicit in our definition of culture is that national culture is defined by the values held by individuals in a country. Since firms are the unit of analysis in this study, we must assume that individual-level values affect firm-level outcomes. This means that if managers or employees of firms do not share the cultural values of the country where the firm is headquartered, then our individual-level values will be poor proxies for firm-level values. We verify that this is not the case.

Using data from Management Diagnostics Ltd.'s Boardex database, in a sample of S&P 1500 companies headquartered in the United States over 2000 to 2009, we find that 97.7% of all CEOs are U.S. nationals. The remaining percentage of CEOS are spread across 22 different nationalities, where the next largest nationality is British, with 0.4% of all CEOs. For board members of these firms, 95.8% are Americans, with the remainder comprised of 48 different nationalities. The large majority of European CEOs are also nationals of their company's country of residence. For example, using the Boardex dataset, 90% of CEOs in Germany are German, 85% of CEOs in France are French, and 91% of CEOs in Italy are Italian. Though we don't have data on laborer nationality, it is reasonable to assume that they are most likely citizens of the country where their employer is headquartered. Therefore, we feel confident that country-level cultural values will be appropriate

proxies for the cultural values held by the employees of a firm. For brevity, throughout the paper we may refer to a 'firm's values' to indicate the values of the people in the country where the firm is headquartered.

C. Other National Institutions that Affect Mergers

As stated in the introduction, other institutional environments have been shown to affect both domestic and cross-border merger activity. Since these institutions are likely correlated with national cultural values we control for them in our tests.

From La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998), we record a nation's legal origin as French, German, or Scandinavian Civil Law or English Common Law. La Porta et al. (1998) shows that common law countries typically have stronger legal protection for investors. From Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008) we take the anti-director index of investor protection and the public enforcement of regulation for 72 countries. This more complete anti-director index is a revision of the original measure in La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997a, 1998) which is only reported for 49 countries. The public enforcement index records a variety of publicly mandated consequences of self-dealing. Both of these indexes record the protection of minority shareholders. Though we study transactions where control rights are changed, minority shareholder rights may affect a firm's decision to own companies in a particular country.

Other financial institutions are likely to affect international mergers. We control for a country's wealth using GDP per capita from the Penn World Tables. We record the average corporate tax rate for each country, using data from the Economic Freedom Index. GDP per capita and tax rates may both proxy for the financial development of a country. Froot and Stein (1991) present a model and empirical evidence to show that currency exchange rates help explain cross-border investment patterns. Therefore, we record the historical exchange rate growth and volatility between each country-pair over the 12 months prior to the merger. Next, we record if two countries have signed a double-taxation treaty or a bilateral investment treaty at the time of the merger announcement. Data is from the United Nations Conference on Trade and Development. Barthel, Busse, and Neumayer (2009) show that FDI flows are larger between countries when they have signed a double-taxation treaty. See also Huizinga and Voget (2009) for the role of double-taxation treaties in

cross-border mergers. Bilateral investment treaties provide assurances against nationalization of private enterprise and provide a framework to resolve investor disputes. To record a country's level of foreign trade we calculate the ratio of imports and exports to GDP, which we call openness.

Religion and language are other cultural institutions that have been shown to affect economic outcomes (Barro and McCleary, 2003; Guiso, Sapienza, and Zingales, 2003). Following Stulz and Williamson (2003), for each country we record its primary spoken language and religion using data from the CIA World Factbook 2008.

Last, since geographic distance is likely related to the costs of cross-border mergers and also to differences in culture, we control for geographic distance in two ways. First, we measure the shortest distance between each country's most important city (in terms of population) or its capital city, following the great circle formula. However, this would be a poor measure for the geographic closeness of many countries, such as the U.S. and Mexico. To address this type of geographical distance we also record a dummy variable if two countries share a common border. These data are from Centre D'Etudes Prospectives et D'Informations Internationales (CEPII) and are provided for 225 countries.

The availability of data for all of our variables leads to a sample of 91,386 domestic mergers and 25,127 cross-border mergers from 52 different countries. In the tests of value creation where both acquirers and targets must be publicly traded with available stock price data, our sample becomes much more limited in size, though the scope is still relatively large. This subsample includes 3,586 domestic mergers in 38 countries and 815 cross-border mergers where acquirers are from 33 different countries and targets from 36 countries.

III. The Effect of Culture on the Volume and Gains of Mergers

In this section we present empirical evidence on the role of cultural values on wealth creation in both domestic and cross-border mergers. We analyze this in two ways. First, we investigate how culture affects the volume of mergers within and across countries. Like any transaction, mergers are expected to create value. This means that if mergers create more value on average, then we will observe greater merger volume. The advantage of this approach is that we are not restricted to mergers involving publicly traded firms. The disadvantage is that we cannot measure the magnitude

of the effect of culture on firm values. Therefore, we also investigate the effect of culture on merger returns using the smaller sample of publicly traded firms.

A. The Effect of Culture on Merger Volume

To measure merger activity within and across countries we normalize merger counts by GDP (in thousands of U.S. dollars). In particular, we measure domestic merger activity in country i, in year t, as follows:

$$\text{Domestic M\&A Activity}_{i,t} = \frac{\log(1 + NUMBER_{i,t})}{\log(GDP_{i,t-1})}$$

In cross-border mergers, we normalize by the aggregate GDP of the acquirer and target country. For $i \neq j$, this is:

$$\text{Cross-Border M\&A Activity}_{i,j,t} = \frac{\log(1 + NUMBER_{i,j,t})}{\log(GDP_{i,t-1} + GDP_{j,t-1})} + \frac{\log(1 + NUMBER_{j,i,t})}{\log(GDP_{i,t-1} + GDP_{j,t-1})}$$

where $NUMBER_{i,j,t}$ is the number of deals worth more than \$1 million and the acquirer is from country i and the target from country j. Therefore, we record cross-border mergers independent of which country is the host for the acquirer and which is the host for the target.[3]

The first two columns of Table II present summary statistics of the measures of merger activity, the cultural values measures, and the control variables. In domestic mergers, the average normalized merger activity is 0.125 per year with a standard deviation of 0.090. To better understand this measure, we use the merger activity of Belgium, the median country in the sample, as an example. Over the period 1991–2008, Belgium had 10.6 domestic mergers per year on average. Its average GDP was \$259.8 billion, which produces an average measure of M&A activity of 0.126. For comparison, the U.S. has a merger activity score of 0.328, Portugal has a score of 0.130, Romania has a score of 0.036, and Nigeria has a score of 0.007.

Next, the average level of trust is 0.321, with a standard deviation of 0.155. The average levels of Hierarchy and Individualism are 0.470 and 0.534. All three numbers are normalized to be in the range zero to one. Across the 783 country-year observations, French Civil Law is the most

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[3]For robustness, we also record variants on these measures that only count mergers if they are valued at \$10 million and \$100 million and we also record aggregate dollar volumes, rather than counts of mergers. Our qualitative results are unchanged. See the Internet Appendix for details.

common, followed by German Civil Law and English Common Law countries. Roman Catholic is the primary religion in 52 percent of country-years, followed by Protestant at 17 percent and Islam and Orthodox religions which each comprise about eight percent of the sample. The remaining fraction is made up of Buddhist, Church of Norway, Hindu, Shintoism, Taoism, and Zion Christian religions. Finally there is significant variation in GDP per capita and corporate tax rates over our sample countries with the mean GDP per capita equal to $16,552 and an average tax rate of 25.5 percent.

Panel B of Table II presents summary statistics for cross-border variables. Across all 13,453 non-domestic country-pair years, merger activity is very small. In fact the 75th percentile of country-pairs have no mergers that meet our $1 million sample requirement. Clearly, cross-border mergers are not random, but instead highly focused within particular country-pairs as illustrated in Figure 1. In the 1,898 country-pair years with a history of merger activity, the average merger intensity is 0.090, less than the average domestic merger activity.

Aggregate trust is the sum of each country's trust level in a cross-border country-pair. On average, aggregate trust is 0.636. The average absolute difference between countries across all country pairs is 0.179 for trust, larger than the difference for hierarchy and individualism. Shared religion (28.9%) and shared borders (4.7%) in country-pairs are each more common than shared language (3.4%). The average difference of GDP per capita between two randomly chosen countries is $13,531, the difference of corporate tax rates is 6.9%. Finally, double-taxation treaties are more common (61.8%) than are bilateral investment treaties (41.8%).

A.1. Merger Volume Results

The last three columns of Table II present the average domestic merger activity based on each of the above country-level characteristics in Panel A. First, countries where people report an above-median level of trustfulness have significantly higher domestic merger activity than countries where people are less trusting of others. More hierarchical countries also have more domestic mergers than do more egalitarian countries. Finally, there is a large and significant difference between the low levels of merger activity in individualistic countries compared to the high level of merger activity in more collectivist countries.

The results in Panel B of Table II show that cultural values are significantly related to cross-border merger activity. When the aggregate trust of two countries is high, there are significantly more cross-border mergers. Cultural distance between countries is also related to merger activity. Greater distance in levels of trust and individualism between two countries is associated with significantly fewer cross-border mergers, though differences in hierarchy are slightly related to more cross-border merger activity.

In both domestic and cross-border mergers, Table II shows that other country-level variables affect merger volume. However, since country-level characteristics such as legal origin, religion, geographic distance, and GDP per capita are all correlated with each other and with national culture, we next run multivariate tests to determine the effect of culture on mergers controlling for the effects of these other institutional characteristics. Our underlying model of mergers proposes that mergers occur when the combined net benefits of the acquirer and target are positive. As a consequence, when net benefits are negative, we will not observe any mergers. Therefore we estimate tobit regression models in this section of the paper to account for the truncation of observed merger activity at zero.

Table III presents the results from tobit regressions of culture and control variables on the GDP-normalized level of domestic merger activity in the 52 countries in our sample. Controlling for a country's legal origin, investor protection laws, religion, GDP per capita and corporate tax rates, a higher level of trust in a country is significantly related to a more active domestic merger market, consistent with our hypothesis. These results are intuitive and are consistent with our hypothesis that cultural values affect mergers. In particular, these results are consistent with Arrow (1972), where greater levels of trust facilitate economic transactions. Second, greater individualism is significantly related to less active domestic merger markets. This is consistent with the idea that the focus on group goals above individual goals in collectivist cultures also facilitates mergers. Table III shows that other institutions affect domestic merger activity in multivariate regressions, consistent with prior research. Compared to English Common Law countries, countries with German and Scandinavian legal origin have significantly fewer mergers. Stronger shareholder rights laws increase merger activity.

Turning next to cross-border merger volume, Table IV presents tobit regression estimates of the effect of culture on the level of cross-border activity across the 13,453 country-pair yearly observations. In these regressions, as well as in all of our cross-border tests, we include country dummy variables. These variables take on the value of one for a particular country if either the target or the acquirer firm is from that country. This way we do not distinguish between acquirer and target country-level effects, but rather treat them symmetrically. These dummy variables capture any country-level effects that do not vary over time, such as legal origin and religion. We do not use country-pair dummies, since this would capture the cross-sectional effects of cultural differences between countries. Instead, we include the absolute distance in country-level variables, such as GDP/Capita, geographic distance, and openness, for example, to control for confounding cross-country effects. We also include year fixed effects in all of our regressions to control for worldwide macro economic shocks, such as currency crises and changes in world market valuations.

Columns (1)–(4) of Table IV include the cultural values separately, though each specification includes all the control variables. As expected, cross-border mergers are more likely when countries share a common origin of their legal systems, a common religion, a common language, less exchange rate volatility, and are closer geographically. However, the difference in shareholder rights laws and enforcement is not related to cross-border merger activity, nor are differences in GDP per capita.

Turning to the cultural variables, aggregate trust between two countries is positively related to cross-border merger activity. Thus, as long as one country is trusting enough, merger activity will increase. Next, greater cross-country differences along the cultural dimensions of hierarchy and individualism are related to less cross-border merger activity, though individualism is only significant at the 0.113 level. These results provide strong evidence that cultural differences have a substantial effect on the patterns of cross-border mergers.

B. The Effect of Culture on Value Creation in Mergers

In order to measure the role of culture on value creation in mergers, we are forced to use a smaller sub-sample of mergers where both acquirers and targets are publicly traded firms with available stock price data. Stock price data is from Compustat Global Security Issue database and CRSP

for U.S. companies. This restriction reduces our sample size to 3,586 domestic mergers and 815 cross-border mergers across 38 countries.

For each deal we compute the acquirer's and target's abnormal returns in the three day window surrounding the announcement of the merger. Abnormal returns are calculated by subtracting the Datastream country index of the firm's host country from the firm's daily return. We take the sum over three days to generate a cumulative abnormal return (CAR). We use these CARs to create our variable of interest, the combined CAR, which is simply the average of the acquirer's and target's CAR, weighted by each firm's market value two days before the announcement. Across all of the deals in our sample, in untabulated results, we find that the average combined CAR is 2.13 percent in the three-day window around the announcement. In cross-border deals, the average is 3.46 percent and in domestic mergers the average combined CAR is significantly lower at 1.85 percent ($p-$value < 0.001). Thus mergers create value on average, and cross-border mergers create more value than do domestic mergers.

B.1. Sample Selection Effects

We have established in the prior section that there is a selection effect on cultural differences in cross-border mergers. Mergers are not randomly assigned, instead, only mergers with expected positive gains are undertaken. Thus the mergers that we observe have strong enough economic motivations that the synergy gains outweigh the costs of cultural differences.

To address this selection bias, we need to account for the likelihood that two firms merge in our cross-sectional regressions on CARs. In cross-border mergers we do this by running a two-stage Heckman model. We first run a probit analysis using the same variables as in column (5) of Table IV, where the dependent variable is equal to one if two countries had any cross-border mergers, and zero otherwise. For each country-pair, we calculate the predicted probability of a cross-border merger from the fitted values of the probit model, which includes year effects. Then, at the deal-level we use this country-pair predicted probability to proxy for the likelihood of a merger. In domestic mergers, since all firms share the same values, there is no selection on cultural values and we do not need to account for this type of selection bias.

B.2. Merger Returns Results

Table V presents results from regressions of combined CARs in domestic mergers. Controlling for a host of country-level variables, we find that countries with greater levels of trustfulness have higher combined returns from mergers. The effect of trust on merger returns is economically significant. For a one standard deviation increase in trustfulness, the combined merger gains increase by 0.73 percentage points, compared to an average combined return of 1.85 percent and a median of 1.16 percent. These results are consistent with the effect of trust on the incidence of domestic mergers. Countries where people are most trusting have more domestic mergers that create more value. Cultural values along the dimensions of hierarchy and individualism are not significantly related to combined CARs.

Table VI presents coefficient estimates of the effect of cultural differences on combined returns in 815 cross-border mergers. We include each measure of culture separately in columns (1) through (4) and then all together in column (5). We also include the Heckman lambda, described above, to account for sample selection bias across country-pairs, and the country effects to account for time invariant country-level effects. We find that the greater is the distance between two countries along the cultural dimension of individualism versus collectivism, the lower are the combined announcement returns of a merger. This effect is also economically significant. Mergers at the 25th percentile of the difference of individualism have combined returns that are 1.11 percentage points higher than mergers where the difference is at the 75th percentile.

Other variables that affect cross-border merger returns include the negative effects of greater differences in GDP per capita and differences in the import/export openness of the two countries. Deal characteristics, such as relative size, form of payment, and the volatility of the target's stock returns also affect combined announcement returns in cross-border mergers.

C. Summary of the Effect of Culture on the Volume and Gains of Mergers

Our empirical evidence provides strong support for the hypothesis that cultural values impact both domestic and cross-border merger activity and wealth creation. We find that higher levels of trust in a country are related to both a higher volume of domestic and cross-border mergers, as well as higher combined announcement returns in domestic mergers. This is consistent with the

notion that trust facilitates trading. Higher levels of cross-border merger activity are explained in part by less cultural differences between two countries along the dimensions of hierarchy versus egalitarianism and individualism versus collectivism. Likewise, greater cross-country similarity of individualism increases cross-border merger gains. This is consistent with the notion that cultural distance impedes mergers by introducing costly frictions. Taken together, these results intuitively fit into a rational trade off between the costs and benefits of mergers.

IV. The Effect of Culture on Merger Negotiations

In this section, we investigate whether national culture affects bargaining outcomes and deal structures in mergers. As in the tests on merger volume and combined returns, there is no theoretical model that explains how culture affects bargaining. Therefore we simply present empirical evidence on the effect of culture on bargaining outcomes in mergers, while remaining agnostic about any theoretical predictions. Finding any significant relationship between culture and the division of gains would be a new contribution to our limited understanding of bargaining in any setting.

A. Culture and Bargaining Outcomes

We investigate the outcomes of bargaining by measuring the division of gains in mergers. To measure the division of gains we would ideally divide the dollar value of total gains by the fraction that each firm received, akin to splitting a pie. However, since each firms' dollar gains, as well as the combined gains, are not always positive, we can not use this method. Instead, we follow Ahern (2009) and take the difference of dollar abnormal returns between the acquirer and target, normalized by the sum of the firms' market equity two days before the announcement. This is:

$$\text{Acquirer's Relative Gain} = \frac{MV_{A,-2} \cdot CAR_{A,-1,+1} - MV_{T,-2} \cdot CAR_{T,-1,+1}}{MV_{A,-2} + MV_{T,-2}} \qquad (1)$$

where $MV_{i,-2}$ is the market value of the acquirer ($i = A$) or target ($i = T$) two days before the announcement. The acquirer's relative gain is -3.04 percent on average. This means for each dollar of aggregate pre-merger market value of the acquirer and target, the acquirer receives about 3 cents less than the target in abnormal gains.

Table VII presents the results of multivariate regressions of cultural values on the relative gain of the acquirer in cross-border mergers. As before we include Heckman's lambda to account for sample selection, since acquirers may choose targets based on bargaining power embedded in cultural differences, or vice versa. We restrict our attention to cross-border mergers since firms in domestic mergers share the same national cultural values. Also, in contrast to earlier tests, we now consider the effect of the signed difference between cultural variables, rather than the absolute difference. In particular, Δ Trust is calculated as the trust level of the acquirer's nation minus the trust level of the target's nation. Δ Hierarchy and Δ Individualism are calculated analogously.

We find strong evidence that cultural differences affect bargaining outcomes. When the acquirer is relatively more trusting than the target, the acquirer realizes greater relative gains, just as found in the univariate tests. Moving from the 25th to the 75th percentile of the difference in trustfulness leads to an increase in the acquirer's gain relative to the target's of 1.7 percentage points, compared to the median of -2.2 percent. For an average target and acquirer, this translates into about \$118 million. This result is consistent with the experimental evidence that trust engenders reciprocity. This is also consistent with the idea that acquirers receive a premium for their trustfulness, since trust increases the likelihood of completing the deal and successfully integrating the two firms. We also find that when the acquirer is relatively more hierarchical than the target, the acquirer realizes greater relative gains. The effect is also economically significant, increasing the acquirer's relative gain by 0.6 percentage points from the 25th to the 75th percentile of the difference in individualism, compared to the median of 2.2 percent.

Consistent with a bargaining power story, we also find that the larger is the target, relative to the acquirer, the less is the acquirer's gain relative to the target's. Mergers structured as tender offers and mergers across industries also lead to less relative gains of the acquirer. Since relative size is a strong determinant of bargaining power, we interact it with our measures of cultural differences in column (5) of Table VII, though we find no significant interaction. This implies that culture affects deal outcomes through a separate channel than through the economic power of the merging firms.

B. Culture and Deal Structure

Since national culture affects bargaining outcomes, it is also likely to affect how mergers are structured. In Table VIII we report univariate tests of deal characteristics by cultural values. In Panel A, we find that deal characteristics vary significantly by national culture. In particular, in countries with above-median levels of trust, deals are smaller, more likely to be tender offers, and have fewer termination fees. In countries that report above-median hierarchy levels, mergers are less likely to be tender offers and use more termination fees, on average. In individualistic countries, mergers are smaller, use less termination fees, and targets are more likely to resist the merger using a takeover defense.

In panel B of Table VIII, deal characteristics also vary by cultural differences between the acquirer and target national values. When the home country of an acquirer is relatively more trusting than that of a target, deals are more likely to be paid in cash only and there are fewer target termination fees. Greater hierarchy values of the acquirer, relative to the target, are associated with smaller deals, more tender offers, fewer termination fees, and fewer target defenses. Finally, individualism is associated with fewer termination fees.

Given that cultural values are associated with various deal characteristics, in the last piece of analysis of the paper, we investigate more closely three key deal characteristics that are part of the structure of a merger: cash payment, target termination fees, and tender offers.

B.1. Culture and Method of Payment

The decision to use cash or stock is typically explained by tax implications (Huang and Walkling, 1987; Asquith, Bruner, and Mullins Jr., 1990), information asymmetry (Andrade, Mitchell, and Stafford, 2001; Moeller, Schlingemann, and Stulz, 2007), and incentive effects (Hansen, 1987; Officer, Poulsen, and Stegemoller, 2009). Cash payments usually require targets to pay capital gains taxes, whereas stock swaps defer capital gains taxes. Second, when acquirer stock is difficult to value, targets may prefer cash payments. Alternatively, an acquirer may prefer to use stock if it has private information that its stock is overvalued. Third, targets that receive acquirer stock as payment will continue to share the risk of the post-merger company, whereas targets that receive cash will not.

In addition, payment in cash will give incentives to target shareholders and employee-shareholders to increase the value of the post-merger firm.

In columns (1) and (2) of Table IX we report the coefficient estimates of logit regressions where the dependent variable is a dummy variable equal to one if a merger is paid entirely in cash, and zero otherwise. Column (1) includes the difference in national cultural variables between the acquirer and target. Column (2) includes the acquirer and target cultural values separately. Consistent with information asymmetry, friendly mergers in the same industry, where acquirers and targets share a common geographic border, use less cash and more stock.

Turning to our variables of interest, controlling for a wide range of variables, national cultural differences significantly affect the choice of cash or stock as a form of payment in a merger. When targets are less trusting of others, more cash is used. This is consistent with the idea that trust diminishes the effect of information asymmetry and allows stock to be used as payment. Second, when people in the home country of the target are more likely to follow directions without being convinced first than are people in the acquirer's home country (i.e., the targets are more hierarchical), cash is more likely used as payment. Conjecturing, this is consistent with the incentive effect of stock. When target employees are less likely to follow directions from the acquirer, using acquirer stock will provide better incentives, whereas target employees that will follow directions do not require stock incentives. Greater target individualism also significantly increases the likelihood that the acquirer uses cash to pay for the merger. Conjecturing again, this may reflect that collectivist cultures accept stock since they are more prone to work together and share the same risks, whereas individualistic targets value the freedom of cash.

B.2. Culture and Target Termination Fees

Target termination fees require the target to pay a fee to the acquirer if the target reneges on the merger. Acquirers may request termination fees to lock targets into a deal, reducing competition. Alternatively, targets may prefer termination fees to generate more aggressive bids because bidders are protected if the deal is not completed. A number of studies have shown that termination fees actually increase competition and bidding (Officer, 2003; Bates and Lemmon, 2003; Boone and

Mulherin, 2006). Thus termination fees insure the bidder but may increase the bargaining power of the target.

In columns (3) and (4) of Table IX we present coefficient estimates from logit regressions where the dependent variable equals one if the deal includes a target termination fee. Similar to the use of cash payments, target termination fees are more common when their is greater information asymmetry between targets and acquirers, consistent with an insurance motive. In particular, when acquirers and targets do not share the same language or legal system, and when acquirer stock volatility is higher, termination fees are more common.

National culture also affects the likelihood of the use of termination fees. When targets are more hierarchical than acquirers, termination fees are more common. Also, greater target individualism leads to a greater likelihood of the usage of termination fees. Since hierarchical countries place greater weight on economic incentives, it is reasonable that firms from these countries would be more likely to use termination fees in a merger agreement.

B.3. Culture and Tender Offers

The last aspect of negotiation that we investigate is the use of tender offers to complete a merger. Tender offers are made directly to target shareholders, in contrast to a negotiated merger where acquirers make their offer to the board of directors of the target firm. It is often the case that tender offers are made to purposely exclude target executives from the negotiation, though it is not always the case.[4] Therefore, we distinguish between tender offers and negotiated offers.

Columns (5) and (6) of Table IX present estimates of logit coefficients where the dependent variable equals one if the deal is a tender offer and zero otherwise. We find that culture affects this decision as well. When an acquirer is relatively more trusting than a target, deals are more likely negotiated than executed through a tender offer. This is again consistent with the idea that trust substitutes for formal contracts, such as a tender offer. Second, when targets are more hierarchical (more likely to follow directions from superiors), negotiated mergers are more likely. We don't have a strong intuition for this result, though it may reflect that greater hierarchical values may also be substitutes for formal contracts.

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[4]In some instances, tender offers are simply made for legal reasons after the merger has been successfully negotiated with the target board. Our data does not allow us to distinguish these two types.

C. Summary of the Effect of Culture on Merger Negotiations

In this section, we have documented strong empirical relationships between national culture and the ways in which mergers are structured, as well as the bargaining outcomes in mergers. We find that acquirers from more trusting and hierarchical countries receive a statistically higher gain relative to the target, than acquirers in countries that are less trusting and more egalitarian. We next document numerous differences in deal structures by differences in national cultural values. In detailed tests, we show that culture affects the form of payment used in mergers, the presence of termination fees, and whether deals are structured as tender offers, after controlling for a host of country-level variables. We do not claim that these results support one particular theory over another. Instead, the contribution of these results is that they are the first to show an empirical relation between culture and merger negotiations.

V. Robustness Checks

In this section of the paper, we describe various robustness checks to ensure our results are not driven by U.S. firms, nor our measures of national culture, nor that our effects are driven by differences in the cultural values of investors, rather than firms.

A. Excluding U.S. Firms

Because U.S. firms account for a large fraction of our sample, we verify that our results do not change if we exclude these firms from our analyses. Since our measures of merger activity are at the country-year level in domestic mergers, and country-pair-year level in cross-border mergers, our sample size is only reduced slightly by this exclusion. We find that there are no differences in our tests of domestic merger activity. In the tests of cross-border merger activity, the effect of aggregate trust remains unchanged, the absolute difference of hierarchy becomes insignificant, and individualism becomes negative and significant, consistent with the negative effect of cultural distance.

Excluding U.S. firms from our regressions on combined gains in domestic mergers reduced our sample size from 3,586 to 1,124 mergers, though our results are unchanged. In cross-border mergers,

excluding U.S. firms as either targets or acquirers reduces our sample from 815 to 399, and the results are again unchanged. In our tests of the acquirer's gain relative to the target's gain we lose half of our sample, as before, though only the significance on the hierarchy variable is affected. Overall, the robustness tests indicate that our results are not driven by U.S. firms. All results are presented in the Internet Appendix.

B. Alternative Cultural Measures

Measures of cultural values other than the World Value Survey have been used in prior literature. Hofstede (1980, 2001) categorizes culture into five dimensions: uncertainty avoidance (the extent to which a society feels threatened by uncertainty), masculinity (the extent to which a society holds values traditionally identified as masculine: assertiveness, materialism, and not caring for others), power distance (similar to our hierarchical classifications), individualism (as we categorize it as well), and short-term versus long-term orientation. Hofstede measured national culture along these five dimensions using surveys responses from over 88,000 employees of IBM in 40 countries in 20 languages in the 1960s and 1970s. See Kirkman, Lowe, and Gibson (2006) for a comprehensive survey of research using Hofstede's measures.

Alternatively, Schwartz (1994) defines three dimensions of cultural values: Embeddedness versus Autonomy (similar to our individualism dimension), Hierarchy versus Egalitarianism (same as our Hierarchy dimension), and Mastery versus Harmony (where Mastery is an emphasis on dominating an environment through assertion and harmony refers to finding one's place in an existing environment). Schwartz's data come from survey responses of more than 25,000 elementary school teachers and university students in 44 countries.

We use the World Value Survey to measure culture because it provides the broadest and most up-to-date information on cultural values and because the WVS allows us to measure the two cultural values that overlap with both the Hofstede and Schwartz measures: hierarchy and individualism. In addition, we use the WVS because it includes the question used to measure trustfulness in prior research.

For robustness, we study the effects of cultural values measures from Schwartz (1994) and Hofstede (2001). First, we find results that are generally consistent with our main findings when

we use the Schwartz or Hofstede measures of hierarchy and individualism, though in some cases they are mixed. For instance, higher individualism in the alternative measures is correlated with more domestic mergers, whereas we found a negative effect using the World Value Survey. At the same time, the absolute difference of the Schwartz measure of individualism has a positive effect on cross-border CARs, whereas the Hofstede measure is consistent with the negative effect in our main results using the World Value Survey. In contrast, the three value classification systems are consistent in many cases, including cross-border merger volume, division of merger gains, and each of the three deal characteristics we study. It is reasonable that in some cases there will be lower significance levels or conflicting results given the wide differences in sampling methods, sample sizes, and the exact questions asked.

We also look at the cultural dimensions beyond hierarchy and individualism in each of Schwartz's and Hofstede's classification systems. In the Schwartz system, Harmony versus Mastery has no effect in any test, except a positive impact on the use of target termination fees. In the Hofstede system, there are three additional dimensions: Masculinity, Uncertainty avoidance, and Long-term orientation. Masculinity and uncertainty avoidance are negatively related to the volume of domestic mergers, while long-term orientation is positively related. In cross-border merger volume tests, only the distance in long-term orientation is related, and it is positively related, against our hypothesis. The combined returns in domestic mergers are positively related to uncertainty avoidance and to long-term orientation. The absolute difference in masculinity is positively related to combined returns in cross-border mergers. In the division of merger gains, acquirers from countries that have higher masculinity and uncertainty avoidance receive lower gains on average, relative to the target, though long-term acquirers capture more gains. Finally, long-term oriented targets are more likely to be paid in cash and targets from more masculine cultures are less likely to use termination fees. All results are available in the Internet Appendix. We do not attempt to interpret these results, though in many cases it is easy to think of a ex post rationale. Instead, we simply note that consistent with our claim, culture influences merger activity, gains, and negotiation processes.

C. Long-Run Effects

One may argue that the empirical relationship between national culture and mergers reflects that investors in different countries respond differently to mergers, rather than reflecting the ease of transactions or costly post-merger integration. Our first response to this criticism is that only part of our results are driven by initial investor reactions, whereas the volume of mergers, as well as the deal characteristics, is not based on market responses. Despite the well known problems of identifying long-run stock market performance (Lyon, Barber, and Tsai, 1999; Mitchell and Stafford, 2000), to address the concern for the set of results based on acquirer announcement returns, we investigate long-run stock returns using a buy-and-hold approach. Using country-level market equity, book-to-market, and momentum benchmarks, as well as an analogous world benchmark, we find no consistent significant effects of national culture on long-run acquirer stock returns. This is consistent with market efficiency, where the value effects are captured at the announcement and no momentum or reversals are observed on average. The results are available in the Internet Appendix of this paper. These additional tests provide some assurance that our results on combined merger gains are not driven simply by cultural differences in stock market investors.

VI. Conclusion

This paper investigates the role of national cultural values on the incidence, gains, and bargaining process in both domestic and cross-border mergers. In a comprehensive sample of 116,513 worldwide mergers over 1991 to 2008 we find that culture has a significant and economically meaningful effect on the volume of mergers. Controlling for a multitude of country-level variables, including legal origin, language, religion, exchange ratios, GDP per capita, and shareholder protection laws, we find that countries that are more trusting of others and less individualistic have significantly more domestic mergers for each dollar of national GDP. In addition, the average combined returns are higher in domestic mergers in more trustful countries. This is consistent with the idea that trust facilitates trade.

We also document a strong negative relationship between cultural differences and cross-border returns and merger activity between two countries. In particular, the greater is the cross-country

difference between the value of hierarchy versus egalitarianism, the smaller is the cross-border merger volume. Similarly, less cultural distance along the dimension of individualism versus collectivism leads to higher combined announcement returns in cross-border mergers. This is consistent with the hypothesis that cultural differences impose costly frictions between firms which lead to fewer mergers and mergers that create less value.

Finally, we provide new evidence that culture affects negotiations in cross-border mergers. First, consistent with a strain of recent experimental evidence on bargaining and culture, we find that certain cultural values are associated with larger bargaining outcomes. Firms that are more trusting and hierarchical capture more gains than firms that are less trusting and more egalitarian. Though there are no formal theories of the role of culture on bargaining outcomes, we propose rational explanations for these effects. Second, we show that culture helps explain the form of payment, the use of termination fees, and whether mergers are negotiated or completed via a tender offer in cross-border deals. For example, cash is more commonly used as a form of payment if targets are less trusting than acquirers.

Our findings show that culture matters, even where the stakes are very large. In particular, we find evidence that trust may substitute for formal written contracts and that frictions caused by cultural differences have large effects on economic transactions. This paper is part of a growing field of research that connects finance with sociology. Our paper answers questions about the effect of culture on one aspect of finance, though we believe that many other aspects remain unanswered.

Appendix: Variable Definitions

Acquirer (Target) termination fee: Dummy variable equal to 1 if the merger agreement includes an acquirer (target) termination fee (Source: SDC).

Acquirer (Target) past year return: Acquirer (target) stock buy-and-hold return in the 12 months prior to the announcement month (Source: Compustat Global and CRSP).

Acquirer (Target) past year return volatility: Acquirer (target) stock return volatility in the 12 months prior to the announcement (Source: Compustat Global and CRSP).

All cash: Dummy variable equal to 1 if the payment in the merger is made with all cash (Source: SDC).

Bilateral Investment Treaty: Dummy variable equal to 1 if the acquirer and target nation signed a Bilateral Investment Treaty (Source: UNCTAD).

Corporate tax rate: Country corporate tax rate percentage in 2008 (Source: Economic Freedom Index 2009).

Country effects: Dummy variables for each country in the sample that equal 1 if either the acquirer or target firm is located in a particular country. Thus each cross-border deal has two country dummy variables equal to 1.

Days to completion: Number of days between the announcement and the completion of the merger (Source: SDC and authors' calculations).

Double-Tax Treaty: Dummy variable equal to 1 if the acquirer and target nation signed a Double Taxation Treaty (Source: UNCTAD).

Exchange rate volatility: Exchange rate standard deviation from 36 months up to 1 month prior the announcement, between the acquirer and target nation (Source: I/B/E/S database).

Exchange ratio growth: Exchange rate growth 1 year prior to the announcement between the acquirer and target nation (Source: I/B/E/S database).

Financial acquirer: Dummy variable equal to 1 if SDC reports the acquirer as a financial acquirer (Source: SDC).

Friendly offer: Dummy value equal to 1 if a merger attitude is classified as friendly (Source: SDC).

GDP per capita: Annual Gross Domestic Product per capita (Source: Penn World Table 6.3).

Geographic Distance: Geographic distance between capitals. The geographical distances are calculated following the great circle formula, which uses latitudes and longitudes of the most important city (in terms of population) or of its official capital (Source: CEPII).

Hierarchy: Average answer to the following question: "People have different ideas about following instructions at work. Some say that one should follow one's superior's instructions even when one does not fully agree with them. Others say that one should follow one's superior's instructions only when one is convinced that they are right. With which of these two opinions do you agree? (1) Should follow instructions (2) Must be convinced first (3) Depends" (Question V105) (Source: World Value Survey).

Individualism: Average answer to the following question: "Incomes should be more equal or We need larger income differences as incentives for individual effort" (Question V141) (Source: World Value Survey).

Language: Primary spoken language of a country (Source: CIA World Factbook 2008).

Legal system: Common or civil law origin countries, with the latter further classified as French, German, or Scandinavian (Source: La Porta et al., 1998).

Majority cash: Dummy variable equal to 1 if the merger payment is made with at least 50% cash (Source: SDC).

Market value: The value of equity 10 days before the merger announcement (Source: Compustat Global).

Merger of equals: Dummy variable equal to 1 if the merger is recorded by SDC as a merger of equals (Source: SDC).

Openness: Exports plus Imports divided by GDP as a percentage of GDP. The export and import figures are in national currencies from the World Bank and United Nations data archives (Source: Penn World Tables 6.3).

Premium: The transaction value reported by SDC divided by the market value of the target 30 days before the announcement (Source: SDC and Compustat Global and CRSP).

Public enforcement: Index of public enforcement. Ranges from 0 to 1. One quarter point when each of the following sanctions is available: (1) fines for the approving body; (2) jail sentences for the approving body; (3) fines for Mr. James; and (4) jail sentence for Mr. James (Djankov et al., 2008).

Relative size: The ratio of the transaction value to the acquirer market value at the announcement date (Source: SDC).

Religion: The primary religion in a country (Source: CIA World Factbook 2008).

Same Industry: Dummy variable equal to 1 if the acquirer and target have the same 3-Digit SIC Code (Source: SDC).

Share Border: Dummy variable equal to 1 if the acquirer and target nations share the same border (Source: CEPII).

Shareholder rights: The shareholder index is an average of five 0-1 indicators: the country allows shareholders to mail their proxy vote; shareholders are not required to deposit their shares prior to the General Shareholders Meeting; cumulative voting is allowed; an oppressed minorities mechanism is in place; the minimum percentage of share capital that entitles a shareholder to call an Extraordinary Shareholders Meeting is less than or equal to 10%. Scale from zero to 5, with lower scores for lower shareholder protection (Source: Djankov et al., 2008).

Target defense: Dummy variable equal to 1 if a target company uses anti-takeover defenses to attempt to prevent the merger (Source: SDC).

Tender offer: Dummy variable equal to 1 if a merger is a tender offer, 0 otherwise (Source: SDC).

Transaction value: The dollar value of all consideration paid in a merger minus costs and fees (Source: SDC).

Trust: Average answer to the following question: "Generally speaking, would you say that (1) Most people can be trusted (2) Need to be very careful" (Question V25)(Source: World Value Survey)

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Figure 1
Cross-Border Activity for the 20 Most Active Domestic M&A Markets 1985–2008
The 20 most active domestic merger markets are determined by the total number of domestic mergers over 1985–2008, where acquirers and targets are public, private, and subsidiary firms listed on SDC Thompson Database.
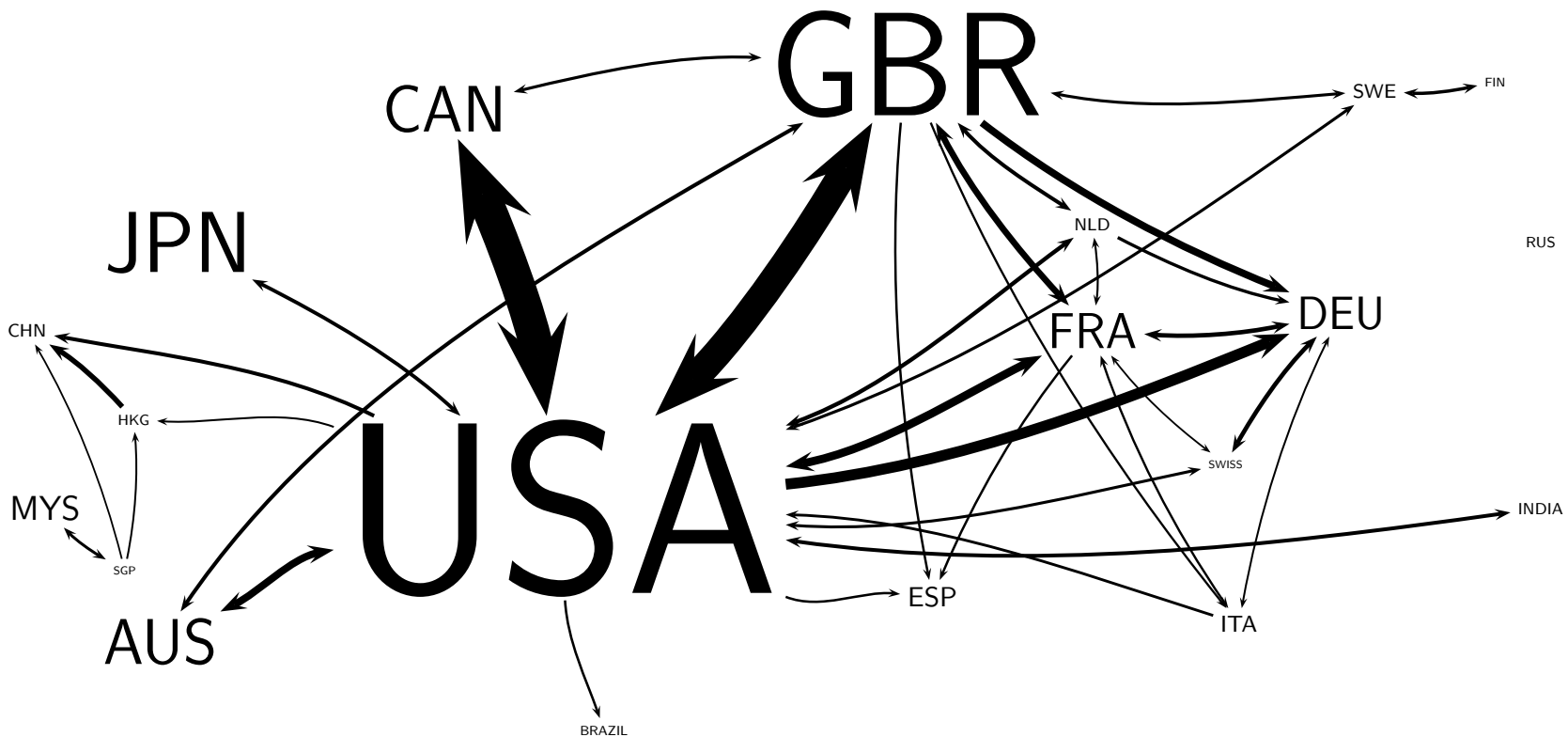
Legend:
XYZ   Text size represents the number of domestic mergers within a nation (Note: USA is 50% of its correct scale)

Line width represents the number of cross-border mergers

Direction points from acquirer to target when acquirer nation makes 50% more acquisitions of target than vice versa
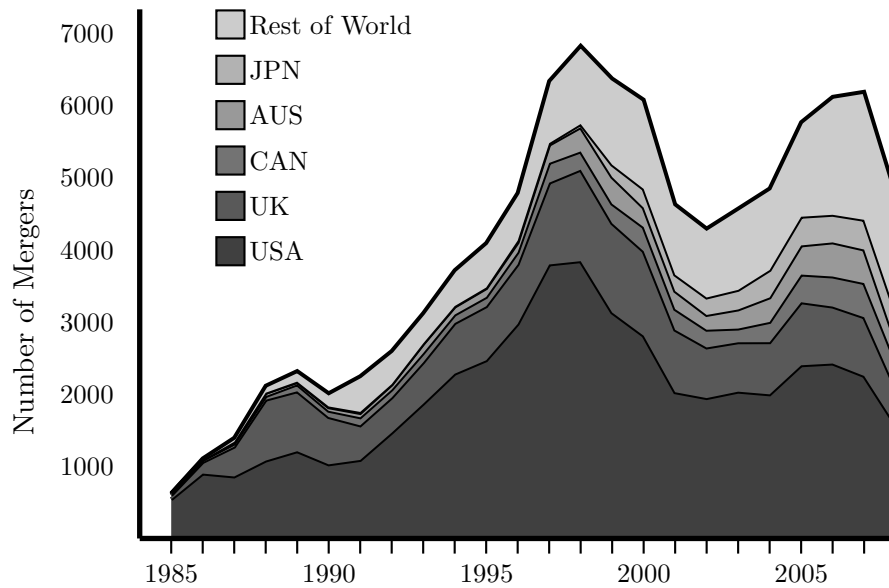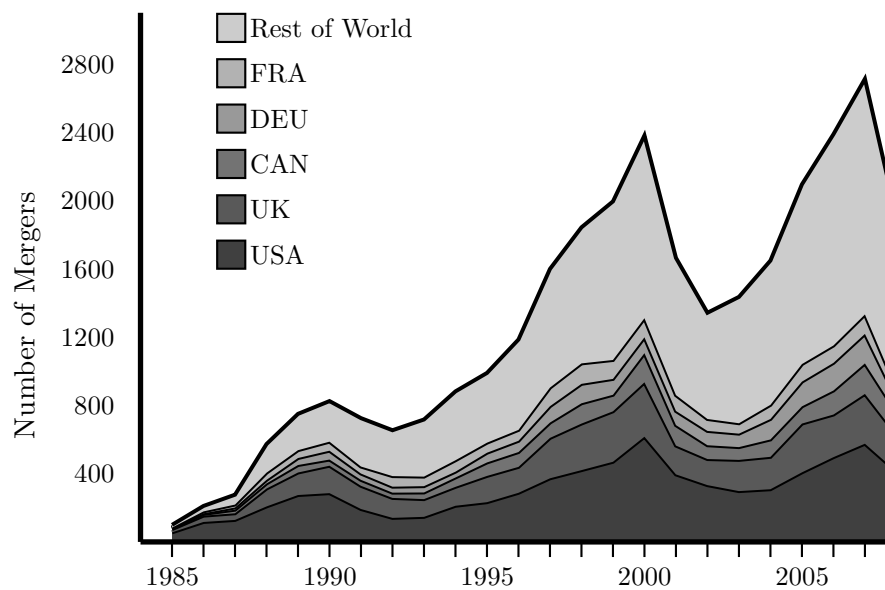
(a) Domestic Mergers

(b) Targets in Cross-Border Mergers

Figure 2
Five Largest Domestic and Cross-Border Merger Markets
Panel (A) reports the five largest domestic merger markets by year, plus the rest of the world. Largest domestic merger markets are determined by the most number of domestic mergers over the period 1985 to 2008. Panel (B) reports the five largest cross-border target nations. Largest cross-border target nations are determined by the number of cross-border mergers in 1985–2008 where the target firm was located in a particular country. Mergers include all public, private, and subsidiary targets and acquirers from SDC Thomson database.
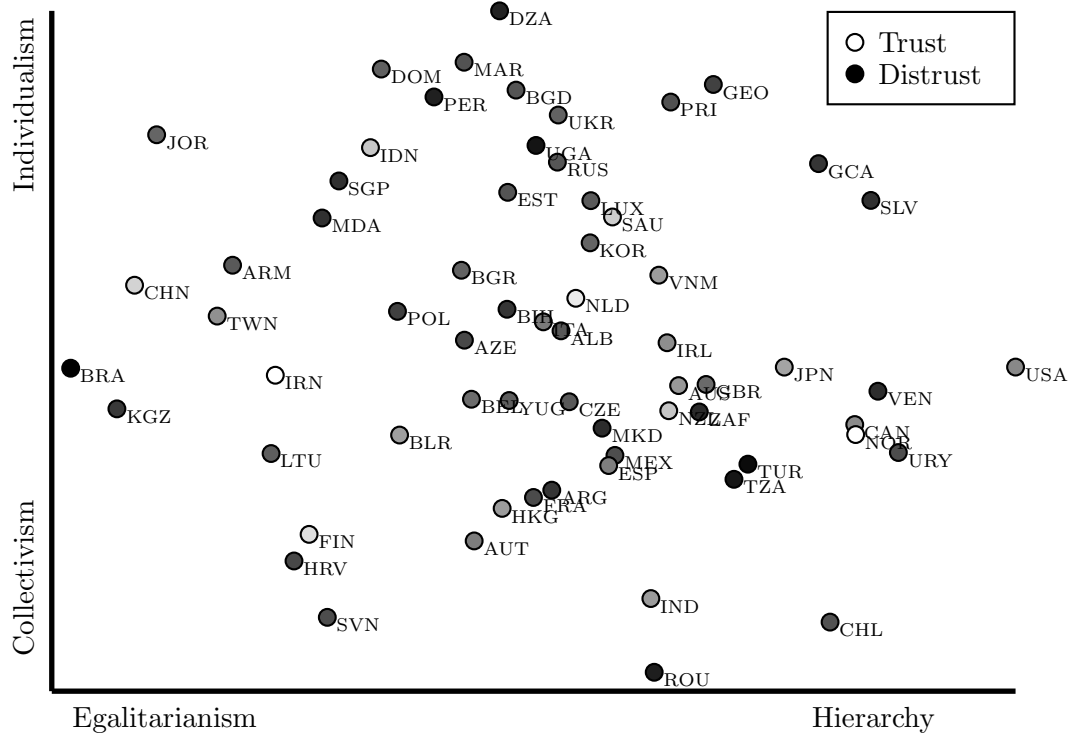
Figure 3
Cultural Values Across Nations
Each circle represents a country's relative scores from three questions on the World Value Survey, 1999–2004. Positioning along the horizontal axis indicates the country's degree of hierarchal vs. egalitarianism (measured as whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first). Positioning along the vertical axis indicates the country's degree of individualism vs. collectivism (measured as whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal). The coloration of each circle indicates the country's degree of trust (measured as whether people believe most other people can be trusted or not). A lighter color indicates a more trusting country, a darker color indicates more distrust of others. Country abbreviations follow the three-digit ISO codes.

Table I
Number of Mergers in the Thirty Largest Target Nations, 1985-2008
Data is from SDC Platinum M&A Database. Acquiring nations are listed on the row variables and target nations on the columns. The countries are rank ordered by the number of target firms in each country. Values in the total column and row include all mergers, not just mergers from the top 30 markets. Only mergers where more than 50% of the target shares are owned by the acquirer after the merger are included. Government owned firms and firms with an unknown public status are excluded.

ACQUIRER NATION

Acquirer Nation	TARGET NATION																														
	US	UK	CA	AU	JP	FR	WG	IT	SP	SW	CH	HK	NT	MA	BR	SA	SK	NO	SG	NZ	FN	IR	IN	DN	BL	SZ	AR	MX	PL	RU	TOTAL
USA (US)	48037	1621	1209	336	99	423	492	144	117	147	129	94	183	17	108	28	64	74	40	52	41	77	62	63	63	91	84	132	42	30	54784
U.K. (UK)	2135	17558	196	288	19	521	479	190	190	177	33	48	328	10	29	81	16	76	29	33	37	200	26	65	108	76	14	15	35	25	23441
Canada (CA)	1535	171	4872	81	3	54	36	11	12	15	25	13	22	2	32	15	5	5	3	17	8	5	2	4	8	10	23	50	6	6	7263
Australia (AU)	313	158	42	4688	5	14	31	12	12	5	22	20	12	8	6	16	4	3	23	183	4	2	7	1	7	4	3	1	6		5722
Japan (JP)	384	76	13	27	3303	18	25	9	10	5	17	22	10	6	8	5	11	1	16	1	4		3	5	6	3		2	1	2	4043
France (FR)	264	202	30	17	4	1645	87	65	76	25	11	8	33		29	6	7	13	6	3	6	4	7	13	45	21	9	3	15	1	2769
Germany (WG)	245	192	17	24	6	97	833	35	44	39	9	2	33	5	14	5	8	11	7		11	6	12	20	16	34	1	3	22	2	1879
Italy (IT)	82	50	9	5		73	49	1362	45	3	6	1	17		14	7	1	4	2		1	3	2	2	10	18	9	4	6	4	1861
Spain (SP)	64	41	2	4	2	46	20	37	1245	3	3	3	7		41	2	3	2	1		7	1	1	2	5	4	36	23	7	1	1761
Sweden (SW)	122	109	13	17		41	61	21	19	926	3	2	27	2	1	4	5	92	2	1	87	4	3	75	11	17	1	4	10	9	1745
China (CH)	23	2	10	12	2	1	3	3			885	69	2				1		8	3		1		1		1	1			1	1044
Hong Kong (HK)	60	36	18	48	12	9	9	3	2	5	262	1095	2	13	3	3	9		37	6		8	1		2		2			2	1717
Netherlands (NT)	184	148	19	19	7	69	63	31	47	35	9	4	443	6	8	1	8	10	3	5	12	5	5	16	48	11	2	8	8	5	1337
Malaysia (MA)	15	15	4	31			5			1	14	24	2	1118	2	4	2	2	44	5			6	1		4					1356
Brazil (BR)	17	2	5	2	1	2	1	2	2				1		663	1		2									21	1			751
S Africa (SA)	34	67	6	43		2	4	3		1		3	3		1	794	1	1	2	1	2	1	1	2	1					1	1013
South Korea (SK)	37	3	4	5	5		4				31	5		2		2	733	1	2	1		4	1			1			3		865
Norway (NO)	24	59	12	5	1	14	21	1	10	100		1	8		2	1	2	498	4	1	16	3	2	38	4	3			6	2	872
Singapore (SG)	63	33	4	86	7	2	9	1		4	63	75	5	41	2	1	7	1	568	15	1		7	2	2	3		1			1104
New Zealand (NZ)	15	14	6	88		1	2				1	3	2		1					445						2		1			588
Finland (FN)	59	27	7	3		14	30	6	2	72	3	2	16	1	3			27	2		449		2	11	4	6		1	4	13	801
Ireland (IR)	140	320	3	8	2	11	22	1	7	7	1		31		3	1	3	2	1		4	355	4	6	2	2	3	3		1	959
India (IN)	106	53	7	11	1	11	12	5	5	1	2	1	1	3	2	3	1	1	13	1	3	3	439	2	3	3	2	1	1	2	740
Denmark (DN)	32	49	6	7		16	23	4	7	63	3	3	14	2	4	1	1	19	3	1	11	1	3	253	3	5		2	10		564
Belgium (BL)	61	41	3	6	1	70	27	9	9	5	2		31		4	1	3	2			3	2	4	5	209	7	2		1	2	541
Switzerland (SZ)	147	60	21	25	2	41	43	20	13	13	1	3	14	2	7	7	3	7		1	7	2	6	4	4	188	3	1	1	2	694
Argentina (AR)	5		1			1			2		1					13											296	3			337
Mexico (MX)	45	2	3	2			3			2				1	14			1					1				7	201			306
Poland (PL)		2				3			3	1			1																220	1	266
Russian Fed (RU)	18	9	6		1		1	4		1			5	1			1	1	1		2		1	1	1		1			287	397
TOTAL	55407	21689	6752	6128	3513	3303	2551	2062	1970	1688	1602	1578	1315	1267	1070	1011	915	896	867	811	734	692	641	613	583	557	554	483	443	441	127977
% Foreign Acquirer	13.3	19.0	27.8	23.4	5.9	50.1	67.3	33.9	36.8	45.1	44.7	30.6	66.3	11.7	38.0	21.4	19.8	44.4	34.4	45.1	38.8	48.6	31.5	58.7	64.1	66.2	46.5	58.3	50.3	34.9	24.1

Table II
Domestic and Cross-Border Merger Activity by Cultural Values
This table presents summary statistics and univariate tests of the difference in merger activity by high and low values of country-level variables. Entries in the first two columns are the mean and standard deviation of the row variable. Entries in columns 3 and 4 are the average of the log number of mergers in a given country-year normalized by the log GDP (in domestic mergers) or the log of the sum of GDPs (in cross-border mergers). High (Low) indicates above- (below-)median observations based on the median of the row variable. The last column reports the $p-$value of a test of the difference between High and Low. There are 783 domestic country-year observations from 52 countries and 13,453 cross-border country pair-years from 1991 to 2008. Trust is measured as whether people believe most other people can be trusted or not. Hierarchy is measured as whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first. Individualism is measured as whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal. Aggregate Trust is the sum of each country's trust score in a cross-border merger. $| \Delta |$ indicates the absolute difference between the acquirer and target nation. All variables are defined in the appendix.

Panel A: Domestic Mergers					
	Summary Statistics		No. of Mergers Normalized by GDP		
	Mean	Standard Deviation	High/Yes	Low/No	Difference $p-$value
No. Mergers Normalized by GDP	0.125	0.090			
Cultural Values					
Trust	0.321	0.155	0.155	0.094	$(0.000)^{***}$
Hierarchy	0.470	0.112	0.147	0.103	$(0.000)^{***}$
Individualism	0.534	0.107	0.110	0.140	$(0.000)^{***}$
Legal System					
English Common Law	0.179	0.383	0.208	0.107	$(0.000)^{***}$
French Civil Law	0.452	0.498	0.100	0.145	$(0.000)^{***}$
German Civil Law	0.254	0.436	0.104	0.132	$(0.000)^{***}$
Scandinavian Civil Law	0.115	0.319	0.141	0.123	$(0.019)^{**}$
Investor Protection					
Shareholder Rights	3.383	1.108	0.145	0.100	$(0.000)^{***}$
Public Enforcement	0.440	0.437	0.127	0.122	(0.380)
Religion					
Roman Catholic	0.519	0.500	0.119	0.131	$(0.069)^{*}$
Muslim	0.083	0.276	0.039	0.132	$(0.000)^{***}$
Protestant	0.174	0.379	0.191	0.111	$(0.000)^{***}$
Orthodox	0.080	0.272	0.045	0.132	$(0.000)^{***}$
Financial					
GDP/Capita	16.552	11.736	0.173	0.076	$(0.000)^{***}$
Corporate Tax Rate	0.255	0.063	0.163	0.086	$(0.000)^{***}$
Openness	0.075	0.053	0.105	0.145	$(0.000)^{***}$

Table II - *Continued*

Panel B: Cross-Border Mergers					
	Summary Statistics		No. of Mergers Normalized by GDP		
	Mean	Standard Deviation	High/Yes	Low/No	Difference $p-$value
Number of Mergers Normalized by GDP	0.013	0.041			
Number of Mergers (if any) Normalized by GDP	0.090	0.072			
Cultural Values					
Aggregate Trust	0.636	0.226	0.018	0.007	$(0.000)^{***}$
$\mid \Delta$ Trust $\mid$	0.179	0.135	0.010	0.016	$(0.000)^{***}$
$\mid \Delta$ Hierarchy $\mid$	0.120	0.090	0.013	0.012	$(0.051)^{*}$
$\mid \Delta$ Individualism $\mid$	0.122	0.090	0.007	0.018	$(0.000)^{***}$
Legal System					
Same Legal System	0.805	0.396	0.014	0.009	$(0.000)^{***}$
$\mid \Delta$ Investor Protection $\mid$	1.201	0.899	0.012	0.015	$(0.000)^{***}$
$\mid \Delta$ Public Enforcement $\mid$	0.477	0.384	0.013	0.012	$(0.037)^{**}$
Other Cultural Variables					
Same Religion	0.289	0.453	0.016	0.012	$(0.000)^{***}$
Same Language	0.034	0.181	0.067	0.011	$(0.000)^{***}$
Log(Geographic Distance)	1.581	1.036	0.006	0.020	$(0.000)^{***}$
Share Border	0.047	0.211	0.054	0.011	$(0.000)^{***}$
Financial					
$\mid \Delta$ GDP/Capita $\mid$	13.531	11.549	0.008	0.018	$(0.000)^{***}$
$\mid \Delta$ Tax rate $\mid$	0.069	0.051	0.014	0.012	$(0.002)^{***}$
$\mid \Delta$ Openness $\mid$	0.052	0.066	0.010	0.015	$(0.000)^{***}$
Exchange Ratio Volatility	0.068	0.277	0.006	0.019	$(0.000)^{***}$
Exchange Ratio Growth	0.213	2.837	0.011	0.014	$(0.000)^{***}$
Double-Taxation Treaty	0.618	0.486	0.019	0.003	$(0.000)^{***}$
Bilateral Investment Treaty	0.418	0.493	0.004	0.019	$(0.000)^{***}$

*** Statistical significance at the 1% level.
** Statistical significance at the 5% level.
* Statistical significance at the 10% level.

Table III
National Culture and Merger Activity in Domestic Markets
This table presents pooled cross-sectional tobit regression coefficients and robust $p-$values clustered at the nation level. The dependent variable is the log of the number of domestic mergers normalized by the log GDP in the same year at the country-year level. Trust is measured as whether people believe most other people can be trusted or not. Hierarchy is whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first. Individualism is whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Number of Domestic Mergers Normalized by GDP			
	(1)	(2)	(3)	(4)
Trust	0.161**			0.194**
	(0.043)			(0.016)
Hierarchy		0.005		−0.020
		(0.956)		(0.819)
Individualism			−0.090	−0.138*
			(0.215)	(0.072)
Openness	−0.550**	−0.594***	−0.546**	−0.474**
	(0.019)	(0.009)	(0.014)	(0.038)
Shareholder Rights	0.018*	0.016	0.016	0.017*
	(0.057)	(0.112)	(0.112)	(0.071)
Public Enforcement	0.018	0.016	0.017	0.020
	(0.410)	(0.511)	(0.487)	(0.371)
GDP/Capita	2.175	3.033**	2.882**	1.785
	(0.142)	(0.034)	(0.039)	(0.201)
Corporate Tax Rate	0.270	0.274	0.307*	0.314*
	(0.113)	(0.121)	(0.092)	(0.065)
French Legal System	−0.048	−0.062*	−0.066*	−0.053
	(0.151)	(0.092)	(0.081)	(0.127)
German Legal System	−0.069**	−0.076**	−0.079**	−0.076**
	(0.031)	(0.034)	(0.025)	(0.032)
Scandinavian Legal System	−0.151***	−0.121***	−0.122***	−0.161***
	(0.001)	(0.009)	(0.002)	(0.002)
Constant	0.064***	0.066***	0.066***	0.063***
	(0.000)	(0.000)	(0.000)	(0.000)
Year Fixed Effects	Yes	Yes	Yes	Yes
Religion Fixed Effects	Yes	Yes	Yes	Yes
Log likelihood	685.691	666.466	671.977	698.669
Constant only log likelihood	334.559	334.559	334.559	334.559
Observations	783	783	783	783

Table IV
Cultural Differences and Cross-Border Merger Activity
This table presents pooled cross-sectional tobit regression coefficients and robust $p-$values double-clustered at the acquirer and target nation levels. The dependent variable is the log of the number of cross-border mergers normalized by the log of the aggregate GDP of the two host countries at the country pair-year level over 1991–2008. Trust is measured as whether people believe most other people can be trusted or not. Hierarchy is whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first. Individualism is whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal. Country effects are dummy variables for each country in the sample that equal 1 if either the acquirer or target firm is located in a particular country. $\mid \Delta \mid$ indicates the absolute difference between the acquirer and target nation variables. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Number of Cross-Border Mergers Normalized by GDP				
	(1)	(2)	(3)	(4)	(5)
Aggregate Trust	0.043**				0.055**
	(0.045)				(0.014)
$\mid \Delta$ Trust $\mid$		−0.026			−0.025
		(0.317)			(0.329)
$\mid \Delta$ Hierarchy $\mid$			−0.065*		−0.062*
			(0.076)		(0.080)
$\mid \Delta$ Individualism $\mid$				−0.050	−0.054
				(0.134)	(0.113)
Acquirer Openness	0.189	0.236	0.208	0.240	0.189
	(0.334)	(0.205)	(0.285)	(0.208)	(0.333)
Target Openness	0.040	0.085	0.066	0.092	0.051
	(0.822)	(0.605)	(0.710)	(0.584)	(0.777)
$\mid \Delta$ Openness $\mid$	−0.110	−0.114	−0.105	−0.110	−0.106
	(0.272)	(0.241)	(0.293)	(0.273)	(0.272)
Acquirer GDP/Capita	0.065	0.080	0.081	0.063	0.116
	(0.938)	(0.925)	(0.924)	(0.941)	(0.886)
Target GDP/Capita	0.730	0.760	0.707	0.718	0.726
	(0.247)	(0.227)	(0.266)	(0.258)	(0.246)
$\mid \Delta$ GDP/Capita $\mid$	−0.157	−0.108	−0.125	−0.190	−0.068
	(0.792)	(0.842)	(0.825)	(0.747)	(0.894)
Acquirer Corporate Tax Rate	−0.078*	−0.079*	−0.081**	−0.076*	−0.080*
	(0.058)	(0.052)	(0.042)	(0.072)	(0.053)
$\mid \Delta$ Corporate Tax Rate $\mid$	−0.050	−0.049	−0.049	−0.047	−0.047
	(0.548)	(0.550)	(0.536)	(0.568)	(0.551)
Same Religion	0.023***	0.023***	0.022**	0.023***	0.022***
	(0.007)	(0.006)	(0.010)	(0.008)	(0.009)

Table IV - *Continued*

	(1)	(2)	(3)	(4)	(5)
Same Language	0.038***	0.037***	0.037***	0.037***	0.037***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Log(Geographic Distance)	−0.051***	−0.051***	−0.051***	−0.051***	−0.051***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Share Border	0.007*	0.007	0.007*	0.007**	0.006
	(0.092)	(0.123)	(0.096)	(0.050)	(0.116)
Exchange Rate Volatility	−0.273**	−0.268**	−0.258**	−0.262**	−0.267**
	(0.015)	(0.016)	(0.018)	(0.018)	(0.016)
Exchange Rate Growth	−0.023	−0.023	−0.022	−0.023	−0.022
	(0.121)	(0.120)	(0.142)	(0.139)	(0.136)
Double-Tax Treaty	0.008	0.008	0.008	0.008	0.008
	(0.272)	(0.270)	(0.272)	(0.258)	(0.240)
Bilateral Investment Treaty	0.006	0.006	0.006	0.006	0.006
	(0.377)	(0.357)	(0.415)	(0.356)	(0.402)
Same Legal System	0.056***	0.052***	0.058***	0.057***	0.054***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
| Δ Shareholder Rights |	−0.003	−0.003	−0.002	−0.003	−0.003
	(0.396)	(0.345)	(0.401)	(0.389)	(0.360)
| Δ Public Enforcement |	−0.003	−0.003	−0.004	−0.003	−0.004
	(0.625)	(0.620)	(0.579)	(0.608)	(0.550)
Constant	0.005	0.021	0.011	0.023	0.020
	(0.942)	(0.730)	(0.862)	(0.712)	(0.748)
Country Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Log likelihood	1041.435	1041.973	1046.443	1042.565	1053.051
Constant only log likelihood	−2752.770	−2752.770	−2752.770	−2752.770	−2752.770
Observations	13,453	13,453	13,453	13,453	13,453

Table V
National Culture and Combined Abnormal Returns in Domestic Mergers
This table presents cross-sectional ordinary least squares regression coefficients and robust $p-$values, clustered at the country level. The dependent variable is the combined abnormal return of the target and acquirer over the period $(-1, +1)$ around the announcement, where returns are weighted by market values. Mergers include all public, private, and subsidiary targets where the transaction value is at least \$1 million from SDC Thomson database in 1991–2008. Trust is measured as whether people believe most other people can be trusted or not. Hierarchy is measured as whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first. Individualism is measured as whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Combined $CAR_{(-1,+1)}$			
	(1)	(2)	(3)	(4)
Trust	0.090***			0.091***
	(0.004)			(0.002)
Hierarchy		0.031		0.013
		(0.418)		(0.743)
Individualism			0.029	−0.013
			(0.604)	(0.811)
Transaction Value	0.068	0.067	0.064	0.070
	(0.437)	(0.441)	(0.465)	(0.417)
Relative Size	0.008***	0.008***	0.008***	0.008***
	(0.000)	(0.000)	(0.000)	(0.000)
Acquirer Market Value	−0.194***	−0.199***	−0.199***	−0.194***
	(0.000)	(0.000)	(0.000)	(0.000)
Majority Cash	0.021***	0.021***	0.021***	0.021***
	(0.000)	(0.000)	(0.000)	(0.000)
Tender Offer	0.013***	0.014***	0.014***	0.013***
	(0.000)	(0.000)	(0.000)	(0.000)
Friendly Offer	0.000	0.000	0.000	0.000
	(0.972)	(0.963)	(0.935)	(0.959)
Same Industry	−0.001	−0.001	−0.001	−0.001
	(0.514)	(0.487)	(0.494)	(0.508)
Acquirer Termination Fee	0.004***	0.005***	0.005***	0.004***
	(0.001)	(0.000)	(0.000)	(0.001)
Target Termination Fee	−0.006***	−0.007***	−0.007***	−0.007***
	(0.000)	(0.000)	(0.000)	(0.000)
Target Defense	−0.002	−0.002	−0.002	−0.002
	(0.227)	(0.230)	(0.240)	(0.230)

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Table V - *Continued*

	Combined $CAR_{(-1,+1)}$			
	(1)	(2)	(3)	(4)
Acquirer Past Return	0.000	0.000	0.000	0.000
	(0.958)	(0.864)	(0.857)	(0.962)
Acquirer Past Volatility	−0.002	−0.003	−0.003	−0.002
	(0.835)	(0.747)	(0.743)	(0.839)
Target Past Return	−0.001	−0.002	−0.002	−0.001
	(0.159)	(0.152)	(0.150)	(0.160)
Target Past Volatility	0.045	0.046	0.044	0.046
	(0.368)	(0.370)	(0.382)	(0.367)
Openness	0.000	0.000	0.000	0.000
	(0.866)	(0.346)	(0.213)	(0.997)
French Legal System	0.014	0.005	0.005	0.014
	(0.105)	(0.728)	(0.710)	(0.132)
German Legal System	0.018*	0.015	0.015	0.018*
	(0.056)	(0.251)	(0.255)	(0.064)
Scandinavian Legal System	0.019	0.050***	0.047***	0.020
	(0.352)	(0.005)	(0.008)	(0.265)
Shareholder Rights	0.001	0.000	0.000	0.001
	(0.725)	(0.904)	(0.996)	(0.786)
Public Enforcement	0.018**	0.011	0.014	0.017*
	(0.041)	(0.308)	(0.214)	(0.067)
GDP/Capita	−0.464	−0.090	0.232	−0.613
	(0.243)	(0.873)	(0.618)	(0.328)
Corporate Tax Rate	0.141**	0.069	0.071	0.140**
	(0.013)	(0.292)	(0.281)	(0.011)
Constant	−0.093***	−0.032	−0.046	−0.087*
	(0.003)	(0.264)	(0.339)	(0.050)
Year Fixed Effects	Yes	Yes	Yes	Yes
Religion Fixed Effects	Yes	Yes	Yes	Yes
Adjusted R^2	0.083	0.081	0.081	0.082
Observations	3,586	3,586	3,586	3,586

Table VI
Cultural Differences and Combined Abnormal Returns in Cross-Border Mergers

This table presents cross-sectional ordinary least squares regression coefficients and robust $p-$values, double-clustered at the acquirer and target country levels. The dependent variable is the combined abnormal return of the target and acquirer over the period $(-1,+1)$ around the announcement, where returns are weighted by market values. Trust is measured as whether people believe most other people can be trusted or not. Hierarchy is whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first. Individualism is whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal. Country effects are dummy variables for each country in the sample that equal 1 if either the acquirer or target firm is located in a particular country. $|\Delta|$ is the absolute difference between acquiror and target nation. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Combined $CAR_{(-1,+1)}$				
	(1)	(2)	(3)	(4)	(5)
Aggregate Trust	−0.017				0.007
	(0.492)				(0.586)
$\mid \Delta$ Trust $\mid$		−0.018			0.001
		(0.292)			(0.963)
$\mid \Delta$ Hierarchy $\mid$			−0.009		0.004
			(0.836)		(0.914)
$\mid \Delta$ Individualism $\mid$				−0.133***	−0.135***
				(0.002)	(0.005)
Transaction Value	0.068	0.071	0.073	0.051	0.049
	(0.791)	(0.776)	(0.792)	(0.823)	(0.846)
Relative Size	0.010***	0.010***	0.010***	0.010***	0.010***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Acquirer Market Value	−0.507	−0.508	−0.507	−0.509	−0.509
	(0.157)	(0.157)	(0.157)	(0.155)	(0.158)
Majority Cash	0.018**	0.018**	0.018**	0.018**	0.018**
	(0.030)	(0.032)	(0.027)	(0.034)	(0.033)
Tender Offer	0.006*	0.006*	0.006*	0.006	0.006
	(0.090)	(0.098)	(0.083)	(0.116)	(0.105)
Friendly Offer	0.003	0.003	0.003	0.003	0.003
	(0.682)	(0.677)	(0.684)	(0.718)	(0.717)
Same Industry	−0.003	−0.003	−0.003	−0.003	−0.003
	(0.528)	(0.520)	(0.522)	(0.465)	(0.478)
Acquirer Termination Fee	−0.008	−0.008	−0.008	−0.009	−0.009
	(0.283)	(0.286)	(0.295)	(0.286)	(0.278)
Target Termination Fee	0.001	0.001	0.001	0.002	0.002
	(0.905)	(0.908)	(0.893)	(0.732)	(0.725)
Target Defense	0.002	0.002	0.002	0.002	0.002
	(0.785)	(0.770)	(0.796)	(0.764)	(0.766)
Acquirer Past Return	0.000	0.000	0.000	0.000	0.000
	(0.557)	(0.578)	(0.574)	(0.704)	(0.688)
Acquirer Past Volatility	−0.010***	−0.010***	−0.010***	−0.009***	−0.009***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Target Past Return	−0.005	−0.004	−0.004	−0.005	−0.005
	(0.141)	(0.142)	(0.145)	(0.119)	(0.115)
Target Past Volatility	0.037**	0.036**	0.036**	0.036***	0.036**
	(0.011)	(0.011)	(0.020)	(0.009)	(0.017)

Table VI - *Continued*

	Combined $CAR_{(-1,+1)}$				
	(1)	(2)	(3)	(4)	(5)
Acquirer Openness	0.000	0.000	0.000	0.000	0.000
	(0.828)	(0.799)	(0.743)	(0.886)	(0.871)
Target Openness	0.000	0.000	0.000	0.000	0.000
	(0.783)	(0.748)	(0.700)	(0.855)	(0.843)
$\mid \Delta$ Openness $\mid$	-0.309^{**}	-0.309^{**}	-0.308^{**}	-0.302^{**}	-0.303^{**}
	(0.024)	(0.023)	(0.025)	(0.023)	(0.024)
Acquirer GDP/Capita	-0.421	-0.356	-0.403	-0.491	-0.487
	(0.794)	(0.828)	(0.801)	(0.750)	(0.755)
Target GDP/Capita	1.313	1.370	1.349	1.259	1.265
	(0.440)	(0.426)	(0.426)	(0.445)	(0.440)
$\mid \Delta$ GDP/Capita $\mid$	-0.881^{***}	-0.795^{**}	-0.894^{***}	-0.951^{***}	-0.968^{***}
	(0.000)	(0.014)	(0.000)	(0.001)	(0.010)
Acquirer Corporate Tax Rate	0.002	0.002	0.002	0.003	0.003
	(0.281)	(0.256)	(0.265)	(0.218)	(0.225)
Target Corporate Tax Rate	0.002	0.002	0.002	0.002	0.002
	(0.312)	(0.280)	(0.296)	(0.239)	(0.247)
$\mid \Delta$ Corporate Tax Rate $\mid$	0.000	0.000	0.000	0.000	0.000
	(0.765)	(0.760)	(0.778)	(0.762)	(0.764)
Same Religion	-0.005	-0.004	-0.005	-0.003	-0.003
	(0.525)	(0.541)	(0.498)	(0.666)	(0.692)
Same Language	0.008	0.007	0.008	0.003	0.003
	(0.641)	(0.650)	(0.650)	(0.835)	(0.851)
Log(Geographic Distance)	-0.002	-0.002	-0.002	-0.003	-0.003
	(0.751)	(0.774)	(0.794)	(0.716)	(0.732)
Share Border	0.012	0.012	0.012^{*}	0.009	0.010
	(0.115)	(0.100)	(0.090)	(0.210)	(0.228)
Exchange Rate Volatility	0.192	0.187	0.200	0.154	0.153
	(0.575)	(0.579)	(0.552)	(0.669)	(0.668)
Exchange Rate Growth	0.000	0.000	0.000	0.002	0.002
	(0.995)	(0.995)	(0.995)	(0.919)	(0.915)
Double-Tax Treaty	0.010	0.010	0.010	0.012	0.012
	(0.484)	(0.465)	(0.462)	(0.362)	(0.350)
Bilateral Investment Treaty	0.015	0.015	0.015	0.014	0.014
	(0.293)	(0.323)	(0.270)	(0.316)	(0.295)
Same Legal System	0.009	0.007	0.010	0.015	0.015
	(0.434)	(0.597)	(0.415)	(0.266)	(0.342)
$\mid \Delta$ Shareholder Rights $\mid$	0.003	0.003	0.003	0.003	0.003
	(0.471)	(0.470)	(0.474)	(0.567)	(0.571)
$\mid \Delta$ Public Enforcement $\mid$	0.015^{**}	0.015^{**}	0.015^{**}	0.019^{**}	0.019^{**}
	(0.042)	(0.046)	(0.041)	(0.017)	(0.014)
Heckman's Lambda	0.031	0.031	0.031	0.032	0.032
	(0.190)	(0.188)	(0.197)	(0.182)	(0.189)
Constant	-0.043	-0.049	-0.042	-0.053	-0.057
	(0.822)	(0.798)	(0.818)	(0.782)	(0.767)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Country Effects	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.127	0.128	0.127	0.131	0.128
Observations	815	815	815	815	815

Table VII
Culture and the Division of Merger Gains

This table presents cross-sectional ordinary least squares regression coefficients and robust $p-$values, double-clustered at the acquirer and target country levels. The dependent variable is the $ value of acquirer abnormal returns in $(-1, +1)$ minus the $ value of target abnormal returns in $(-1, +1)$ normalized by the sum of the market values of the acquirer and target 10 days before the announcement. Mergers include 938 cross-border mergers of public targets where the transaction value is at least $1 million from 1991–2008. Trust is measured as whether people believe most other people can be trusted or not. Hierarchy is measured as whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first. Individualism is measured as whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal. Country effects are dummy variables for each country that equal 1 if either the acquirer or target firm is located in a particular country. Δ indicates the acquirer nation value minus the target nation value. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

| | Acquirer's Gain Relative to Target's Gain | | | | |
	(1)	(2)	(3)	(4)	(5)
Δ Trust	0.085***			0.088***	0.080***
	(0.000)			(0.000)	(0.000)
Δ Hierarchy		0.047***		0.027*	0.021**
		(0.004)		(0.084)	(0.045)
Δ Individualism			0.024	−0.033	−0.029
			(0.432)	(0.196)	(0.377)
Δ Trust × Relative Size					0.010
					(0.331)
Δ Hierarchy × Relative Size					0.005
					(0.526)
Δ Individualism × Relative Size					−0.003
					(0.912)
Transaction Value	−0.242	−0.223	−0.212	−0.251	−0.261*
	(0.235)	(0.266)	(0.288)	(0.213)	(0.085)
Relative Size	−0.011***	−0.011***	−0.011***	−0.011***	−0.011***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Acquirer Market Value	0.176	0.192	0.183	0.182	0.173
	(0.235)	(0.206)	(0.221)	(0.222)	(0.227)
Majority Cash	0.017	0.020	0.018	0.017	0.017
	(0.160)	(0.103)	(0.128)	(0.149)	(0.150)
Tender Offer	−0.007***	−0.010***	−0.010***	−0.008***	−0.008***
	(0.001)	(0.002)	(0.003)	(0.000)	(0.000)
Friendly Offer	0.002	0.005	0.005	0.002	0.002
	(0.825)	(0.585)	(0.576)	(0.836)	(0.799)
Same Industry	0.006*	0.006**	0.006**	0.006*	0.006*
	(0.061)	(0.046)	(0.041)	(0.064)	(0.080)
Acquirer Termination Fee	0.007	0.004	0.005	0.006	0.008
	(0.322)	(0.601)	(0.556)	(0.379)	(0.249)
Target Termination Fee	0.004	0.006	0.004	0.005	0.005
	(0.386)	(0.170)	(0.382)	(0.277)	(0.331)
Target Defense	0.005	0.004	0.004	0.005	0.006
	(0.376)	(0.556)	(0.533)	(0.373)	(0.405)
Acquirer Past Return	0.000	0.000	0.000	0.000	0.000
	(0.627)	(0.682)	(0.907)	(0.740)	(0.833)

continued on next page

Table VII - *Continued*

	Acquirer's Gain Relative to Target's Gain				
	(1)	(2)	(3)	(4)	(5)
Acquirer Past Volatility	0.003	0.004	0.003	0.003	0.003
	(0.528)	(0.385)	(0.429)	(0.515)	(0.553)
Target Past Return	0.006**	0.006*	0.006*	0.006*	0.006*
	(0.047)	(0.064)	(0.059)	(0.051)	(0.067)
Target Past Volatility	-0.036^{**}	-0.032^*	-0.031^*	-0.036^{**}	-0.037^{**}
	(0.039)	(0.091)	(0.084)	(0.038)	(0.035)
Acquirer Openness	0.000	0.000	0.000	-0.001	0.000
	(0.483)	(0.903)	(0.965)	(0.419)	(0.480)
Δ Openness	0.000	0.000	0.000	0.000	0.000
	(0.606)	(0.878)	(0.963)	(0.472)	(0.543)
Acquirer GDP/Capita	-1.084	-0.629	-0.173	-1.543	-1.759
	(0.738)	(0.850)	(0.959)	(0.600)	(0.562)
Δ GDP/Capita	0.000	0.000	0.000	0.000	0.000
	(0.585)	(0.654)	(0.591)	(0.539)	(0.503)
Acquirer Corporate Tax Rate	0.002	-0.001	0.001	0.000	0.000
	(0.514)	(0.891)	(0.767)	(0.921)	(0.915)
Δ Corporate Tax Rate	-0.001	0.000	-0.001	0.000	0.000
	(0.577)	(0.937)	(0.702)	(0.989)	(0.995)
Same Religion	0.005	0.003	0.003	0.005	0.006
	(0.150)	(0.475)	(0.429)	(0.151)	(0.150)
Same Language	-0.004	-0.002	-0.003	-0.004	-0.004
	(0.527)	(0.687)	(0.704)	(0.470)	(0.478)
Log(Geographic Distance)	0.010**	0.011**	0.010**	0.010**	0.010**
	(0.027)	(0.038)	(0.042)	(0.025)	(0.024)
Share Border	0.000	0.006	0.006	0.001	0.000
	(0.983)	(0.435)	(0.493)	(0.928)	(0.981)
Exchange Rate Volatility	-0.039	0.080	0.079	-0.044	-0.024
	(0.881)	(0.749)	(0.760)	(0.861)	(0.925)
Exchange Rate Growth	-0.018	-0.016	-0.015	-0.018	-0.018
	(0.508)	(0.584)	(0.601)	(0.507)	(0.511)
Double-Tax Treaty	-0.019	-0.016	-0.017	-0.018	-0.019
	(0.273)	(0.391)	(0.363)	(0.316)	(0.310)
Bilateral Investment Treaty	-0.019^*	-0.014	-0.012	-0.021^*	-0.021^*
	(0.099)	(0.248)	(0.368)	(0.071)	(0.065)
Same Legal System	-0.022^{**}	-0.027	-0.028	-0.022^*	-0.023^{**}
	(0.046)	(0.134)	(0.121)	(0.055)	(0.035)
Δ Shareholder Rights	0.000	-0.002	-0.001	-0.001	-0.001
	(0.836)	(0.370)	(0.764)	(0.558)	(0.543)
Δ Public Enforcement	-0.008	-0.010	-0.009	-0.010^*	-0.010^*
	(0.124)	(0.148)	(0.225)	(0.089)	(0.057)
Heckman's Lambda	-0.030	-0.029	-0.030	-0.030	-0.031^*
	(0.108)	(0.133)	(0.129)	(0.114)	(0.095)
Constant	0.032	0.036	-0.028	0.085	0.090
	(0.797)	(0.840)	(0.852)	(0.507)	(0.486)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Country Effects	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.186	0.167	0.164	0.185	0.185
Observations	815	815	815	815	815

Table VIII
Deal Characteristics by Cultural Values

This table presents univariate tests of differences in deal characteristics between cultural values. Entries in the 'All' column are the average of the deal characteristic for all deals. Entries in the 'High' ('Low') column are the average when the cultural value is above (below) the median. Statistical significance is indicated by the $p-$value of a $t-$test assuming unequal variances. Asterisks on entries in the 'All' column reflect statistical significance between domestic and cross-border mergers. Observations are 4,508 domestic and 938 cross-border mergers. Trust is measured as whether people believe most other people can be trusted or not. Hierarchy is measured as whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first. Individualism is measured as whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal. Aggregate Trust is the sum of each country's trust score in a cross-border merger. Δ indicates the acquirer nation value minus the target nation value. All variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

Panel A: Domestic Mergers

	All	Trust			Hierarchy			Individualism		
		High	Low	$p-$value	High	Low	$p-$value	High	Low	$p-$value
Acquirer CAR$_{(-1,+1)}$	−0.705***	0.156	−1.194	(0.000)***	−1.340	−0.251	(0.000)***	−0.262	−0.859	(0.003)***
Target CAR$_{(-1,+1)}$	16.439	14.219	17.701	(0.000)***	20.164	13.782	(0.000)***	15.315	16.832	(0.014)**
Combined CAR$_{(-1,+1)}$	1.851***	2.312	1.589	(0.000)***	1.539	2.073	(0.005)***	1.968	1.810	(0.452)
Acq. gain r.t. tar.	−2.973	−2.237	−3.392	(0.000)***	−3.609	−2.520	(0.000)***	−2.497	−3.140	(0.001)***
Premium	0.383	0.184	0.496	(0.189)	0.297	0.445	(0.569)	0.198	0.448	(0.223)
Transaction Value	1.366**	0.575	1.815	(0.000)***	1.443	1.310	(0.437)	0.730	1.588	(0.000)***
Relative Size	0.486***	0.440	0.512	(0.041)**	0.385	0.557	(0.000)***	0.458	0.495	(0.301)
All Cash	0.342***	0.340	0.343	(0.849)	0.332	0.349	(0.224)	0.358	0.336	(0.174)
Tender Offer	0.226***	0.256	0.208	(0.000)***	0.138	0.288	(0.000)***	0.234	0.223	(0.467)
Friendly	0.955***	0.942	0.962	(0.003)***	0.976	0.940	(0.000)***	0.944	0.959	(0.042)**
Same Industry	0.493	0.433	0.527	(0.000)***	0.534	0.464	(0.000)***	0.453	0.507	(0.001)***
Days to Completion	141.888***	151.165	136.613	(0.001)***	153.159	133.846	(0.000)***	156.495	136.773	(0.000)***
Financial Acquirer	0.025	0.019	0.028	(0.044)**	0.020	0.029	(0.054)*	0.021	0.026	(0.355)
Merger of Equals	0.021***	0.017	0.024	(0.079)*	0.024	0.019	(0.301)	0.017	0.023	(0.218)
Acq. Termination Fee	0.130***	0.061	0.169	(0.000)***	0.169	0.101	(0.000)***	0.062	0.153	(0.000)***
Target Term. Fee	0.420***	0.179	0.558	(0.000)***	0.598	0.294	(0.000)***	0.211	0.494	(0.000)***
Target Defense	0.141***	0.140	0.141	(0.917)	0.148	0.136	(0.277)	0.195	0.122	(0.000)***

Panel B: Cross-Border Mergers

	All	Aggregate Trust			Δ Trust			Δ Hierarchy			Δ Individualism		
		High	Low	$p-$value	High	Low	$p-$value	High	Low	$p-$value	High	Low	$p-$value
Acquirer CAR$_{(-1,+1)}$	0.031***	−0.296	0.357	(0.077)*	0.466	−0.374	(0.023)**	−0.084	0.145	(0.535)	0.183	−0.119	(0.414)
Target CAR$_{(-1,+1)}$	16.722	17.911	15.538	(0.049)**	15.433	17.921	(0.039)**	13.910	19.534	(0.000)***	16.888	16.558	(0.785)
Combined CAR$_{(-1,+1)}$	3.463***	3.114	3.810	(0.156)	3.387	3.533	(0.765)	2.412	4.513	(0.000)***	3.086	3.836	(0.126)
Acq. Gain r.t. tar.	−3.363	−3.517	−3.211	(0.534)	−2.535	−4.134	(0.001)***	−2.432	−4.295	(0.000)***	−2.855	−3.867	(0.039)**
Premium	0.235	0.203	0.266	(0.159)	0.264	0.207	(0.224)	0.176	0.293	(0.009)***	0.251	0.219	(0.477)
Transaction Value	2.020**	1.510	2.527	(0.061)*	1.670	2.345	(0.205)	1.687	2.352	(0.222)	1.941	2.097	(0.775)
Relative Size	0.806***	0.747	0.864	(0.369)	0.860	0.755	(0.429)	0.613	0.998	(0.003)***	0.712	0.898	(0.154)
All Cash	0.786***	0.748	0.823	(0.005)***	0.810	0.763	(0.083)*	0.761	0.810	(0.067)*	0.773	0.798	(0.346)
Tender Offer	0.534***	0.506	0.562	(0.090)*	0.527	0.541	(0.655)	0.588	0.480	(0.001)***	0.540	0.529	(0.737)
Friendly	0.903***	0.919	0.887	(0.103)	0.916	0.891	(0.195)	0.876	0.930	(0.006)***	0.899	0.907	(0.709)
Same Industry	0.512	0.502	0.521	(0.558)	0.504	0.519	(0.667)	0.548	0.475	(0.026)**	0.478	0.546	(0.037)**
Days to Completion	121.957***	120.669	123.240	(0.739)	113.763	129.578	(0.040)**	122.079	121.836	(0.975)	123.405	120.522	(0.709)
Financial Acquirer	0.022	0.021	0.023	(0.833)	0.022	0.023	(0.958)	0.026	0.019	(0.508)	0.017	0.028	(0.279)
Merger of Equals	0.005***	0.006	0.004	(0.651)	0.000	0.010	(0.025)**	0.004	0.006	(0.654)	0.002	0.008	(0.181)
Acq. Termination Fee	0.061***	0.077	0.045	(0.039)**	0.055	0.066	(0.499)	0.028	0.094	(0.000)***	0.043	0.079	(0.022)**
Target Term. Fee	0.290***	0.338	0.243	(0.001)***	0.261	0.317	(0.059)*	0.090	0.490	(0.000)***	0.231	0.348	(0.000)***
Target Defense	0.033***	0.034	0.032	(0.846)	0.029	0.037	(0.477)	0.011	0.055	(0.000)***	0.032	0.034	(0.874)

Table IX
National Culture and Deal Structure

This table presents cross-sectional logit regression coefficients and robust p−values, double-clustered at the acquirer and target country levels where observations are cross-border mergers. The dependent variable in columns 1 & 2 is a dummy variable equal to 1 if the merger payment is all cash and 0 otherwise, in columns 3 & 4, a dummy variable equal to 1 if the merger includes a target termination fee, and in columns 5 & 6, a dummy variable equal to 1 if the merger was a tender offer. Trust is measured as whether people believe most other people can be trusted or not. Hierarchy is whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first. Individualism is whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal. Country effects are dummy variables for each country that equal 1 if either the acquirer or target firm is located in a particular country. Δ indicates the acquirer nation value minus the target nation value. $|\Delta|$ is the absolute difference between acquiror and target nation. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	All Cash		Target Termination Fee		Tender Offer	
	(1)	(2)	(3)	(4)	(5)	(6)
Δ Trust	1.681		−0.156		−2.290***	
	(0.139)		(0.809)		(0.000)	
Δ Hierarchy	−3.203**		−4.818*		2.405***	
	(0.015)		(0.065)		(0.000)	
Δ Individualism	−2.653***		0.623		0.504	
	(0.008)		(0.573)		(0.441)	
Acquirer Trust		−4.626		0.036		−1.684
		(0.223)		(0.989)		(0.284)
Target Trust		−7.514**		0.168		2.876***
		(0.023)		(0.951)		(0.003)
Acquirer Hierarchy		0.146		1.575		2.820**
		(0.961)		(0.633)		(0.036)
Target Hierarchy		7.042*		17.493**		−1.943
		(0.082)		(0.017)		(0.309)
Acquirer Individualism		2.599		2.886		0.369
		(0.373)		(0.174)		(0.772)
Target Individualism		7.413***		2.776**		−0.576
		(0.000)		(0.018)		(0.803)
Transaction Value	−152.102***	−152.133***	0.326	3.252	22.155*	22.381
	(0.000)	(0.000)	(0.982)	(0.856)	(0.093)	(0.101)
Relative Size	−0.013	−0.023	0.003	−0.013	−0.033***	−0.033***
	(0.880)	(0.802)	(0.885)	(0.560)	(0.001)	(0.002)
Acquirer Market Value	−2.262	−2.742	12.047***	11.212***	−3.848	−3.872
	(0.454)	(0.393)	(0.000)	(0.000)	(0.221)	(0.207)
Cash dummy			−0.588	−0.609	0.735*	0.736*
			(0.297)	(0.312)	(0.067)	(0.068)
Tender Offer	0.874*	0.870*	0.711***	0.706***		
	(0.068)	(0.061)	(0.000)	(0.000)		
Friendly Offer	−1.039***	−1.070***	1.394*	1.426*	0.237	0.239
	(0.000)	(0.000)	(0.062)	(0.062)	(0.571)	(0.568)
Same Industry	−0.702***	−0.680***	−0.003	−0.054	−0.015	−0.016
	(0.001)	(0.001)	(0.963)	(0.409)	(0.928)	(0.922)
Acquirer Termination Fee	−1.169***	−1.136***	6.382***	6.461***	−1.591***	−1.599***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)
Target Termination Fee	−0.171	−0.176			0.292*	0.293*
	(0.751)	(0.735)			(0.093)	(0.080)
Target Defense	−0.468	−0.427	0.369*	0.391	0.168	0.165
	(0.126)	(0.157)	(0.098)	(0.142)	(0.636)	(0.641)
Acquirer Past Return	0.112	0.124	−0.270***	−0.273***	−0.179	−0.180
	(0.846)	(0.811)	(0.000)	(0.000)	(0.392)	(0.393)
Acquirer Past Volatility	−1.482	−1.577	3.270***	3.378***	−0.327	−0.303
	(0.795)	(0.756)	(0.000)	(0.000)	(0.918)	(0.922)

Table IX - *Continued*

	All Cash		Target Termination Fee		Tender Offer	
	(1)	(2)	(3)	(4)	(5)	(6)
Target Past Return	0.212*	0.221	0.507***	0.545***	0.078	0.080
	(0.062)	(0.107)	(0.001)	(0.001)	(0.468)	(0.458)
Target Past Volatility	−7.996*	−7.813*	1.061	1.006	−1.175	−1.188
	(0.060)	(0.091)	(0.537)	(0.551)	(0.280)	(0.264)
Acquirer Openness	0.037*	0.053**	−0.087***	−0.103***	0.016*	0.014*
	(0.086)	(0.041)	(0.001)	(0.001)	(0.093)	(0.091)
Target Openness	0.031	0.046*	−0.091***	−0.096***	0.012**	0.010**
	(0.128)	(0.064)	(0.000)	(0.000)	(0.016)	(0.032)
| Δ Openness |	−8.507	−9.132	36.017**	32.299**	2.533**	2.514**
	(0.487)	(0.464)	(0.024)	(0.043)	(0.013)	(0.011)
Acquirer GDP/Capita	145.594	163.253	−68.706	−12.874	−133.230	−132.100
	(0.160)	(0.178)	(0.608)	(0.924)	(0.804)	(0.745)
Target GDP/Capita	160.487	161.972	66.517	37.113	−167.938***	−166.836***
	(0.120)	(0.130)	(0.742)	(0.820)	(0.000)	(0.000)
| Δ GDP/Capita |	−52.792**	−59.093***	146.059***	164.434*	38.558**	37.621*
	(0.021)	(0.004)	(0.001)	(0.065)	(0.048)	(0.054)
Acquirer Corporate Tax Rate	−0.383***	−0.491***	1.690***	1.826***	−0.291***	−0.277***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Target Corporate Tax Rate	−0.387***	−0.492***	1.716***	1.886***	−0.268***	−0.255***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
| Δ Corporate Tax Rate |	−0.073*	−0.085**	0.243***	0.260***	0.032**	0.032**
	(0.072)	(0.037)	(0.003)	(0.009)	(0.013)	(0.016)
Same Religion	−0.514	−0.405	0.087	0.090	−0.095	−0.093
	(0.763)	(0.765)	(0.848)	(0.863)	(0.564)	(0.567)
Same Language	1.106	1.096*	−42.840***	−43.527***	−0.925***	−0.936***
	(0.101)	(0.090)	(0.000)	(0.000)	(0.002)	(0.003)
Log(Geographic Distance)	−0.120	−0.116	0.090	0.113	0.013	0.017
	(0.686)	(0.694)	(0.924)	(0.907)	(0.945)	(0.931)
Share Border	−1.092*	−1.112*	−0.923	−0.906	0.406	0.424
	(0.081)	(0.088)	(0.682)	(0.727)	(0.431)	(0.398)
Exchange Rate Volatility	10.974	8.898	−47.920	−57.478	−8.309	−8.381
	(0.451)	(0.553)	(0.174)	(0.140)	(0.528)	(0.534)
Exchange Rate Growth	−0.455	−0.385	−0.185	0.010	2.283***	2.274***
	(0.538)	(0.494)	(0.874)	(0.994)	(0.000)	(0.000)
Double-Tax Treaty	1.063	1.008			0.431	0.439
	(0.243)	(0.270)			(0.347)	(0.366)
Bilateral Investment Treaty	−0.029	0.026	−18.065***	−18.538*	−0.589	−0.584
	(0.976)	(0.976)	(0.000)	(0.069)	(0.521)	(0.522)
Same Legal System	0.893**	0.771	−13.835***	−18.032***	0.166	0.169
	(0.028)	(0.139)	(0.000)	(0.000)	(0.707)	(0.707)
| Δ Shareholder Rights |	0.286*	0.295*	−0.363	−0.217	−0.067	−0.068
	(0.099)	(0.085)	(0.537)	(0.757)	(0.420)	(0.421)
| Δ Public Enforcement |	−0.533	−0.533	−1.949*	−1.833*	0.075	0.075
	(0.206)	(0.205)	(0.063)	(0.074)	(0.757)	(0.747)
Heckman's Lambda	0.353	0.182	−0.788	−0.299	0.823**	0.832**
	(0.322)	(0.663)	(0.701)	(0.878)	(0.036)	(0.038)
Constant	8.143	6.476	−78.769**	−92.499**	7.060***	6.045**
	(0.150)	(0.361)	(0.012)	(0.023)	(0.002)	(0.013)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Country Effects	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo R^2	0.291	0.297	0.585	0.589	0.154	0.154
Observations	778	778	766	766	873	873

Internet Appendix

Lost In Translation? The Effect of Cultural Values on Mergers Around the World

This internet appendix presents additional tables of robustness checks. Each table refers to a table in the article and the regressions are identical to the main regressions except for new variables or data filters. Alternative cultural variables used in robustness checks and the methodology of long-run returns are described below.

A. List of Tables

The following provides a correspondence between the tables in the main paper, the internet appendix, and the robustness test of the internet appendix table.

Internet Appendix	Main Paper	Robustness
Table IA.I	Table III	Exclude U.S. Firms
Table IA.II	Table IV	Exclude U.S. Firms
Table IA.III	Tables V, VI, & VII	Exclude U.S. Firms
Table IA.IV	Table IX	Exclude U.S. Firms
Table IA.V	Table III	Alternative Cultural Dimensions: Schwartz
Table IA.VI	Table III	Alternative Cultural Dimensions: Hofstede
Table IA.VII	Table IV	Alternative Cultural Dimensions: Schwartz
Table IA.VIII	Table IV	Alternative Cultural Dimensions: Hofstede
Table IA.IX	Table V	Alternative Cultural Dimensions: Hofstede & Schwartz
Table IA.X	Table VI	Alternative Cultural Dimensions: Hofstede & Schwartz
Table IA.XI	Table VII	Alternative Cultural Dimensions: Hofstede & Schwartz
Table IA.XII	Table IX	Alternative Cultural Dimensions: Hofstede & Schwartz
Table IA.XIII	Table III	Alternative Measure of Dependent Variable
Table IA.XIV	Table IV	Alternative Measure of Dependent Variable
Table IA.XV	Table V	Acquirer BHAR Using the World Benchmark
Table IA.XVI	Table V	Acquirer BHAR Using Country Benchmarks
Table IA.XVII	Table VI	Acquirer BHAR Using the World Benchmark
Table IA.XVIII	Table VI	Acquirer BHAR Using Country Benchmarks

B. Alternative Cultural Values

The Hofstede (1980, 2001) dimensions of national culture:

(1) **Power distance:** the extent to which societies expect that power is distributed unequally (similar to the hierarchy dimension from the World Value Survey that is used in the main paper)

(2) **Individualism:** the extent to which people identify themselves as separate from their social group (similar to the individualism dimension from the World Value Survey that is used in the main paper)

(3) **Masculinity:** the extent to which a society holds values traditionally identified as masculine: assertiveness, materialism, and not caring for others

(4) **Uncertainty Avoidance:** the extent to which a society feels threatened by uncertainty

(5) **Long-term orientation:** the importance a society places on the future versus the past or present

The Schwartz (1994) dimensions of national culture:

(1) **Egalitarianism versus Hierarchy:** Egalitarian societies believe individuals are more or less equal, whereas Hierarchical societies believe some individuals have greater social rank than others (similar to the hierarchy dimension from the World Value Survey that is used in the main paper)

(2) **Mastery versus Harmony:** Mastery is an emphasis on dominating an environment through assertion and harmony refers to finding one's place in an existing environment

(3) **Embeddedness versus Autonomy:** Embedded cultures believe the identity of individuals should be tied to the social group, whereas autonomous societies believe identities are unique to the individual (similar to the individualism dimension from the World Value Survey that is used in the main paper) environment.

C. Long-Run Returns Methodology

For each deal in the sample we calculate the long-run buy-and-hold abnormal return (BHAR) to an acquirer as follows. We collect monthly returns for every firm covered by Compustat Global or CRSP, using the security issue with the highest cumulative trading volume if multiple securities for the same firm are observed. For each firm we calculate abnormal returns as the difference between the firm's 36 month cumulative return and either a world benchmark or a country-level benchmark. The world benchmark is formed using a 3×3×3 sorting of market equity, book-to-market, and momentum across all firms in the world, excluding the firm. The country benchmark forms the benchmark portfolios using only returns in the same country as the firm. In the sample of

mergers, we omit any acquirer if it makes a subsequent acquisition in the following 36 months. This way we do not double-count the same firm. We use the 36-month BHAR which starts in the first month after the acquisition is completed. These abnormal long-run returns are the observations of our dependent variable in our robustness tests.

D. Additional notes

1. Table IA.IV does not include robustness checks for the likelihood of target termination fees because when U.S. firms are excluded, the sample size drops to 104 and the regressions can not be identified.

2. Table IA.XIV only includes a robustness check where the dependent variable of merger activity is defined using the value of all deals worth at least \$1 million. The tobit models using higher thresholds of \$10 and \$100 million did not converge.

Table IA.I
Merger Activity in Domestic Markets Excluding U.S. Firms
For Table III of the Paper

This table presents pooled cross-sectional tobit regression coefficients and robust $p-$values clustered at the nation level, excluding U.S. firms. The dependent variable is the log of the number of domestic mergers normalized by the log GDP in the same year at the country-year level. Trust is measured as whether people believe most other people can be trusted or not. Hierarchy is whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first. Individualism is whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Number of Domestic Mergers Normalized by GDP			
	(1)	(2)	(3)	(4)
Trust	0.165**			0.200**
	(0.041)			(0.013)
Hierarchy		−0.002		−0.033
		(0.984)		(0.719)
Individualism			−0.090	−0.140*
			(0.214)	(0.066)
Openness	−0.543**	−0.600***	−0.550**	−0.466**
	(0.022)	(0.009)	(0.015)	(0.044)
Shareholder Rights	−0.044	−0.061	−0.064	−0.049
	(0.206)	(0.107)	(0.103)	(0.163)
Public Enforcement	−0.065*	−0.074**	−0.077**	−0.074**
	(0.051)	(0.040)	(0.036)	(0.041)
GDP/Capita	−0.140***	−0.116**	−0.116**	−0.151***
	(0.005)	(0.021)	(0.012)	(0.006)
Corporate Tax Rate	0.019*	0.016	0.016	0.018*
	(0.050)	(0.110)	(0.111)	(0.059)
French Legal System	0.019	0.017	0.017	0.022
	(0.393)	(0.497)	(0.483)	(0.335)
German Legal System	2.095	3.056**	2.897**	1.683
	(0.170)	(0.036)	(0.042)	(0.238)
Scandinavian Legal System	0.251	0.259	0.295	0.288
	(0.162)	(0.164)	(0.120)	(0.117)
Constant	−0.018	0.059	0.099	0.147
	(0.830)	(0.574)	(0.269)	(0.218)
Year Fixed Effects	Yes	Yes	Yes	Yes
Religion Fixed Effects	Yes	Yes	Yes	Yes
Log likelihood	656.815	637.679	643.131	670.040
Constant only log likelihood	348.502	348.502	348.502	348.502
Observations	765	765	765	765

Table IA.II
Cross-Border Merger Activity Excluding U.S. Firms
For Table IV of the Paper
This table presents pooled cross-sectional tobit regression coefficients and robust $p-$values double-clustered at the acquirer and target nation levels, where U.S. firms are excluded. The dependent variable is the log of the number of cross-border mergers normalized by the log of the aggregate GDP of the two host countries at the country pair-year level over 1991–2008. Trust is measured as whether people believe most other people can be trusted or not. Hierarchy is whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first. Individualism is whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal. Country effects are dummy variables for each country in the sample that equal 1 if either the acquirer or target firm is located in a particular country. $|\Delta|$ indicates the absolute difference between the acquirer and target nation variables. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Number of Cross-Border Mergers Normalized by GDP				
	(1)	(2)	(3)	(4)	(5)
Aggregate Trust	0.047*				0.057**
	(0.092)				(0.039)
$|\Delta$ Trust $|$		−0.012			−0.012
		(0.629)			(0.624)
$|\Delta$ Hierarchy $|$			−0.050		−0.047
			(0.234)		(0.246)
$|\Delta$ Individualism $|$				−0.050	−0.055*
				(0.115)	(0.080)
Acquirer Openness	0.090	0.126	0.124	0.132	0.105
	(0.644)	(0.498)	(0.525)	(0.489)	(0.589)
Target Openness	−0.004	0.031	0.031	0.041	0.013
	(0.984)	(0.861)	(0.868)	(0.820)	(0.943)
$|\Delta$ Openness $|$	−0.142	−0.143	−0.139	−0.140	−0.141
	(0.140)	(0.127)	(0.146)	(0.144)	(0.131)
Acquirer GDP/Capita	0.585	0.613	0.585	0.613	0.565
	(0.410)	(0.397)	(0.419)	(0.392)	(0.423)
Target GDP/Capita	0.560	0.597	0.551	0.577	0.525
	(0.372)	(0.345)	(0.384)	(0.362)	(0.403)
$|\Delta$ GDP/Capita $|$	0.564	0.582	0.569	0.527	0.592
	(0.203)	(0.138)	(0.183)	(0.230)	(0.117)
Acquirer Corporate Tax Rate	−0.075	−0.075	−0.075	−0.072	−0.073
	(0.146)	(0.140)	(0.125)	(0.161)	(0.143)
$|\Delta$ Corporate Tax Rate $|$	−0.070	−0.069	−0.067	−0.067	−0.063
	(0.431)	(0.437)	(0.441)	(0.453)	(0.468)
Same Religion	0.020**	0.020**	0.019**	0.020**	0.019**
	(0.039)	(0.036)	(0.041)	(0.042)	(0.039)
Same Language	0.030*	0.030*	0.031*	0.030*	0.031*
	(0.065)	(0.065)	(0.059)	(0.064)	(0.057)
Log(Geographic Distance)	−0.053***	−0.053***	−0.053***	−0.053***	−0.053***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)

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Table IA.II - *Continued*

	(1)	(2)	(3)	(4)	(5)
Share Border	0.008	0.007	0.008	0.008	0.008*
	(0.134)	(0.156)	(0.113)	(0.103)	(0.100)
Exchange Rate Volatility	−0.329**	−0.322**	−0.310**	−0.315**	−0.321**
	(0.028)	(0.029)	(0.033)	(0.034)	(0.031)
Exchange Rate Growth	−0.039***	−0.040***	−0.039***	−0.040***	−0.039***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Double-Tax Treaty	0.010	0.010	0.010	0.010	0.010
	(0.219)	(0.224)	(0.228)	(0.208)	(0.193)
Bilateral Investment Treaty	0.001	0.001	0.001	0.001	0.001
	(0.928)	(0.907)	(0.930)	(0.902)	(0.908)
Same Legal System	0.055***	0.053***	0.056***	0.056***	0.054***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
$\mid \Delta$ Shareholder Rights $\mid$	−0.001	−0.001	−0.001	−0.001	−0.001
	(0.799)	(0.771)	(0.836)	(0.799)	(0.816)
$\mid \Delta$ Public Enforcement $\mid$	−0.003	−0.003	−0.003	−0.004	−0.004
	(0.581)	(0.580)	(0.586)	(0.559)	(0.545)
Constant	0.139***	0.151***	0.147***	0.156***	0.150***
	(0.005)	(0.002)	(0.004)	(0.001)	(0.001)
Country Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Log likelihood	579.386	578.385	580.828	580.391	585.641
Constant only log likelihood	−2193.068	−2193.068	−2193.068	−2193.068	−2193.068
Observations	12810	12810	12810	12810	12810

Table IA.III
Combined Abnormal Returns and Division of Gains Excluding U.S. Firms
For Tables V, VI, and VII of the Paper

This table presents cross-sectional ordinary least squares regression coefficients and robust $p-$values, double-clustered at the acquirer and target country levels, excluding U.S. firms. The dependent variable is the combined abnormal return of the target and acquirer over the period $(-1,+1)$ around the announcement, where returns are weighted by market values or the $ value of acquirer abnormal returns in $(-1,+1)$ minus the $ value of target abnormal returns in $(-1,+1)$ normalized by the sum of the market values of the acquirer and target 10 days before the announcement. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Combined $CAR_{(-1,+1)}$		Acq. Gain relative to Target's Gain
	Domestic	Cross-Border	Cross-Border
	(1)	(2)	(3)
Trust	0.073**		
	(0.048)		
Hierarchy	0.017		
	(0.722)		
Individualism	−0.016		
	(0.786)		
Aggregate Trust		0.048	
		(0.498)	
$\mid \Delta$ Trust $\mid$		−0.012	
		(0.569)	
$\mid \Delta$ Hierarchy $\mid$		−0.067	
		(0.622)	
$\mid \Delta$ Individualism $\mid$		−0.285***	
		(0.000)	
Δ Trust			0.104***
			(0.000)
Δ Hierarchy			−0.014
			(0.655)
Δ Individualism			−0.065
			(0.136)
Δ Trust $\times$ Relative Size			−0.008
			(0.748)
Δ Hierarchy $\times$ Relative Size			0.030
			(0.334)
Δ Individualism $\times$ Relative Size			0.034*
			(0.068)
Δ Openness			0.000
			(0.922)
Δ GDP/Capita			0.000
			(0.175)
Δ Corporate Tax Rate			0.001
			(0.725)
Δ Corporate Tax Rate			−0.003
			(0.263)
Δ Public Enforcement			−0.009
			(0.225)

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Table IA.III - *Continued*

	Combined $CAR_{(-1,+1)}$		Acq. Gain relative to Target's Gain
	Domestic	Cross-Border	Cross-Border
	(1)	(2)	(3)
Transaction Value	−0.199	−0.010	−0.123
	(0.760)	(0.920)	(0.571)
Relative Size	0.007***	0.010***	−0.011***
	(0.003)	(0.010)	(0.000)
Acquirer Market Value	−0.372	−0.555**	0.080
	(0.220)	(0.035)	(0.389)
Majority Cash	0.012**	0.010	0.005
	(0.020)	(0.277)	(0.501)
Tender Offer	0.008	0.004	−0.012**
	(0.225)	(0.677)	(0.044)
Friendly Offer	0.003	0.011	−0.002
	(0.616)	(0.453)	(0.835)
Same Industry	−0.003	−0.004	0.003
	(0.378)	(0.611)	(0.554)
Acquirer Termination Fee	−0.009	−0.052*	0.006
	(0.276)	(0.090)	(0.839)
Target Termination Fee	0.009	0.006	−0.006
	(0.584)	(0.783)	(0.260)
Target Defense	−0.015	0.011	0.023***
	(0.603)	(0.812)	(0.000)
Acquirer Past Return	0.005*	0.000	0.000
	(0.065)	(0.571)	(0.626)
Acquirer Past Volatility	−0.030*	−0.088	0.013
	(0.050)	(0.532)	(0.938)
Target Past Return	−0.001	−0.002	0.004
	(0.807)	(0.357)	(0.197)
Target Past Volatility	0.083	0.026	−0.038*
	(0.519)	(0.236)	(0.056)
Openness	0.000	0.000	0.000
	(0.906)	(0.621)	(0.887)
French Legal System	0.017		
	(0.120)		
German Legal System	0.016		
	(0.101)		
Scandinavian Legal System	0.025		
	(0.192)		
Shareholder Rights	−0.001		
	(0.830)		
Public Enforcement	0.018*		
	(0.081)		
GDP/Capita	−0.248	−0.172	−3.095
	(0.761)	(0.947)	(0.215)
Corporate Tax Rate	0.131		
	(0.103)		
Target Openness		0.000	
		(0.611)	

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Table IA.III - *Continued*

	Combined $CAR_{(-1,+1)}$		Acq. Gain relative to Target's Gain
	Domestic	Cross-Border	Cross-Border
	(1)	(2)	(3)
| Δ Openness |		−0.363***	
		(0.008)	
Target GDP/Capita		0.766	
		(0.762)	
| Δ GDP/Capita |		−1.695*	
		(0.089)	
Acquirer Corporate Tax Rate		0.006**	−0.001
		(0.044)	(0.781)
Target Corporate Tax Rate		0.004	
		(0.113)	
| Δ Corporate Tax Rate |		0.000	
		(0.906)	
Same Religion		0.000	0.004
		(0.975)	(0.461)
Same Language		0.006	−0.010
		(0.733)	(0.326)
Log(Geographic Distance)		−0.012	0.012**
		(0.426)	(0.023)
Share Border		0.009	−0.002
		(0.452)	(0.684)
Exchange Rate Volatility		−0.645*	0.147
		(0.089)	(0.545)
Exchange Rate Growth		−0.037	−0.035
		(0.376)	(0.330)
Double-Tax Treaty		0.013	−0.007
		(0.450)	(0.630)
Bilateral Investment Treaty		0.021	−0.029**
		(0.201)	(0.036)
Same Legal System		0.027	−0.017
		(0.208)	(0.197)
| Δ Shareholder Rights |		0.000	
		(0.937)	
| Δ Public Enforcement |		0.023	
		(0.207)	
Heckman's Lambda		0.053	−0.031
		(0.168)	(0.159)
Constant	−0.060	−0.206	0.207
	(0.272)	(0.370)	(0.186)
Year Fixed Effects	Yes	Yes	Yes
Religion Fixed Effects	Yes	No	No
Country Effects	No	Yes	Yes
Observations	1124	399	536

Table IA.IV
Logit Tests of Cash Payment and Tender Offers Excluding U.S. Firms
For Table IX of the Paper

This table presents cross-sectional logit regression coefficients and robust $p-$values, double-clustered at the acquirer and target country levels where observations are cross-border mergers, excluding U.S. firms. The dependent variable in columns 1 & 2 is a dummy variable equal to 1 if the merger payment is all cash and 0 otherwise and in columns 3 & 4 a dummy variable equal to 1 if the merger was a tender offer. There were only 104 observations on termination fees so they are not run in robustness checks. Trust is measured as whether people believe most other people can be trusted or not. Hierarchy is whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first. Individualism is whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal. Country effects are dummy variables for each country that equal 1 if either the acquirer or target firm is located in a particular country. Δ indicates the acquirer nation value minus the target nation value. $|\Delta|$ is the absolute difference between acquiror and target nation. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	All Cash		Tender Offer	
	(1)	(2)	(3)	(4)
Δ Trust	−0.798		−1.933**	
	(0.656)		(0.049)	
Δ Hierarchy	−6.231***		0.235	
	(0.004)		(0.375)	
Δ Individualism	1.824		1.749	
	(0.591)		(0.277)	
Acquirer Trust		−13.031*		−2.093
		(0.098)		(0.690)
Acquirer Hierarchy		−3.311		0.522
		(0.622)		(0.722)
Acquirer Individualism		8.386		1.209
		(0.132)		(0.802)
Target Trust		−9.950*		1.766
		(0.075)		(0.661)
Target Hierarchy		9.059		−0.007
		(0.160)		(0.994)
Target Individualism		3.623		−2.253
		(0.543)		(0.652)
Transaction Value	−215.022***	−212.058***	36.726	36.935
	(0.005)	(0.004)	(0.483)	(0.484)
Relative Size	−0.029	−0.038	0.002	0.002
	(0.923)	(0.906)	(0.969)	(0.967)
Acquirer Market Value	−64.097	−63.603	26.254	26.358
	(0.151)	(0.155)	(0.127)	(0.130)
Cash dummy			−0.029	−0.033
			(0.942)	(0.938)
Tender Offer	0.362	0.388		
	(0.517)	(0.504)		
Friendly Offer	−2.767**	−2.777**	0.988***	0.992***
	(0.015)	(0.010)	(0.006)	(0.004)
Same Industry	−1.362*	−1.268*	−0.129	−0.130
	(0.056)	(0.080)	(0.610)	(0.607)
Acquirer Termination Fee	−3.328*	−3.406*	−1.483	−1.479
	(0.054)	(0.061)	(0.241)	(0.226)
Target Termination Fee	5.519***	5.691**	−0.534	−0.531
	(0.005)	(0.010)	(0.563)	(0.564)
Target Defense			0.848	0.902
			(0.312)	(0.332)
Acquirer Past Return	−3.021***	−2.831***	−0.126	−0.127
	(0.000)	(0.000)	(0.692)	(0.678)

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Table IA.IV - *Continued*

	All Cash		Tender Offer	
	(1)	(2)	(3)	(4)
Acquirer Past Volatility	−142.804***	−138.893***	−2.033	−2.024
	(0.000)	(0.000)	(0.712)	(0.704)
Target Past Return	0.170	0.257	0.231	0.230
	(0.842)	(0.771)	(0.117)	(0.128)
Target Past Volatility	−3.335	−3.665	−2.261	−2.267
	(0.431)	(0.407)	(0.148)	(0.137)
Acquirer Openness	0.041	0.046	0.009	0.009
	(0.522)	(0.413)	(0.729)	(0.723)
Target Openness	0.047	0.048	0.003	0.003
	(0.448)	(0.376)	(0.907)	(0.900)
| Δ Openness |	−74.022**	−73.088**	2.005	1.962
	(0.034)	(0.044)	(0.482)	(0.487)
Acquirer GDP/Capita	248.375	273.447	−96.881	−95.747
	(0.416)	(0.411)	(0.161)	(0.240)
Target GDP/Capita	227.423	267.595	−101.953	−100.803
	(0.398)	(0.333)	(0.102)	(0.188)
| Δ GDP/Capita |	190.197	175.677	−40.003	−40.454
	(0.226)	(0.283)	(0.411)	(0.396)
Acquirer Corporate Tax Rate	−0.561	−0.108	−0.360	−0.365
	(0.114)	(0.873)	(0.433)	(0.418)
Target Corporate Tax Rate	−0.521	−0.041	−0.326	−0.331
	(0.198)	(0.948)	(0.483)	(0.466)
| Δ Corporate Tax Rate |	−0.190	−0.200	0.093*	0.093*
	(0.120)	(0.125)	(0.075)	(0.078)
Same Religion	−0.224	−0.377	−0.119	−0.118
	(0.783)	(0.675)	(0.402)	(0.556)
Same Language	1.098	1.127	−0.898*	−0.904*
	(0.422)	(0.413)	(0.093)	(0.084)
Log(Geographic Distance)	−0.587	−0.340	−0.545**	−0.541**
	(0.394)	(0.629)	(0.045)	(0.038)
Share Border	−1.481**	−1.653**	0.718	0.716
	(0.018)	(0.047)	(0.294)	(0.314)
Exchange Rate Volatility	−21.936	−13.279	0.912	1.060
	(0.692)	(0.802)	(0.963)	(0.959)
Exchange Rate Growth	−5.299*	−4.620	3.292***	3.321***
	(0.097)	(0.207)	(0.002)	(0.001)
Double-Tax Treaty	5.187**	5.010**	0.217	0.196
	(0.027)	(0.025)	(0.733)	(0.770)
Bilateral Investment Treaty	−4.445	−4.159	1.261	1.263
	(0.235)	(0.263)	(0.202)	(0.198)
Same Legal System	3.725*	3.527*	−0.215	−0.228
	(0.050)	(0.052)	(0.773)	(0.762)
| Δ Shareholder Rights |	0.086	0.188	0.207	0.207
	(0.834)	(0.672)	(0.176)	(0.162)
| Δ Public Enforcement |	−0.834	−0.830	−0.089	−0.096
	(0.148)	(0.166)	(0.888)	(0.884)
Heckman's Lambda	4.394*	3.583*	1.854*	1.851*
	(0.059)	(0.083)	(0.067)	(0.066)
Constant	20.238	1.968	13.697	13.802
	(0.216)	(0.961)	(0.698)	(0.700)
Year Fixed Effects	Yes	Yes	Yes	Yes
Country Effects	Yes	Yes	Yes	Yes
Observations	324	324	407	407

Table IA.V
Schwartz Cultural Dimensions and Merger Activity in Domestic Markets
For Table III of the Paper
This table presents pooled cross-sectional tobit regression coefficients and robust $p-$values clustered at the nation level. The dependent variable is the log of the number of domestic mergers normalized by the log GDP in the same year at the country-year level. Cultural variables follow Schwartz (1994) and are defined in the opening of the internet appendix. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Number of Domestic Mergers Normalized by GDP			
	(1)	(2)	(3)	(4)
Egalitarianism	−0.029			−0.058**
	(0.246)			(0.050)
Harmony		−0.022		−0.029
		(0.266)		(0.276)
Embeddedness			−0.014	−0.045**
			(0.408)	(0.011)
Openness	−0.362***	−0.360***	−0.343***	−0.396***
	(0.001)	(0.001)	(0.002)	(0.000)
French Legal System	−0.062***	−0.060***	−0.071***	−0.054**
	(0.002)	(0.006)	(0.001)	(0.011)
German Legal System	−0.120***	−0.111***	−0.120***	−0.128***
	(0.000)	(0.000)	(0.000)	(0.000)
Scandinavian Legal System	−0.103***	−0.094***	−0.100***	−0.092***
	(0.000)	(0.003)	(0.000)	(0.001)
Shareholder Rights	0.012	0.010	0.011	0.012
	(0.107)	(0.174)	(0.144)	(0.107)
Public Enforcement	0.004	0.005	−0.001	0.017
	(0.773)	(0.740)	(0.919)	(0.239)
GDP/Capita	3.831***	3.850***	3.336***	3.438***
	(0.000)	(0.000)	(0.005)	(0.002)
Corporate Tax Rate	−0.012	−0.029	0.009	−0.071
	(0.920)	(0.824)	(0.942)	(0.569)
Constant	0.267**	0.242**	0.195*	0.714***
	(0.042)	(0.046)	(0.051)	(0.001)
Year Fixed Effects	Yes	Yes	Yes	Yes
Religion Fixed Effects	Yes	Yes	Yes	Yes
Log likelihood	813.584	813.059	812.378	827.792
Constant only log likelihood	457.406	457.406	457.406	457.406
Observations	617	617	617	617

Table IA.VI
Hofstede Cultural Dimensions and Merger Activity in Domestic Markets
For Table III of the Paper
This table presents pooled cross-sectional tobit regression coefficients and robust $p-$values clustered at the nation level. The dependent variable is the log of the number of domestic mergers normalized by the log GDP in the same year at the country-year level. Cultural variables follow Hofstede (1980, 2001) and are defined in the opening of the internet appendix. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Number of Domestic Mergers Normalized by GDP					
	(1)	(2)	(3)	(4)	(5)	(6)
Power Distance	0.001					0.005***
	(0.328)					(0.000)
Individualism		0.002***				0.006***
		(0.001)				(0.000)
Maculinity			0.000			−0.003***
			(0.839)			(0.000)
Uncertainty Avoidance				0.000		−0.009***
				(0.344)		(0.000)
Long-Term Orientation					0.001*	0.006***
					(0.065)	(0.000)
Openness	−0.564***	−0.490***	−0.517***	−0.563***	−0.218*	−0.620***
	(0.002)	(0.004)	(0.005)	(0.005)	(0.052)	(0.000)
French Legal System	−0.104***	−0.052**	−0.093***	−0.080***	−0.088***	−0.120***
	(0.000)	(0.023)	(0.001)	(0.007)	(0.004)	(0.000)
German Legal System	−0.110***	−0.080***	−0.110***	−0.098***	−0.167***	0.098***
	(0.000)	(0.002)	(0.000)	(0.000)	(0.000)	(0.010)
Scandinavian Legal System	−0.083***	−0.069**	−0.085*	−0.093***	−0.135***	−0.422***
	(0.006)	(0.038)	(0.068)	(0.001)	(0.002)	(0.000)
Shareholder Rights	0.021**	0.025***	0.022**	0.020**	−0.008	−0.013*
	(0.019)	(0.003)	(0.022)	(0.025)	(0.469)	(0.057)
Public Enforcement	−0.016	−0.003	−0.013	−0.011	0.043**	0.167***
	(0.375)	(0.875)	(0.499)	(0.547)	(0.033)	(0.000)
GDP/Capita	3.297**	1.009	2.701**	2.625**	1.108	−5.191***
	(0.045)	(0.365)	(0.048)	(0.040)	(0.487)	(0.000)
Corporate Tax Rate	0.041	0.073	0.069	0.061	−0.001	0.456*
	(0.733)	(0.519)	(0.587)	(0.630)	(0.997)	(0.056)
Constant	0.139	−0.004	0.101	0.202***	0.207**	0.237***
	(0.202)	(0.956)	(0.259)	(0.000)	(0.018)	(0.005)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Religion Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Log likelihood	777.198	820.677	773.936	776.456	496.115	588.634
Constant only log likelihood	447.690	447.690	447.690	447.690	260.012	260.012
Observations	690	690	690	690	326	326

Table IA.VII
Schwartz Cultural Dimensions and Cross-Border Merger Activity
For Table IV of the Paper
This table presents pooled cross-sectional tobit regression coefficients and robust p−values double-clustered at the acquirer and target nation levels. The dependent variable is the log of the number of cross-border mergers normalized by the log of the aggregate GDP of the two host countries at the country pair-year level over 1991–2008. Cultural variables follow Schwartz (1994) and are defined in the opening of the internet appendix. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Number of Cross-Border Mergers Normalized by GDP			
	(1)	(2)	(3)	(4)
| Δ Egalitarianism |	−0.011			−0.024
	(0.527)			(0.226)
| Δ Harmony |		0.008		0.004
		(0.592)		(0.807)
| Δ Embeddedness |			0.017*	0.023
			(0.086)	(0.128)
Acquirer Openness	0.148	0.147	0.143	0.144
	(0.455)	(0.456)	(0.474)	(0.474)
Target Openness	0.007	0.009	0.000	−0.008
	(0.968)	(0.959)	(0.999)	(0.962)
| Δ Openness |	−0.181***	−0.186***	−0.187***	−0.191***
	(0.004)	(0.003)	(0.002)	(0.001)
Acquirer GDP/Capita	−0.123	−0.093	−0.149	−0.158
	(0.914)	(0.934)	(0.893)	(0.888)
Target GDP/Capita	0.454	0.438	0.440	0.505
	(0.571)	(0.585)	(0.589)	(0.528)
| Δ GDP/Capita |	−0.392	−0.394	−0.409	−0.330
	(0.569)	(0.570)	(0.542)	(0.629)
Acquirer Corporate Tax Rate	−0.081**	−0.085**	−0.082**	−0.077**
	(0.020)	(0.024)	(0.047)	(0.040)
| Δ Corporate Tax Rate |	0.032	0.035	0.037	0.031
	(0.683)	(0.654)	(0.650)	(0.708)
Same Religion	0.023***	0.023***	0.022***	0.022***
	(0.008)	(0.007)	(0.007)	(0.008)
Same Language	0.042***	0.043***	0.045***	0.047***
	(0.001)	(0.001)	(0.001)	(0.001)
Log(Geographic Distance)	−0.052***	−0.053***	−0.053***	−0.052***
	(0.000)	(0.000)	(0.000)	(0.000)
Share Border	0.004	0.004	0.003	0.003
	(0.371)	(0.271)	(0.549)	(0.494)
Exchange Rate Volatility	−0.363***	−0.373***	−0.376***	−0.390***
	(0.004)	(0.002)	(0.002)	(0.001)
Exchange Rate Growth	−0.020	−0.020	−0.021	−0.021
	(0.229)	(0.225)	(0.208)	(0.200)
Double-Tax Treaty	−0.001	−0.001	−0.001	0.000
	(0.949)	(0.932)	(0.912)	(0.977)

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Table IA.VII - *Continued*

	(1)	(2)	(3)	(4)
Bilateral Investment Treaty	0.011	0.011	0.009	0.009
	(0.118)	(0.136)	(0.216)	(0.213)
Same Legal System	0.055***	0.055***	0.054***	0.055***
	(0.000)	(0.000)	(0.000)	(0.000)
$\mid \Delta$ Shareholder Rights $\mid$	0.002	0.002	0.002	0.002
	(0.245)	(0.257)	(0.258)	(0.178)
$\mid \Delta$ Public Enforcement $\mid$	-0.001	-0.003	-0.002	-0.002
	(0.864)	(0.655)	(0.761)	(0.747)
Constant	0.064***	0.064***	0.064***	0.064***
	(0.000)	(0.000)	(0.000)	(0.000)
Country Effects	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Log likelihood	1119.629***	1119.383***	1124.169***	1129.356***
Constant only log likelihood	-1855.555	-1855.555	-1855.555	-1855.555
Observations	8425	8425	8425	8425

Table IA.VIII
Hofstede Cultural Dimensions and Cross-Border Merger Activity
For Table IV of the Paper

This table presents pooled cross-sectional tobit regression coefficients and robust $p-$values double-clustered at the acquirer and target nation levels. The dependent variable is the log of the number of cross-border mergers normalized by the log of the aggregate GDP of the two host countries at the country pair-year level over 1991–2008. Cultural variables follow Hofstede (1980, 2001) and are defined in the opening of the internet appendix. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Number of Cross-Border Mergers Normalized by GDP					
	(1)	(2)	(3)	(4)	(5)	(6)
| Δ Power Distance |	−0.001***					0.000
	(0.006)					(0.748)
| Δ Individualism |		−0.001***				−0.001***
		(0.000)				(0.001)
| Δ Masculinity |			0.000**			0.000
			(0.020)			(0.725)
| Δ Uncertainty Avoidance |				−0.001***		0.000
				(0.001)		(0.119)
| Δ Long-Term Orientation |					0.000*	0.000*
					(0.070)	(0.086)
Acquirer Openness	0.200	0.161	0.230	0.232	0.300	0.213
	(0.301)	(0.371)	(0.256)	(0.245)	(0.149)	(0.184)
Target Openness	0.072	0.019	0.079	0.072	0.144	0.041
	(0.684)	(0.905)	(0.656)	(0.682)	(0.323)	(0.747)
| Δ Openness |	−0.096	−0.094	−0.083	−0.100	−0.252***	−0.167***
	(0.323)	(0.263)	(0.432)	(0.217)	(0.000)	(0.007)
Acquirer GDP/Capita	0.362	0.306	0.290	0.222	−1.308	−0.900
	(0.638)	(0.678)	(0.739)	(0.787)	(0.321)	(0.398)
Target GDP/Capita	0.854	1.096**	0.873	0.733	−0.413	−0.022
	(0.139)	(0.042)	(0.164)	(0.255)	(0.708)	(0.978)
| Δ GDP/Capita |	0.471	0.677	−0.092	0.071	0.548	0.907
	(0.418)	(0.183)	(0.883)	(0.906)	(0.425)	(0.144)
Acquirer Corporate Tax Rate	−0.046	−0.053*	−0.053**	−0.026	−0.223***	−0.162**
	(.)	(0.060)	(0.047)	(0.217)	(0.000)	(0.029)
| Δ Corporate Tax Rate |	−0.046	−0.054	−0.048	−0.036	0.266***	0.225**
	(0.479)	(0.415)	(0.534)	(0.635)	(0.004)	(0.013)
Same Religion	0.019**	0.020**	0.026***	0.015*	0.012	0.011
	(0.021)	(0.015)	(0.002)	(0.054)	(0.229)	(0.292)
Same Language	0.039***	0.027***	0.037***	0.028**	0.043**	0.033*
	(0.001)	(0.000)	(0.002)	(0.010)	(0.011)	(0.063)
Log(Geographic Distance)	−0.049***	−0.042***	−0.050***	−0.051***	−0.056***	−0.052***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Share Border	0.006	0.011**	0.004	0.001	−0.018	−0.020
	(0.133)	(0.040)	(0.331)	(0.851)	(0.264)	(0.251)
Exchange Rate Volatility	−0.425***	−0.467***	−0.414***	−0.374***	−0.382	−0.419*
	(0.001)	(0.001)	(0.001)	(0.001)	(0.184)	(0.068)

Table IA.VIII - *Continued*

	(1)	(2)	(3)	(4)	(5)	(6)
Exchange Rate Growth	-0.024	-0.023^*	-0.024	-0.026	-0.014	-0.011
	(0.118)	(0.093)	(0.127)	(0.104)	(0.582)	(0.639)
Double-Tax Treaty	0.003	0.005	0.004	0.002	0.012	0.015
	(0.703)	(0.509)	(0.649)	(0.772)	(0.292)	(0.188)
Bilateral Investment Treaty	0.010	0.014^{**}	0.008	0.007	-0.002	0.008
	(0.140)	(0.028)	(0.306)	(0.409)	(0.821)	(0.295)
Same Legal System	0.051^{***}	0.060^{***}	0.047^{***}	0.055^{***}	0.089^{***}	0.087^{***}
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
$\mid \Delta$ Shareholder Rights $\mid$	-0.002	-0.002	-0.001	-0.002	0.002	0.001
	(0.631)	(0.618)	(0.623)	(0.528)	(0.606)	(0.756)
$\mid \Delta$ Public Enforcement $\mid$	-0.002	-0.002	-0.003	-0.004	0.009	0.007
	(0.746)	(0.764)	(0.716)	(0.520)	(0.361)	(0.417)
Constant	0.065^{***}	0.063^{***}	0.066^{***}	0.065^{***}	0.059^{***}	0.057^{***}
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Country Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Log likelihood	1163.181^{***}	1213.373^{***}	1135.171^{***}	1170.955^{***}	686.189^{***}	718.460^{***}
Constant only log likelihood	-2142.046	-2142.046	-2142.046	-2142.046	-584.319	-584.319
Observations	9939	9939	9939	9939	2437	2437

Table IA.IX
Hofstede/Schwartz Culture and Combined Abnormal Returns in Domestic Mergers
For Table V of the Paper

This table presents cross-sectional ordinary least squares regression coefficients and robust $p-$values, clustered at the country level. The dependent variable is the combined abnormal return of the target and acquirer over the period $(-1, +1)$ around the announcement, where returns are weighted by market values. Mergers include all public, private, and subsidiary targets where the transaction value is at least \$1 million from SDC Thomson database in 1991–2008. Cultural values are from Hofstede (1980, 2001) and Schwartz (1994). All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Combined $CAR_{(-1,+1)}$	
	(1)	(2)
Egalitarianism	0.067***	
	(0.000)	
Harmony	−0.017	
	(0.323)	
Embeddedness	−0.002	
	(0.840)	
Power Distance		0.000
		(0.880)
Individualism		−0.001*
		(0.059)
Maculinity		0.000
		(0.855)
Uncertainty Avoidance		0.002**
		(0.019)
Long-Term Orientation		0.000*
		(0.078)
Transaction Value	0.068	0.033
	(0.434)	(0.727)
Relative Size	0.008***	0.009***
	(0.000)	(0.001)
Acquirer Market Value	−0.190***	−0.193***
	(0.000)	(0.000)
Majority Cash	0.021***	0.021***
	(0.000)	(0.000)
Tender Offer	0.013***	0.014***
	(0.000)	(0.000)
Friendly Offer	0.001	0.001
	(0.859)	(0.816)
Same Industry	−0.001	0.000
	(0.629)	(0.765)
Acquirer Termination Fee	0.004***	0.005***
	(0.001)	(0.001)

Table IA.IX - *Continued*

	Combined $CAR_{(-1,+1)}$	
	(1)	(2)
Target Termination Fee	-0.006***	-0.007***
	(0.000)	(0.000)
Target Defense	-0.002	-0.002
	(0.214)	(0.281)
Acquirer Past Return	0.000	-0.001**
	(0.992)	(0.040)
Acquirer Past Volatility	-0.001	0.005
	(0.850)	(0.116)
Target Past Return	-0.001	-0.001
	(0.150)	(0.319)
Target Past Volatility	0.051	0.051
	(0.324)	(0.344)
Openness	0.000	0.000
	(0.121)	(0.973)
French Legal System	-0.003	-0.061
	(0.703)	(0.445)
German Legal System	0.011	-0.142
	(0.329)	(0.208)
Scandinavian Legal System	0.048***	0.051
	(0.000)	(0.508)
Shareholder Rights	-0.008***	-0.024
	(0.006)	(0.257)
Public Enforcement	0.002	-0.041
	(0.790)	(0.333)
GDP/Capita	0.615	1.084
	(0.102)	(0.326)
Corporate Tax Rate	0.147**	-0.258
	(0.030)	(0.528)
Constant	-0.231**	0.133
	(0.020)	(0.447)
Year Fixed Effects	Yes	Yes
Religion Fixed Effects	Yes	Yes
Adjusted R^2	0.084	0.080
Observations	3556	3336

Table IA.X
Hofstede/Schwartz Culture and Combined Abnormal Returns in Cross-Border Mergers
For Table VI of the Paper
This table presents cross-sectional ordinary least squares regression coefficients and robust $p-$values, double-clustered at the acquirer and target country levels. The dependent variable is the combined abnormal return of the target and acquirer over the period $(-1,+1)$ around the announcement, where returns are weighted by market values. Cultural values from World Value Survey (WVS), Hofstede (1980, 2001), and Schwartz (1994). Euclidean distance is over all cultural dimensions. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Combined $CAR_{(-1,+1)}$				
	(1)	(2)	(3)	(4)	(5)
Euclidian distance WVS	-0.108^{**}				
	(0.030)				
Euclidian distance Hofstede		0.000			
		(0.635)			
Euclidian distance Schwartz			0.044^{**}		
			(0.017)		
$\mid \Delta$ Egalitarianism $\mid$				-0.025	
				(0.538)	
$\mid \Delta$ Harmony $\mid$				0.005	
				(0.830)	
$\mid \Delta$ Embeddedness $\mid$				0.036^{**}	
				(0.014)	
$\mid \Delta$ Power Distance $\mid$					0.003
					(0.291)
$\mid \Delta$ Individualism $\mid$					-0.002^{*}
					(0.060)
$\mid \Delta$ Masculinity $\mid$					0.001^{*}
					(0.050)
$\mid \Delta$ Uncertainty Avoidance $\mid$					0.000
					(0.517)
$\mid \Delta$ Long-Term Orientation $\mid$					0.000
					(0.849)
Transaction Value	0.085	0.070	0.124	0.134	0.206
	(0.736)	(0.786)	(0.695)	(0.662)	(0.407)
Relative Size	0.010^{***}	0.010^{***}	0.010^{***}	0.010^{***}	0.011^{***}
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Acquirer Market Value	-0.509	-0.509	-0.504	-0.508	-0.396
	(0.153)	(0.159)	(0.166)	(0.164)	(0.117)
Majority Cash	0.018^{**}	0.018^{**}	0.019^{**}	0.020^{**}	0.027^{***}
	(0.032)	(0.030)	(0.019)	(0.014)	(0.005)
Tender Offer	0.006	0.006^{*}	0.007^{*}	0.007^{*}	0.006
	(0.110)	(0.086)	(0.058)	(0.057)	(0.229)
Friendly Offer	0.003	0.004	0.005	0.005	0.001
	(0.668)	(0.657)	(0.519)	(0.504)	(0.763)
Same Industry	-0.003	-0.003	-0.004	-0.004	0.000
	(0.497)	(0.524)	(0.405)	(0.341)	(0.963)
Acquirer Termination Fee	-0.008	-0.008	-0.009	-0.009	-0.002
	(0.285)	(0.297)	(0.338)	(0.352)	(0.821)
Target Termination Fee	0.001	0.001	0.001	0.001	-0.006
	(0.905)	(0.908)	(0.893)	(0.732)	(0.725)

continued on next page

Table IA.X - *Continued*

	Combined $CAR_{(-1,+1)}$				
	(1)	(2)	(3)	(4)	(5)
Target Defense	0.002	0.002	−0.001	−0.001	−0.002
	(0.755)	(0.791)	(0.923)	(0.903)	(0.865)
Acquirer Past Return	0.000	0.000	−0.002	−0.002	0.004
	(0.656)	(0.605)	(0.554)	(0.555)	(0.246)
Acquirer Past Volatility	−0.010***	−0.010***	0.010	0.012	−0.202
	(0.000)	(0.000)	(0.754)	(0.733)	(0.298)
Target Past Return	−0.004	−0.005	−0.003	−0.003	−0.010***
	(0.142)	(0.140)	(0.321)	(0.348)	(0.009)
Target Past Volatility	0.035**	0.037***	0.028	0.030*	0.065**
	(0.018)	(0.009)	(0.136)	(0.089)	(0.026)
Acquirer Openness	0.000	0.000	0.000	0.000	0.000
	(0.760)	(0.752)	(0.463)	(0.490)	(0.776)
Target Openness	0.000	0.000	0.000	0.000	0.000
	(0.708)	(0.699)	(0.651)	(0.693)	(0.697)
| Δ Openness |	−0.308**	−0.311**	−0.267*	−0.244*	−0.300*
	(0.025)	(0.023)	(0.062)	(0.082)	(0.064)
Acquirer GDP/Capita	−0.357	−0.427	−0.189	−0.168	−3.778
	(0.825)	(0.793)	(0.906)	(0.918)	(0.218)
Target GDP/Capita	1.379	1.327	1.445	1.489	−1.823
	(0.417)	(0.439)	(0.448)	(0.451)	(0.555)
| Δ GDP/Capita |	−0.732**	−0.804***	−0.801**	−0.813**	−1.322
	(0.024)	(0.000)	(0.016)	(0.021)	(0.234)
Acquirer Corporate Tax Rate	0.003	0.002	0.002	0.002	−0.011
	(0.238)	(0.250)	(0.293)	(0.231)	(0.542)
Target Corporate Tax Rate	0.002	0.002	0.001	0.001	−0.011
	(0.258)	(0.277)	(0.463)	(0.401)	(0.531)
| Δ Corporate Tax Rate |	0.000	0.000	0.000	0.000	0.001
	(0.745)	(0.731)	(0.901)	(0.835)	(0.658)
Same Religion	−0.005	−0.005	−0.004	−0.006	0.007
	(0.487)	(0.428)	(0.501)	(0.306)	(0.631)
Same Language	0.008	0.005	−0.009	−0.004	−0.021
	(0.631)	(0.767)	(0.174)	(0.575)	(0.616)
Log(Geographic Distance)	−0.002	−0.002	0.000	−0.001	0.008
	(0.822)	(0.770)	(0.971)	(0.914)	(0.169)
Share Border	0.010	0.012	0.014	0.010	0.034
	(0.168)	(0.120)	(0.142)	(0.311)	(0.277)
Exchange Rate Volatility	0.184	0.195	0.333	0.290	1.449
	(0.586)	(0.562)	(0.369)	(0.439)	(0.210)
Exchange Rate Growth	0.000	0.000	−0.019***	−0.016**	−0.006
	(0.987)	(0.998)	(0.009)	(0.014)	(.)
Double-Tax Treaty	0.010	0.009	0.006	0.008	0.027
	(0.451)	(0.519)	(0.626)	(0.536)	(0.506)
Bilateral Investment Treaty	0.014	0.016	−0.005	−0.002	−0.038
	(0.334)	(0.273)	(0.786)	(0.905)	(0.433)
Same Legal System	0.007	0.008	0.003	0.006	0.041
	(0.546)	(0.515)	(0.724)	(0.600)	(0.421)
| Δ Shareholder Rights |	0.003	0.003	−0.003*	−0.003	−0.004
	(0.454)	(0.479)	(0.067)	(0.115)	(0.670)
| Δ Public Enforcement |	0.016**	0.016**	0.007	0.008	0.024**
	(0.040)	(0.036)	(0.162)	(0.372)	(0.034)

Table IA.X - *Continued*

| | Combined $CAR_{(-1,+1)}$ | | | | |
	(1)	(2)	(3)	(4)	(5)
Heckman's Lambda	0.031	0.030	0.014	0.014	−0.039
	(0.194)	(0.214)	(0.339)	(0.384)	(0.380)
Constant	−0.042	−0.040	−0.049	−0.051	0.672
	(0.822)	(0.830)	(0.718)	(0.720)	(0.605)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Country Effects	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.128	0.127	0.119	0.119	0.082
Observations	815	815	770	770	435

Table IA.XI
Hofstede/Schwartz Culture and The Division of Merger Gains
For Table VII of the Paper

This table presents cross-sectional ordinary least squares regression coefficients and robust $p-$values, double-clustered at the acquirer and target country levels. The dependent variable is the \$ value of acquirer abnormal returns in $(-1, +1)$ minus the \$ value of target abnormal returns in $(-1, +1)$ normalized by the sum of the market values of the acquirer and target 10 days before the announcement. Cultural values from Hofstede (1980, 2001) and from Schwartz (1994). All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Acquirer's Gain Relative to Target's Gain	
	(1)	(2)
Δ Egalitarianism	−0.038***	
	(0.001)	
Δ Harmony	0.007	
	(0.600)	
Δ Embeddedness	−0.024***	
	(0.008)	
Δ Power Distance		0.001**
		(0.026)
Δ Individualism		0.001***
		(0.001)
Δ Masculinity		−0.001***
		(0.000)
Δ Uncertainty Avoidance		−0.001***
		(0.000)
Δ Long-Term Orientation		0.001***
		(0.000)
Transaction Value	−0.218	−0.256***
	(0.228)	(0.000)
Relative Size	−0.010***	−0.010***
	(0.000)	(0.000)
Acquirer Market Value	0.213	0.272
	(0.169)	(0.198)
Majority Cash	0.019	0.033
	(0.158)	(0.164)
Tender Offer	−0.007**	−0.001
	(0.041)	(0.858)
Friendly Offer	0.004	0.005
	(0.615)	(0.639)
Same Industry	0.008***	0.006**
	(0.000)	(0.033)
Acquirer Termination Fee	0.006	−0.003
	(0.472)	(0.793)
Target Termination Fee	0.004	0.012
	(0.354)	(0.190)
Target Defense	−0.002	0.007
	(0.801)	(0.489)
Acquirer Past Return	0.005	0.010***
	(0.177)	(0.000)
Acquirer Past Volatility	−0.053	0.875
	(0.235)	(0.116)
Target Past Return	0.004	0.004
	(0.208)	(0.258)

Table IA.XI - *Continued*

	Acquirer's Gain Relative to Target's Gain	
	(1)	(2)
Target Past Volatility	−0.015	−0.032
	(0.388)	(0.315)
Acquirer Openness	0.000	−0.001*
	(0.598)	(0.087)
Δ Openness	0.000	0.000
	(0.797)	(0.932)
Acquirer GDP/Capita	−1.085	−7.652**
	(0.744)	(0.017)
Δ GDP/Capita	0.000	0.000***
	(0.482)	(0.000)
Acquirer Corporate Tax Rate	0.002	−0.022
	(0.600)	(0.151)
Δ Corporate Tax Rate	−0.001	0.007
	(0.537)	(0.347)
Same Religion	0.001	−0.001
	(0.751)	(0.848)
Same Language	0.008	0.001
	(0.492)	(0.943)
Log(Geographic Distance)	0.006	−0.009*
	(0.186)	(0.078)
Share Border	0.004	−0.019
	(0.670)	(0.230)
Exchange Rate Volatility	0.132	0.364
	(0.660)	(0.110)
Exchange Rate Growth	−0.011	−0.023
	(0.754)	(0.644)
Double-Tax Treaty	−0.014	0.040**
	(0.533)	(0.036)
Bilateral Investment Treaty	−0.016	−0.035*
	(0.242)	(0.066)
Same Legal System	−0.019	0.085***
	(0.326)	(0.000)
| Δ Shareholder Rights |	0.001	0.001
	(0.490)	(0.804)
| Δ Public Enforcement |	−0.010	−0.016
	(0.288)	(0.103)
Heckman's Lambda	−0.010	0.037*
	(0.526)	(0.070)
Constant	−0.045	0.820
	(0.713)	(0.238)
Year Fixed Effects	Yes	Yes
Country Effects	Yes	Yes
Adjusted R^2	0.163	0.185
Observations	770	435

Table IA.XII
Hofstede/Schwartz Culture and Payment, Termination Fees, and Tender Offers
For Table IX of the Paper

This table presents cross-sectional logit regression coefficients and robust p−values, double-clustered at the acquirer and target country levels where observations are cross-border mergers. The dependent variable in columns 1 & 2 is a dummy variable equal to 1 if the merger payment is all cash and 0 otherwise, in columns 3 & 4, a dummy variable equal to 1 if the merger includes a target termination fee, and in columns 5 & 6, a dummy variable equal to 1 if the merger was a tender offer. Cultural values from Hofstede (1980, 2001) and from Schwartz (1994). All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	All Cash		Target Termination Fee		Tender Offer	
	(1)	(2)	(3)	(4)	(5)	(6)
Δ Egalitarianism	−0.872		0.360		−0.985	
	(0.218)		(0.599)		(0.195)	
Δ Harmony	0.306		2.257***		−0.112	
	(0.116)		(0.000)		(0.702)	
Δ Embeddedness	−1.984*		−0.232		0.266	
	(0.079)		(0.241)		(0.244)	
Δ Power Distance		−0.355***		−2.208***		0.050*
		(0.000)		(0.000)		(0.077)
Δ Individualism		−0.273**		−3.198***		−0.024
		(0.024)		(0.000)		(0.149)
Δ Masculinity		−0.118***		0.556***		0.004
		(0.000)		(0.000)		(0.457)
Δ Uncertainty Avoidance		−0.034		0.020		−0.009
		(0.372)		(0.852)		(0.299)
Δ Long-Term Orientation		−0.185**		0.453		−0.003
		(0.043)		(0.314)		(0.837)
Transaction Value	−211.281***	−227.262***	−9.590	−23.479	20.406*	34.423***
	(0.000)	(0.001)	(0.617)	(0.353)	(0.096)	(0.001)
Relative Size	0.024	−0.139*	0.018	0.053*	−0.041***	−0.171***
	(0.826)	(0.066)	(0.355)	(0.073)	(0.009)	(0.000)
Acquirer Market Value	0.312	−0.763	11.290***	6.011**	−6.216**	−18.300**
	(0.936)	(0.884)	(0.000)	(0.031)	(0.021)	(0.030)
Cash dummy			−0.571	−0.593	0.750*	1.917***
			(0.297)	(0.303)	(0.083)	(0.000)
Tender Offer	0.891*	2.357***	0.675***	0.521*		
	(0.055)	(0.000)	(0.000)	(0.081)		
Friendly Offer	−0.911**	1.083***	1.536**	1.025*	0.101	−0.586
	(0.013)	(0.006)	(0.047)	(0.100)	(0.828)	(0.341)
Same Industry	−0.879***	−1.088***	−0.007	−0.090	−0.028	0.300**
	(0.000)	(0.002)	(0.636)	(0.645)	(0.870)	(0.043)
Acquirer Termination Fee	−1.435***	−1.194**	6.229***	8.290***	−1.576***	−1.682***
	(0.000)	(0.035)	(0.000)	(0.000)	(0.001)	(0.000)
Target Termination Fee	−0.194	−0.435			0.300	0.324
	(0.693)	(0.568)			(0.116)	(0.287)
Target Defense	−0.042	0.591***	0.266	0.476	0.488	−0.124
	(0.937)	(0.000)	(0.328)	(0.156)	(0.223)	(0.779)
Acquirer Past Return	−0.657***	−0.912***	−0.401*	−0.644**	−0.142	0.085
	(0.000)	(0.007)	(0.079)	(0.012)	(0.450)	(0.357)
Acquirer Past Volatility	6.717***	−29.711***	4.519*	−8.440	−0.908	4.898
	(0.000)	(0.001)	(0.058)	(0.431)	(0.745)	(0.585)
Target Past Return	0.450*	0.300	0.568***	1.005***	0.100	0.113
	(0.079)	(0.601)	(0.003)	(0.000)	(0.410)	(0.560)
Target Past Volatility	−12.742**	−14.501**	0.349	2.311	−1.548	−2.584*
	(0.030)	(0.043)	(0.864)	(0.398)	(0.113)	(0.055)
Acquirer Openness	0.000	−0.143	−0.097***	−0.137	−0.001	−0.009
	(0.982)	(0.195)	(0.000)	(0.179)	(0.887)	(0.713)

Table IA.XII - *Continued*

	All Cash		Target Termination Fee		Tender Offer	
	(1)	(2)	(3)	(4)	(5)	(6)
Target Openness	−0.020	−0.103	−0.084**	−0.129	0.004	0.006
	(0.317)	(0.293)	(0.015)	(0.254)	(0.689)	(0.721)
| Δ Openness |	7.951	190.567*	30.460**	55.713	3.105*	21.443***
	(0.487)	(0.074)	(0.029)	(0.626)	(0.081)	(0.000)
Acquirer GDP/Capita	−58.204	84.571	−90.107	109.228	−140.328***	−127.493
	(0.468)	(0.817)	(0.598)	(0.755)	(0.001)	(0.251)
Target GDP/Capita	38.903	379.621	202.820	−805.239*	−230.092***	−352.546***
	(0.576)	(0.180)	(0.318)	(0.061)	(0.000)	(0.004)
| Δ GDP/Capita |	−27.022	−491.177**	112.058*	324.637**	23.563	65.190
	(0.492)	(0.018)	(0.100)	(0.017)	(0.207)	(0.337)
Acquirer Corporate Tax Rate	−0.092	−0.547	1.249	6.190***	−0.287**	−0.890
	(0.403)	(0.438)	(0.300)	(0.000)	(0.015)	(0.142)
Target Corporate Tax Rate	−0.211**	−1.256**	1.151	3.045***	−0.211*	−0.747
	(0.023)	(0.042)	(0.271)	(0.003)	(0.082)	(0.211)
| Δ Corporate Tax Rate |	−0.073	−0.912***	0.228***	3.857**	0.021	−0.300
	(0.302)	(0.004)	(0.006)	(0.029)	(0.296)	(0.132)
Same Religion	−0.500**	−1.941	−0.169	−10.368***	−0.232	0.204
	(0.027)	(0.305)	(0.693)	(0.004)	(0.174)	(0.777)
Same Language	1.205	2.334	−42.855	83.275**	−1.318***	−4.242**
	(0.106)	(0.834)	(0.160)	(0.012)	(0.007)	(0.022)
Log(Geographic Distance)	−0.645**	−1.093	0.231	−5.426***	0.171	0.059
	(0.035)	(0.256)	(0.797)	(0.001)	(0.356)	(0.891)
Share Border	−1.787**	−4.284	−1.421	−22.804***	0.408	1.044
	(0.012)	(0.238)	(0.517)	(0.001)	(0.383)	(0.579)
Exchange Rate Volatility	30.271**	61.157	−61.576	−31.454	−11.534	−6.828
	(0.017)	(0.282)	(0.133)	(0.621)	(0.396)	(0.752)
Exchange Rate Growth	0.593	3.257***	0.113	−1.022	1.711***	1.999*
	(0.365)	(0.000)	(0.924)	(0.542)	(0.000)	(0.072)
Double-Tax Treaty	−0.062	−21.551			1.034**	2.747***
	(0.933)	(0.489)			(0.046)	(0.005)
Bilateral Investment Treaty	−1.671**		−18.300	38.708	−0.060	−1.167
	(0.030)		(0.250)	(0.433)	(0.960)	(0.532)
Same Legal System	0.842	−25.645**	−8.280	−90.400	0.296	0.078
	(0.184)	(0.025)	(0.347)	(0.264)	(0.463)	(0.962)
| Δ Shareholder Rights |	0.228*	0.301	−0.769**	24.667***	−0.148	−0.346
	(0.095)	(0.783)	(0.022)	(0.006)	(0.181)	(0.244)
| Δ Public Enforcement |	−0.757*	−4.808**	−1.819	−13.222***	0.099	−0.902
	(0.086)	(0.035)	(0.101)	(0.000)	(0.703)	(0.275)
Heckman's Lambda	0.449	−7.271*	−0.063	−4.546	0.536	2.967**
	(0.505)	(0.057)	(0.974)	(0.266)	(0.285)	(0.035)
Constant	16.051**	125.016	−66.365	−263.571	6.289	37.215
	(0.025)	(0.176)	(0.520)	(0.176)	(0.113)	(0.340)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Country Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	727	391	720	432	821	471

Table IA.XIII
Merger Activity in Domestic Markets Using Different Activity Measures
For Table III of the Paper
This table presents pooled cross-sectional tobit regression coefficients and robust $p-$values clustered at the nation level. The dependent variable is the log of the number (N) or value (V) of domestic mergers of at least \$1 million (001), \$10 million (010), or \$100 (100) million, normalized by the log GDP in the same year at the country-year level. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Number of Domestic Mergers Normalized by GDP					
	N001	N010	N100	V001	V010	V100
	(1)	(2)	(3)	(4)	(5)	(6)
Trust	0.194**	0.184**	0.184**	0.337***	0.367***	0.501***
	(0.016)	(0.015)	(0.014)	(0.008)	(0.007)	(0.002)
Hierarchy	−0.020	−0.008	−0.049	0.059	0.078	0.061
	(0.819)	(0.919)	(0.511)	(0.691)	(0.608)	(0.758)
Individualism	−0.138*	−0.078	0.009	−0.191*	−0.206*	−0.132
	(0.072)	(0.294)	(0.917)	(0.088)	(0.090)	(0.455)
Openness	−0.474**	−0.597***	−0.739***	−0.778**	−0.850**	−1.218**
	(0.038)	(0.006)	(0.001)	(0.034)	(0.030)	(0.013)
Shareholder Rights	0.017*	0.018**	0.018**	0.039**	0.044**	0.057***
	(0.071)	(0.034)	(0.030)	(0.019)	(0.013)	(0.008)
Public Enforcement	0.020	0.031	0.043**	0.030	0.039	0.084*
	(0.371)	(0.122)	(0.013)	(0.405)	(0.288)	(0.057)
GDP/Capita	1.785	2.311*	3.305**	4.460**	4.347*	6.181*
	(0.201)	(0.091)	(0.023)	(0.048)	(0.090)	(0.055)
Corporate Tax Rate	0.314*	0.351**	0.315**	0.676**	0.754**	1.056***
	(0.065)	(0.026)	(0.014)	(0.023)	(0.014)	(0.004)
French Legal System	−0.053	−0.032	−0.016	0.039	0.051	0.083
	(0.127)	(0.291)	(0.551)	(0.497)	(0.397)	(0.244)
German Legal System	−0.076**	−0.071**	−0.072**	0.032	0.031	0.023
	(0.032)	(0.028)	(0.019)	(0.596)	(0.625)	(0.757)
Scandinavian Legal System	−0.161***	−0.152***	−0.154***	−0.137*	−0.141*	−0.161*
	(0.002)	(0.002)	(0.002)	(0.064)	(0.065)	(0.053)
Constant	0.158	0.118	0.042	0.125	0.099	−0.080
	(0.194)	(0.295)	(0.691)	(0.529)	(0.629)	(0.763)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Religion Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Log likelihood	698.669	660.857	534.011	383.622	268.051***	30.222***
Constant only log likelihood	334.559	256.898	118.904	75.765	−37.097	−286.566
Observations	783	783	783	783	783	783

Table IA.XIV
Cross-Border Merger Activity Using Different Activity Measures
For Table IV of the Paper

This table presents pooled cross-sectional tobit regression coefficients and robust $p-$values double-clustered at the acquirer and target nation levels. The dependent variable is the log of the number (N) or value (V) of domestic mergers of at least \$1 million (001), normalized by the log GDP in the same year at the country-year level. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Number of Cross-Border Mergers Normalized by GDP	
	N001	V001
	(1)	(2)
Aggregate Trust	0.055**	0.190***
	(0.049)	(0.001)
| Δ Trust |	−0.025	−0.102**
	(0.286)	(0.041)
| Δ Hierarchy |	−0.062**	−0.017
	(0.034)	(0.814)
| Δ Individualism |	−0.054*	−0.059
	(0.088)	(0.408)
Acquirer Openness	0.189	0.063
	(0.178)	(0.852)
Target Openness	0.051	−0.131
	(0.684)	(0.686)
| Δ Openness |	−0.106*	0.004
	(0.084)	(0.981)
Acquirer GDP/Capita	0.116	0.524
	(0.860)	(0.730)
Target GDP/Capita	0.726	1.467
	(0.173)	(0.325)
| Δ GDP/Capita |	−0.068	−0.649
	(0.887)	(0.433)
Target Corporate Tax Rate	0.080*	0.097
	(0.051)	(0.396)
| Δ Corporate Tax Rate |	−0.047	−0.192
	(0.299)	(0.106)
Same Religion	0.022***	0.054***
	(0.000)	(0.000)
Same Language	0.037***	0.021
	(0.006)	(0.496)
Log(Geographic Distance)	−0.051***	−0.142***
	(0.000)	(0.000)
Share Border	0.006	0.057***
	(0.304)	(0.001)
Exchange Rate Volatility	−0.267**	−0.078***
	(0.015)	(0.004)
Exchange Rate Growth	−0.022	0.004***
	(0.149)	(0.000)

Table IA.XIV - *Continued*

	N001	V001
	(1)	(2)
Double-Tax Treaty	0.008	0.039***
	(0.149)	(0.006)
Bilateral Investment Treaty	0.006	0.022*
	(0.439)	(0.084)
Same Legal System	0.054***	0.113***
	(0.000)	(0.000)
| Δ Shareholder Rights |	−0.003	−0.007
	(0.413)	(0.468)
| Δ Public Enforcement |	−0.004	−0.012
	(0.324)	(0.187)
Constant	0.020	−0.086
	(0.748)	(0.498)
Country Effects	Yes	Yes
Year Fixed Effects	Yes	Yes
Log likelihood	1053.051***	−2155.121***
Constant only log likelihood	−2752.770	−6826.002
Observations	13453	13453

Table IA.XV
Long-Run Returns in Domestic Mergers Using the World Benchmark
For Table V of the Paper
This table presents cross-sectional ordinary least squares regression coefficients and robust $p-$values, clustered at the country level. The dependent variable is the three year buy-and-hold abnormal returns of the acquirer using monthly return data where the benchmark is based on terciles of market equity, book-to-market ratio, and momentum from all stocks in the Compustat Global database. Mergers include all public, private, and subsidiary targets where the transaction value is at least $1 million from SDC Thomson database in 1991–2008. Trust is measured as whether people believe most other people can be trusted or not. Hierarchy is measured as whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first. Individualism is measured as whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Three-Year Buy-and-Hold Abnormal Return			
	(1)	(2)	(3)	(4)
Trust	−0.377			−1.385
	(0.482)			(0.111)
Hierarchy		0.216		−0.290
		(0.855)		(0.801)
Individualism			1.381**	2.311**
			(0.034)	(0.048)
Transaction Value	−0.443	−0.401	−0.537	−0.769
	(0.797)	(0.813)	(0.753)	(0.676)
Relative Size	0.034	0.034	0.036*	0.035
	(0.102)	(0.101)	(0.085)	(0.100)
Acquirer Market Value	−2.548***	−2.535***	−2.545***	−2.603***
	(0.000)	(0.000)	(0.000)	(0.000)
Majority Cash	0.044	0.044	0.043	0.039
	(0.307)	(0.296)	(0.326)	(0.375)
Tender Offer	−0.162***	−0.161***	−0.161***	−0.159***
	(0.001)	(0.001)	(0.001)	(0.001)
Friendly Offer	−0.401**	−0.400**	−0.415**	−0.429***
	(0.011)	(0.012)	(0.011)	(0.009)
Same Industry	0.028	0.027	0.028	0.029
	(0.300)	(0.311)	(0.320)	(0.291)
Acquirer Termination Fee	−0.019	−0.021	−0.025	−0.021
	(0.356)	(0.303)	(0.237)	(0.325)
Target Termination Fee	0.042	0.042	0.041	0.037
	(0.342)	(0.339)	(0.334)	(0.359)
Target Defense	−0.018	−0.020*	−0.022	−0.017
	(0.173)	(0.081)	(0.105)	(0.202)
Acquirer Past Return	−0.143***	−0.143***	−0.142***	−0.141***
	(0.000)	(0.000)	(0.000)	(0.000)

Table IA.XV - *Continued*

	Three-Year Buy-and-Hold Abnormal Return			
	(1)	(2)	(3)	(4)
Acquirer Past Volatility	−6.947***	−6.907***	−6.828***	−6.913***
	(0.001)	(0.001)	(0.001)	(0.001)
Target Past Return	0.016	0.016	0.015	0.014
	(0.566)	(0.560)	(0.587)	(0.603)
Target Past Volatility	2.558	2.527	2.357	2.330
	(0.154)	(0.150)	(0.158)	(0.153)
Openness	0.002	0.003	0.002	0.001
	(0.381)	(0.380)	(0.349)	(0.745)
French Legal System	−0.687**	−0.611**	−0.522**	−0.689***
	(0.010)	(0.015)	(0.016)	(0.001)
German Legal System	−0.131	−0.072	0.029	−0.053
	(0.825)	(0.915)	(0.960)	(0.926)
Scandinavian Legal System	−0.147	−0.219	−0.227	0.124
	(0.680)	(0.615)	(0.420)	(0.789)
Shareholder Rights	−0.068	−0.056	−0.036	−0.064
	(0.417)	(0.527)	(0.647)	(0.357)
Public Enforcement	−0.042	−0.044	0.009	0.001
	(0.865)	(0.890)	(0.967)	(0.997)
GDP/Capita	−14.975	−18.727	−14.446	−2.874
	(0.247)	(0.301)	(0.316)	(0.866)
Corporate Tax Rate	0.974	1.130	1.035	0.205
	(0.599)	(0.566)	(0.569)	(0.882)
Constant	0.078	−0.305	−1.305	−0.774
	(0.954)	(0.850)	(0.415)	(0.575)
Year Fixed Effects	Yes	Yes	Yes	Yes
Religion Fixed Effects	Yes	Yes	Yes	Yes
Adjusted R^2	0.080	0.080	0.082	0.083
Observations	2036	2036	2036	2036

Table IA.XVI
Long-Run Returns in Domestic Mergers Using Country Benchmarks
For Table V of the Paper

This table presents cross-sectional ordinary least squares regression coefficients and robust $p-$values, clustered at the country level. The dependent variable is the three year buy-and-hold abnormal returns of the acquirer using monthly return data where the benchmark is based on terciles of market equity, book-to-market ratio, and momentum from all stocks in the acquirer's home country, excluding the acquirer. Mergers include all public, private, and subsidiary targets where the transaction value is at least \$1 million from SDC Thomson database in 1991–2008. Trust is measured as whether people believe most other people can be trusted or not. Hierarchy is measured as whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first. Individualism is measured as whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Three-Year Buy-and-Hold Abnormal Return			
	(1)	(2)	(3)	(4)
Trust	0.365			−0.639
	(0.461)			(0.564)
Hierarchy		1.217		0.624
		(0.331)		(0.673)
Individualism			1.265*	1.486
			(0.051)	(0.212)
Transaction Value	−1.088	−0.964	−1.185	−1.127
	(0.625)	(0.655)	(0.607)	(0.624)
Relative Size	0.033	0.032	0.035	0.033
	(0.151)	(0.181)	(0.145)	(0.150)
Acquirer Market Value	−3.480***	−3.481***	−3.510***	−3.524***
	(0.000)	(0.000)	(0.000)	(0.000)
Majority Cash	0.071*	0.069	0.068	0.066
	(0.091)	(0.112)	(0.112)	(0.120)
Tender Offer	−0.103*	−0.093*	−0.099*	−0.093*
	(0.075)	(0.097)	(0.080)	(0.087)
Friendly Offer	−0.414**	−0.414**	−0.418**	−0.419**
	(0.022)	(0.022)	(0.022)	(0.022)
Same Industry	0.034*	0.031*	0.034*	0.033*
	(0.066)	(0.083)	(0.064)	(0.057)
Acquirer Termination Fee	−0.064**	−0.065**	−0.066**	−0.066**
	(0.012)	(0.015)	(0.012)	(0.013)
Target Termination Fee	0.036	0.033	0.033	0.030
	(0.289)	(0.265)	(0.274)	(0.296)
Target Defense	−0.014	−0.015	−0.016	−0.015
	(0.331)	(0.256)	(0.263)	(0.291)
Acquirer Past Return	−0.153***	−0.155***	−0.152***	−0.154***
	(0.000)	(0.000)	(0.000)	(0.000)

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Table IA.XVI - *Continued*

	Three-Year Buy-and-Hold Abnormal Return			
	(1)	(2)	(3)	(4)
Acquirer Past Volatility	-6.706^{***}	-6.657^{***}	-6.664^{***}	-6.640^{***}
	(0.005)	(0.005)	(0.005)	(0.005)
Target Past Return	0.038	0.039	0.039	0.040
	(0.116)	(0.113)	(0.113)	(0.106)
Target Past Volatility	1.286	1.265	1.157	1.151
	(0.483)	(0.468)	(0.499)	(0.494)
Openness	0.005^{**}	0.006^{*}	0.005^{*}	0.004^{*}
	(0.047)	(0.051)	(0.058)	(0.094)
French Legal System	0.252	0.242^{*}	0.285^{*}	0.222
	(0.277)	(0.077)	(0.063)	(0.186)
German Legal System	0.950	0.975^{*}	1.021^{*}	1.016^{*}
	(0.129)	(0.096)	(0.081)	(0.055)
Scandinavian Legal System	0.210	0.468	0.386	0.675
	(0.713)	(0.314)	(0.366)	(0.315)
Shareholder Rights	0.212^{**}	0.189^{**}	0.217^{**}	0.196^{***}
	(0.026)	(0.020)	(0.010)	(0.008)
Public Enforcement	-0.276	-0.392	-0.257	-0.348
	(0.341)	(0.138)	(0.258)	(0.213)
GDP/Capita	-3.108	-12.798	1.392	-0.197
	(0.819)	(0.571)	(0.901)	(0.994)
Corporate Tax Rate	0.343	-0.163	-0.003	-0.634
	(0.850)	(0.911)	(0.999)	(0.636)
Constant	-1.973	-1.795	-2.606^{*}	-2.395^{**}
	(0.137)	(0.147)	(0.061)	(0.033)
Year Fixed Effects	Yes	Yes	Yes	Yes
Religion Fixed Effects	Yes	Yes	Yes	Yes
Adjusted R^2	0.059	0.060	0.061	0.060
Observations	1947	1947	1947	1947

Table IA.XVII
Long-Run Returns in Cross-Border Mergers Using the World Benchmark
For Table VI of the Paper
This table presents cross-sectional ordinary least squares regression coefficients and robust $p-$values, clustered at the acquirer country levels. The dependent variable is the three year buy-and-hold abnormal returns of the acquirer using monthly return data where the benchmark is based on terciles of market equity, book-to-market ratio, and momentum from all stocks in the Compustat Global database. Trust is measured as whether people believe most other people can be trusted or not. Hierarchy is whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first. Individualism is whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal. Country effects are dummy variables for the acquirer's home country. $| \Delta |$ is the absolute difference between acquiror and target nation. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Three-Year Buy-and-Hold Abnormal Return				
	(1)	(2)	(3)	(4)	(5)
Aggregate Trust	0.496				0.358
	(0.239)				(0.338)
$| \Delta $ Trust $\|$		0.466			0.401
		(0.273)			(0.307)
$| \Delta $ Hierarchy $\|$			−0.638		−0.647
			(0.284)		(0.337)
$| \Delta $ Individualism $\|$				0.779	0.650
				(0.387)	(0.486)
Transaction Value	−8.451	−9.269	−9.243	−8.715	−9.224
	(0.339)	(0.284)	(0.284)	(0.312)	(0.282)
Relative Size	0.046***	0.043***	0.048***	0.045***	0.046***
	(0.002)	(0.003)	(0.001)	(0.002)	(0.001)
Acquirer Market Value	−2.135	−2.071	−2.132	−2.066	−2.112
	(0.131)	(0.119)	(0.121)	(0.120)	(0.134)
Majority Cash	0.038	0.016	0.019	0.012	0.041
	(0.751)	(0.893)	(0.874)	(0.915)	(0.735)
Tender Offer	−0.039	−0.027	−0.035	−0.019	−0.035
	(0.689)	(0.780)	(0.736)	(0.836)	(0.731)
Friendly Offer	0.124	0.119	0.130	0.122	0.118
	(0.240)	(0.267)	(0.208)	(0.256)	(0.269)
Same Industry	0.057	0.064	0.061	0.057	0.060
	(0.320)	(0.287)	(0.304)	(0.341)	(0.306)
Acquirer Termination Fee	−0.148	−0.136	−0.144	−0.147	−0.147
	(0.364)	(0.405)	(0.387)	(0.363)	(0.381)
Target Termination Fee	0.003	0.002	0.002	−0.009	0.005
	(0.979)	(0.985)	(0.982)	(0.932)	(0.963)
Target Defense	0.139	0.143	0.147	0.131	0.128
	(0.485)	(0.467)	(0.448)	(0.512)	(0.512)
Acquirer Past Return	−0.144**	−0.146**	−0.147**	−0.147**	−0.147**
	(0.033)	(0.026)	(0.033)	(0.029)	(0.037)
Acquirer Past Volatility	−5.549*	−5.724**	−5.616**	−5.483**	−5.384*
	(0.050)	(0.040)	(0.048)	(0.048)	(0.065)
Target Past Return	0.018	0.022	0.025	0.026	0.027
	(0.595)	(0.524)	(0.480)	(0.460)	(0.462)
Target Past Volatility	−1.039	−0.982	−1.137	−1.121	−1.154
	(0.258)	(0.283)	(0.226)	(0.230)	(0.242)

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Table IA.XVII - *Continued*

	Three-Year Buy-and-Hold Abnormal Return				
	(1)	(2)	(3)	(4)	(5)
Acquirer Openness	0.006	0.006	0.005	0.006	0.004
	(0.499)	(0.507)	(0.550)	(0.494)	(0.635)
Target Openness	0.002*	0.002*	0.002**	0.002*	0.002*
	(0.082)	(0.071)	(0.044)	(0.097)	(0.088)
| Δ Openness |	−1.665	−1.872	−1.710	−1.794	−1.680
	(0.315)	(0.258)	(0.297)	(0.279)	(0.317)
Acquirer GDP/Capita	2.237	−0.165	−3.313	0.143	−0.822
	(0.939)	(0.995)	(0.908)	(0.996)	(0.979)
Target GDP/Capita	−11.839*	−7.077	−7.362	−7.528	−7.400
	(0.095)	(0.361)	(0.326)	(0.336)	(0.334)
| Δ GDP/Capita |	−7.676	−6.414	−2.971	−8.114	−5.452
	(0.324)	(0.428)	(0.718)	(0.333)	(0.543)
Acquirer Corporate Tax Rate	−0.049	−0.057	−0.060	−0.051	−0.056
	(0.241)	(0.175)	(0.121)	(0.209)	(0.194)
Target Corporate Tax Rate	0.008	0.006	0.007	0.007	0.008
	(0.413)	(0.573)	(0.484)	(0.488)	(0.475)
| Δ Corporate Tax Rate |	−0.003	−0.006	−0.006	−0.006	−0.004
	(0.786)	(0.599)	(0.603)	(0.623)	(0.760)
Same Religion	0.013	0.004	−0.003	0.011	−0.015
	(0.822)	(0.949)	(0.961)	(0.847)	(0.825)
Same Language	0.151	0.163	0.135	0.161	0.165
	(0.154)	(0.129)	(0.180)	(0.122)	(0.118)
Log(Geographic Distance)	0.087*	0.080*	0.089*	0.086*	0.099*
	(0.054)	(0.071)	(0.061)	(0.056)	(0.051)
Share Border	0.047	0.045	0.026	0.063	0.064
	(0.679)	(0.686)	(0.822)	(0.601)	(0.567)
Exchange Rate Volatility	5.523	4.825	5.474	5.203	6.317*
	(0.165)	(0.239)	(0.154)	(0.193)	(0.096)
Exchange Rate Growth	0.071	0.070	0.052	0.038	0.072
	(0.853)	(0.859)	(0.893)	(0.922)	(0.856)
Double-Tax Treaty	−0.112	−0.112	−0.138	−0.140	−0.104
	(0.626)	(0.626)	(0.578)	(0.549)	(0.663)
Bilateral Investment Treaty	0.027	−0.036	−0.089	−0.005	−0.032
	(0.880)	(0.812)	(0.589)	(0.972)	(0.877)
Same Legal System	0.115	0.139	0.061	0.049	0.151
	(0.565)	(0.492)	(0.740)	(0.797)	(0.449)
| Δ Shareholder Rights |	0.013	0.017	0.016	0.014	0.021
	(0.715)	(0.636)	(0.673)	(0.686)	(0.573)
| Δ Public Enforcement |	−0.034	−0.020	−0.029	−0.048	−0.071
	(0.639)	(0.790)	(0.679)	(0.612)	(0.415)
Heckman's Lambda	0.011	0.028	0.003	0.014	0.004
	(0.947)	(0.865)	(0.985)	(0.937)	(0.982)
Constant	0.946	1.544	1.861	1.332	1.213
	(0.687)	(0.438)	(0.331)	(0.522)	(0.606)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Acquirer Country Effects	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.125	0.123	0.124	0.123	0.123
Observations	483	483	483	483	483

Table IA.XVIII
Long-Run Returns in Cross-Border Mergers Using Country Benchmarks
For Table VI of the Paper
This table presents cross-sectional ordinary least squares regression coefficients and robust $p-$values, clustered at the acquirer country levels. The dependent variable is the three year buy-and-hold abnormal returns of the acquirer using monthly return data where the benchmark is based on terciles of market equity, book-to-market ratio, and momentum from all stocks in the acquirer's home country, excluding the acquirer. Trust is measured as whether people believe most other people can be trusted or not. Hierarchy is whether people believe they should follow instructions from a superior at work even if they do not agree vs. having to be convinced first. Individualism is whether people believe income differences are an incentive for effort vs. whether incomes should be made more equal. Country effects are dummy variables for the acquirer's home country. $|\Delta|$ is the absolute difference between acquiror and target nation. All other variables are defined in the appendix. Significance at 10%, 5%, and 1%, indicated by *, **, and ***.

	Three-Year Buy-and-Hold Abnormal Return				
	(1)	(2)	(3)	(4)	(5)
Aggregate Trust	0.415				0.148
	(0.253)				(0.604)
$\mid \Delta$ Trust $\mid$		0.082			−0.034
		(0.876)			(0.945)
$\mid \Delta$ Hierarchy $\mid$			−1.209**		−1.244*
			(0.043)		(0.063)
$\mid \Delta$ Individualism $\mid$				0.818	0.985
				(0.348)	(0.311)
Transaction Value	0.644	0.540	−0.055	0.400	−0.222
	(0.915)	(0.927)	(0.993)	(0.946)	(0.970)
Relative Size	0.022	0.022	0.028	0.022	0.028
	(0.312)	(0.358)	(0.149)	(0.304)	(0.197)
Acquirer Market Value	−1.637	−1.643	−1.628	−1.644	−1.622
	(0.348)	(0.336)	(0.338)	(0.343)	(0.359)
Majority Cash	0.092	0.069	0.081	0.068	0.089
	(0.526)	(0.628)	(0.563)	(0.630)	(0.532)
Tender Offer	0.050	0.055	0.042	0.059	0.046
	(0.629)	(0.586)	(0.703)	(0.552)	(0.680)
Friendly Offer	0.086	0.091	0.081	0.089	0.075
	(0.218)	(0.243)	(0.195)	(0.186)	(0.320)
Same Industry	−0.042	−0.038	−0.032	−0.043	−0.038
	(0.387)	(0.442)	(0.483)	(0.358)	(0.424)
Acquirer Termination Fee	−0.118	−0.113	−0.120	−0.122	−0.132
	(0.493)	(0.516)	(0.495)	(0.477)	(0.470)
Target Termination Fee	−0.024	−0.024	−0.023	−0.032	−0.032
	(0.639)	(0.647)	(0.662)	(0.533)	(0.533)
Target Defense	0.068	0.070	0.060	0.061	0.047
	(0.674)	(0.670)	(0.714)	(0.704)	(0.770)
Acquirer Past Return	−0.122***	−0.124***	−0.125***	−0.126***	−0.127***
	(0.003)	(0.002)	(0.003)	(0.002)	(0.005)
Acquirer Past Volatility	1.902	1.902	2.043	2.206	2.408
	(0.605)	(0.610)	(0.580)	(0.559)	(0.522)
Target Past Return	0.008	0.012	0.019	0.016	0.023
	(0.868)	(0.823)	(0.716)	(0.761)	(0.654)
Target Past Volatility	−1.291	−1.284	−1.493	−1.368	−1.593
	(0.320)	(0.324)	(0.262)	(0.290)	(0.247)

Table IA.XVIII - *Continued*

	Three-Year Buy-and-Hold Abnormal Return				
	(1)	(2)	(3)	(4)	(5)
Acquirer Openness	0.003	0.002	0.001	0.002	0.001
	(0.737)	(0.751)	(0.915)	(0.751)	(0.934)
Target Openness	0.003*	0.003**	0.003**	0.003*	0.003*
	(0.051)	(0.039)	(0.028)	(0.083)	(0.057)
| Δ Openness |	−1.961	−1.945	−1.739	−1.952	−1.763
	(0.216)	(0.225)	(0.246)	(0.211)	(0.262)
Acquirer GDP/Capita	−3.100	−5.087	−9.965	−3.497	−7.526
	(0.915)	(0.858)	(0.721)	(0.903)	(0.790)
Target GDP/Capita	−18.156**	−16.162**	−11.729*	−15.115*	−10.683
	(0.025)	(0.028)	(0.084)	(0.066)	(0.131)
| Δ GDP/Capita |	−6.143	−5.509	2.127	−7.603	−0.278
	(0.502)	(0.545)	(0.749)	(0.444)	(0.972)
Acquirer Corporate Tax Rate	0.032	0.027	0.003	0.027	0.004
	(0.574)	(0.626)	(0.946)	(0.619)	(0.931)
Target Corporate Tax Rate	0.009	0.007	0.008	0.008	0.009
	(0.452)	(0.510)	(0.509)	(0.509)	(0.454)
| Δ Corporate Tax Rate |	0.013	0.012	0.012	0.012	0.012
	(0.381)	(0.399)	(0.437)	(0.427)	(0.479)
Same Religion	0.034	0.032	0.002	0.033	0.002
	(0.554)	(0.621)	(0.971)	(0.580)	(0.979)
Same Language	0.066	0.070	0.036	0.082	0.052
	(0.492)	(0.474)	(0.694)	(0.387)	(0.593)
Log(Geographic Distance)	0.113*	0.112*	0.126*	0.116*	0.133*
	(0.089)	(0.088)	(0.066)	(0.087)	(0.067)
Share Border	0.069	0.057	0.028	0.092	0.076
	(0.557)	(0.648)	(0.814)	(0.519)	(0.572)
Exchange Rate Volatility	11.118**	10.525**	11.372***	10.989**	12.126***
	(0.021)	(0.032)	(0.009)	(0.025)	(0.004)
Exchange Rate Growth	0.282	0.260	0.293	0.253	0.295
	(0.461)	(0.502)	(0.457)	(0.507)	(0.452)
Double-Tax Treaty	−0.208	−0.192	−0.223	−0.209	−0.243
	(0.363)	(0.412)	(0.376)	(0.374)	(0.370)
Bilateral Investment Treaty	−0.419*	−0.482**	−0.568**	−0.450**	−0.508**
	(0.074)	(0.033)	(0.018)	(0.032)	(0.036)
Same Legal System	0.064	−0.004	−0.054	−0.026	−0.043
	(0.761)	(0.983)	(0.763)	(0.894)	(0.840)
| Δ Shareholder Rights |	−0.037	−0.039	−0.033	−0.036	−0.029
	(0.316)	(0.314)	(0.378)	(0.308)	(0.460)
| Δ Public Enforcement |	0.085	0.092	0.060	0.057	0.013
	(0.392)	(0.364)	(0.470)	(0.601)	(0.886)
Heckman's Lambda	0.049	0.053	0.045	0.047	0.037
	(0.815)	(0.803)	(0.822)	(0.821)	(0.850)
Constant	−2.673	−2.104	−1.531	−2.230	−1.883
	(0.289)	(0.349)	(0.455)	(0.339)	(0.401)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Acquirer Country Effects	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.037	0.035	0.045	0.036	0.040
Observations	393	393	393	393	393