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The Role of Chinese CEOs in Managing Individualistic Cultures in Cross-border Mergers and Acquisitions

ABSTRACT

The individualism-collectivism culture represents an important and well-researched distinction across cultures. Yet research is less clear about how the different levels of individualistic cultures in host countries affect the success of an increasingly important firm strategy - cross-border mergers and acquisitions (CBMAs). This study addresses this key research question in the context of Chinese firms' CBMAs, as Chinese firms are increasingly acquiring targets outside of China in the New Normal global business landscape. This study further theorizes and tests how the Chinese acquirer CEOs' characteristics moderate the wealth creation relationship. In an analysis of 404 Chinese firms' CBMAs, we found that an individualistic culture in the host country is negatively associated with Chinese acquirers' CBMA wealth creation. We also demonstrate that Chinese CEOs' exposure to foreign culture and female gender weaken that negative relationship, while CEO duality strengthens this negative relationship. Our research thus suggests that culture in host countries can negatively affect acquirers' CBMA performance, but CEOs may be able to manage the effects of the culture to increase their CBMA performance.

Keywords: China, Cross-border mergers and acquisitions, culture, CEOs, CEO duality, gender

INTRODUCTION

National culture has been a key research topic since the earliest days of international business and strategy research (Hitt, Franklin and Zhu, 2006; Hofstede, 1991; Kirkman, Lowe and Gibson, 2006, 2017; Kogut and Singh, 1988). In particular, the important cultural dimension of individualism-collectivism represents a key distinction across cultures (Earley and Gibson, 1998; Hui and Triandis, 1986; Triandis, 1995; Triandis and Gelfand, 1998). Researchers have established differences across a number of organizational practices such as leadership and motivations between individualism and collectivism cultures (Adler and Gundersen, 2007; Earley and Gibson, 1998; Kirkman et al., 2006, 2017). However, less is known about whether and how individualism culture affects the value creation of firms operating across cultures (Ahlstrom and Bruton, 2009; Singh, 2007).

It is very important to address this research question in the New Normal era when cross-border mergers and acquisitions (CBMAs) have become the most important international strategy for established firms to compete in the global market (Brattström, Faems and Mähring, 2019; Tarba, Cooke, Weber, Ahlstrom, Cooper and Collings, 2019; Hitt, Keats and DeMarie, 1998; World Investment Report, 2000). Acquirers and targets with differing cultures and organizational practices need to integrate with each other and create new value (Lebedev, Peng, Xie and Stevens, 2015; Haleblian, Devers, McNamara, Carpenter and Davison, 2009; King, Dalton, Daily and Covin, 2004; Zhu and Zhu, 2016). Prior research suggests that the targets' willingness and efforts toward trust and cooperation with acquirers are the key for acquirers to gain new value from CBMAs (Cannella and Hambrick, 1993; Capron and Guillén, 2009), which can be affected by culture in host countries (Capron and Guillén, 2009; Earley and Gibson, 1998; Morosini, Shane, and Singh, 1998). Thus our study aims to examine the effects of the key individualism-collectivism cultural dimension in host countries¹ on acquirers' CBMA value creation defined as acquirers' post-CBMA

performance changes in Tobin's Q.

We further consider the boundary conditions of the baseline model to provide a more complete and fine-grained theory. On the basis of the effects of individualism-collectivism culture in host countries on CBMA value creation, we take into account of the profound impact of proactive acquirer CEO's roles in explaining CBMA value creation (Earley and Gibson, 1998; Kirkman et al., 2006, 2017). Upper echelon theory and acquisition research suggest that acquirer CEOs are often key decision makers in the post-acquisition combined firm and yet differ substantially in their characteristics, which could result in various influences on CBMAs and, subsequently, different financial outcomes of CBMAs (Hambrick and Mason, 1984; Quigley and Hambrick, 2015; Quigley and Graffin, 2017). On the basis of prior studies, we highlight three acquirer CEO characteristics that have been studied extensively as the moderators. These three CEO characteristics are exposure to foreign culture, gender, and CEO duality.

In a sample of 404 Chinese listed firms' CBMAs between Jan 1st, 2001 and December 31st, 2015, an endogeneity-corrected two-stage Heckman model was used to test our hypotheses. We found that a more individualistic culture in host countries is negatively related to post-acquisition performance of Chinese acquirers. We contribute to the knowledge of whether and how individualism or collectivism adds value to firms operating across cultures in CBMAs in the New Normal era of the past one and a half decades (Etzioni, 2017). This paper also contributes to show that the negative effects of individualism in CBMAs can be mitigated if acquirer CEOs have the exposure to foreign culture and are females, and yet acquirer CEO duality may amplify the negative effects. Thus our study has further important theoretical and practical implications for Chinese acquirers' CBMA value creation in the New Normal era when CBMAs have been increasingly becoming one of the most important international strategies for Chinese firms to grow and create value in the global market

(Bruton, Peng, Ahlstrom, Stan and Xu, 2015; Tomizawa, Zhao, Bassellier and Ahlstrom, 2020; Wang and Miao, 2016).

LITERATURE REVIEW

National Culture and CBMA Wealth Creation

Since firms have been increasingly expanding outside of their national borders in response to the globalization in the 21st century (Tarba et al., 2019; Wang and Miao, 2016), one of the key challenges these firms have encountered is how to manage the culture in host countries, of which the firms may lack sufficient knowledge (Ahlstrom and Bruton, 2009; Hitt et al, 2006). Corporate executives often attribute international expansion failures to cultural distance (e.g. Hastings, 1999; Reus and Lamont, 2009), though prior research and findings have called this attribution into question (Morosini et al., 1998). Indeed scholars have recently directed an increasing amount of attention toward culture's impact on international expansion, and particularly on CBMAs, which are the quickest and most popular strategy for firms to establish their global presence (Stahl and Voigt, 2008; Zhu and Zhu, 2016). CBMAs are making cultural issues more salient in the more globalized New Normal era, as the CBMAs' post-acquisition integration to create value often requires in-depth interactions with the acquired target managers and employees who are imprinted with the culture in host countries (Tarba et al., 2019). The acquirers may encounter a liability of foreignness.

However, how cultural distance affects CBMA wealth creation is not clear (Chakrabarti, Gupta-Mukherjee and Jayaraman, 2009; Ghemawat, 2001; Hennart and Larimo, 1998; Kogut and Singh, 1988; Reus and Lamont, 2009; Shimizu, Hitt, Vaidyanath and Pisano, 2004; Stahl and Voigt, 2008). One major meta-analysis suggests that the relationship between cultural distance and post-acquisition performance may not exist (Stahl and Voigt, 2008). Kogut and Singh (1988) conducted an early study on cultural distance in CBMAs and found that cultural

distance affects firms' choice of CBMAs as the entry mode. Furthermore, as corporate executives complained, research found that cultural distance greatly increases the complexity, ambiguities and difficulties in post-acquisition communications, coordination and management and thus dramatically impedes effective integration and wealth creation (Reus and Lamont, 2009). However, despite these negative effects, different cultures could add value to the acquirers by providing new resources and capabilities that are not available in the acquirers' home countries (Morosini et al., 1998). In addition to these two dominant and yet opposite perspectives, some studies do not find support for the existence of this relationship (Barkema, Bell and Pennings, 1996; Stahl and Voigt, 2008).

Nevertheless, prior research has significantly advanced our understandings of the effects of cultural distance on CBMAs and has broadly achieved the consensus that culture does impact international strategies and their outcomes (Porter, 2001). Research also suggests that we need to take into account the unique characteristics of international strategies in order to clarify the roles of culture in the international strategies. In CBMAs, whether acquirers can gain value from their acquired foreign targets heavily depends on the cooperative perceptions and behaviors of the acquired targets, which are shaped by their surrounding culture (Huang, Zhu and Brass, 2017; Leung, Bhagat, Buchan, Erez and Gibson, 2005). Therefore, in this paper we redirect attention from cultural distance to specific cultural values in host countries in CBMAs.

Moreover, as Shenkar (2001) noted, prior research on culture is largely based on a composite construct that comprises four distinct dimensions: individualism-collectivism, power distance, uncertainty avoidance, and masculinity. Yet research development of culture can be hindered by masking effects of the four cultural dimensions. Huang et al. (2017) thus suggested that each cultural dimension should have its own theorization of the effects on CBMA wealth creation.

Accordingly, Huang et al. (2017) focuses on the effects of power distance value on the wealth creation of CBMAs, given that the hierarchical structure in which acquirers dominate their acquired targets tends to trigger different behaviors of the targets that are imprinted with various levels of the power distance value. Targets with high levels of power distance may be willing to follow the dominant acquirers to facilitate the post-acquisition integration yet targets with low levels of power distance tend to compete for dominance. We extend this line of work to examine the effects of individualism on CBMA wealth creation. Individualism in host countries tends to shape acquired targets' perceptions regarding their independence from the acquirers, which can affect their cooperative behaviors in post-acquisition integration processes (Earley and Gibson, 1998; Markus and Kitayama, 1991; Peng, Wang and Jiang, 2008; Zhu and Qian, 2015). Thus we examine whether and how individualistic cultures in host countries affect the post-acquisition value creation of firms' CBMAs.

Acquirer CEO Characteristics and CBMA Wealth Creation

Prior research suggests that the acquiring firm CEO is essential to effective post-acquisition integration and value creation (Hayward and Hambrick, 1997). Researchers have found that CEO characteristics, such as CEO hubris and narcissism, influence the acquisition intensity and the size of the acquisition premium (Hayward and Hambrick, 1997; Liu, Fisher and Chen, 2018; Zhu and Chen, 2015).

This paper focuses on three well-studied acquiring CEO characteristics (Haleblian et al., 2009; Hayward and Hambrick, 1997; Jeong and Harrison, 2017; Krause, Semadeni and Canella, 2014; Park, 2015; Zhang and Qu, 2016) and these characteristics are the most relevant to the individualism culture. CEOs' exposure to foreign cultures is likely to make the CEOs appreciate that individuals in other countries may perceive the self and relationships with others differently (Earley and Ang, 2003). CEOs assuming board chair positions tend to consolidate the power and provide a unity of command (Krause et al., 2014). Compared with

CEOs who do not assume board chair positions, these CEOs are the most powerful people in the firms and are more likely to value their opinions and devalue others. The gender of leaders also significantly affects their leadership behavior (Chen, Crossland and Huang, 2016; Zhang and Qu, 2016). In particular, female leaders tend to be less self-centered and are more participative and involve others in decision making more than directive male leaders do (Chen et al., 2016; Zhang and Qu, 2016). These three CEO characteristics center on whether and how acquirer CEOs accommodate the target managers and employees' various perceptions of their independent vs. interdependent relationships with acquirers, which are also the perceptions shaped by individualistic cultures in host countries. The acquirer CEOs' accommodations will subsequently change the target employees and managers' cooperation behaviors, which are key for the value-creation in CBMAs. The integrated theoretical framework is shown in Figure 1.

[Insert Figure 1 about here]

Chinese Firms' CBMAs in the New Normal

Scholars broadly define a changing trend as the New Normal in which developed economies have slowed down their growth rates and emerging economies' growth rates are higher (Ahlstrom, et al., 2017; El-Erian, 2010; Hitt, Li and Xu, 2016). Scholars further define the New Normal as the phenomena that embody both radical, non-ergodic and erratic changes and a fairly high frequency of changed behaviors and activities (Verbeke, 2018). The New Normal that has emerged in the last decade and a half has significantly shifted the economic, political and social environments where firms compete and firm strategies are crafted (El-Erian, 2016). The New Normal thus has attracted attention from scholars and practitioners to understand it from a variety of perspectives. In particular, in strategy research, it is vital for us to examine how the New Normal exerts its profound effects on firms and their strategies.

In terms of firms' CBMA international strategy, it is witnessed that the trend of CBMAs has been changing in the New Normal global business landscape, particularly with respect to developing economies. Firms from developing economies have been increasingly acquiring foreign targets with strategic resources in order to establish solid competitive bases and to create new value in the global markets of the New Normal (Hitt, Ireland and Harrison, 2001; Zhu, Xia, and Makino, 2015; Zhu and Zhu, 2016). For example, Zero2IPO, a pioneer in China's investment industry, reports that Chinese firms' CBMAs increased about 100 times from \$750 million in 2001 to \$73.3 billion in 2017. Chinese firms' CBMAs have been changing the global competitive landscape in the New Normal era, in which Chinese firms have been playing increasingly important roles. This study advances our understandings of Chinese firms' CBMA value creation and Chinese CEOs' roles in addressing individualism culture in host countries to gain new value from CBMAs.

HYPOTHESIS DEVELOPMENT

Individualistic Cultures in Host Countries

The essence of the key cultural dimension of individualism is that it shapes the extent to which individuals perceive themselves to be independent from the group and accountable to the group (Markus and Kitayama, 1991). In the context of CBMAs, an individualistic culture in host countries affects embedded target managers and employees' perceptions of their independence or interdependence with the new owner acquirers, which can impact their cooperation in post-acquisition combined firms, which is crucial for the acquirers to gain value from CBMAs (Haleblian et al., 2009; Zhu and Zhu, 2016).

We argue that high-levels of individualism in host countries tend to result in key managers and employees leaving their post-acquisition firms or to be less willing to cooperate with the acquirers (Tarba et al., 2019). Shaped by individualistic cultures, target

managers often desire for self-achievement, which they perceive is harmed when their firms are purchased by acquirers. Being acquired often suggests that target managers may lack the capabilities necessary to successfully manage their firms, which results in surrendering their decision making power to the acquirers (Brockner, Grover, Reed, DeWitt and O'Malley 1987; Krug and Hegarty, 1997, 2001). As such, these managers may often be viewed less favorably, which contradicts their self-identity of being the winners on the top of firm hierarchies.

Consequently, the struggling target managers often choose to leave their firms after being acquired. The turnover rates of the top managers of acquired U.S. firms are high (Krug, Wright and Kroll, 2014). Research has also found that top managers in the United States are more likely to leave after being acquired by non-U.S. acquirers (Butler, Perryman and Ranft, 2012; Krug and Hegarty, 1997, 2001). Unfortunately, managers who have embedded knowledge of target firms, institutions, networks, and local commercial culture are difficult to quickly replace if they leave, which can hurt post-acquisition value creation (Krug and Hegarty, 2001; Tarba et al., 2019). Their turnovers can further substantially reduce the post-acquisition value creation of acquirers as key tacit knowledge and social capital such as clients and employee relations exit with the departing top management (Butler et al., 2012; Davies, 2018).

Furthermore, even if top managers from individualistic cultures stay on after CBMAs, they tend to be less willing to cooperate with acquirers. Sharing their rich knowledge of target firms and local markets with the acquirers may, in their minds, threaten their positions of experts in the combined firms and even their job security. For example, after a leading Chinese high-tech consumer electronics company GoerTek acquired the Danish loudspeaker manufacturer Dynaudio in 2014, the Danish colleagues were focused on their own job descriptions and were less willing to work with other colleagues to help complete tasks together (China Business News, 2018).

In contrast, shaped by collectivistic cultures in host countries such as Japan, the managers and employees of targets tend to perceive themselves as more interdependent with their work groups and affiliated collectives; individual interests are more tightly associated with their affiliated collectives' interests (Holmes, Miller and Salmador, 2013; Triandis, 1995; Xiao and Tsui, 2007). Given the importance of the group, these target managers and employees are more sensitive to the expanding boundaries of their affiliated collectives with the acquiring firms as their new owners. Accordingly, they adapt to view the acquirers as critical in-group members of the new collectives referred as the post-acquisition combined firms (Markus and Kitayama, 1991). Their more collectivistic perceptions underscore that only when the new collectives successfully achieve the top priority of post-acquisition integration and value creation can they themselves gain personal benefits (e.g., job security and pay raises) as the members of the collectives. Therefore, these collectivism oriented target managers and employees are more likely to collaborate with their acquirers to create value after CBMAs. Therefore we hypothesize:

Hypothesis 1: A firm's post-acquisition performance is negatively related to the degree of individualistic cultural values in the host country of a CBMA.

We further suggest that the acquirer CEOs (the Chinese acquirer CEOs in this case) with exposure to foreign culture could help to weaken the negative relationship between the individualistic cultures in host countries and post-acquisition value creation, leading target managers and employees to choose to collaborate with the acquirers.

The number of Chinese firms and CEOs has increased greatly in China with the tremendous business opportunities since China began her economic reforms in 1978 (Wu, 2008). Many Chinese CEOs lack the experience of working and living outside of China (Wu, 2007, 2008). Therefore, most CEOs in China, with a propensity toward collectivism, tend to

have little knowledge of individualistic cultures. These Chinese CEOs thus may not understand that the priorities of target managers and employees in individualistic cultures tend to prioritize personal interests and desire for self-actualization.

In contrast to the mindsets and expectations of target managers and employees with more individualistic orientations, Chinese CEOs with little exposure to foreign culture may even require them to make personal sacrifices temporarily to accomplish the interests of the combined firms (Triandis, 1995). Such little understandings of and unexpected requests toward individualistic target managers and employees tend to result in fundamental and more serious conflicts between target managers and employees and Chinese acquirers in post-acquisition integration periods resulting in disengagement and even increased turnovers with the accompanying costs and problems (Jones, 2013; Zhang, 2005). As a result, post-acquisition value creation is likely to be further reduced.

However, if the Chinese CEOs have experience with cultures outside of China, the exposure to foreign culture may help them to become more open-minded and attentive to the different mindsets, sense-making, and motivations of target managers and employees they encounter from individualistic cultures (Daily, Certo and Dalton, 2000; McCall, 1998). As a result, such Chinese CEOs with the exposure to foreign culture tend to have fewer conflicts with individualistic target managers and to be more capable of mitigating the inevitable conflicts often occurring in post-acquisition integration processes (Huang et al., 2017). Equipped with more awareness and understandings, these Chinese CEOs are more likely to take into account the individualistic target managers' voices and needs in post-acquisition decision-making, including resource allocation and cooperation decisions (Ahlstrom and Ding, 2014; Wang, Ahlstrom, Nair and Hang, 2008).

These Chinese CEOs' perceptions and behaviors help to accommodate the individualistic target managers' desires for self-identity and self-achievement. Doing so can further help to

build up the target managers' confidence in the post-acquisition combined firms. As a result, in the newly combined firms target managers trust that their independent self-identity and self-achievement will be encouraged and rewarded. The individualistic target managers and employees tend to become motivated to cooperate and integrate with Chinese acquirers in promoting the wealth creation of CBMAs. Therefore:

Hypothesis 2: The negative effects of individualistic cultural values in the host country on a firm's post-acquisition performance are reduced when the acquirer CEO has the exposure to foreign culture.

We also suggest that acquirer CEOs assuming board chair positions tend to strengthen the negative relationship between individualistic cultures in host countries and CBMA value creation. Prior research suggests that boards of directors are charged with monitoring management to ensure that they serve the best interests of shareholders (Finkelstein, Hambrick and Cannella, 2009). Scholars and practitioners have thus advocated for independent directors (Krause, Withers and Semadeni, 2017). However, CEO duality violates the independence of the boards (Krause, et al., 2014).

In contrast to CEO duality, CEOs who are not board chairs tend to be more closely and effectively monitored by their boards (Kroll, Walters and Wright, 2008; Zajac and Westphal, 1996). These less powerful CEOs tend to face much more dismissal pressures as a result of poor corporate performance. Therefore, CEOs who have not assumed board chair positions tend to have strong incentives to increase post-acquisition performance to avoid being dismissed (BusenBark, Krause, Boivie and Graffin, 2016). Given that target managers' input is critical for post-acquisition integration, such CEOs are more likely to seek target managers' opinions and input and involve them in post-acquisition decision making in order to increase post-acquisition performance and to ensure their own employment security. The involvement

of individualism oriented target managers in post-acquisition decision making helps to sustain these individualism oriented target managers' self-esteem of being important. These target managers in turn are more likely to provide valuable advice and to facilitate post-acquisition integration and value creation.

However, the CEOs assuming board chair positions who are under little dismissal pressures are less motivated to seek the opinions of individualism oriented target managers. The individualistic target managers who are neglected may become irritated in not achieving their personal goals in these firms and thus may be less driven to collaborate with these board-chair-CEOs, who are also likely to be opportunistic and destroy the shareholders' value (Finkelstein and D'Aveni, 1994; Zajac and Westphal, 1996). Further, the CEO duality is often associated with the unity of command (Finkelstein and D'Aveni, 1994). These CEOs tend to extend their unity of command to acquired targets and prevent acquired target managers from challenging their unity of command. As noted earlier, after CBMAs the more individualism oriented managers may often find their self-achievement identity tarnished and their status, power and self-esteem threatened. Under the unity of command leadership of board-chair-CEOs, the individualism oriented target managers' self-identity of being independent, autonomous and capable of voicing their opinions may be further hurt. These individualism oriented target managers who are the key for the success of post-acquisition integration and value creation are thus more likely to leave after CBMAs. Therefore, we hypothesize:

Hypothesis 3: The negative effects of individualistic cultural values in the host country on a firm's post-acquisition performance are stronger when the CEO position and the board chair are consolidated (CEO duality).

When acquirers' CEOs are female, we argue that the negative relationship between

individualistic cultures in host countries and post-acquisition value creation will be reduced. It is important to note that women in China have made steady progress in ascending to CEO positions in recent years (Zhang and Qu, 2016). The percentage of female CEOs in Chinese listed firms has risen from 4.6% in 1997 to 5.6% in 2010 (Zhang, 2012) and been rising further to 6.16% in 2016.

Compared with male CEOs, female CEOs tend to be less power oriented (Adams and Funk, 2012) and emphasize equality with acquired target managers rather than a hierarchical relationship (Helgesen, 1990; Rosener, 1995). For example, female CEOs are more likely to solicit the suggestions of target managers and involve them in decision making (Eagly, Karau and Makhijani, 1995; Helgesen, 1990; Jeong and Harrison, 2017; Rosener, 1995). Female CEOs' empowering and being equal toward target managers tend to help to sustain individualism oriented target managers' decision making power and status in post-acquisition combined firms (Paustian-Underdahl, Walker and Woehr, 2014; Williams, 2012), which further reinforces their self-identity and dignity (Eagly and Wood, 2012; Koenig, Eagly, Mitchell and Ristikari, 2011; Schein, 2007). The individualism oriented managers thus tend to choose to stay and to become cooperative with acquirers to facilitate post-acquisition integration and value creation.

Moreover, compared with male CEOs, female CEOs are better able to deal with challenges brought by individualism oriented managers in acquired firms with respect to their de-emphasis of the collective interests of post-acquisition combined firms (Hoyt and Murphy, 2016; Wang et al., 2018). Female CEOs may display more emotionally intelligent resilience than male CEOs in dealing with challenges, and overcoming setbacks (Hoyt and Murphy, 2016; Ryan, Haslam and Hersby 2011; Wang et al., 2018). Moreover, female CEOs tend to be more risk averse in reserving financial resources and reduced financial leverage to cautiously handle issues in post-acquisition integration processes (Jeong and Harrison, 2017).

In contrast, the more directive leadership style of male CEOs tends to result in group polarization (Wang, Ahlstrom, Nair and Hang, 2008) in post-acquisition decision making. Such headship style may further result in the risky shift toward more extreme decisions with little considerations of target managers and employees (Esser, 1998). As a result, target managers tend to feel their decision making power and status may be weakened after CBMAs, which can negatively impact their self-esteem and increase their turnovers (Butler et al., 2012; McCall and Hollenbeck, 2002). Thus these individualistic target managers who have strong desires for self-achievement may choose to leave to pursue prosperous careers outside of the firms or will become much less willing to share their key resources with the acquirers so that they can sustain their own competitiveness within post-acquisition combined firms. The acquirers' wealth creation from CBMAs tends to suffer further. Therefore:

Hypothesis 4: The negative effects of individualistic cultural values in the host country on a firm's post-acquisition performance are weakened when the acquirer CEO is female.

METHODS

Sample

We collected Chinese listed firms' CBMA data from the Bureau van Dijk's Zephyr database, which provides a comprehensive database of acquisition information worldwide. We also accessed Chinese listed firms' financial information, other company information, and the CEOs' demographic information from the Wind database. Wind provides leading edge financial data services in China, and most of the research involving Chinese firms uses Wind data (Greve and Zhang, 2017).

We used the following criteria to obtain the sample of Chinese firms' CBMAs. First, the announcement date is between Jan 1st, 2001 and Dec 31st, 2015. The reason is that before

2001 when China joined the World Trade Organization, Chinese firms were disadvantaged with respect to resources, fund raising, and capabilities, and had conducted few CBMAs (Ahlstrom, Young, Nair and Law, 2003; Bacani and Sima, 2019). Before 2001 Chinese firms only initiated 13 CBMAs among which only one is completed. In addition, Chinese firms have been actively acquiring foreign firms in recent years. Hence this study covers the most recent CBMA behaviors of Chinese firms.

A second criterion is that the acquirers must be listed on the China Shanghai or Shenzhen Stock Exchanges so that their financials could be accessed. “Acquirers” in this study refer to the acquirers themselves instead of the acquirers’ immediate (or ultimate) parents because acquirers themselves integrate with their targets after the CBMAs. Third, target firms must be located outside of China. We exclude CBMAs with targets that are headquartered in the Virgin Islands, Cayman Islands and Bermuda that are essentially Chinese (not foreign) enterprises (Yang, Sun, Lin and Peng, 2011). “Targets” also refer to CBMA targets themselves instead of their parents because targets themselves will be integrated with acquirers after the CBMAs. Finally, the deals must have been completed. In addition, CBMAs in which we could not access the host countries’ cultural value from the Hofstede national cultural value database were removed. The final sample size is 404 CBMAs of Chinese listed firms from 2001 through 2015.

Dependent Variable

As we study how Chinese CEOs handle individualistic cultures in host countries during post-acquisition integration processes, the long-term performance of CBMAs is an appropriate measure. Following prior research of acquisitions and CBMAs (Ellis and Ranft, 2011; Huang et al., 2017; Zollo and Meier, 2008), we use the difference of the acquirers’ Tobin’s q between two years after the announcement of the CBMA and one year prior to the CBMA to measure the acquirers’ post-acquisition performance.

Independent Variables and Moderators

Individualistic culture in host countries. We measure host countries' individualistic culture by using Hofstede's individualism national cultural value index. The Hofstede national cultural value indices are widely used in CBMA research (Huang et al., 2017).

CEO's exposure to foreign culture is coded as a dummy variable (Park, 2015). When the CEO has been exposed to foreign culture through their education or working outside of China, we code it as 1; otherwise, 0. We measure *CEO duality* by using a dummy variable. When the CEO assumes the board chair position, we code this variable as 1; otherwise, 0. When the CEO is a female, we code *CEO gender* as 1; otherwise, 0.

Control Variables

Following prior research on CBMAs, other variables that could affect the post-acquisition performance of CBMAs were controlled. First, in addition to individualism, the Hofstede cultural values include three other main dimensions (power distance, uncertainty avoidance, and masculinity). Prior research suggests that the other three dimensions of cultural values affect CBMA performance (Chakrabarti et al, 2009). Therefore, we control for *power distance in host countries, uncertainty avoidance in host countries, and masculinity in host countries* when testing hypotheses. Second, we control for *liberal formal institutions* in host countries as formal institutions could exert pressures on individuals to behave in ways inconsistent with their embedded cultural value (Hall and Soskice, 2001). Hall and Soskice (2001) classify countries into coordinate or liberal. Coordinate countries establish additional formal institutions that reinforce more collectivist culture. Liberal countries establish institutions that encourage self-achievement and thus reinforce more individualistic culture. A dummy variable is thus used. If host countries are indicated as liberal countries in Hall and Soskice (2001), they are coded 1, otherwise 0. Third, we control for national economic development, as indicated by the *GDP per capita in host countries* in U.S. dollar in the year

prior to the CBMA (Rabbiosi, Elia and Bertoni, 2012). Fourth, we control for *acquirer and target in high-tech industries* as firms operating in high-tech industries tend to be more innovative, which makes them more challenging to value and integrate. Therefore, we relied on the industry innovative characteristics of acquirers and targets to proxy acquirer and target innovativeness. We accessed the American Electronics Association (AeA) high-technology industry classification (Appendix A) to code acquirers and targets' primary industries. If acquirers and targets' primary industries are in the list of AeA, we code it as 1, otherwise 0.

[Insert Appendix A about here]

We also control for a list of acquirer, target and deal characteristics as follows. Fifth, we control for the Chinese acquirers' *pre-acquisition performance* measured by the acquirer's Tobin's q in the year prior to the acquisition announcement (Huang et al., 2017). Sixth, we control for the Chinese acquirers' *debt to equity* in the year prior to the acquisition announcement (Hayward and Hambrick, 1997; Huang et al., 2017; Zhu and Qian, 2015; Zhu, Xia and Makino, 2015). The acquirer's debt to equity indicates the slack resources of Chinese acquirers to invest in the post-acquisition integration processes.

Seventh, we control for the *state ownership* of Chinese acquirers. If the acquirer is owned by the state, we code it as 1; otherwise, 0. Prior research has shown that state ownership affects the acquirer's acquisition decisions (Greve and Zhang, 2017) and firm management. It is thus expected that it influences the post-acquisition integration management and performance. Eighth, since 2002, the Chinese government has allowed Qualified Foreign Institutional Investors (QFII) to own shares of Chinese public listed firms (China Securities Regulatory Commission, 2012). We control for *foreign ownership of Chinese acquirers* by measuring the percentage of acquirer shares owned by QFII one year prior to the announcement of CBMAs.

Ninth, we control for the Chinese acquirers' *domestic acquisition experience* by

measuring the number of acquisitions conducted by the acquirer in China three years before the focal CBMA announcement (Ellis et al, 2011). Acquirers with acquisition experience have accumulated knowledge of post-acquisition integration and thus are capable of extracting value from acquisitions. Tenth, we control for the Chinese acquirers' *CBMA experience* by measuring the number of CBMAs conducted by acquirers in the three years prior to the focal CBMA announcement. Chinese firms have conducted few CBMAs in the past. Executives and scholars have found that it is very challenging to gain value from CBMAs, in particular for Chinese acquirers that encounter the liability of newness in the global M&A market (Zhu and Zhu, 2016). Chinese acquirers' CBMA experience allows Chinese acquirers to accumulate knowledge of how to integrate with foreign targets with different cultures. Eleventh, we control for *target ownership*. Some target firms are private firms the financial information of which is not available. As a result, compared with public listed targets, acquirers lack sufficient information to evaluate the quality of private targets and the synergy with the private targets before CBMAs. Chinese acquirers are thus more likely to encounter issues in integrating with private targets during post-acquisition processes. Therefore, when targets are public listed firms, we code it as 1, otherwise, 0 (Huang et al., 2017).

Twelfth, regarding deal characteristics, *deal relatedness* between acquiring and acquired firms could affect the efficiency of post-acquisition integrations. If the Chinese acquirers' primary SIC codes match that of the target, it is assigned a 2 at the 2-digit level, a 4 at the 3-digit level, and a 6 at the 4-digit level. In addition to the consideration of the primary SIC codes, we consider the matches of any of the six SIC codes between acquirers and targets. The business relatedness is assigned a 1 at the 2-digit level, a 2 at the 3-digit level, and a 3 at the 4-digit level (Hayward and Hambrick, 1997). Thirteenth, while there are mixed findings regarding the effects of payment methods on CBMA performance, research suggests that the

payment method affects CBMA performance (Martynova and Renneboog 2008; Nicholson and Salaber, 2013). We code the stock payment as 1 and cash payment as 0. Fourteenth, the *percentage of shares owned by Chinese acquirers* after acquisition is calculated by the percentage of shares that acquirers hold after acquisition. Fifteenth, we control for the *deal value* of the focal CBMA. Finally, we controlled for *year dummies* (Huang et al., 2017).

Statistical Methods

We use endogeneity-corrected two-stage Heckman (1979) models to test our hypotheses. Previous research has shown that firms systematically choose their entry modes including CBMAs and international strategic alliances when making foreign direct investments, which introduces self-selection bias (Caves and Mehra, 1986; Hennart and Park, 1993; Kogut and Singh, 1988; Morrow, Sirmon, Hitt and Holcomb, 2007; Shaver, 1998). Firms are likely to choose CBMAs instead of other entry modes as the firms expect that they tend to perform better after CBMAs instead of other entry modes (Brouthers, 2002; Martin, 2013; Shaver, 1998). Therefore, firms' choice of CBMAs as the entry mode is endogenous and self-selected. Entry mode choice in turn affects foreign direct investment performance (Li and Guisinger, 1991; Woodcock, Beamish and Makino, 1994). CBMA performance is thus conditional on the endogenous entry mode choice. Hence, we need to incorporate firm entry mode choice into estimates of CBMA performance to control for self-selection introduced by Heckman (1979).

Accordingly following prior studies (Shaver, 1998), we collected a sample of Chinese firms' international alliance data from SDC Thomson's International Joint Venture/Alliance Database. To be included in the sample, the international alliance had to satisfy several criteria. First, one of alliance participants has to be based in China; second, at least one of other alliance participants has to be outside of China and be one of the countries in Hofstede cultural index. Third, the international alliance announcements occurred during the period of

January 2000 through December 2015. In total, we obtained 1220 Chinese firms' international alliances. Further, we collected data of the Chinese firms' performance, slack (debt/equity), and state ownership one year before international alliance announcements, Chinese firms' acquisition experience and CBMA experience three years before international alliance announcements, industrial relatedness between Chinese firms and foreign alliance partners, exposure to foreign culture, duality and gender, the listing status of foreign alliance partners, GDP per capital in host countries, individualistic cultures in host countries, and year dummies. Then we merged Chinese firms' international alliances and Chinese CBMAs to form a dataset to conduct the two-stage Heckman test.

In the first stage Heckman model the dependent variable is the dummy variable of a firm's entry mode that indicates whether firms choose CBMAs or international alliances as their foreign entry mode. Further, we control for Chinese firms' performance, slack, and state ownership one year before international alliance announcements, Chinese firms' acquisition experience and CBMA experience three years before international alliance announcements, industrial relatedness between Chinese firms and foreign alliance partners, exposure to foreign culture, duality and gender, GDP per capital in host countries, individualism culture in host countries one year before international alliance announcements and year dummies. Moreover, we added one instrumental variable, the number of international alliances that Chinese firms conducted before the focal international alliances or CBMAs. Prior research suggests that this variable affects firms' choices of entry modes of international alliance and CBMA. However, this instrumental variable is not likely to affect firms' post-acquisition performance. The results of the first stage probit model and the second stage endogeneity-corrected Heckman model are reported in the results section below.

RESULTS

Table Ia presents the descriptive statistics and the correlation matrix. Table Ib presents the names of the host countries with their respective individualism cultural values in the Hofstede culture index and the number of acquisitions in each host country/region.

[Insert Tables Ia and Ib about here]

Results of the first stage probit model of Heckman test are shown in Table IIa. Model 1 includes all control variables. Model 2 adds the instrumental variable. As shown in Model 2, the coefficient of the instrumental variable is statistically significant ($b=-.010$, $p<.10$), which indicates this instrumental variable affects firms' entry mode choices. On the basis of the first probit model, we calculated inverse mills ratio based on the formula below (Hamilton and Nickerson, 2003).

predict lp , xb

gen $invmills=-\text{normalden}(lp)/(\text{normprob}(lp))$

[Insert Table IIa about here]

To control for the sample selection bias and solve the endogeneity issue, we included the inverse mills ratio in the second stage Heckman model. Table IIb reports the results of the second stage Heckman model. The VIF scores for all variables range from 1.06 to 4.42, and the mean of VIF is 1.58. These VIF scores indicate that the variables have low correlations with each other. Model 1 is the baseline model that includes all control variables. Model 2 tests the main effects of individualistic cultures in host countries on the Chinese firms' CBMA performance. The estimated coefficient is negative and statistically significant ($b=-.005$, $p<0.05$), supporting Hypothesis 1 that an individualistic culture in host countries is negatively related to the post-acquisition performance of the Chinese acquirers. As the individualistic cultural value in a host country increases 1 standard deviation, the Chinese acquirers' post-acquisition Tobin's Q at two years after acquisitions decreases approximately

0.137, which is higher than the mean of the changes of acquirers' Tobin's Q 0.11 after CBMAs in our sample.

[Insert Table IIb about here]

Model 3 shows the results of Hypothesis 2 that the acquirer CEO's exposure to foreign culture can reduce the negative effects that individualistic cultures in host countries can have on Chinese firms' CBMA performance. As shown in Model 3, the coefficient of the interaction between individualistic cultures in host countries and CEO's exposure to foreign culture is positive and statistically significant ($b=.015$, $p<0.10$), supporting Hypothesis 2. The effects also hold in our full Model 6. As shown in Figure 2 (a), Chinese CEOs with exposure to foreign culture perform better in creating value from CBMAs involved targets with individualistic cultures than those without exposure to foreign culture. As the individualistic cultural value in a host country increases one standard deviation, CEOs of Chinese acquirers having no exposure to foreign cultures reduce post-acquisition performance by .410 more than CEOs having the exposure to foreign culture do.

[Insert Figure 2 about here]

Model 4 tests Hypothesis 3 that Chinese CEOs without assuming the board chair positions could better address individualistic cultures in host countries. CEO duality is included in Model 4. The coefficient of the interaction between the individualistic culture in host countries and CEO duality is negative and statistically significant ($b=-.009$, $p<0.10$). The effects also hold in the full Model 6. Figure 2(b) shows that Chinese CEOs who are not board chairs could better address individualistic cultures in host countries and thus extract more value from CBMAs in support of Hypothesis 3. As the individualistic cultural value in a host country increases 1 standard deviation, Chinese CEOs without board chair positions could help to increase post-acquisition performance by .250 more than CEOs who also hold the board chair positions.

Model 5 tests Hypotheses 4. The coefficient of the interaction between individualistic cultures in host countries and CEO gender is positive and statistically significant ($b=.026$, $p<0.01$), supporting Hypothesis 4. The effects also hold in the full Model 6. Figure 2(c) clearly shows that female CEOs are more capable of handling targets' individualistic cultures and gaining more value from CBMAs. As the individualistic cultural value in a host country increases 1 standard deviation, Chinese male CEOs reduce post-acquisition performance by .729 more than female CEOs do. As shown in Table IIb, we found inverse mills ratio is not statistically significantly associated with post-acquisition performance. Together, Table IIb shows strong support for all the hypotheses.

Robustness Tests

We conducted robustness checks as follows. First, we used the difference between the acquirers' Tobin's q at three years after the announcements of acquisitions and one year prior to the announcements. The results are similar to our main results. Second, we clustered the standard errors at the level of acquirers and then performed the analyses. The results are similar to our main findings. Third, we clustered the standard errors at the level of host countries and then conducted the analyses. The results are consistent with our main findings. Fourth, given the Chinese acquirers' strategic actions, the economic development of China and host country, and the changes in industrial conditions after acquisitions are likely to affect post-acquisition performance; therefore, we added a number of control variables to tease out these confounding factors. Chinese acquirers' strategic actions include the average of acquirers' R&D investments, the number of acquisitions and the number of subsidiaries that acquirers complete in the two years after acquisitions. China's and the host countries' economic development is measured by the average of China's GDP per capital and the average of each host country's GDP per capital in the two years after acquisitions. The changes in industrial conditions are measured by the average of the firm revenue in each

industry in China and the average of the firm revenue in each industry in the host countries in the two years after acquisitions. The results are consistent with our main findings.

Fifth, we accessed Tang and Koveos (2008) updated Hofstede's index based on the changing economic environment within each country (averaged between 1990 and 1994). We used the updated individualism index to do robustness checks. The results are consistent with our main findings. Sixth, while our theory of the negative effects of individualism culture in host countries on the post-acquisition performance of CBMAs is general, we test our theory in a sample of CBMAs of Chinese firms with the heritage of collectivism culture. To demonstrate that our findings are not confounded by the Chinese acquirers' collectivism culture and that our theory holds for all CBMAs which may be initiated by acquirers with individualism culture, we tested our theory in a sample of CBMAs of U.S. firms with the heritage of individualism culture. We retrieved CBMAs of U.S. listed firms from SDC and accessed financial data of these U.S. acquirers from COMPUSTAT to do robustness checks. In the analysis of U.S. listed firms' CBMAs between 2000 and 2015, the results consistently demonstrate that individualism in host countries is negatively associated with the CBMA performance of U.S. firms.² This provides strong support on our theory that individualism in host countries is negatively associated with the CBMA performance of acquirers.

Seventh, among the 404 deals that were announced between January 1st, 2001 and December 31st, 2015, there were 317 CBMAs completed during the same period. Using these 317 completed deals, we conducted robustness checks. Those results proved consistent with our main findings. Eighth, following prior literature, we used the majority acquisitions that refer acquirers hold more than 80% of target shares after acquisitions to do analyses (e.g., Huizinga and Voget, 2009; Li, Xia and Lin, 2017; Makino and Beamish, 1998; Xia, 2011). The results were also consistent with our hypotheses. Lastly, as power distance and individualism in host countries have a high correlation, we did the robustness checks by not

including power distance as a control variable. The results of the robustness checks are stable, consistently supporting all of our hypotheses.

DISCUSSION

Contributions

Our findings contribute to advance our understandings of the CBMA value creation from the culture perspective. Our theory and findings suggest that individualistic cultures in host countries are negatively associated with acquirers' post-acquisition performance of CBMAs. In CBMAs the key for acquirers to gain value is to effectively integrate with their foreign targets, which is often very challenging. Whether the foreign targets will collaborate with the acquirers or not could be substantially affected by the targets' surrounding national culture. Furthermore, our research suggests that acquirer CEOs have a major role to play in minimizing the potentially negative impact of targets with individualism culture. For example, CEOs with the exposure to foreign culture prove capable of minimizing such negative effects. Our study thus makes a significant contribution to clarify the role of culture in CBMAs - one of the key topics in international business and strategy (Hitt et al., 2006; Hofstede, 1991; Kirkman et al., 2006; Kogut and Singh, 1988).

Furthermore, our research contributes to the theory of MNE management. MNEs often operate in many countries and face great challenges of integrating with their foreign subsidiaries. MNEs often need to make adjustments by each country/region they enter to achieve effective integration and value creation (Arregle, Miller, Hitt and Beamish, 2018). Our research suggests that foreign subsidiaries' cooperative orientation and behaviors could be shaped by their surrounding culture, which research on MNE management may take into account.

Moreover, this study contributes to the upper echelon research. While upper echelon

scholars have examined the roles of CEOs in a variety of corporate strategies and behaviors (BusenBark, Krause, Boivie and Graffin, 2016; Krause et al., 2014), we advance this line of research by theorizing and testing CEOs' impact *outside* of national borders. Our theory and findings demonstrate that the acquirer CEOs' duality, exposure to foreign culture, and gender could affect the way that they address the individualistic oriented behaviors of target managers and employees to create wealth from CBMAs. CEOs with the exposure to foreign culture can minimize the problems associated with targets with individualism orientations (Ahlstrom and Bruton, 2009; Hastings, 1999). Our research suggests that culture matters for strategies and CEOs have a major role to play in managing it to add value to firms operating across cultures (Porter, 2001; Young, Tsai, Wang, Liu and Ahlstrom, 2014).

Practical Implications

Our research also offers important practical implications. First, while executives sometimes use different cultures in host countries as scapegoats for their failures in international expansions (Reus and Lamont, 2009), the theory and findings of our study imply that executives need to have good understandings of the nature of the culture in host countries. Accordingly executives may take such understandings into account when managing their acquired targets or subsidiaries outside of home countries (Butler et al., 2012; Hastings, 1999). For example, in the context of CBMAs, while individualistic cultures in host countries exert negative effects and thus can make it difficult for acquirers to realize value from their CBMAs, CEOs with exposure to foreign culture are often equipped with the mindsets, knowledge and skills to effectively manage to mitigate the negative effects of individualism cultures in CBMAs.

Second, the finding of the negative effects of Chinese acquirer CEO duality in CBMAs further adds to the calls for the separation of CEO and board chair positions in Chinese firms. While CEO duality was common in U.S. public listed firms in the past decades, there is a

trend to separate the CEO and board chair positions of S&P 500 firms, particularly in the New Normal that has emerged after the 2008 financial crisis (Stuart, 2017). Approximately 51% of the S&P 500 firms had separated their CEO positions from the board chair positions by 2018. Consistently our theory and findings imply that it may also be value-adding for Chinese firms to separate these two positions. Even when acquirers adopt a CEO duality governance structure, the board-chair-CEOs should be fully aware of the negative effects of dominating in post-acquisition combined firms and should be ready to listen to the important advice from their acquired targets.

Third, our research adds that male CEOs should be prepared to reduce their directive leadership in their CBMAs where the input and cooperation of acquired targets are critical and needed. Male CEOs may not be fully aware that directive leadership may result in negative outcomes in certain contexts. Indeed in the context of CBMAs, male CEOs could likely benefit from a participative leadership style to achieve the post-acquisition cooperation, integration and value creation (McCall and Hollenbeck, 2002).

Finally, our theory and results may be of particularly valuable as our findings are drawn from the context of Chinese firms' CBMAs, which have attracted a great amount of attention in recent years because of their impact on the global economy (Lan, Yang and Zhu, 2015). In fact these findings can add value not only to Chinese acquirers but also to firms in other countries to advance the understandings of Chinese acquirers' CBMA behaviors and wealth creation. The findings could be particularly relevant to other developing economy firms that are seeking to learn from Chinese firms' experience in globalization. While Chinese firms have initiated many CBMAs recently, Chinese CEOs need to humbly be aware that they have a long way to go in creating wealth from CBMAs involved targets with different cultures.

Implications for the New Normal

Our study of Chinese firms' CBMAs has important implications for firms competing to

survive and to grow in the New Normal. First, CBMAs have long been a popular strategy for firms of developed economies such as the U.S. firms to access resources and markets outside their home countries. Yet, as shown in Figure 3, compared with U.S. firms, before 2001 Chinese firms only initiated 13 CBMAs. Yet in the recent New Normal era of the past one and a half decades, the CBMA has become an important strategy for developing economy firms such as Chinese firms to enter foreign markets (Bruton, Ahlstrom and Chen, 2019; Wang and Miao, 2016). CBMA represents a radical change of Chinese firms' corporate strategies in the global markets, given the long tradition in China encouraging inbound foreign direct investment. Importantly, following the "going out" policy and the One Belt and One Road policy, CBMA strategy has become a New Normal corporate strategy for Chinese firms to rapidly invest outside of China and to establish further overseas investment and marketing bases (Jones, 2013). The international experiences gained by Chinese firms and their CEOs will be vital for the success of Chinese firms in the global markets.

[Insert Figure 3 about here]

Relatedly, the primary purpose for Chinese firms to access strategic assets from targets of developed countries is to meet the sophisticated domestic demands of an increasing number of middle-income Chinese consumers. Developed country firms acquired by Chinese firms in turn could access Chinese markets through Chinese acquirers that have more knowledge about Chinese consumers' preferences and thus enjoy opportunities to grow with Chinese firms. Furthermore, while our study focuses on Chinese firms' CBMAs in the New Normal, research suggests that such corporate strategies are enabled by institutional transitions such as the One Belt and One Road national policy and on-going economic reforms in China (Fan, 2014; Zhu, 2019). It is thus worth exploring the effects of macro-level institutional transitions on firm behaviors and strategies in the New Normal.

Limitations and Future Research

Our research has a few limitations and calls for future research. First, our research design of focusing on CBMAs from China - one home country - helps to clearly show the effects of individualistic cultures in host countries on post-acquisition performance. The effects will not be confounded by the variances of a number of home countries. Future studies could test our theory in a sample of CBMAs from multiple home countries. However, currently it is very challenging to retrieve the information of CEOs in many countries. Second, while our research examines the roles of CEOs in the CBMA strategy, future research could build upon our research and prior research of MNEs to explore the roles of CEOs in managing and integrating with the subsidiaries of MNEs.

Third, our study examines individualistic cultures in host countries while Huang et al. (2017) investigated the effects of power distance in CBMAs. Thus it is worth examining the effects of the two other cultural dimensions - uncertainty avoidance and masculinity. Only after we have a thorough understanding of the effects of each cultural dimension, we can further theorize and test how these different cultural dimensions simultaneously interact to affect CBMAs and other corporate strategies and value creation such as innovation, entrepreneurship and internal corporate ventures (Bruton, Ahlstrom, and Si, 2015; Griffith, Redding and Van Reenen, 2004; Turró, Urbano, and Peris-Ortiz).

Lastly, while the CBMAs of Chinese firms and developed country firms share some similar characteristics, Chinese firms' CBMAs, a disruptive innovation strategy of Chinese firms (Christensen and Raynor, 2013; Tomizawa, Zhao, Bassellier and Ahlstrom, 2020), could have unique characteristics. Indeed Chinese firms' growing cultural and institutional environments differ from developed countries' and Chinese firms often encounter liabilities of newness in the CBMA markets. Future studies are needed to examine other unique characteristics of Chinese firms' CBMAs such as corporate governance and organizational capabilities (Ahlstrom, 2010; Faems, Janssens, Madhok and Looy, 2008; Jones, 2013; Tarba

et al., 2019). For example, Greve and Zhang (2017) found that the board composition affects Chinese firms' acquisition decisions of engaging in market-oriented acquisitions.

CONCLUSION

Our research advances our knowledge of the role of culture in international business and strategies - a research topic that continues to have significant practical implications in addition to far-reaching theoretical impact. Our theory and findings suggest that individualistic cultures in host countries present challenges for acquirers of CBMAs. We demonstrate that individualistic cultures in host countries negatively affect CBMA wealth creation, though the acquirer CEOs can mitigate such negative effects. As our findings show, the negative effects of individualism in host countries can be mitigated if acquirer CEOs have exposure to foreign cultures and are female, while acquirer CEO duality may amplify the negative effects. Our theory and findings thus further suggest that the acquirer CEO has a role to play in managing culture to increase CBMA value creation. This study represents the first crucial step toward a multilevel understanding of culture in the important and challenging international strategy of CBMAs.

NOTES

1. Host countries refer to the countries where target firms are located. The home country refers to the country where acquirer firms are located. In this study the home country is China.
2. We retrieved U.S. public listed firms' CBMAs between 2000 and 2015 from SDC and accessed these listed U.S. acquirers' financial data from COMPUSTAT to do robustness checks of our baseline model. However, we could not access exactly the same set of control variables and moderators in our main test. For example, we could not access the data of U.S. firms' foreign ownership, state ownership and CEO information. Nevertheless, with the available financial data of U.S. acquirers and their CBMAs between 2000 and 2015, we tested our baseline model with the OLS and OLS with the Huber-White heteroskedasticity-consistent standard errors. Results support our main hypothesis that individualistic cultures in host countries are negatively associated with post-acquisition performance of U.S. firms.

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Appendix A

List of High-Tech Industries (45 SIC Codes)

AeA uses 45 SIC codes that fall into three general groupings -- high-tech manufacturing, communications services, and software and computer-related services -- to define the U.S. high-technology industry

HIGH-TECH MANUFACTURING

Computers and Office Equipment

- 3571 Electronic Computers
- 3572 Computer Storage Devices
- 3575 Computer Terminals
- 3577 Computer Peripherals
- 3578 Calculating and Accounting Machines
- 3579 Office Machines

Consumer Electronics

- 3651 Household Audio and Video Equipment
- 3652 Phonographic Records and Prerecorded Tapes and Disks

Communications Equipment

- 3661 Telephone and Telegraph Apparatus
- 3663 Radio and TV Broadcast and Communications Equipment
- 3669 Other Communications Equipment

Electronic Components and Accessories

- 3671 Electron Tubes
- 3672 Printed Circuit Boards
- 3675 Electronic Capacitors
- 3676 Electronic Resistors
- 3677 Electronic Coils, Transformers, and Inductors
- 3678 Electronic Connectors
- 3679 Other Electronic Components

Semiconductors

- 3674 Semiconductors and Related Devices

Industrial Electronics

- 3821 Laboratory Apparatus
- 3822 Environmental Controls
- 3823 Process Control Instruments
- 3824 Fluid Meters and Counting Devices
- 3825 Instruments to Measure Electricity
- 3826 Laboratory Analytical Instruments
- 3829 Other Measuring and Controlling Devices

Photonics

- 3827 Optical Instruments and Lenses
- 3861 Photographic Equipment and Lenses

Defense Electronics

- 3812 Search and Navigation Systems, Instruments, and Equipment

Electromedical Equipment

- 3844 X-Ray Apparatus and Tubes and Related Irradiation Apparatus
- 3845 Electromedical and Electrotherapeutic Apparatus

COMMUNICATIONS SERVICES

- 4812 Radiotelephone Communications
- 4813 Telephone Communications

4822 Telegraph and Other Message Communications
4841 Cable and Other Pay Television Services
4899 Other Communications Services

SOFTWARE AND COMPUTER-RELATED SERVICES

Software Services

7371 Computer Programming Services
7372 Prepackaged Software
7373 Computer Integrated Systems Design

Data Processing and Information Services

7374 Computer Processing and Data Preparation
7375 Information Retrieval Services
7376 Computer Facilities Management Services

Rental, Maintenance, and Other Computer-Related Services

7377 Computer Rental and Leasing
7378 Computer Maintenance and Repair
7379 Other Computer-Related Services

Table Ia. Descriptive statistics and correlation matrix^a

	Mean	S.D.	1	2	3	4	5	6	7	8	9
1 Acquirer performance (Tobin's q_{i2} -Tobin's q_{t-1})	-0.11	1.17									
2 Individualism in host countries	49.22	27.78	-0.11								
3 Acquirer CEO's exposure to foreign culture	0.12	0.29	0.07	0.09							
4 CEO duality	0.24	0.43	-0.07	0.15	0.01						
5 CEO gender	0.05	0.22	0.01	0.07	0.01	0.03					
6 Power distance in host countries	56.31	15.74	0.04	-0.72	-0.06	-0.18	-0.10				
7 Uncertainty avoidance in host countries	45.00	20.08	0.10	0.29	0.01	-0.01	0.07	-0.33			
8 Masculinity in host countries	56.00	13.29	0.07	0.05	0.03	-0.07	0.06	0.04	0.19		
9 GDP per capital in host countries	35859.85	15433.11	-0.05	0.56	-0.02	0.22	0.00	-0.51	-0.19	-0.04	
10 Acquirer pre-acquisition performance	1.84	1.82	-0.38	0.16	0.00	0.28	0.11	-0.14	-0.07	-0.01	0.21
11 Acquirer debt to equity ratio	1.73	2.10	0.07	-0.13	0.04	-0.22	-0.06	0.15	0.02	-0.01	-0.18
12 Deal relatedness	1.73	1.69	-0.17	0.05	0.00	-0.04	0.01	-0.06	0.09	0.05	-0.13
13 Deal payment method	0.02	0.15	0.00	0.05	-0.05	0.03	-0.03	-0.03	0.02	0.08	0.03
14 Percent shares owned after acquisition	87.28	23.34	-0.03	-0.24	0.03	0.05	-0.06	0.16	-0.15	0.03	-0.04
15 Deal value	104614.11	207832.45	0.03	-0.11	-0.04	-0.12	-0.08	0.08	-0.01	0.01	-0.13
16 Acquirer state ownership	0.40	0.48	-0.01	-0.11	-0.08	-0.27	-0.09	0.20	-0.01	-0.08	-0.25
17 Acquirer foreign ownership	0.13	0.45	-0.01	0.02	0.03	-0.05	0.00	0.01	-0.01	-0.01	0.01
18 Target ownership	0.06	0.38	0.05	-0.04	0.14	-0.02	0.03	0.02	0.04	-0.06	-0.01
19 Acquirer domestic acquisition experience	4.13	2.61	0.00	-0.11	-0.01	-0.02	0.03	0.11	-0.08	0.06	0.00
20 Acquirer cross-border acquisition experience	0.01	0.09	0.07	-0.07	-0.03	-0.05	-0.02	0.06	-0.08	0.00	0.01
21 Acquirer in high-tech industries	0.22	0.41	-0.02	0.00	0.04	0.16	-0.01	-0.05	-0.05	-0.03	0.06
22 Target in high-tech industries	0.14	0.34	-0.15	0.07	0.01	0.13	0.01	-0.15	0.05	0.00	0.09
23 Liberal formal institutions in host countries	0.01	0.11	0.03	0.02	-0.05	0.09	-0.03	-0.04	0.03	-0.21	0.03

Table Ia. Descriptive statistics and correlation matrix^a (Continued)

	10	11	12	13	14	15	16	17	18	19	20	21	22
11 Acquirer debt to equity ratio	-0.43												
12 Deal relatedness	0.05	0.24											
13 Deal payment method	0.08	-0.03	0.04										
14 Percent shares owned after acquisition	0.09	-0.14	-0.04	0.01									
15 Deal value	-0.21	0.44	0.10	-0.04	-0.07								
16 Acquirer state ownership	-0.24	0.18	0.05	-0.08	-0.09	0.15							
17 Acquirer foreign ownership	-0.02	0.20	0.07	-0.05	-0.02	0.17	0.00						
18 Target ownership	-0.01	-0.07	-0.01	-0.02	-0.13	-0.18	-0.03	-0.21					
19 Acquirer domestic acquisition experience	-0.04	0.11	0.00	0.04	0.05	0.01	0.04	0.02	0.05				
20 Acquirer cross-border acquisition experience	-0.05	0.01	-0.05	-0.01	0.05	-0.01	0.05	-0.02	-0.02	0.15			
21 Acquirer in high-tech industries	0.21	-0.22	0.03	0.00	0.07	-0.18	-0.20	-0.05	0.00	-0.07	-0.04		
22 Target in high-tech industries	0.26	-0.17	0.23	0.04	0.00	-0.10	-0.14	-0.03	0.04	-0.09	0.06	0.54	
23 Liberal formal institutions in host countries	-0.01	-0.06	-0.01	-0.02	-0.01	-0.05	-0.05	0.00	0.10	-0.04	-0.01	-0.01	0.02

^a N=404. Correlation coefficients greater than 0.105 are statistically significant at $p < 0.05$.

Table Ib: Descriptive Statistics: # of Chinese CBMAs in each host country/region

Host Country/Region	# of Deals	Individualism (Hofstede Index)	Host Country/Region	# of Deals	Individualism (Hofstede Index)
Argentina	2	38	Malta	1	59
Australia	11	90	Mexico	2	30
Austria	3	55	Netherlands	8	80
Belgium	1	75	Norway	2	69
Brazil	10	38	Oman	1	38
Canada	20	73	Pakistan	3	14
Chile	4	23	Poland	1	60
Colombia	4	13	Republic of Korea	2	18
Denmark	6	74	Russian Federation	4	39
Ecuador	1	8	Saudi Arabia	1	38
Egypt	2	38	Serbia	1	25
Finland	2	63	Singapore	15	20
France	6	71	South Africa	1	65
Germany	28	67	Spain	1	51
Hong Kong	138	25	Sweden	3	71
Hungary	2	80	Taiwan	7	17
India	9	48	Thailand	3	20
Indonesia	2	14	Turkey	3	37
Israel	4	54	United Kingdom	10	89
Italy	11	76	United States of America	51	91
Jamaica	1	39	Venezuela	1	12
Japan	9	46	Vietnam	5	20
Malaysia	2	26			

Table IIa: Results of the First Stage Probit Model

	Model 1	Model 2
GDP per capital in host countries	-0.000 (0.000)	-0.000 (0.000)
Acquirer pre-acquisition performance	0.095 ⁺ (0.057)	0.086 (0.059)
Acquirer debt to equity ratio	0.004 (0.028)	0.004 (0.029)
Deal relatedness	0.089* (0.042)	0.086* (0.042)
Acquirer state ownership	-0.134 (0.219)	-0.123 (0.220)
Target ownership	-1.121*** (0.208)	-1.126*** (0.209)
Acquirer domestic acquisition experience	0.223*** (0.034)	0.228*** (0.034)
Acquirer cross-border acquisition experience	-2.548*** (0.654)	-2.575*** (0.659)
CEO's exposure to foreign culture	-2.791*** (0.231)	-2.841*** (0.239)
CEO duality	0.258 (0.239)	0.253 (0.242)
CEO gender	0.156 (0.449)	0.121 (0.461)
Individualism in host countries	-0.006 (0.004)	-0.006 (0.004)
The number of alliance before the focal alliance/acquisition		-0.010 ⁺ (0.005)
Constant	1.955*** (0.372)	2.393*** (0.452)
chi2	716.356	719.757

N=686

+P<0.10; *p<0.05; **p<0.01, ***<0.001

Two-tailed test for all variables. Robust standard errors are in parentheses.

Year dummies are included in analysis but not reported.

Table IIb: Results of the Second Stage of Heckman Model

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Power distance in host country	0.002 (0.004)	-0.002 (0.004)	-0.002 (0.004)	-0.002 (0.004)	-0.002 (0.004)	-0.003 (0.004)
Uncertainty avoidance in host country	0.005 ⁺ (0.003)	0.006* (0.003)	0.006* (0.003)	0.006* (0.003)	0.007* (0.003)	0.007* (0.003)
Masculinity in host country	0.005 (0.004)	0.005 (0.004)	0.005 (0.004)	0.005 (0.004)	0.005 (0.004)	0.005 (0.004)
GDP per capital in host countries	-0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Acquirer pre-acquisition performance	-0.214** (0.080)	-0.208* (0.081)	-0.209** (0.074)	-0.200* (0.080)	-0.200* (0.079)	-0.195** (0.073)
Acquirer debt to equity ratio	-0.025 (0.027)	-0.025 (0.027)	-0.018 (0.029)	-0.024 (0.027)	-0.022 (0.027)	-0.015 (0.028)
Deal relatedness	-0.059 ⁺ (0.035)	-0.054 (0.035)	-0.056 (0.035)	-0.046 (0.034)	-0.057 (0.035)	-0.050 (0.033)
Deal payment method	0.169 (0.505)	0.186 (0.492)	0.208 (0.484)	0.201 (0.453)	0.174 (0.480)	0.209 (0.435)
Percent shares owned after acquisition	-0.000 (0.002)	-0.001 (0.002)	-0.001 (0.002)	-0.001 (0.002)	-0.000 (0.002)	-0.001 (0.002)
Deal value	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
Acquirer state ownership	-0.185 ⁺ (0.102)	-0.162 (0.100)	-0.153 (0.101)	-0.142 (0.102)	-0.152 (0.100)	-0.125 (0.101)
Acquirer foreign ownership	-0.040 (0.089)	-0.037 (0.090)	-0.068 (0.085)	-0.041 (0.089)	-0.057 (0.087)	-0.090 (0.080)
Target ownership	-0.010 (0.105)	-0.044 (0.109)	-0.028 (0.111)	-0.059 (0.108)	-0.079 (0.110)	-0.076 (0.112)
Acquirer domestic acquisition experience	-0.023 (0.018)	-0.023 (0.018)	-0.029 (0.019)	-0.027 (0.018)	-0.019 (0.018)	-0.029 (0.019)
Acquirer cross-border acquisition experience	0.534 (0.435)	0.501 (0.452)	0.541 (0.448)	0.573 (0.468)	0.454 (0.442)	0.564 (0.453)
Acquirer in high-tech industries	0.256 (0.156)	0.261 ⁺ (0.155)	0.252 (0.156)	0.233 (0.156)	0.298 ⁺ (0.157)	0.261 (0.159)
Target in high-tech industries	-0.319 ⁺ (0.181)	-0.350 ⁺ (0.179)	-0.325 ⁺ (0.177)	-0.310 ⁺ (0.180)	-0.403* (0.178)	-0.338 ⁺ (0.178)
Liberal formal institutions in host countries	0.087 (0.433)	0.108 (0.424)	0.092 (0.433)	0.171 (0.431)	0.128 (0.423)	0.170 (0.438)
CEO's exposure to foreign culture	0.390 (0.435)	0.359 (0.442)	0.422 (0.444)	0.390 (0.439)	0.306 (0.440)	0.399 (0.439)
CEO duality	-0.098 (0.150)	-0.095 (0.150)	-0.067 (0.141)	-0.051 (0.149)	-0.071 (0.148)	-0.004 (0.141)
CEO gender	0.027 (0.255)	0.028 (0.260)	0.006 (0.255)	-0.021 (0.262)	-0.186 (0.260)	-0.246 (0.263)
Inverse mill ratio	0.116 (0.327)	0.039 (0.339)	0.243 (0.399)	0.085 (0.345)	-0.000 (0.340)	0.244 (0.401)
H1: Individualism in host countries		-0.005* (0.002)	-0.005* (0.002)	-0.006* (0.002)	-0.005* (0.002)	-0.006* (0.002)
H2: Individualism in host countries X Acquirer CEO's exposure to foreign culture			0.015 ⁺ (0.008)			0.014 ⁺ (0.008)
H3: Individualism in host countries X CEO duality				-0.009 ⁺ (0.005)		-0.009 ⁺ (0.005)
H4: Individualism in host countries X CEO gender					0.026** (0.008)	0.025** (0.008)
Constant	-0.522 (0.527)	-0.217 (0.527)	-0.135 (0.526)	-0.150 (0.518)	-0.301 (0.521)	-0.154 (0.510)
R ²	0.446	0.451	0.461	0.458	0.468	0.484

N=404

+P<0.10; *p<0.05; **p<0.01,***<0.001

Two-tailed test for all variables. Robust standard errors are in parentheses.

Year dummies are included in analysis but not reported.

Figure 1 The Theoretical Model

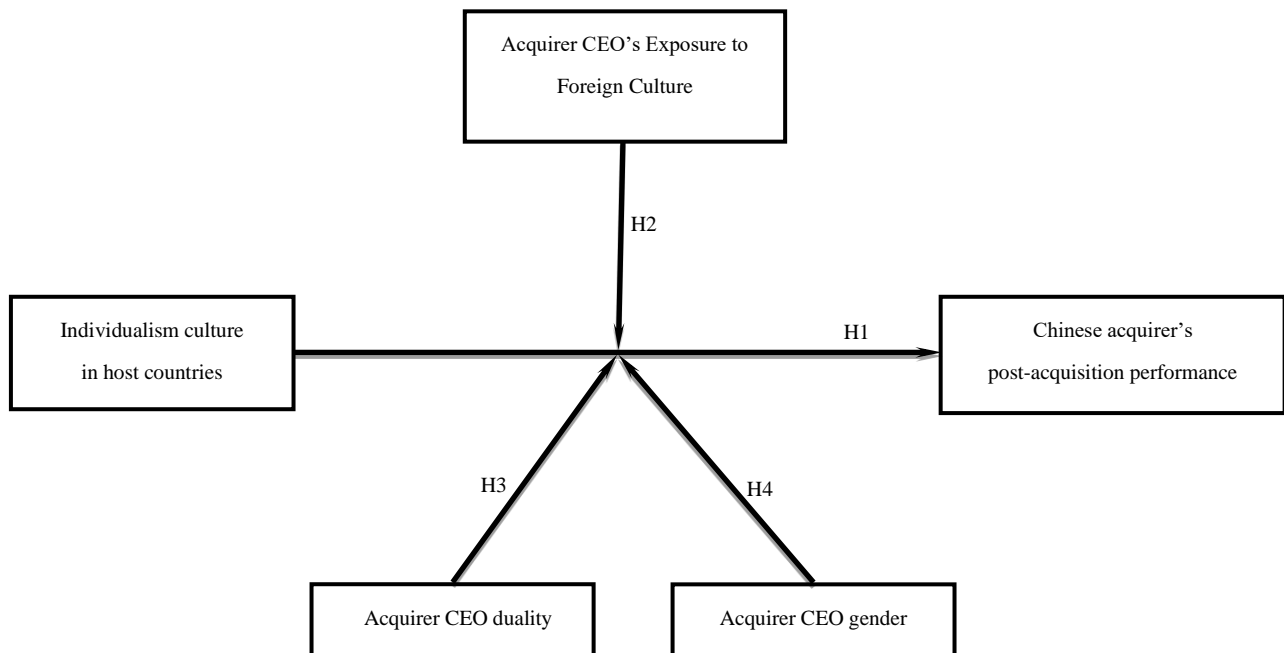


Figure 2 The Moderation Effects of Chinese CEO Characteristics

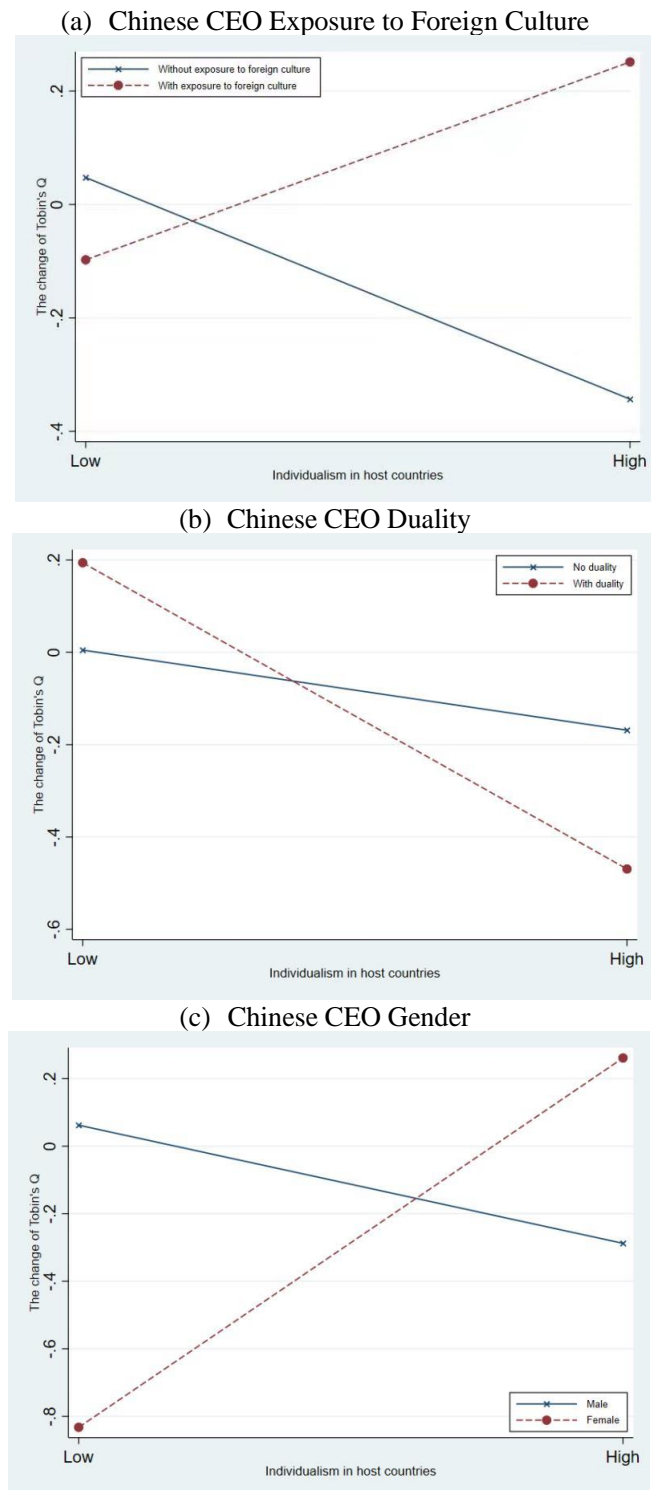


Figure 3 The Comparison of the CBMAs of U.S. and Chinese Firms

