THE JOURNAL OF
STRATEGY, OPERATIONS AND ECONOMICS
Vol4, Issue6: Special addition: Feb 2019

ISSN 2396-8826 (Online)

Investigations with institutional distance.

A PARENT COMPANY’S ABILITY AND CROSS-BORDER M&A PERFORMANCE: An empirical analysis

Authors:

Dr Liu Lu:	**Edinburgh Napier University**
Dr Hock Tan:	**Edinburgh Napier University**
Dr Mike Sanderson:	**Edinburgh Napier University**
Dr Michael Fascia:	**University of Oxford**

DOI: 10.13140/RG.2.2.15397.14565

Drawing from Berry’s nine-dimension-theory, the institutional distance discussed within this study was divided into four dimensions that include the regulation distance (including political distance and legal distance), economic distance, cultural distance and knowledge distance.
Empirical data, showed reverse conditional influence around the effects of “Liability of Foreignness”. We combine both the macro and micro level factors i.e. institutional distance and parent company’s core competency (ability).
Analysis was based on 60 samples of companies that completed cross-border
Results indicate that cultural distance has a negative relationship with cross-border M&A performance, while the parent company's absorptive capacity has a strong positive relationship with cross-border M&A performance. Furthermore, both play a mediate role in institutional distance, which has a measurable effect on cross-border M&A performance.

Keywords: institutional distance; internationalization; absorptive capacity; cross-border merger and acquisition; performance

The character of cross-border M&A activities has motivated many researchers to explore factors which may affect their success. Whereby, the "*distance*" between the two parties of cross-border M&A is considered important, wherein, institutional distance is reflected as a central concept point within many contemporary research perspectives, discussed by influential authors such as (Choi, Lee, & Shoham, 2016; Li, Vertinsky, & Li, 2014; Liou, Chao, & Yang, 2016). Further, institutional distance and cross-border M&A performance have been hypothesised as significant by contemporary researchers such as (Berry et. al, 2010; Denk et al., 2012) and authors such as (Kostova, 1996; Salomon & Wu, 2012; Higon & Antolin, 2012). Nonetheless, there is limited knowledge around how mechanisms of institutional distance specifically enact on the performance of cross-border M&A activities.

In practice, it could be said that cross-border M&As have become a key driving force for the development of the world economy, however, 70% of these activities have not exceeded an expected business value. Practitioners in the field argue that the central aspect is the institutional distance between the host country and home country. Thus, contemporary research from focuses mainly on the macro level. As such, insufficient attention is given to the parent company's characteristics from a micro perspective. Moreover,, cross-border M&A in emerging economies has increased rapidly in recent years while most empirical research is primarily centred on samples from developed countries.

To achieve a pragmatic and informed perspective, we have focused on the mechanism of institutional distance which can and does influence performance of cross-border M&A. The contributions of this paper are clear, whereby, analysis of the institutional distance in micro level is based on statistical data rather than a qualitative phenomenological perspective.

Secondly, to illustrate the mechanism, the use of "*Characteristics*" as the mediate variable combines the macro and micro level data.

Chinese firms' globalisation strategy started by entry into the neighbouring Asian developing economies, and there is evidence to suggest this was happening in the last 5 years. According to Zhang and Filippov (2009) many Chinese firms are becoming increasingly active in overseas M&A activities, particularly throughout the last 5 years. In this regards, there is evidence to suggest that China's distinctive path to modernization has perhaps challenged some of the more traditional M&A theories (Dikova, Rao Sahib, & Van Witteloostuijn, 2006; Koerniadi, Krishnamurti, & Tourani-Rad, 2015; Yang, 2015) and in doing so, promises to influence future developments within this business and research arena. Similarly, within the last decade, there has been an obvious increase in Chinese M&A activities in Europe (Dreger, Schüler-Zhou, & Schüller, 2017; Karreman, Burger, & van Oort, 2017; McDowall et al., 2017).

As such, Chinese companies are now seen to be entering advanced developed economies with developmental trajectory facilitated around M&A. This has resulting in associated research methods and models being used by companies to determine entry strategy. Academics such as (Rui & Yip, 2008) discussed in detail strategic intent perspective. Discussion by Rui & Yip indicates that many Chinese firms use cross-border acquisitions as a strategy to achieve specific goals, and that this may be as a result of *transnationally* (p214). Whereby, firms strive to gain favourable competitive positions on a global stage, additionally, firms with no sure orientation, are seeking to offset their competitive disadvantages by procuring assets and capabilities. Furthermore (Rui & Yip, 2008), state that this includes domestically directed firms reaching to compete with established multinationals (*LENOVO*) within the Chinese market. This encompasses trade-oriented firms (*HUAWEI)* reaching to expand trade in the short term and with the view to become production firms within the future and niche market players reaching to expand their business.

Data from the World Investment Report (United Nations Conference on Trade and Development, 2017) indicates that cross-border M&A activities are closely related to global economic situations, and as a result have increased rapidly in recent years. For example, in 2015, international flows of FDI (*foreign direct investment*) increased by nearly forty percent, from $1 Tr to $1.8 Tr, becoming the highest level since the 2008 financial crisis. The total worth of cross-border M&A, has experienced a considerable change in the last few years with Cross-border M&A activities in the G20 rose from $532 billion in 2015 to $737 billion in 2016. The following table, TABLE 1, indicates the main aspects of this.

TABLE 1: Cross border value

GROUPS		INTRAGROUP M&As				INTRAGROUP SHARE IN TOTAL M&A			
		2014	**2015**	**2016**		**2014**	**2015**	**2016**	
G20		81	276	299		39	61	76	
APEC		204	173	173		63	45	50	
BRICS		2	3	22		5	6	22	
NAFTA		42	57	56		31	26	40	
Commonwealth		20	22	6			14	6	
ACP		4	0.2	0.01		56	6	0.2	
Intragroup cross-border M&As: Value and share of the total, 2014-2016 (Billions of dollars and per cent)									

Source: (United Nations Conference on Trade and Development, 2017)

Considerations

Economics distance in this discussion includes three aspects. They are macroeconomic characteristics, the degree of economic development and the status of the financial services sector. Some of the empirical research showed that the economics distance has a negative influence on cross-border M&A performance while others showed that the economic distance and cross-border M&A performance has a significant positive correlation (Yan, D. Y., 2011). The cross-border M&A activity itself is a kind of economic activity, hence economic system and regulations will surely have a direct and important impact on the performance of cross-border M&A. Therefore, an analysis of economic distance and the performance of cross-border

M&A will be carried out. It is generally believed that the economic distance will increase due to the cost of unfamiliarity and discrimination in the cross-border activities.

Cultural distance is the most concerned factors both in literature and in empirical studies on cross-border activities. However, different researchers gave different empirical results on the relationship between cultural distance and the performance of cross-border M&A performance. Li (1995) found that in the merged American and Japanese pharmaceutical and computer industries, the failure rate is not significantly higher than those with smaller cultural distance. Park and Ungson (1997) studied the dissolution of 186 joint-ventures and the results showed that the cultural distance didn't affect the performance of cross-border investment directly. McCloughan and Stone (1998) carried out a study of 252 manufacturing factories in the north of the UK. The results showed that the nationality of the parent company had no direct impact on the survival rate of the subsidiary. Based on 52 cross-border merger projects, Morosini (1998) found that national cultural distance enhanced cross-border acquisition performance. According to the data from 898 joint-venture enterprises, Li's (2001) research showed that the rate of return was determined by the country of joint venture. Having an Asian-partner would result in better performance than having a Western-partner.

Therefore, culture distance could have a positive effect on performance. Although the empirical conclusions are inconclusive, we generally believe that cultural distance will hinder interpersonal interactions, increase communication problems and will therefore show a negative effect on the performance of cross-border M&A.

Knowledge distance refers to the difference of knowledge level or knowledge quantity between different countries. The knowledge economy has gradually replaced traditional production factors and become the key element of economic development and enterprise growth. Therefore, the effective use of knowledge resources has become an important aspect of the core competence of enterprises and the important goal of cross-border mergers and acquisitions. Knowledge distance is an important aspect of the institutional distance and is considered to be an important factor that affects the performance of cross-border M&A (Berry, 2010). Based on the sample of 53 cooperative development projects, Schulze (2012) found that there is an inverse U type of relationship between knowledge distance and collaborative innovation performance.

The non-structure knowledge distance can provide a rich source of knowledge which will furthermore give a positive impact on enterprises efficiency, while the structure knowledge distance will increase the difficulties of coordination between different organizations and therefore has a negatively effect on enterprises efficiency. Furthermore, cross-border organisations without sufficient international experiences are more likely to encounter difficulties in foreign activities (Zaheer, 1995). Thus, knowledge about organisations is important for internationalization (Eriksson et al., 1997). Distance reduces the similarity, while experience increases the similarity. Therefore, as organisations accumulate more international experience, the impact of institutional distance on cross-border M&A performance would be mediated. Organisations can reduce this negative influence through international experience accumulation (Johanson &Vahlne, 1977; Estrin et al., 2009; Yan, 2009; Wu, 2011).Experience in this context is therefore an important intangible asset which forms the competitive advantage of an organization (Hymer, 1976). Experience from successful M&A can be used for future M&A activities, resulting in fewer mistakes being made (Vermeulen & Barkema, 2001).

The concept of this sort of absorptive capacity arose from the macro level and was first used to analyse technology catching-up of lagging countries (Gerschenkron, 1962; Abramovitz, 1986). The basic dimensions of a firm's learning method - particularly, recognizing, assimilative, and applying new, external data was first introduced by Cohen and Levinthal

(1990) who defined this as absorptive capacity. This has further developed and later known as key aspects for organizations to develop and maintain a competitive advantage. This is often notably the case for the multinational corporation (MNC), that coordinating, distributing, and victimization valuable information inside its world network of subsidiaries are crucial to its core competencies (Roth &Morrison, 1992; Philip Roth &Nigh, 1992). This is especially the case where the international diffusion and local absorption of distinctive information that is unlikely to be imitated by competitors. For example, the information entrenched in customised distribution and marketing method which presents a unique source of competitive advantage for MNCs (Gupta &Govindarajan, 2000; Jensen &Szulanski, 2004).

In this regards, Yli-Renko (2001) selected 180 high-technology enterprises from the United Kingdom as research samples; the result confirmed that absorptive capacity has a significant positive influence on new product development and technology improvement. Based on samples from 120 business units in the petrochemical and food manufacturing industry, Tsai's (2001) research showed that enterprise's absorption capacity has a positive influence both on enterprise profit performance and on enterprise innovation performance. Liu (2009) studied the sample of 298 enterprises in China, the empirical result confirmed that the absorptive capacity not only has a direct impact on corporate enterprise profit performance and innovation performance, but also plays an intermediary role in the process of enterprise external network impact on enterprise performance.

Drawing from the comprehensive literature overview, we propose the following hypotheses:

Hypothesis 1: The regulation distance has a negative relation with parent company's cross-border M&A performance. The larger the regulation distance between home country and the host country, the worse off is the parent company's cross-border M&A performance.

Hypothesis 2: The economic distance has a negative relation with parent company's cross-border M&A performance. The larger the economic distance between home country and the host country, the worse off is the parent company's cross-border M&A performance.

Hypothesis 3: The culture distance has a negative relation with parent company's cross-border M&A performance. The larger the culture distance between home country and host country, the worse off is the parent company's cross-border M&A performance.

Hypothesis 4: The knowledge distance has a negative relation with parent company's cross-border M&A performance. The larger the knowledge distance between home country and the host country, the worse off is the parent company's cross-border M&A performance.

Hypothesis 5: The degree of internationalization has a positive relation with company's cross-border M&A performance. The more experience of internationalisation that the parent company has, the better off is the parent company's cross-border M&A performance.

Hypothesis 6: The internationalization degree mediates the negative effect of institutional distance on parent company's cross-border M&A performance. If the parent company's internationalization degree is higher, the negative effect of institutional distance on parent company's cross-border M&A performance will become weaker.

Methodology

In order to analyse the role of the institutional distance within transnational business activities, a majority of researchers discuss the importance of composition of the institutional distance. Much of the underpinning of the research is supported by the three pillars theory, which considered regulative systems, normative systems and cultural-cognitive systems as the three dimensions of institutional distance (Scott, 1995) and elaborated by (Kostova, 1996; Xu, 2001).

From this perspective, we can see that that institution is divided into formal and informal institutions. From the perspective of quality, the institutional distance can also be divided into nine dimensions that include economic, financial, political, administrative, cultural, demographic, knowledge, connectedness and geographic (Berry, 2010). Although different researchers have different views on the conception and dimensions of institutional distance, the essence of it is to make a more detailed description and facilitate follow-up analysis. Therefore, based on previous theories, we propose that institutional distance is made up of four dimensions which are regulations distance, economic distance, cultural distance and knowledge distance.

Conceptual model

A historic perspective from Johanson&Vahlne (1977: pp22) initiates the concept of "Psychic Distance" and considers that psychic distance between different countries hindered the communication process and the transfer of technology and management experience between the parent company and its subsidiaries. Thus, the "distance" between acquired firm and acquiring firm is considered an important factor that affects the performance of cross-border M&A. More recently, authors such as (Azar & Drogendijk, 2014; Evans & Mavondo, 2002; Puthusserry, Child, & Rodrigues, 2014) examine how Psychic distance effects coping strategies within the various parties concerned. In this regards, Hofstede (1983: pp121) noted that "Cultural Distance" between different countries has the potential to negatively affect the cost of trade and (Kessapidou & Varsakelis, 2002; Zhan & Chen, 2013) explain that this phenomena as important when considering impacts within international business performance.

An institutional- view may be drawn from the concept of "Institutional Distance" (Ionascu, Meyer, & Estrin, 2005; Lahiri, Elango, & Kundu, 2014; Xu & Shenkar, 2002) and elucidates the differences and uncertainty of different party's institutional context and points of view. From these perspectives, we can determine that psychological distance or cultural distance is the description of the differences and the uncertainty between stakeholders. Institutional distance therefore is a key factor which can influence the validity of transnational business activities. Prominent authors such as (Berry, 2017; Berry, Guillén, & Zhou, 2010; Berry & Kaul, 2015) explain in detail that increase of institutional distance intensifies the risk and cost of cross-border M&A and that linked to this, "Liability of Foreignness" also exists as a negative influence on cross-border M&A performance (Berry, 2010). Similarly, regulation in this discussion includes political and legal rules at the national level. Regulations are the basis of firm behaviour and will affect enterprises' growth path and strategic mode. The regulation distance is related to the performance and behaviour of the cross-border enterprise and will influence the entry-location, entry-time and entry-mode of the investors (Makino et. al., 2004), and have a significant negative impact on the overseas investment results (Zhang J. H., 2010; Yan D. Y., 2011).

As such, we combine both the macro and micro level factors i.e. institutional distance and parent company's core competency (ability). Suggesting that institutional distance can affect the performance directly and indirectly through parent company's ability.

Sample selection

The model was tested by data from Chinese cross-border M&A completed in 2012. The samples present some special characteristics that make it suitable for our purpose. The cross-border M&A in developing countries is increasing rapidly while the empirical researches based on developing countries are seldom. In 2013, the number of cross-border M&A conducted by Chinese enterprises (excluding Hong Kong, Macao and Taiwan) is 343, its total amount is 26.87 billion dollars which accounted for 7.70% of the world and ranked fourth in the world (UNCTAD cross-border M&A databases). In addition, the effect of cross border M&A on the parent company's performance presents an opportunity to study the lagging effect. This study analysed the change of parent company's performance two years after its cross-border M&A. The data set from 2012 was the most current information available for the analysis.

Based on the database of BVD-Zephyr and Qingke, we preliminary screen out cross-border M&A items completed in 2012. Then according to the company's official announced annual report, we screened out the target items. Furthermore, (1) removed companies being listed after 2012, (2) eliminated companies with uncompleted financial data or abnormal fluctuation performance, (3) renounced companies registered in tax havens (to ensure the cross-border M&A is part of parent company's international strategic), (4) at least one of the main sponsor is enterprises registered in mainland China, (5) the target enterprise must registered outside mainland China, (6) the cross-border M&A have been confirmed to complete. According to the above criterions, 60 samples are valid.

Variable measurement

Dependent variable in this paper is the parent company's profit performance, and we measured it by Return on Total Assets. The data can be acquired from enterprise annual report.

Independent variable in this paper is institution distance and it includes regulation distance, economic distance, culture distance, and knowledge distance. We first collected the indictors of each variable and then calculated its distance. The regulation indicator of each country was collected from World Governance Indexes given by World Bank Group. The economic indicator of each country was collected from Index of Economic Freedom given by The Heritage Foundation. The culture indicator of each country was collected from Global Leadership and Organizational Behaviour Effectiveness. We also divided sub-dimension of culture into two parts, practice and value. For some missing data, we made some necessary and reasonable technical adjustments. The knowledge indicator of each country was collected from World Economic Forum, and we chose three sub-dimensions that are Higher Education and Training, Technological Readiness, Innovation to describe it.

Based on the collected indicators of each variable, we calculated the distance between home country and host country mainly according to formula given by Kogut & Singh (1988). The formula is as following.

$$\mathrm{D_{jk}} = \mathrm{Ln} \sum_{i=1}^{n} \left\{ \left(\mathrm{D_{ij}} - \mathrm{D_{ik}}\right)^2 / \mathrm{V_i} \right\} / n$$

D_{ij} represents the index of item i in country j.
D_{ik} represents the index of item i in country k.
V_i represents the variance of item i.

Mediate variable in this paper is parent company's characteristics, and it includes two dimensions that are internationalization extent and absorptive capability. The internationalization extent is measured by Transnational Index mainly gain through official report. The absorptive capability is measured by four indicators that are the proportion of R&D expenditures accounted for net assets; the proportion of technological staff accounted for whole staff, the proportion of staff with bachelor degree or above accounted for whole staff, the proportion of intangible assets accounted for net assets. All these data can be acquired from enterprise annual report.

Analysis

Reliability

According to the valid data, the research made a further analysis by using the statistical analysis software SPSS. The reliabilities are tested by Cronbach alpha values that are all above the recommended mini-mum of 0.70. The adjustment CICTs are all above the recommended minimum of 0.35. Thus, all of the constructs demonstrate good internal consistency and hence, reliability.

Correlation

The results of correlation analyses are shown in **TABLE 2**. There are 17 correlations among institution distance, parent company's characteristics and parent company's profit performance. In particular, there are only 2 correlations between ROTA02 and other variables. Therefore, we make regression analysis only between ROTA01 and other variables, and ROTA01 is hereafter referred to as M&A performance.

TABLE 2: Correlations for the Variables in the Model

	1	2	3	4	5	6	7	8	9	10
1 Regulation distance	1.000									
2 Economical distance	0.914**	1.000								
3 Cultural distance: Practices	-0.070	-0.119	1.000							
4 Cultural distance: Values	-0.102	-0.184	0.714**	1.000						
5 Knowledge distance	0.896**	0.808**	0.102	-0.106	1.000					
6 Internationalization extent	0.204	0.212	0.193	0.191	0.198	1.000				
7 Absorptive capability 01	-0.103	-0.119	0.363**	0.527**	-0.040	0.139	1.000			
8 Absorptive capability 02	0.348**	0.356**	-0.164	-0.384**	0.388**	-0.002	-0.474**	1.000		
9 ROTA 01	0.045	0.078	-0.259*	-0.364**	0.034	-0.024	-0.297**	0.376**	1.000	
10 ROTA 02	-0.065	-0.108	0.061	0.190	-0.077	0.054	0.107	-0.286*	-0.881**	1.000

N=205. * p ≤ 0.05 (2-tailed). ** p ≤ 0.01 (2-tailed tests).

Based on factor analysis, the absorptive capability can be divided into two dimensions.
One is determined by the proportion of R&D expenditure account for net assets and the proportion of intangible assets account for net assets we name it "Absorptive capability 01", the other is determined by the proportion of technological staff account for whole staff and the proportion of staff has bachelor degree or above account for whole staff we name it "Absorptive capability 02". In view of the availability of data and research object, we didn't make a deep analysis on absorptive capacity in this paper. However, the factor analysis result coincide with the conclusion of Zahra & George (2002) that divided absorptive capacity into potential absorptive capacity and realized absorptive capacity. According to the result, we give that "Absorptive capability 01" means potential absorptive capability and "Absorptive capability 02" means realized absorptive capability.
ROTA 01 = Rate of Total Assets in 2012 - (Rate of Total Assets in 2010 + Rate of Total Assets in 2010)/2
ROTA 02 = (Rate of Total Assets in 2014 + Rate of Total Assets in 2013)/2 - Rate of Total Assets in 2012

Regression

Stepwise method is used to give linear regression and the results are shown in **TABLE 3**. The results showed that cultural distance values has a significant negative impact on both M&A performance and realized absorptive capability, realized absorptive capability has a significant positive impact on M&A performance, cultural distance values has a significant negative impact on realized absorptive capability, knowledge distance has a significant positive impact on realized absorptive capability.

TABLE 3: Results of Linear Regression

	R	R^2	Sig. (F)	Sig. (t)	Tolerance	D-W	VIF max
$Y_1 = -0.364 X_{3b}$	.364	.133	.004	.004	1.000	2.155	1.000

$Y_1 = 0.376F_{2b}$	.376	.141	.003	.001	1.000	1.915	1.000
$F_{2b} = 0.351X_5 - 0.347X_{4b}$	.519	.269	.004	.004	0.989	2.144	1.011
$Y_1 = 0.277F_{2b} - 0.258X_{3b}$	.445	.198	.049	.049	0.853	1.938	1.173
Y1: ROTA 01; Y2: ROTA 02. X1: Regulation distance; X2:Economical distance; X3a: Cultural distance Practices; X3b: Cultural distance Values; X4: Knowledge distance. F1: Internationalization extent; F2a: Absorptive capability 01; F2b: Absorptive capability 02. 0.05≤p≤0.1.							

RESULTS

Base on the empirical results, this researcher further interviewed senior managers of two companies that have engaged in cross-border M&A, and conducted the following conclusions.

Firstly, regulation distance and economic distance mainly affect whether cross-border M&A can be carried on smoothly. Regulation distance and economic distance mainly reflects the differences of government regulatory systems between two countries, and these differences mainly determine whether the cross-border M&A can be carried on smoothly. In this study, however, the implicit assumption is that the cross-border M&A activity has completed, we only discuss the influencing factors to M&A performance, thus the regression results show that regulation distance and economic distance have no direct influence on M&A performance.

Secondly, cultural distance values is an important factor affects the performance of cross-border M&A. On one hand, as the cognitive dimension of institutional distance, the cultural distance value means the differences in employee's behavior patterns, and this has a direct effect on M&A performance. One the other hand, cultural distance values affects M&A performance through affecting parent company's realized absorptive capacity. Meanwhile, there is a significant correlation between culture distance practice and M&A performance, but the culture distance practice does not enter the regression equation. The reason lies in two aspects. One reason lies in the division of culture distance. According to GLOBE, culture distance values represent what the culture "should be", while culture distance practice represent what the culture "as is". The difference of "as is" is relatively predictable, thus it can be avoided. The other reason lies in the analysis method. Cultural distance values and cultural distance practice are interrelated, the stepwise method in regression analysis weaken the function of culture distance practice. Therefore, in the revised concept model, we choose culture distance values to represent cultural distance.

Thirdly, knowledge distance has an indirect effect on M&A performance through affecting parent company's realized absorptive capacity. The empirical results don't show the correlation between knowledge distance and M&A performance. On one hand, the influence of knowledge distance on M&A performance should be reflected in the innovation performance, and indicators to measure M&A performance in this study is mainly related to profit performance. On the other hand, in the manufacturing industry and high-tech industry, the influence of knowledge distance on M&A performance shall be more significant, but confined to limited samples, we did not control enterprise type in this study.

Fourthly, parent company's ability not only has a directly influence on M&A performance, but also plays a mediate role in institutional distance affects M&A performance. There is no correlation between parent company's internationalization and M&A performance. The internationalization extent is measured by Transnational Index in this study, while this may not fully reflect parent company's international experience in the host country. The empirical results show that parent company's realized absorptive capacity not only has a directly influence on M&A performance, but also plays a mediate role in institutional distance affects M&A performance. Meanwhile, there is a significant correlation between parent company's potential absorptive capacity and M&A

performance, but parent company's potential absorptive capacity does not enter the regression equation. One reason is due to the measurement on potential absorptive capacity in this study.

According to regression results, knowledge distance doesn't affect M&A performance directly but have a significant effect on realized absorptive capacity. In view of the fact that realized absorptive capacity has a significant effect on M&A performance, we can hold that knowledge distance affects M&A performance indirectly by influencing realized absorptive capacity.

According to the regression results, cultural distance values has a significant effect on M&A performance, therefore, when considering realized absorptive capacity, the index Beta of network characteristic is decreasing and the index R and R2 are all increasing. That is, the realized absorptive capacity plays the mediate role in the process of cultural distance values affecting M&A performance.

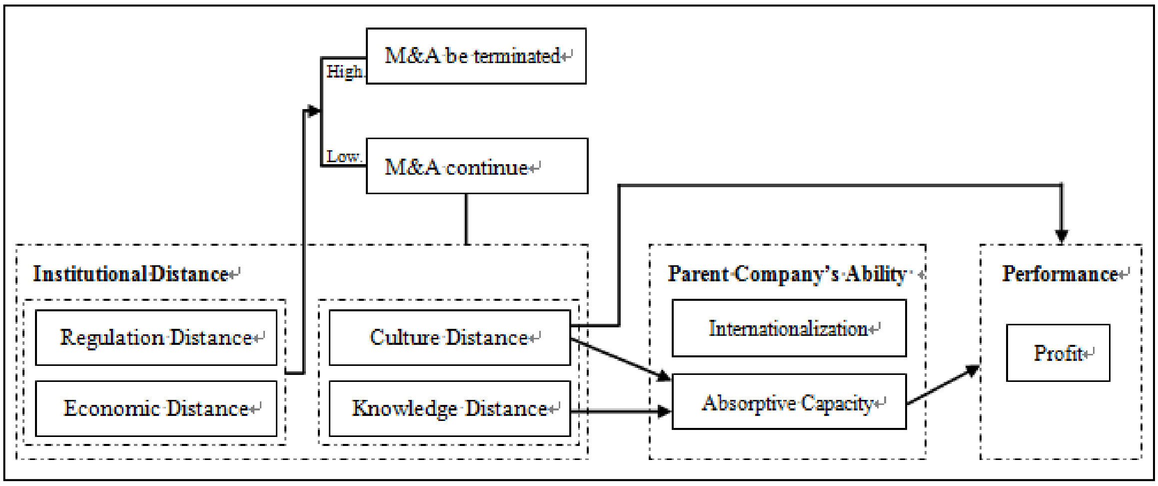
TABLE 4: Results of Hypothesis Testing

Hypothesis Briefly Description	Result
Hypothesis 1: The large the regulation distance between home country and host country is, the worse of parent company's cross-border M&A performance is.	Unsupported
Hypothesis 2: The large the economic distance between home country and host country is, the worse of parent company's cross-border M&A performance is.	Unsupported
Hypothesis 3: The large the culture distance between home country and host country is, the worse of parent company's cross-border M&A performance is.	Supported
Hypothesis 4: The large the knowledge distance between home country and host country is, the worse of parent company's cross-border M&A performance is.	Partial Supported
Hypothesis 5: The higher parent company's internationalization degree is, the better of parent company's cross-border M&A performance is.	Unsupported
Hypothesis 6: If the parent company's internationalization degree is higher, the effect of institutional distance on parent company's cross-border M&A performance will became weaker.	Unsupported

Recommendation: Revised Concept Model

Realized absorptive capacity and potential absorptive capacity are now interrelated, the stepwise method in regression analysis weaken the function of potential absorptive capacity. Therefore, in the revised concept model, we choose realized absorptive capacity to represent absorptive capacity. Thus, we can make some adjustments on the initial concept modes, and the revised concept model is shown in FIGURE 1.

FIGURE 1 Revised Concept Model



Conclusion

The study gives some implications for theory building. First, researches could subdivide the process of cross-border M&A, and examine the impact of institutional factors on different stages of cross-border M&A. Second, researches could subdivide the type of parent company and further discuss the role of knowledge distance. Third, researches could expand sample sources of cross-border M&A to explain the mechanism.

Meanwhile, the study gives some implications for business practice and policymaking. The results show that parent companies should consider the location of target acquired company before their cross-border M&A, try to accelerate cultural integration and improve their absorptive capacity. For policymakers, reducing regulation distance and economic distance can help to promote cross-border M&A.

Limitations

One limitation of this study relates to the universality of the finding. Cross-border M&A samples in this study are dominate by Chinese enterprises, thus future studies should choose other countries samples to test the universality of the finding in this study.

Another limitation of this study lies in that we do not control enterprise type. In this study, we consider knowledge distance is an important dimension of institutional distance and it should have significant effect on cross-border M&A performance. However, the results don't show its effect. In view of the importance of knowledge in current international competition, future researchers could make a further segmentation on parent enterprise's type and find the mechanism of knowledge distance.

Acknowledgements

This paper is supported by Natural Science Funding of Shandong Province, "The impact of open innovation network on enterprise technology innovation" (ZR2012GQ007), National Social Science Research Funding of China, "Research on SME Enterprises' Open Financing Mode under The Network Environment" (14CJY072).

References

Abramovitz, M. (1986). Catching Up, Forging Ahead, and Falling Behind. The Journal of Economic History, 46(2), 385-406.

Azar, G., & Drogendijk, R. (2014). Psychic Distance, Innovation, and Firm Performance. Management International Review, 54(5), 581-613. doi: http://dx.doi.org/10.1007/s11575-014-0219-2

Berry, H. (2017). Managing valuable knowledge in weak IP protection countries. Journal of International Business Studies, 48(7), 787-807. doi: 10.1057/s41267-017-0072-1

Berry, H., & Kaul, A. (2015). Global sourcing and foreign knowledge seeking. Management Science, 61(5), 1052-1071. doi: 10.1287/mnsc.2014.2036

Berry, H., Guillen, M. F., & Zhou, N. (2010). An Institutional Approach to Cross-national Distance. Journal of International Business Studies, 41(9), 1460-1480.

Berry, H., Guillén, M. F., & Zhou, N. (2010). An institutional approach to cross-national distance. Journal of International Business Studies, 41(9), 1460-1480. doi: 10.1057/jibs.2010.28

Chan C. M., Isobe, T., & Makino, S. (2008). Which Country Matters? Institutional Development and Foreign Affiliate Performance. Strategic Management Journal, 29(11), 1179-1205.

Chen, Y., Werle, H., & Moser, R. (2009). Comparing critical success factors between European M&As in China and Chinese M&As in Europe: A mixed-method analysis. Journal of Organizational Change Management, 29(7), 1217–1236.

Choi, J. J., Lee, S. M., & Shoham, A. (2016). The effects of institutional distance on FDI inflow: General environmental institutions (GEI) versus minority investor protection institutions (MIP). International Business Review, 25(1), 114-123. doi: 10.1016/j.ibusrev.2014.11.010

Cohen, W. M., & Levinthal, D. A. (1990). Absorptive Capacity: A New Perspective on Learning and Innovation. Administrative Science Quarterly, 35(1), 128-152.

Deng, P. (2009). Why do Chinese firms tend to acquire strategic assets in international expansion? Journal of World Business, 44(1), 74–84.

Denk, N., Kaufmann, L., & Roesch, J. F. (2012). Liabilities of Foreignness Revisited: A Review of Contemporary Studies and Recommendations for Future Research. Journal of International Management, 18(4), 322-334.

Dikova, D., Rao Sahib, P., & Van Witteloostuijn, A. (2006). The effect of acquisition experience, institutional context and national culture on cross-border merger abandonment and completion: Evidence from the international business service industry in 1981-2001.

Dreger, C., Schüler-Zhou, Y., & Schüller, M. (2017). Determinants of Chinese direct investments in the European Union. Applied Economics, 49(42), 4231-4240. doi: 10.1080/00036846.2017.1279269

Eden, L., & Miller, S.R. (2004). Distance Matters: Liability of Foreignness, Institutional Distance and Ownership Strategy in M.A. Hitt & J. Cheng (eds.). Advances in International Management, Elsevier: New York, pp: 187-221.

Eriksson, K., Johanson, J., Majkgard, A., & Sharma, D. D. (1997). Experiential Knowledge and Cost in the Internationalization Process. Journal of International Business Studies, 28(2), 293-307.

Estrin, S., Baghdasaryan, D., & Meyer K. E. (2009). The Impact of Institutional and Human Resource Distance on International Entry Strategies. Journal of Management Studies, 46(7), 1171-1196.

Evans, J., & Mavondo, F. T. (2002). Psychic distance and organizational performance: An empirical examination of international retailing operations. Journal of International Business Studies, 33(3), 515-532.

Gerschenkron, A. (1979). Economic Backwardness in Historical Perspective: a Book of Essays. Cambridge: Belknap Press of Havard University Press.

Gupta, A. K., &Govindarajan, V. 2000. Knowledge flows within multinational corporations. Strategic Management Journal , 21 (4): 473-496.

Higón, D. A., & Antolín, M. M. (2012). Multinationality, Foreignness and Institutional Distance in the Relation between R&D and Productivity. Research Policy, 41(3), 592-601.

Hofstede, G. (1983). The Cultural Relativity of Organizational Practices and Theories. Journal of International Business Studies, 14(2), 75-89.

Hymer, S. H. (1976). The International Operations of National Firms: A Study of Direct Foreign Investment. Published Doctoral Dissertation, Massachusetts Institute of Technology, Cambridge, MA.

Ionascu, D., Meyer, K. E., & Erstin, S. (2004). Institutional Distance and International Business Strategies in Emerging Economies, William Davidson Institute Working Paper, Number 728.

Ionascu, D., Meyer, K. E., & Estrin, S. (2005). Institutional Distance and International Business Strategies in Emerging Economies. SSRN Electronic Journal. doi: 10.2139/ssrn.665110

Jensen, R. J., &Szulanski, G. 2004. Stickiness and the adaptation of organizational practices in cross-border knowledge transfers. Journal of International Business Studies , 35 (6): 508-523.

Johanson, J., & Vahlne, J. E. (1977). The Internationalization Process of the Firm: A Model of Knowledge Development and Increasing Foreign Market Commitments. Journal of international business studies, 8(1), 23-32.

Karreman, B., Burger, M. J., & van Oort, F. G. (2017). Location Choices of Chinese Multinationals in Europe: The Role of Overseas Communities. Economic Geography, 93(2), 131-161. doi: 10.1080/00130095.2016.1248939

Kessapidou, S., & Varsakelis, N. C. (2002). The impact of national culture on international business performance: The case of foreign firms in Greece. European Business Review, 14(4), 268.

Koerniadi, H., Krishnamurti, C., & Tourani-Rad, A. (2015). Cross-border mergers and acquisitions and default risk. International Review of Financial Analysis, 42, 336-348. doi: 10.1016/j.irfa.2015.08.009

Kogut, B., & Singh, H. (1989). The Effect of National Culture on the Choice of Entry Mode. Journal of International Business Studies, 19(3), 411-432.

Kostova, T. (1996). Success of the Transnational Transfer of Organizational Practices within Multinational Companies. Doctoral Dissertation of University of Minnesota.

Lahiri, S., Elango, B., & Kundu, S. K. (2014). Cross-border acquisition in services: Comparing ownership choice of developed and emerging economy MNEs in India. Journal of World Business, 49(3), 409-420. doi: 10.1016/j.jwb.2013.08.003

Li, J. (1995). Foreign Entry and Survival: Effects of Strategic Choices on Performance in International Markets. Strategic Management Journal, 16(5), 333-351.

Li, J., Lam K., & Qian, G. (2001). Does Culture Affect Behavior and Performance of Firms? The Case of Joint Ventures in China. Journal of International Business Studies, 32(1), 115-131.

Li, Y., Vertinsky, I. B., & Li, J. (2014). National distances, international experience, and venture capital investment performance. Journal of Business Venturing, 29(4), 471-489. doi: 10.1016/j.jbusvent.2013.08.002

Liou, R. S., Chao, M. C. H., & Yang, M. (2016). Emerging economies and institutional quality: Assessing the differential effects of institutional distances on ownership strategy. Journal of World Business, 51(4), 600-611. doi: 10.1016/j.jwb.2016.03.001

Liu, L. (2009). An Empirical Study on the Effect of Enterprise External Network on It's Performance: From the Perspective of Absorptive Capability. Doctoral Dissertation of Shandong University of China (in Chinese).

Luo, Y., & Peng, M. W. (1990). Learning to Compete in a Transition Economy: Experience, Environment and Performance. Journal of International Business Studies, 30(2), 269-295.

Makino, S., Isobe, T., & Chan, C. M. (2004). Does Country Matter? Strategic Management Journal, 25(10), 1027-1043.

McCloughan, P., & Stone, I. (1998). Life Duration of Foreign Multinational Subsidiaries: Evidence from UK Northern Manufacturing Industry 1970~1993. International Journal of Industrial Organization, 16(6), 719-747.

McDowall, W., Geng, Y., Huang, B., Barteková, E., Bleischwitz, R., Türkeli, S., . . . Doménech, T. (2017). Circular Economy Policies in China and Europe. Journal of Industrial Ecology, 21(3), 651-661. doi: 10.1111/jiec.12597

Morosini, P., Shane, S., & Singh, H. (1998). National Cultural Distance and Cross-border Acquisition Performance. Journal of International Business Studies, 29(1), 137-158.

North, D. C. (1991) Institutions. Journal of Economic Perspectives, 5(1), 97–112.

North, D.C. (1990) Institutional Structure and Institutional Change. Cambridge University Press, New York.

Pan, Z., Yin, F. H., & Lu, H. M. (2008). The Effect of Institutional Distance on the Performance of Foreign-capital Enterprises: An Empirical Study Based on Survival Analysis. Management World, (7), 103-115(in Chinese).

Park, S. H., & Ungson, G. R. (1997). The Effect of National Culture, Organizational Complementarity and Economic Motivation on Joint Venture Dissolution, Academy of Management Journal, 40(2), 279-307.

Peng, M. W. & Heath, P. S. (1996). The Growth of the Firm in Planned Economies in Transition: Institutions, Organizations, and Strategic Choice. Academy of Management Review, 21(2), 492-528.

Puthusserry, P. N., Child, J., & Rodrigues, S. B. (2014). Psychic Distance, its Business Impact and Modes of Coping: A Study of British and Indian Partner SMEs. Management International Review, 54(1), 1-29. doi: http://dx.doi.org/10.1007/s11575-013-0183-2

Roth, K., &Morrison, A. T. 1992. Implementing global strategy: Characteristics of global subsidiary mandates. Journal of International Business Studies , 23 (4): 715-735.

Roth, K., &Nigh, D. 1992. The effectiveness of headquarters-subsidiary relationships: The role of coordination, control, and conflict. Journal of Business Research , 25 (4): 277-301.

Rui, H., & Yip, G. S. (2008). Foreign acquisitions by Chinese firms: A strategic intent perspective. Journal of World Business, 43(2), 213–226.

Rui, H., & Yip, G. S. (2008). Foreign acquisitions by Chinese firms: A strategic intent perspective. Journal of World Business, 43(2), 213-226. doi: 10.1016/j.jwb.2007.11.006

Salomon, R. & Wu, Z. (2012) Institutional Distance and Local Isomorphism Strategy. Journal of International Business Studies, 43(4), 343–367.

Schulze, A. & Brojerdi, G. J. C. (2012) The Effect of the Distance between Partners' Knowledge Components on Collaborative Innovation. European Management Review, 9(2): 85-98.

Scott, W. R. (1995) Institutions and organizations. Thousand Oaks, CA: Sage Publications.

Todorova, G.& Durisin, B. (2007). Absorptive Capacity: Valuing a Reconceptualization. Academy of Management Review, 32(3), 774-786.

Tsai, W. P. (2001). Knowledge Transfer in Intraorganizational Networks: Effects of Network Position and Absorptive Capacity on Business Unit Innovation and Performance. Academy of Management Journal, 44(5), 996-1004.

United Nations, (2016). Conference on Trade and Development (UNCTAD). World Investment Report Investor nationality: Policy challenges. United Nations Publication.

Vermeulen, F. & Barkema, H. (2001). Learning through Acquisitions. Academy of Management Journal, 44 (3), 457-476.

Wu, Z. Y. (2009). Three Essays on Distance: Examining the Role of Institutional Distance on Foreign Firm Entry, Local Isomorphism Strategy and Subsidiary Performance. Doctoral Dissertation of University of Southern California, 2009.

Xu, D., & Shenkar, O. (2002). Institutional distance and the multinational enterprise. Academy of Management Review, 27(4), 608-618.

Xu, D., (2001). The Effect of Institutional Distance on Multinational Enterprise Strategy. Doctoral Dissertation of York University, 2001.

Yan, D. Y. (2011). A Research on the Institutional Distance, International Experience and Chinese Overseas Acquisitions. Nankai Economic Studies, (5), 75-97 (in Chinese).

Yang, M. (2015). Ownership participation of cross-border mergers and acquisitions by emerging market firms: Antecedents and performance. Management Decision, 53(1), 221-246. doi: 10.1108/MD-05-2014-0260

Yli-Renko, H., Autio, E. & Sapienza, H. J. (2001). Social Capital, Knowledge Acquisition, and Knowledge Exploitation in Young Technology-Based Firms. Strategic Management Journal, 22(6/7), 587-613.

Zaheer S. (1995). Overcoming the Liability of Foreignness. Academy of Management Journal, 1995, 38(2), 341-363.

Zahra, S. A. & George, G. (2002). Absorptive Capacity: A Review, Reconceptualization and Extension. Academy of Management Review, 2002, 27(2), 185-203.

Zhan, W., & Chen, R. (2013). Dynamic capability and IJV performance: The effect of exploitation and exploration capabilities. Asia Pacific Journal of Management, 30(2), 601-632. doi: http://dx.doi.org/10.1007/s10490-010-9235-3

Zhang, J. H. & Zhou, C. M. (2010). A Study on Institutional Barriers of Chinese Companies Going Global. Economic Research Journal, (6), 80-91 (in Chinese).