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The effect of cultural dimensions on host M&A attractiveness

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Abstract

In the present study the effect of cultural dimensions on host country M&A attractiveness was investigated. It draws upon the theories of cultural dimensions by Hofstede and M&A attractiveness by Appadu to explain why cultural dimensions may predict the M&A attractiveness of a host country. The results indicated that power distance, individualism and masculinity are positively related and uncertainty avoidance is negatively related with host M&A attractiveness and that individualism has the strongest influence. Results also showed that a high difference on the individualism dimension between the home and host country and similar scores regarding the power distance, masculinity and uncertainty avoidance are related to a higher M&A attractiveness.

Keywords: Cultural dimensions, M&A attractiveness, cultural distance

Preface

Dear reader,

With this thesis an end has come to my period as a student. In 2014, I joined the Tilburg University and between that time and now, I participated in the bachelor International Business Administration, graduated from this bachelor, went for an exchange to Peru to study half a year at ESAN Universidad. Studied the master Strategic Management at Tilburg University and International Management at LUISS, with a double degree. It has been a time full of deadlines, hard work, finding motivation and feeling fulfilled and satisfied when the exam periods were over, but I enjoyed every second of it. Tilburg University is an inspiring place where you can not only obtain knowledge but also grow as an individual yourself. A place that broadens your view, makes you think about the world and where great minds meet. I am grateful that I was able to undertake this journey.

I chose this topic because I believe that culture is important when doing business. The world is now more integrated in other countries than ever before and therefore culture has become a part of the daily life and it is important to understand when doing business. At this moment, I am looking for my future employer and I would not like to work at a company where there is no international workforce where different cultures meet and try to create the most value for a company, and I believe the same holds for many other students. With that said, I am very satisfied with the findings of my study. I want to conclude with a thank you to Fons Naus. In the beginning you challenged me by finding an interesting topic which was daring and creative. It was a rough start but after some meetings I found an interesting topic which I really enjoyed investigating, all thanks to you. During the process you helped me enormously by giving challenging and helpful comments on my work. I would like to thank you Mr. Naus, my thesis would not have been what it is today without you and I really enjoyed the experience. I would also like to thank Luca Arnaudo for overseeing my thesis from the LUISS perspective.

For all readers, I hope you are as enthusiastic about culture as I am, and I wish you a pleasant reading.

Lars

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1. Introduction

1.1 Problem indication

The economies all over the world are now more internationally integrated than ever before. Many companies engage in cross-border activities, especially mergers and acquisitions (M&As) are popular investments among companies. Despite the high failure rate of M&As, multinational companies still decide to engage in cross-border M&A activities. In the years 2013 until 2018, the amount of M&A deals all over the world grew with 38% (United Nations Conference of Trade and Development, 2019). This growth rate indicates that even though many M&As fail, it is still a preferred cross-border investment method for firms. If there are cross-border investments, there are also location choices to involved. To define which location is the best option for companies to exploit their M&A opportunities it is necessary to compare countries and to define factors that can determine the M&A attractiveness of a country. However, in this area scholars are still searching for an answer. Academics seem to have agreed on certain factors that facilitate to evaluate the M&A attractiveness of a country, but the question whether (differences between) cultural dimensions can help predict the M&A attractiveness of a country have been left out of the equation even after stressing the importance of these dimensions.

M&A activity has received a lot of attention from scholars and is often mentioned in financial newspapers. The total value of M&A deals all over the world in 2019 was 3.701 billion US dollars (Statista, 2020). This indicates the tremendous value of M&A activity. Reasons given by decision makers why so many firms engage in M&A activity is to realize economies of scale, exploit foreign markets or get access to scarce resources (Nadolska & Barkema, 2007). However, a lot of firms fail to successfully perform M&As. Koi-Akrofi (2016) argues that on average around 50 percent of the M&As fail, despite the initial high hopes. Other articles cite a stunning 83% failure rate according to research conducted by KPMG (PR Newswire, 1999). Reasons for the high percentage of failures are, according to some scholars, unrealistic expectations and overconfidence of the managers (Steger & Kummer, 2007), while other scholars argue that cultural differences are the main reason for M&A failures (Papadakis, 2007).

Cultural dimensions exert a great influence on the performance of cross-border M&As (Weber, Tarba & Reichel, 2009). The differences between the cultural dimensions of the host country and the cultural dimensions of the home country in a cross-border M&A are the biggest contributor to the amount of failures according to Lodorfos and Boateng (2006). To better understand this high failure rate, Appadu et al. (2016) have created a country M&A attractiveness scoring index that measures the degree of M&A attractiveness of a country on five different factors: Regulatory and political indicators, economic and financial indicators, technological indicators, socio-economic indicators and the infrastructure and assets indicators.

The research of Appadu et al. (2016) covers many aspects of a country's M&A attractiveness but it does not take cultural differences between the home and the host country into account, yet according to Neto, Brandão and Cerqueira (2010) the cultural dimensions are of great importance for companies to decide which country to invest in regarding their M&A activity.

1.2 Problem statement

The M&A attractiveness index created by Appadu et al. (2016) provides a scoring methodology to evaluate a country's capacity to attract and sustain M&A activity. It takes into account important factors regarding the attractiveness of a country for cross-border M&A inflows. However, this index does not take into account the cultural dimensions described by Hofstede (1983) of countries and the idea that these cultural dimensions may predict M&A attractiveness. Cultural differences are argued in many articles (Lodorfos & Boateng, 2006; Neto, Brandão and Cerqueira, 2010; Papadakis, 2007; Weber, Tarba & Reichel, 2009) to be of great importance for companies to consider when engaging in M&A activity. Taking into consideration this current gap in the literature and the ever-increasing interest in cross-border M&A activity, the following problem statement arises:

To what extent do the cultural differences between the home country and the host country predict the M&A attractiveness of the host country?

1.3 Research questions

To find an answer to this problem statement, the following theoretical research questions and empirical research questions will be investigated.

Theoretical research questions

1. What are the cultural dimensions of Hofstede?

2.What is M&A attractiveness, and how is it formed?

3.What are the country development dimensions of M&A attractiveness, and how do they influence the M&A attractiveness?

Empirical research questions

1. What combination of cultural dimensions regarding the host country is related to high M&A attractiveness?
2. Which cultural dimension exercises the biggest influence on the M&A attractiveness of a country?
3. What is the ideal cultural distance in between the home and the host country in order to achieve the greatest M&A attractiveness?
4. Which of the country development factors of M&A attractiveness has the biggest influence on the M&A attractiveness of a country?

With the answers to the empirical research questions we can reveal the relationship between the cultural dimensions of the home country and the host country and the M&A attractiveness of a host country.

1.4 Structure of the thesis

The rest of the thesis is structured as follows. Chapter 2 will provide a theoretical background based on previous research to analyze the relationship between the cultural dimensions of the home country, and of the host country, and the M&A attractiveness of that host country. In chapter 3 the methodology used to perform the quantitative study will be described. In chapter 4 the data will be analyzed, and the results of the conducted research will be presented. Finally, in chapter 5 the conclusion, discussion, contribution, limitation and suggestions for future research will be provided.

2. Literature review

There is scarce research on the relationship between cultural dimensions and M&A attractiveness. However, many studies have been conducted on the effect of cultural dimensions on FDI, and since M&As are a form of FDI we can gather a lot of information based on this literature. This chapter will provide an overview of studies related to cultural dimensions and M&A attractiveness. Paragraph 2.1 will give a description and a review of the theory on M&A attractiveness. Paragraph 2.2 will give a description of cultural dimensions and theory related to this topic. Paragraph 2.3 will review the theory of the direct effect of cultural dimensions on M&A attractiveness. Paragraph 2.4 will describe the country development factors and analyze the theory on this topic. Paragraph 2.5 will give a review of the theory available on the country development factors and the M&A attractiveness.

2.1 M&A attractiveness

M&A attractiveness is the degree to which a country is developed to attract and sustain M&A activity. Samimi and Ariani (2010) found that the improvement of three governance indicators attracts more FDI and thus M&A activity. The governance indicators that they used in their research were political stability, control of corruption and rule of law. Pournarakis and Varsakelis (2004) argue that institutional factors such as civil rights and internationalization make countries more attractive for foreign investments. Bailey (2018) also found that institutional factors such as political stability, democracy and rule of law attract FDI, while others such as corruption, tax rates and cultural distance would make countries less attractive. According to Appadu et al. (2016), there are four main themes in the economic and financial literature that are identified as making a country attractive for M&A activity. First, there is literature related to the drivers of FDI in general, where institutional quality, democracy and political stability play an important role (Kolstad & Villanger, 2008). Second, the literature focusing on the drivers of developing, compared to developed, economies and the distinction between different stages of country development when analyzing the drivers for FDI, concluding that FDI creates development in developing countries due to the spillover effect (Narula & Driffield, 2012). Third are the studies that analyze M&A as a separate process instead of considering it under the more general FDI activity, with the conclusion that M&As are the preferable option for companies over greenfield investments (Ryan, Raff & Stähler, 2009). Finally, the research on the impact on finance of the rule of law, based on research of La Porta et al. (1998), which proposes evidence on how differences in legal investor protection between countries determine investor confidence and ultimately, market development. M&A attractiveness can be measured by the MAAIS index developed by Appadu et al. (2016). This index is based on five country development factors that cover the four beforementioned main themes. However, they omit the cultural distance factor that is found to have a negative impact on M&A attractiveness (Bailey, 2018).

2.2 Cultural dimensions

The foundation of the use of cultural dimensions in research originates from Hofstede (1983). He initially argued that every country is different in terms of four dimensions. These four dimensions relate to fundamental characteristics of any human society. The dimensions are used to explain different ways of structuring organizations, different motivations of people within organizations and different issues people and organizations face within society.

The four dimensions are power distance, uncertainty avoidance, individualism/collectivism and masculinity/femininity. *Power distance* was originally conceived by Hofstede (1980) as the extent to which the less dominant individuals in societies, institutions or organizations accept power as spread unequally (Naumov & Puffer, 2000). People in high power distance societies believe that power should be distributed unequally while people in low power distance cultures believe that power should be distributed relatively equally (Oetzel et al., 2001). Characteristics of power distance are related to obedience, verbal expression, and injustice (Hofstede, 2001). Obedience is not common among individuals in low power distance societies. Those individuals also question authority and challenge the status quo for the sake of being fair (Ohbuchi et al., 1999). Individuals from high power distance cultures believe that any intervention that challenges authority or that threatens with the need to open up and confront conflict is not appropriate (Westwood, Tang & Kirkbride, 1992). In high power distance cultures people generally foster a lower verbal expression of negative emotions (Fernández et al., 2000). Likewise, Matsumoto (1989) found that individuals from high power distance societies gave a lower intensity rating to negative emotions than individuals from a low power distance society. Hofdstede (2001) found that power distance was negatively correlated with injustice. High power distance societies are not troubled by unjust terms (Kublin, 1987). In high power distance cultures, where inequality and injustice are taken for granted, direct communication would not seem to be a response to perceived injustice, unlike small power distance cultures, whose experience of participating in direct communication against perceived injustice gives rise to a satisfying feeling of solidarity and mutual validation (Martin & Varney, 2003). *Uncertainty avoidance* expresses the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity (Hofstede, 2001). Cultures with low uncertainty avoidance have a high tolerance for improbability and ambiguity, in general, these individuals tend to be more innovative and entrepreneurial. Individuals from cultural that score low on the uncertainty avoidance dimension are more tolerant to take risks and are more willing to try new things (Yaveroglu & Donthu, 2002). Alternatively, in societies where there is a high degree of uncertainty avoidance there is an innate need for clear rules and a formality to the structure of life. It has been found that cultural uncertainty avoidance has a negative impact on consumer innovativeness (Steenkamp et al., 1999). The *individualism/collectivism* dimension contains two standpoints to view society. Individualism can be defined as a preference for a loosely knit social framework in which individuals are expected to take care of only themselves and their immediate families, on the other side of this dimension is collectivism and it represents a tightly knit framework in society in which individuals can expect their relatives or members of a particular ingroup to look after them in exchange for unquestioning loyalty (Hofstede, 1991). In individualistic cultures, societies emphasize individual goals, rights and needs and people value freedom, challenge, autonomy, initiative, individual decisions, financial security and self-actualization (Pizam & Fleischer, 2005). In collectivist cultures, societies emphasize group goals, rights, and needs and decisions are made by consensus and cooperation (Pizam & Fleischer, 2005). In these collectivist cultures the social and family ties are strong and individual initiative is discouraged. The last original dimension according to Hofstede (1983) also consists of a two-sided dimension and is called *masculinity*. On the masculinity side it represents a preference in society for achievement, heroism, assertiveness and material rewards for success. Femininity on the other side stands for a preference for cooperation, modesty, caring for the weak and quality of life. According to Hofstede (2001), in masculine societies the social gender roles are clearly distinct. Men are supposed to be assertive, tough and focused on material success and women are supposed to be more modest, tender and concerned with the quality of life. In feminine societies these social gender roles overlap, both men and women are supposed to be modest, tender and concerned with the quality of life (Hofstede, 2001).

However, these four dimensions did not cover all the dimensions that are involved in measuring a culture. In 1988 a new dimension was added on the basis of research by Michael Harris Bond, this is the long-term/short-term dimension. Societies that short-term oriented, prefer to maintain time-honored traditions and norms while viewing societal change with suspicion (Hofstede & Bond, 1988). On the other hand, societies that are long-term oriented on this dimension encourage thrifts and efforts in modern education as a way to prepare for the future. Still the scholars were not satisfied that the five dimensions covered all important aspects of cultures. Therefore, in 2010 a sixth dimension was added. This dimension was labelled indulgence/restraint. Indulgence stands for a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun. Restraint stands for a society that suppresses gratifications of needs and regulates it by means of strict social norms (Hofstede, Hofstede & Minkov, 2010). This created a final framework to measure cultures in terms of dimensions in order to compare them.

The research of Hofstede received criticism. Some researchers suggest that it is an imperfect way to analyze culture. Baskerville (2003) identifies three problems with Hofstede’s cultural dimensions. The first problem is that Hofstede uses the assumption that one nation can be represented by one culture. The second problem is the difficulties of, and limitations to, a quantification of culture represented by cultural dimensions and matrices. The third problem that Baskerville (2003) mentions is the status of the observer outside of the culture. Baskerville argues that the manner in which Hofstede established the dimensions of culture as a variable led to misleading dependence of cultural indices as an explanatory variable of differences in accounting practices and behavior. Hofstede (2003) replied to the first argument that nations are not the best units to study culture but usually the only kind of units available and concludes that the criticism of Baskerville does not falsify his theory on cultural dimensions. Hofstede’s fifth dimension, the short-term/long-term vision of a culture also received criticism. According to Fang (2003) the two sides of the dimension are interrelated and therefore not opposites. This creates confusion and a lot of researchers do not use the fifth dimension in their research because it is difficult to apply and the distinctions between the two ends of the spectrum are unclear and often seem contradictory (Redpath & Nielsen, 1996).

2.3 The direct effect of cultural dimensions on M&A attractiveness

Davies, Ionascu and Kristjánsdóttir (2008) found that the most FDI comes from and goes to societies that are built around masculine values, where community is valued, where inequality is tolerated and where people handle uncertainty easily. This implies that countries that score high on masculinity, low on individualism, high on power distance and low on uncertainty avoidance engage more in M&A activity. Kayalvizhi and Thenmozhi (2018) found that individualism, masculinity and uncertainty avoidance exhibit a weaker influence on inward FDI while power distance has a strong influence on inward FDI which would suggest that power distance has a greater influence on inward M&A activity. Research that applied cultural distance to FDI flows show contradictory findings. Beugelsdijk and Frijns (2010), found that countries with high cultural distance are less likely to invest in each other while López-Duarte, Vidal-Suárez and González-Díaz (2015) found that foreign investments in wholly owned subsidiaries are more likely to happen between countries with high cultural distance. Vachani (1991) found that greater cultural distance is related to higher cost of investment because of the challenges of obtaining information and transferring skills, this would create the tendency to invest in countries with low cultural distance. However, Shenkar (2001) showed mixed empirical evidence for the assumption of Vachani (1991) and blamed the measurement of the cultural distance construct for this inconsistency. At the same time, Brouthers and Brouthers (2001) observed that the separate cultural dimensions may impact FDI in different manners. Besides the different influences on the dependent variable, separating the home and host country cultural dimensions also prevents the loss of potential information. Therefore, researchers might want to study the impact of cultural differences with the individual dimensions rather than using cultural distance as a composite construct. Tang (2012) validated this observation by empirically demonstrating that the four separate original cultural dimensions of Hofstede (1980) have different impacts on FDI activities.

The power distance index reflects how members of a cultural community handle differences in social hierarchy (Hofstede, 1980). Hofstede (1980) suggested that societies with a low power distance score are more inclined to innovate than societies with a high power distance score. Workplaces in societies with a low power distance score are characterized by flexibility and empowerment for employees on all levels while societies with a high power distance score are known for low interpersonal trust, centralized decision making and a high degree of control over people's behavior (Shane, 1994). Hahn and Bunyaratavej (2010) found that countries with higher levels of power distance are able to attract more foreign investments. Steigner, Riedy and Bauman (2019) found that the flow of foreign direct investment increases the greater the power distance score is in the host country relative to the home country. This implies that a high score on power distance and a higher difference between the home country and the host country power distance score are favorable for the host country M&A attractiveness.

Individualism refers to a society's focus on the individual itself or on the collective (Hofstede, 1980). Individualistic societies are characterized by independence, self-sufficiency and individual initiatives while collectivistic societies look for group approval before any action is initiated (Hofstede et al., 2010). Investors from highly individualistic societies are willing to take risks and make foreign investments in their pursuit of personal goals and therefore invest more (Beugelsdijk & Frijns, 2010). On the other hand, investors from societies that score low on individualism will be more resistant to take risks as it would break harmony in a society (Mihet, 2013). According to Steigner, Riedy and Bauman (2019), more FDI flows towards countries that score high on the individualism dimension. Tang (2012) found that a greater difference between the individualism dimension for home and host countries encourages FDI between those countries. To conclude, a high score on individualism will increase the inflow of M&A towards the host country and a high difference between the home and the host country on the individualism dimension will increase M&A activity.

The masculinity dimension describes a society's motivational environment and goals (Hofstede, 1980). A high masculinity score shows a society's orientation towards material objects with somewhat aggressive competition and higher assertiveness while a low masculinity score refers to a society that prefers cooperation and caring for others (Aggarwal, Kearney & Lucey, 2012). The level of risk-taking is higher in societies with high masculinity scores than in societies with a low score on masculinity since investors are prepared to be aggressive and to compete in challenging environments (Dai & Nahata, 2016). Head and Sorensen (2005) found that low masculinity in the host country is significantly associated with investments. Keilor, Hauser and Griffin (2009) argue that countries that have similar values on the masculinity dimension will engage more in M&A activity than countries that have culturally distant values regarding the masculinity dimension. As a result, host societies that score low on the masculinity dimension will have a higher M&A attractiveness than societies that score low on this dimension, and similar scores on masculinity will positively influence the M&A activity between countries.

Uncertainty avoidance impacts risk-taking and resistance to change (Aggarwal, Kearney & Lucey, 2012). Foreign companies seem to prefer investing in countries with a low score of uncertainty avoidance (Bhardwaj, Dietz & Beamish, 2007). This indicates that a low score on uncertainty avoidance is related to a higher host M&A attractiveness score. Societies with a low uncertainty avoidance score are more risk-tolerant and innovative (Singh, 2006). Kogut and Singh (1988) found that a higher degree of uncertainty avoidance deters the amount of cross-border investments. Tang (2012) found that countries with a lower cultural distance regarding uncertainty avoidance have more FDI activity between those countries than countries with different scores on uncertainty avoidance. This concludes that a low uncertainty avoidance and similar scores of the host and the home country on the uncertainty avoidance dimension will be positively related to the M&A attractiveness of the host country.

Table 1. Cultural dimensions and the preferred corresponding values to positively influence host country M&A attractiveness.

Cultural dimension	**Ideal score host country**	**Preferred distance**
Power distance	High	Different (High)
Individualism	High	Different (High)
Masculinity	Low	Similar (Low)
Uncertainty avoidance	Low	Similar (Low)

The ideal score for host countries is a high score on power distance and individualism and a low score on masculinity and uncertainty avoidance. This combination of cultural dimensions is, according to the literature, the most attractive environment for cross-border M&As. The combinations of cultural dimensions that predict the highest M&A attractiveness are a high difference in the scores on power distance and individualism and similar scores on masculinity and uncertainty avoidance. To conclude, the following hypotheses are stated.

Hypothesis 1: A high score on power distance and individualism and a low score on masculinity and uncertainty avoidance of a host country, are related to a high host country M&A attractiveness.

Hypothesis 2: A high difference on the power distance and individualism dimensions and low differences on the masculinity and uncertainty avoidance dimensions will positively influence the M&A attractiveness of the host country.

2.4 The country development factors

The MAAIS index is a scoring methodology designed to evaluate a country's capacity to attract and sustain M&A activity and relies on the following country development factor groups: regulatory and political, financial and economic, technological, socio-economic and factors related to development of physical infrastructure and the availability of assets (Appadu et al., 2016). The *regulatory and political* factor group refers to the quality of a country's regulatory system and its political stability. Saidi, Ochi and Ghadri (2013) found that political stability and regulatory quality have a significant impact on FDI flows. The *economic and financial* factor group takes a country's economic indicators and the stock market performance into account. Liu, Shu and Sinclair (2009) found that FDI plays a fundamental role in economic growth, their research observed a two-way causal relationship between trade, inward FDI, inward M&A and economic growth. The *technological* factors are related to the degree of technological innovation of a country. Chung and Alcácer (2002), argue that if there is no support for R&D or technological development, the country will stagnate internally and will be unable to retain M&A activity. The *socio-economic* factors take the country's social development and demographics into account. Sabadash, Petrovska and Petrovskyi (2017) found that there is a positive relationship between socio-economic development and cross-border investment. The *infrastructure and assets* factors comprise the assets and the accessibility by means of infrastructure of a country. The quality of transportation infrastructure is positively and significantly related to FDI and therefore aids the FDI flow (Asiedu, 2002). The sub-variable descriptions of each country development factor are given in table 1-5. These five country development factors attribute towards the MAAIS score with the same weights. Appadu et al. (2016) did not find support in the literature or in discussion with market practitioners for overweighting any of the country development factors or groupings consistently.

2.5 How do the country development factors influence M&A attractiveness

Each of the underlying country development factors influences the M&A attractiveness of a country in a different way. Different countries have different opportunities and weaknesses regarding these country development factors. By analyzing previous literature regarding each single country development factor and their effect on M&A attractiveness it can be determined which of these factors is essential to improve in order to increase the M&A attractiveness of a certain country.

Looking at literature regarding regulatory and political factors, we need to take the effect of the rule of law into consideration since it is highly relevant for assessing the attractiveness of M&A for a country. Rossi and Volpin (2004) test the relationship between shareholder/creditor rights and M&As. They conclude that there is more M&A activity in countries with better accounting standards and stronger shareholder protection. John et al. (2010) find that announcement returns in cross-border M&As by US acquirers decrease with the level of creditor protection and increase with the quality of accounting standards. For countries with a strong shareholder protection, acquirers experience negative share price reaction around the time of the deal announcement when the target is a public company but if the target is a private company, they experience a positive share price reaction. These researches on shareholder protection greatly attributed to the current literature by establishing a link between certain aspects of a country's legal environment and the effect on the M&A activity. However, according to Appadu et al. (2016), there are a number of other variables that should be considered when looking at regulatory and political factors that influence a country's ability to attract M&A activity since they have practical implications that could harm not only the transaction process but also the business operations in the country. De Long and Bunch (2001) find that there is less M&A activity when information costs are high and this supports the statement that a more transparent business environment attracts M&A activity. The descriptions for the variables that are used in calculating the regulatory and political factor group are represented in the appendix table 1.

The economic and financial factor group looks at economic indicators and stock markets. Democracy in the host country has a positive effect on the amount of and probability of FDI flowing from developed to developing countries (Guerin & Manzocchi, 2009). Berthelemy and Demurger (2000) find that FDI plays a fundamental role in economic growth. Liu, Shu and Sinclair (2009) find similar results in their research. Their research observed a two-way causal relationship between trade, inward FDI, inward M&A and economic growth. The presence of economic growth and business trade is an essential condition for M&As to develop. The development of domestic capital markets is another key driver of M&A attractiveness because investments require capital and it is more cost-efficient to gain capital from the local market. According to Yartey (2008), macroeconomic factors such as income level and gross domestic investment are important determinants of stock market development in countries. Furthermore, the results of his research also show that bureaucratic efficiency, law and order, and political risk are important in the development of stock markets since they enhance the viability of external finance. The sub-variable descriptions are provided in the appendix table 2.

The level of technical innovation and entrepreneurship is shown to be of high importance in the formation of a sustainable M&A market (Porter, 1993). Chung and Alcácer (2002), argue that if there is no support for R&D or technological development, the country will stagnate internally and will be unable to retain M&A activity. According to Hussinger (2010) one of the reasons that firms engage in M&A activity is to strengthen their technological competences. This means that if a country has high technological knowledge, the attractiveness for companies increases and therefore the M&A attractiveness of that country as well. Descriptions of the sub-variables used to calculate the technological factor group are shown in the appendix table 3.

M&A attractiveness is also affected by socio-economic factors. According to Tsai (1994), the issue of a country's social development is a key factor in development of M&A activity because if unemployment is high and the workforce is unskilled there will be a slow development of businesses and low interest in growth of the country. Sabadash, Petrovska and Petrovskyi (2017) found that socio-economic development is followed by an increase in cross-border investment and that this relationship also exists the other way around, a socio-economic crisis results in a decline in investments. Table 4 of the appendix provides a description of the sub-variables used to calculate socio-economic factor group.

Infrastructure and assets are essential for M&A attractiveness. Studies have shown that the size of a country's market and therefore, the availability of assets are a driver for FDI inflow. For acquirers it is necessary that the assets, in this case the target firms, need to be sizeable in order to be attractive as the potential return on investment needs to exceed the costs associated with the acquisition (Anyanwu, 2012). In addition, the quality of transportation infrastructure is positively and significantly related to FDI and therefore aids the FDI flow (Asiedu, 2002). Tran (2009) argues that a weak infrastructure is an obstacle for FDI investments in a country. The sub-variables used for the infrastructure and assets factor group can be found in the appendix table 5.

To calculate the MAAIS index, Appadu et al. (2016) gave equal weights to each single country development factor. However, when looking at each country development factor separately it can be seen that different factors influence the M&A attractiveness of a country with a stronger effect than other factors. The M&A attractiveness of a country relies on all country development factors but it can be expected that technological, socio-economical, infrastructure and assets are expected to play a somewhat less important role compared to political, regulatory, economical and financial factors. Thus, the following hypothesis is formulated:

Hypothesis 3: Political and regulatory factors and economical and financial factors will be stronger indicators of the M&A attractiveness of the host country than the other country development factors.

3. Methodology

In paragraph 3.1 the sample and the collection of the data will be explained. In paragraph 3.2 a description of each variable used in the regression will be given. In paragraph 3.3 the method of analysis will be explained.

3.1 Sample and data collection

The sample of this study consists of 1164 M&A deals that took place all over the world in 2017. The host and home country of the deals were given and the scores on the Hofstede dimensions, M&A attractiveness score and the individual country development factors have been collected for both the home and the host country for each M&A deal. Data regarding the M&A deals in 2017 have been gathered from the Zephyr database. For gathering information regarding the Hofstede dimensions, the data was directly retrieved from www.hofstede-insights.com. The data regarding the M&A attractiveness score and the country development factors are received from Cass Business School. The results of 2017 were sent by the author, Appadu, himself. First, the data for each individual country was created by combining the cultural dimensions with the M&A attractiveness scores for each specific country. Then this country data was attached to each M&A deal for the home and the host country of that deal. This resulted in a sample of 1164 M&A deals which included the home and host country scores on all four cultural dimensions and the M&A attractiveness for every deal.

3.2 Measurement of the variables

Once the sample of the M&A deals had been determined it had to be decided which variables would be used in the analyses. In this study, the focus lies on two main constructs: cultural dimensions and M&A attractiveness. The host M&A attractiveness is in this study the dependent variable. It is expected that the independent variables, (differences between) cultural dimensions, will predict host M&A attractiveness.

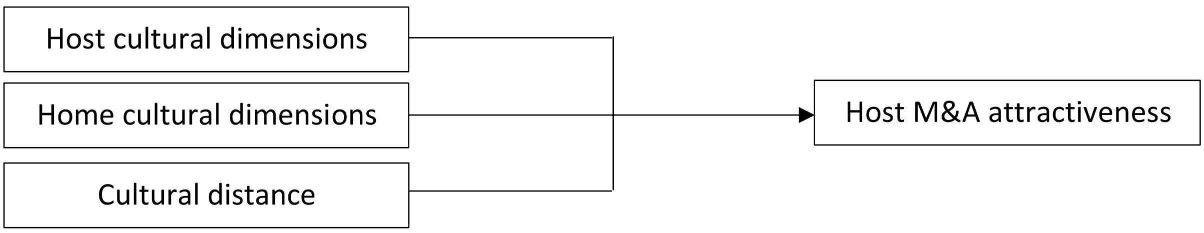
Dependent variable

The main construct consists of the host country M&A attractiveness that will act as the dependent variable and the relationship with the independent variables, the host and home country cultural dimensions. The descriptions of every variable used in the research can be found in table 6 of the appendix. The dependent variable is measured by the MAAIS score that Appadu et al. (2016) calculated for each single country. These scores are based on data sources that are available for all countries and which are updatable for every year. In order to standardize the country data each variable has been converted into percentile scores, where a score of 100 represents the best achievable score in terms of the level of M&A attractiveness.

Independent variables

The independent variables consist of the four original cultural dimensions computed by Hofstede (1983) for the host and the home country, also the absolute difference of these cultural dimensions have been calculated for each M&A deal and is called the cultural distance. In this research there will be only used the four original dimensions from Hofstede instead of all the 6 cultural dimensions, this is due to the criticism those dimensions received. Besides this reason, there is also the lack of data. The site of Hofstede where the data regarding the sample has been gathered, does not conclude the fifth and the sixth of all countries. This implies that not all the country data regarding every country available in the sample could be used. This would reduce the sample size and therefore it has been decided to use only the four original dimensions found by Hofstede. These scores are updated and since culture does not change fast over time it can be concluded that the scores are up to date. The different cultural dimensions are measured by the scores that the research of Hofstede assigned to each country. The cultural distance of each cultural dimension has been calculated by deducting the home country cultural dimensions from the host country cultural dimensions.

Figure 1. Conceptual model



3.3 Method of analysis

The purpose of this study is to investigate the relationship between cultural dimensions and host country M&A attractiveness. The empirical analysis will be conducted in SPSS. SPSS is a statistical analysis package used to perform complex statistical analysis on research data. Different models will be tested in the regression in order to find results that can be combined to give more insight in the relationship. First the data will be inspected. Rows that include blank spaces are removed as well as any outliers in the dataset. The M&A deals were combined with the corresponding cultural dimensions and the M&A attractiveness values.

The original dataset was transformed into a dataset which provided all the necessary information in order to answer the problem statement. Subsequently, the data set is described on basis of its descriptive characteristics. Third, assumptions regarding the data will be checked, which includes the normal distribution of data. Following, multiple simple linear regressions will be used to analyze hypotheses 1, 2 and 3. The first simple linear regressions will be conducted with host M&A attractiveness as dependent variable and all the cultural dimensions of the host and the home country. The R squares, betas and significance of the regressions will be compared with each other and conclusions will be drawn from those results. With those results it can be concluded whether home cultural dimensions have an effect of host M&A attractiveness, the cultural dimension that exercises the biggest influence will be uncovered and which combination of cultural dimensions will predict the highest host M&A attractiveness. The answers we find in these regressions will provide an answer for the first hypothesis. Then the cultural distance will be analyzed. First, a simple linear regression will be performed with the absolute difference of the cultural dimensions. The R squared of this regression with absolute difference will be compared with the R squared of the regression with the home and host country cultural dimensions separate. This will give insights in whether the regressions will explain more if the host and home cultural dimensions are separated in the regression or if the absolute difference between the home and host cultural dimensions will explain more of the variance of host M&A attractiveness. When it is concluded which model will be most useful in order to obtain an answer regarding the cultural distance, we use that model to provide an answer to the second hypothesis. The relationship between cultural distance and host M&A attractiveness will be analyzed by a linear regression. Taken the conclusions of these linear regressions together, it will provide an answer on the second hypothesis. The third hypothesis is more narrowed towards the part that explains the M&A attractiveness of a country. First, a factor reduction will be performed in order to see if the five original variables of Appadu et al. (2016) can be reduced to less factors without a significant loss of information. Then simple linear regressions will be conducted with the country development factors and the results will be compared in order to obtain an answer to the third hypothesis.

4. Data analysis

In this chapter, the data will be analyzed in order to test the model. Prior to the analysis, the descriptive characteristics of the sample will be given. Then the main relationship will be analyzed, which is the relationship between the cultural dimensions and the host M&A attractiveness. After that, the absolute cultural difference between the home and the host country and its relationship with the M&A attractiveness will be analyzed. Then the effect of country development factors on M&A attractiveness will be examined. Finally, a short summary of the findings will be provided.

4.1 Descriptive characteristics

As mentioned earlier, the sample consists of 1164 M&A deals. All variables are measured on a scale from 0 to 100. However, there are no countries that score 0 on each variable but there are home and host countries that score 100 on power distance, masculinity and uncertainty avoidance. If a country scores 100 on a certain dimension it means that this is the maximum score a country can achieve on that variable, but it is measured relatively to other countries.

First, the descriptives of the cultural dimensions will be analyzed. The values regarding the mean and the standard deviation can be seen in table 2. The host and home individualism have the highest means of all cultural variables. Regarding the standard deviation it can be seen that for host countries the individualism dimension has the highest deviation and the masculinity dimension the lowest standard deviation. For the home country cultural dimensions there is also more deviation regarding the individualism dimension but a low deviation on the power distance dimension.

Table 2: Means, standard deviations and correlations of host M&A attractiveness and the cultural dimensions

Variable	M	SD	1	2	3	4	5	6	7	8	9
1. HostM&AScore	65,25	6,434	1								
2. HostPowDis	50,40	20,935	-0,290**	1							
3. HostInd	63,65	25,986	0,516**	-0,771**	1						
4. HostMas	52,98	17,305	0,229**	0,008	0,145**	1					
5. HostUncAvo	53,05	21,773	-0,408**	0,095**	-0,072*	-0,063*	1				
6. HomePowDis	48,32	18,427	-0,071**	0,378**	-0,389**	0,059*	-0,142**	1			
7. HomeInd	64,41	25,940	0,063*	-0,426**	0,422**	-0,044	0,186**	-0,752**	1		
8.HomeMas	53,51	19,498	0,074*	-0,021	0,018	0,156**	-0,036	0,091**	0,031	1	
9. HomeUncAvo	49,17	22,794	-0,047	-0,151**	0,136**	-0,102**	0,221**	-0,063*	0,151**	0,201**	1

**. Correlation is significant at the 0,01 level (2-tailed).
*. Correlation is significant at the 0,05 level (2-tailed).
Listwise N=1164.

Table 3: Regression analysis (dependent variable host country M&A attractiveness)

	Model 1	Model 2	Model 3
Constant	54,733***	65,496***	10,896***
	(1,481)	(0,167)	(0,827)
HostPowDis	0,261***		
	(0,011)		
HostInd	0,708***		
	(0,009)		
HostMas	0,090***		
	(0,009)		
HostUncAvo	-0,359***		
	(0,007)		
HomePowDis	-0,014		
	(0,012)		
HomeInd	-0,078**		
	(0,009)		
HomeMas	0,046**		
	(0,008)		
HomeUncAvo	-0,014		
	(0,007)		
DifPowDis		0,093**	
		(0,010)	
DifInd		0,429***	
		(0,008)	
DifMas		0,085**	
		(0,007)	
DifUncAvo		-0,242***	
		(0,006)	
HostRegPol			0,503***
			(0,005)
HostEcoFin			0,138***
			(0,007)
HostTech			0,305***
			(0,006)
HostSocEco			0,285***
			(0,006)
HostInfAss			0,360***
			(0,006)
Number of observations	1164	1164	1164
R_2	0,457	0,240	0,925

***, ** and * indicate significant at the p < .01, p < .05 and p < .10 level respectively (2-tailed).

4.2 The effect of cultural dimensions on host M&A attractiveness

The effect of the home and host cultural dimensions on the host M&A attractiveness can be examined by using a linear regression, the results can be found in table 3. The linear regression with host M&A attractiveness as dependent variable is model 1. By looking at the R square it can be seen how much the cultural dimensions explain. The R square of the linear regression of host M&A attractiveness and the cultural dimensions can be found in table 3. In table 7 of the appendix all the coefficients related to the linear regression of cultural dimensions on host M&A attractiveness can be found. According to the R square, 45,7% of the variance of the M&A attractiveness score of the host country is explained by the host and home cultural dimensions.

By looking at the significance of the cultural dimensions in table 3, it can be seen that the host cultural dimensions are more significant than the home cultural dimensions. This implies that the host cultural dimensions are more important than the home cultural dimensions regarding host M&A attractiveness, however home country individualism and masculinity have a significant effect on the host country M&A attractiveness. In table 3 it can also be seen that host individualism has a stronger influence than the other cultural dimensions. Host power distance, individualism and masculinity are positively related to host M&A attractiveness and host uncertainty avoidance is negatively related. Therefore, it can be said that the most ideal combination of cultural dimensions regarding the host country M&A attractiveness is one with a high score on power distance, individualism and masculinity and a low score on uncertainty avoidance. These findings are in line with the first hypothesis except that masculinity exercises a positive influence on host M&A attractiveness and thus a higher score of masculinity results in a higher host country M&A attractiveness score. The first hypothesis is therefore partially supported.

4.3 The effect of cultural distance on host M&A attractiveness

To check if the cultural distance can be better measured by absolute differences instead of home and host cultural dimension separately, a regression with the absolute difference has been performed. The results of this linear regression can be found in table 3 model 2 and the coefficients of the linear regression of absolute cultural difference and the host country M&A attractiveness score can be found in table 8 of the appendix. As can be seen in table 3, the variance explained by this model regarding the host M&A attractiveness score is 24% whereas the model with the cultural dimensions included separately (model 1, table 3), it is be 45,7%. This indicates that there is a reduction of nearly 50% of the variance of the dependent variable explained with the use of absolute cultural differences in the model instead of the separated cultural dimensions. In model 2 it can be seen that all cultural dimensions are significant. Another interesting finding from this regression is that individualism has the strongest influence. This is in accordance with the results found before and therefore strengthens the statement that the individualism dimension exercises the most influence on the M&A attractiveness score.

In order to get an insight in answering hypothesis 2, it is necessary to look at the effect of the difference of the host and the home cultural dimensions on the host M&A attractiveness which can be found in table 3 model 2. It can be seen that all cultural dimensions have a significant influence on host country M&A attractiveness. The influence of power distance on the host country M&A attractiveness is positive (β=0,093) which means that a higher distance on the power distance dimension results in a higher host M&A attractiveness score. Regarding the individualism dimension, it can be seen that individualism has a positive influence (β=0,429) on M&A attractiveness. This positive relationship indicates that a higher distance on the individualism dimension results in higher M&A attractiveness. Home masculinity has a positive influence on host M&A attractiveness (β=0,085) but on this dimension, a negative effect was expected. A higher difference on the masculinity dimension between the host and the home country positively influences the host M&A attractiveness. The relationship between uncertainty avoidance and host M&A attractiveness is a negative relationship (β=-0,242) with host M&A attractiveness. This negative relationship means that similar scores of the home and the host country on the uncertainty avoidance dimension positively influence the host M&A attractiveness. According to the hypotheses it was expected that power distance and individualism would have a positive relationship and that masculinity and uncertainty avoidance would have a negative relationship with host M&A attractiveness. Empirical results show that power distance, individualism and masculinity have a positive relationship and that uncertainty avoidance has a negative relationship with host M&A attractiveness. Therefore, hypothesis 2 is partially supported.

4.4 The effect of country development factors on M&A attractiveness

To extract information from the country development factors, a factor analysis has been performed in order to see whether those five factors can be collapsed into a smaller number of factors. The results of the factor reduction, that can be found in the appendix table 9, indicates that 79,16% of the country development factors of the host country is explained by only two components. This indicates that the use of five country development factors could be reduced to two factors and still explain 79,16% of the variance. By using the varimax rotation option it can be seen which country development factor should be combined to create component 1 and 2 and these results can be found in table 4. It can be seen that the regulations and policy factor can be combined with the technological factor to get one component. Socio-economic factors and the infrastructure and assets factors could be combined to get the other component. Economic and financial factors could belong to both components since the factor loadings are almost equal. This could be useful for future use of the country development factors.

Table 4. Rotated component matrix of the host country development factors.

	Component	
	1	2
HostRegPol	0,916	-0,151
HostEcoFin	0,545	0,585
HostTech	0,904	-0,002
HostSocEco	-0,306	0,889
HostInfAss	0,046	0,868

The factor analysis reveals that five components might be reduced and therefore the model could be simplified. However, it is still necessary to check which factors are important for the M&A attractiveness. Therefore, a linear regression has been conducted. This linear regression shows how the host country development factors influence the host M&A attractiveness and can be found in table 3 model 3. Regarding the host country, 92,5% of the variance of the M&A attractiveness is explained by the country development factors. In table 3 model 3, the coefficients of the linear regressions are given. All of the country development factors are significant which means that all the factors contribute to the M&A attractiveness score. The regulations and policies factor have the highest beta of all country development factors (β=0,503). The regulations and policies factors are followed up by the infrastructure and assets factors with a beta of 0,360. The coefficients of the linear regression can be found in table 10 in the appendix. This concludes that the regulatory and policy factors and the infrastructure and assets factors both exercise the biggest influence on the M&A attractiveness. Therefore, hypothesis 3 is partially supported.

4.5 Summary

The most important regression regarding this thesis has been done in 4.2. This analyzes the main concept and takes a look at the relationship between the cultural dimensions and the host M&A attractiveness. The findings from this regression are that host country individualism has the biggest influence on host country M&A attractiveness and that a high score on power distance, individualism and masculinity and a low score on uncertainty avoidance are positively related with the M&A attractiveness of a host country. An overview of the empirical results regarding the hypotheses can be found in table 5.

Table 5. The hypotheses and their results.

Hypothesis		Accepted/rejected
1	A high score on power distance and individualism and a low score on masculinity and uncertainty avoidance of a host country, are related to a high host country M&A attractiveness.	Partially supported
2	A high difference on the power distance and individualism dimensions and low differences on the masculinity and uncertainty avoidance dimensions will positively influence the M&A attractiveness of the host country.	Partially supported
3	Political and regulatory factors and economical and financial factors will be stronger indicators of the M&A attractiveness of the host country than the other country development factors.	Partially supported

5. Conclusion, discussion, contributions, limitations and suggestions

5.1 Conclusion

This study investigated the effects of cultural dimensions on host M&A attractiveness. The research was conducted with the following problem statement: *To what extent do the cultural differences between the home country and the host country predict the M&A attractiveness of the host country?*

For the main research model, this study drew upon the cultural dimensions founded by Hofstede and the M&A attractiveness described by Appadu. The answer to the problem statement was split in three hypotheses which combined together create insights regarding the effect of cultural dimensions on the M&A attractiveness. Regarding the theory around the cultural dimensions and the M&A attractiveness it was assumed that a high score on power distance and individualism and a low score on masculinity and uncertainty avoidance are traits of an attractive host country (H1). Results confirmed that a high score on power distance and individualism and a low score on uncertainty avoidance are characteristics of an attractive host country regarding M&As, however the results also showed that a high score on the masculinity dimension strengthens instead of weakens the M&A attractiveness of the host country and therefore hypothesis 1 is partially supported. It was argued that a high difference on the power distance and individualism dimensions and a similar score on the masculinity and uncertainty avoidance dimensions will positively influence the host M&A attractiveness (H2). This hypothesis is partially supported since a high difference on the masculinity dimension between the home and the host country is positively related to host M&A attractiveness. The last assumption that has been deducted from theory regarding the M&A attractiveness is that regulatory and political factors and economic and financial factors contribute more to the M&A attractiveness score than the other country development factors (H3). This hypothesis is partially supported since regulatory and political factors are indeed the biggest contributor towards the M&A attractiveness score, but it is followed up by infrastructure and assets factors instead of the economic and financial factors.

5.2 Discussion

Not all of the empirical results were in line with the literature and hypotheses. The empirical results of this study were in accordance with previous research, except regarding for the masculinity dimension.

Empirical results proved the expectation that a high score on the power distance dimension for the host country would positively influence the host country M&A attractiveness. This means that a workplace that is characterized by centralized decision making and a high degree of control, which are related to a high score on power distance (Shane, 1994), do increase the M&A attractiveness of the host country more than workplaces in a low power distance society, with characteristics of flexibility and empowerment of employees on all levels (Shane, 1994). The home power distance score does not have a significant effect on the host M&A attractiveness score which means that the way how individuals handle differences in the home social hierarchy do not influence the attractiveness of the host country. A high distance between the home and the host country positively influences the host country M&A attractiveness which is in accordance with the results of prior research (Steigner, Riedy and Bauman, 2017). They found that foreign direct investment increases if the home country has a relatively higher score on the power distance dimension than the host country. However, with the empirical results of this study it could not be proven that a higher score on the home power distance relative to host power distance positively influences the host M&A attractiveness but it can be confirmed that a higher difference on the power distance dimension between the home and the host country does positively influence host M&A attractiveness.

Prior research showed that a high score on individualism increases the FDI inflow to that country (Steigner, Riedy and Bauman, 2017). Therefore, it was expected that a high score on individualism in the host country positively influences host country M&A attractiveness and empirical results confirmed this hypothesis. This is because societies that score high on the individualism dimension are more willing to take risks (Beugelsdijk & Frijns, 2010). The empirical results of this study also showed that individualism of the home country does have a small significant negative relationship (β=-0,078) with host M&A attractiveness. This means that the host M&A attractiveness is higher when the investing country is based on a more collectivistic society than an individualistic society. This is interesting since countries that score low on individualism tend to be more careful when investing (Mihet, 2013). Tang

(2013) found that a greater difference on the individualism dimension between the home and the host country encourages FDI between those countries and therefore, it was expected that it would also enhance the M&A attractiveness of the host country and the empirical results of this study proved this relationship to be true.

The empirical results of this study showed that a high score of masculinity is positively related to host M&A attractiveness and the expectation was that masculinity would be negatively related with host M&A attractiveness. Prior research found that a low score on masculinity was positively related to investment (Head & Sorensen, 2005). This could indicate that the amount of cross-border investment in a host country and host country M&A attractiveness are not as related to each other as expected. This also means that more investment goes towards countries that have a less competitive environment, but that a more competitive environment increases the M&A attractiveness of a country. Regarding the second hypothesis it was expected that a similar score between the home and the host country on the masculinity dimension would positively influence the host M&A attractiveness. However, empirical results show a positive relationship with the difference on the masculinity dimension and M&A attractiveness where Keilor, Hauser and Griffin (2009) found that similar values on the masculinity dimension enhances M&A activity between the home and the host country. The difference between the results in this study and the findings of Keilor, Hauser and Griffin (2009) is possibly because in their study they focus on one home country, the United States. The United States scores 62 on the masculinity dimension which is higher than the mean of home masculinity in this study (53,51). Since home masculinity significantly influences the host M&A attractiveness (p=0,045) it is possible that the choice of only one home country for the study of Keilor, Hauser and Griffin (2009) influenced their results, compared to the empirical results of this study

The findings in this study show that uncertainty avoidance is negatively related with host M&A attractiveness. Which is in line with the findings of Bhardwaj, Dietz and Beamish (2007) that companies prefer to invest in countries that score low on the uncertainty avoidance dimension. The host M&A attractiveness is higher for countries that accept risk instead of countries that value structure. The empirical results of this study also confirmed the findings of Tang (2012) that countries with similar values on the uncertainty avoidance dimension have more FDI activity between those countries. This could be because countries that score high on uncertainty avoidance are resistant to change and are risk resistant. This could lead to implications for foreign companies trying to invest in a country with a high uncertainty avoidance.

The last partially accepted hypothesis is regarding the country development factors. According to the literature economic and financial factors should have more influence on the M&A attractiveness but according to the empirical results this was not the case. According to the results the infrastructure and assets factors were more important. This implies that the findings of Tran (2009), that a weak infrastructure is an obstacle for FDI investments, is more present than expected. An interesting finding regarding the country development factors is that the economic and financial factors have the lowest contribution to M&A attractiveness of all country development factors towards the host M&A attractiveness.

5.3 Contributions

This study contributes to the current literature of the cultural dimensions and M&A attractiveness. The concept of M&A attractiveness has received attention from only a small number of scholars (Appadu et al., 2016; Bailey, 2018). Most of these studies focused on calculating and ranking countries in order to see which country is the most attractive. They use country-based data like inflation and regulations of specific countries. However, they do not take into account the relationship between the M&A attractiveness of a country and its cultural dimensions. Regarding the cultural dimensions this study goes beyond the effects of firm specific studies. Most researches that attempt to gather conclusions about M&As and cultural dimensions only focus on the M&A performance. This study however does not take into account the firm specific data but focusses on country specific data. Since the idea of M&A attractiveness has not received a great deal of attention this study opens up the concept of taking into account cultural dimensions when trying to grasp an understanding of the M&A attractiveness of a host country, considered from the perspective of a home country. It is necessary to not only look at the GDP, policies and infrastructure of a country, but also at culture and variables that have an effect on other countries. This study does not only make contributions for the academic world, it also contributes to the practical world since the results can help investors identify attractive potential countries for their M&A activity.

5.4 Limitations

The current study contains limitations that need to be taken into account when interpreting the results. The variables of cultural dimensions do have some disadvantages because culture is hard to measure. The values will not be the same for each individual within a culture and it is difficult to divide culture based on country boundaries. Besides this, there needs to be more replications of studies regarding the M&A attractiveness to support more evidence and insights on this topic. Regarding the data, the Zephyr database was not able to provide sufficient performance data in order to do this study and see whether it influences the performance of companies. However, this aspect could be interesting since then it could show whether it is helpful for companies to invest cross-border in certain countries. This study only contains data regarding the countries but if firm specific data could be included, it could shine another light on this research.

5.5 Suggestions

A compelling suggestion for future research is a replication study, to see if the same results hold in different samples as well. It could be interesting to try with other samples of deals and over multiple years. It is a good idea to replicate this study with performance measures of companies involved in the deals, this could give more insights. Also, it could be a good idea to replicate this study by using the Globe framework instead of the Hofstede dimensions. This is a similar framework to measure culture and therefore it can be checked whether it will give somewhat similar results. Another suggestion is to conduct more research on the M&A attractiveness since the topic has still been left undiscovered by scholars, but to include cultural dimensions.

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7. Appendix

Table 1. Sub-variable descriptions for the regulatory and political factor group.

Rule of law	The rule of law concerns the consistency of the application of the law.
Completion formalities	Completion formalities concerns the level of administration involved in setting up a business, measured in administrative time (days).
Registering property	Registering property concerns the procedures necessary for a business to purchase a property from another business, measured in administrative time (days).
Paying taxes	Paying taxes concerns the level of taxes and the related administration involved in paying taxes, measured in administrative time (days).
Trading across borders	Trading across borders concerns the procedural requirements for exporting and importing, measured in administrative time (days).
Enforcing contracts	Enforcing contracts concerns the efficiency of the judicial system in resolving commercial disputes, measured in administrative time (days).
Political stability	Political stability measures perceptions of the likelihood that the government will be destabilized.
Sovereign debt rating	Sovereign debt rating is an overall assessment of fiscal policies.
Control of corruption	Control of corruption measures the perceptions of the extent to which public power is exercised for private gain.

Table 2. Sub-variable descriptions for the economic and financial factor group.

GDP size	GDP size measures the economic size of the market. GDP size is measured as the average estimated GDP size for the next five years.
GDP growth	GDP growth measures the economic growth of the market. GDP growth is measured as the estimated compounded average growth rate for the next five years.
Inflation	Inflation concerns the economic growth and monetary policy. Inflation is measured as the average from the next five years.
Development of equity market	Development of equity market concerns access to equity financing through capital markets. It is measured as the stock market capitalization as a percentage of GDP.

Availability of domestic banking credit	Availability of domestic banking credit concerns access to financing and credit from domestic banks. It is measured as the private credit provided as a percentage of GDP.

Table 3. Sub-variable descriptions for the technological factor group.

High-technology exports	High-technology exports concerns the volume and quality of domestically produced high technology. It is measured as the level of high-technology exports as a percentage of all manufacturing exports.
Innovations	Innovations concerns the level of innovation and entrepreneurship and is measured by the number of patents granted per country of origin.
Internet users	Internet users measures the level of technological skills of the population. It is measured as the number of internet users per 100 people.

Table 4. Sub-variable descriptions for the socio-economic factor group.

Population size	Population size concerns the total population of the country.
Population demographics	Population demographics is the percentage of the population aged between 15 and 64 out of the population.

Table 5. Sub-variable descriptions for the infrastructure and assets factor group.

Sizeable assets	Assets concern the number of registered firms with assets over $1 million in each country.
Ports	Port capacity is measured by the amount of container port traffic (20 foot equivalent unit).
Railway lines	Railway infrastructure is measured as the total length of railway lines (km).
Paved roads	Road infrastructure is measured as the percentage of paved roads in relation to the total number of roads.

Table 6. Variable descriptions

Variables	Description
Dependent	
HostMAScore	A measure on a scale of 0-100 that shows the attractiveness of the host country of the deal for M&A activity.

Independent	
HostPowDis	The score of the host country of the deal on a scale of 0-100 on the degree of power distance.
HostInd	The score of the host country of the deal on a scale of 0-100 on the degree of individualism.
HostMas	The score of the host country of the deal on a scale of 0-100 on the degree of masculinity.
HostUncAvo	The score of the host country of the deal on a scale of 0-100 on the degree of uncertainty avoidance.
HomePowDis	The score of the home country of the deal on a scale of 0-100 on the degree of power distance.
HomeInd	The score of the home country of the deal on a scale of 0-100 on the degree of individualism.
HomeMas	The score of the home country of the deal on a scale of 0-100 on the degree of masculinity.
HomeUncAvo	The score of the home country of the deal on a scale of 0-100 on the degree of uncertainty avoidance.
DifPowDis	The absolute difference on a scale from 0-100 between the score of the home and the host country on the degree of power distance.
DifInd	The absolute difference on a scale from 0-100 between the score of the home and the host country on the degree of individualism.
DifMas	The absolute difference on a scale from 0-100 between the score of the home and the host country on the degree of masculinity.
DifUncAvo	The absolute difference on a scale from 0-100 between the score of the home and the host country on the degree of uncertainty avoidance.
HostRegPol	A measure on a scale of 0-100 that shows the score of the host country of the deal on regulatory and political factors.
HostEcoFin	A measure on a scale of 0-100 that shows the score of the host country of the deal on economic and financial factors.
HostTech	A measure on a scale of 0-100 that shows the score of the host country of the deal on technological factors.
HostSocEco	A measure on a scale of 0-100 that shows the score of the host country of the deal on socio-economic factors.

HostInfAss	A measure on a scale of 0-100 that shows the score of the host country of the deal on infrastructure and assets factors.

Table 7. Coefficients linear regression host M&A attractiveness score with cultural dimensions.

	Unstandardized B	Coefficients standard error	Standardized coefficients Beta	t	Significance
(Constant)	54,733	1,481		36,956	0,000
HostPowDis	0,080	0,011	0,261	7,381	0,000
HostInd	0,176	0,009	0,708	19,637	0,000
HostMas	0,034	0,009	0,090	3,938	0,000
HostUncAvo	-0,106	0,007	-0,359	-15,458	0,000
HomePowDis	-0,005	0,012	-0,014	-0,420	0,674
HomeInd	-0,019	0,009	-0,078	-2,228	0,026
HomeMas	0,015	0,008	0,046	2,003	0,045
HomeUncAvo	-0,004	0,007	-0,014	-0,601	0,548

Table 8. Linear regression HostMAScore coefficients with cultural difference score.

	Unstandardized B	Coefficients standard error	Standardized coefficients Beta	t	Significance
(Constant)	65,496	0,167		392,173	0,000
DifPowDis	0,027	0,010	0,093	2,851	0,004
DifInd	0,101	0,008	0,429	13,085	0,000
DifMas	0,023	0,007	0,085	3,192	0,001
DifUncAvo	-0,056	0,006	-0,242	-8,983	0,000

Table 9. Factor reduction variance explanation of the host country development factors.

		Initial Eigenvalues		Extraction sums of squared loadings			Rotation sums of squared loadings		
Component	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %
1	2,067	41,348	41,348	2,067	41,348	41,348	2,050	40,994	40,994
2	1,891	37,812	79,160	1,891	37,812	79,160	1,908	38,166	79,160
3	0,579	11,580	90,740						
4	0,275	5,498	96,237						
5	0,188	3,763	100,000						

Table 10. Linear regression HostMAScore coefficients with country development factors.

	Unstandardized B	Coefficients standard error	Standardized coefficients Beta	t	Significance
(Constant)	7,958	0,522		15,258	0,000
HostRegPol	0,190	0,005	0,503	37,113	0,000
HostEcoFin	0,101	0,007	0,138	13,869	0,000
HostTech	0,158	0,006	0,305	24,847	0,000
HostSocEco	0,125	0,006	0,285	20,928	0,000
HostInfAss	0,180	0,006	0,360	31,058	0,000

8. Summary

8.1. Introduction

8.1.1 Problem indication

The economies all over the world are now more internationally integrated than ever before. Many companies engage in cross-border activities, especially mergers and acquisitions (M&As) are popular investments among companies. Despite the high failure rate of M&As, multinational companies still decide to engage in cross-border M&A activities. In the years 2013 until 2018, the amount of M&A deals all over the world grew with 38% (United Nations Conference of Trade and Development, 2019). This growth rate indicates that even though many M&As fail, it is still a preferred cross-border investment method for firms. If there are cross-border investments, there are also location choices to involved. To define which location is the best option for companies to exploit their M&A opportunities it is necessary to compare countries and to define factors that can determine the M&A attractiveness of a country. However, in this area scholars are still searching for an answer. Academics seem to have agreed on certain factors that facilitate to evaluate the M&A attractiveness of a country, but the question whether (differences between) cultural dimensions can help predict the M&A attractiveness of a country have been left out of the equation even after stressing the importance of these dimensions.

M&A activity has received a lot of attention from scholars and is often mentioned in financial newspapers. The total value of M&A deals all over the world in 2019 was 3.701 billion US dollars (Statista, 2020). This indicates the tremendous value of M&A activity. Reasons given by decision makers why so many firms engage in M&A activity is to realize economies of scale, exploit foreign markets or get access to scarce resources (Nadolska & Barkema, 2007). However, a lot of firms fail to successfully perform M&As. Koi-Akrofi (2016) argues that on average around 50 percent of the M&As fail, despite the initial high hopes. Other articles cite a stunning 83% failure rate according to research conducted by KPMG (PR Newswire, 1999). Reasons for the high percentage of failures are, according to some scholars, unrealistic expectations and overconfidence of the managers (Steger & Kummer, 2007), while other scholars argue that cultural differences are the main reason for M&A failures (Papadakis, 2007).

Cultural dimensions exert a great influence on the performance of cross-border M&As (Weber, Tarba & Reichel, 2009). The differences between the cultural dimensions of the host country and the cultural dimensions of the home country in a cross-border M&A are the biggest contributor to the amount of failures according to Lodorfos and Boateng (2006). To better understand this high failure rate, Appadu et al. (2016) have created a country M&A attractiveness scoring index that measures the degree of M&A attractiveness of a country on five different factors: Regulatory and political indicators, economic and financial indicators, technological indicators, socio-economic indicators and the infrastructure and assets indicators.

The research of Appadu et al. (2016) covers many aspects of a country's M&A attractiveness but it does not take cultural differences between the home and the host country into account, yet according to Neto, Brandão and Cerqueira (2010) the cultural dimensions are of great importance for companies to decide which country to invest in regarding their M&A activity.

8.1.2 Problem statement

The M&A attractiveness index created by Appadu et al. (2016) provides a scoring methodology to evaluate a country's capacity to attract and sustain M&A activity. It takes into account important factors regarding the attractiveness of a country for cross-border M&A inflows. However, this index does not take into account the cultural dimensions described by Hofstede (1983) of countries and the idea that these cultural dimensions may predict M&A attractiveness. Cultural differences are argued in many articles (Lodorfos & Boateng, 2006; Neto, Brandão and Cerqueira, 2010; Papadakis, 2007; Weber, Tarba & Reichel, 2009) to be of great importance for companies to consider when engaging in M&A activity. Taking into consideration this current gap in the literature and the ever-increasing interest in cross-border M&A activity, the following problem statement arises:

To what extent do the cultural differences between the home country and the host country predict the M&A attractiveness of the host country?

8.1.3 Research questions

To find an answer to this problem statement, the following theoretical research questions and empirical research questions will be investigated.

Theoretical research questions

1. What are the cultural dimensions of Hofstede?
2.What is M&A attractiveness, and how is it formed?
3.What are the country development dimensions of M&A attractiveness, and how do they influence the M&A attractiveness?

Empirical research questions

1. What combination of cultural dimensions regarding the host country is related to high M&A attractiveness?
2. Which cultural dimension exercises the biggest influence on the M&A attractiveness of a country?
3. What is the ideal cultural distance in between the home and the host country in order to achieve the greatest M&A attractiveness?
4. Which of the country development factors of M&A attractiveness has the biggest influence on the M&A attractiveness of a country?

With the answers to the empirical research questions we can reveal the relationship between the cultural dimensions of the home country and the host country and the M&A attractiveness of a host country.

8.1.4 Structure of the thesis

The rest of the thesis is structured as follows. Chapter 2 will provide a theoretical background based on previous research to analyze the relationship between the cultural dimensions of the home country, and of the host country, and the M&A attractiveness of that host country. In chapter 3 the methodology used to perform the quantitative study will be described. In chapter 4 the data will be analyzed, and the results of the conducted research will be presented. Finally, in chapter 5 the conclusion, discussion, contribution, limitation and suggestions for future research will be provided.

8.2. Literature review

There is scarce research on the relationship between cultural dimensions and M&A attractiveness. However, many studies have been conducted on the effect of cultural dimensions on FDI, and since M&As are a form of FDI we can gather a lot of information based on this literature. This chapter will provide an overview of studies related to cultural dimensions and M&A attractiveness. Paragraph 2.1 will give a description and a review of the theory on M&A attractiveness. Paragraph 2.2 will give a description of cultural dimensions and theory related to this topic. Paragraph 2.3 will review the theory of the direct effect of cultural dimensions on M&A attractiveness. Paragraph 2.4 will describe the country development factors and analyze the theory on this topic. Paragraph 2.5 will give a review of the theory available on the country development factors and the M&A attractiveness.

8.2.1 M&A attractiveness

M&A attractiveness is the degree to which a country is developed to attract and sustain M&A activity. Samimi and Ariani (2010) found that the improvement of three governance indicators attracts more FDI and thus M&A activity. The governance indicators that they used in their research were political stability, control of corruption and rule of law. Pournarakis and Varsakelis (2004) argue that institutional factors such as civil rights and internationalization make countries more attractive for foreign investments. Bailey (2018) also found that institutional factors such as political stability, democracy and rule of law attract FDI, while others such as corruption, tax rates and cultural distance would make countries less attractive. According to Appadu et al. (2016), there are four main themes in the economic and financial literature that are identified as making a country attractive for M&A activity. First, there is literature related to the drivers of FDI in general, where institutional quality, democracy and political stability play an important role (Kolstad & Villanger, 2008). Second, the literature focusing on the drivers of developing, compared to developed, economies and the distinction between different stages of country development when analyzing the drivers for FDI, concluding that FDI creates development in developing countries due to the spillover effect (Narula & Driffield, 2012). Third are the studies that analyze M&A as a separate process instead of considering it under the more general FDI activity, with the conclusion that M&As are the preferable option for companies over greenfield investments (Ryan, Raff & Stähler, 2009). Finally, the research on the impact on finance of the rule of law, based on research of La Porta et al. (1998), which proposes evidence on how differences in legal investor protection between countries determine investor confidence and ultimately, market development. M&A attractiveness can be measured by the MAAIS index developed by Appadu et al. (2016). This index is based on five country development factors that cover the four beforementioned main themes. However, they omit the cultural distance factor that is found to have a negative impact on M&A attractiveness (Bailey, 2018).

8.2.2 Cultural dimensions

The foundation of the use of cultural dimensions in research originates from Hofstede (1983). He initially argued that every country is different in terms of four dimensions. These four dimensions relate to fundamental characteristics of any human society. The dimensions are used to explain different ways of structuring organizations, different motivations of people within organizations and different issues people and organizations face within society.

The four dimensions are power distance, uncertainty avoidance, individualism/collectivism and masculinity/femininity. Power distance was originally conceived by Hofstede (1980) as the extent to which the less dominant individuals in societies, institutions or organizations accept power as spread unequally (Naumov & Puffer, 2000). Uncertainty avoidance expresses the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity (Hofstede, 2001). The individualism/collectivism dimension contains two standpoints to view society. Individualism can be defined as a preference for a loosely knit social framework in which individuals are expected to take care of only themselves and their immediate families, on the other side of this dimension is collectivism and it represents a tightly knit framework in society in which individuals can expect their relatives or members of a particular ingroup to look after them in exchange for unquestioning loyalty (Hofstede, 1991). The last original dimension according to Hofstede (1983) also consists of a two-sided dimension. On the masculinity side it represents a preference in society for achievement, heroism, assertiveness and material rewards for success. Femininity on the other side stands for a preference for cooperation, modesty, caring for the weak and quality of life.

Baskerville (2003) criticized the Hofstede cultural dimensions model based on two arguments. The first one is the assumption that one nation equals one single culture, however, it is very unlikely that in one country everyone has the same values. The second reason is the difficulty and limitations regarding the use of a numerical index to measure culture. Hofstede (2003) replied to the first argument that nations are not the best units to study culture but usually the only kind of units available and concludes that the criticism of Baskerville does not falsify his theory on cultural dimensions.

8.2.3 The direct effect of cultural dimensions on M&A attractiveness

Davies, Ionascu and Kristjánsdóttir (2008) found that the most FDI comes from and goes to societies that are built around masculine values, where community is valued, where inequality is tolerated and where people handle uncertainty easily. This implies that countries that score high on masculinity, low on individualism, high on power distance and low on uncertainty avoidance engage more in M&A activity. Kayalvizhi and Thenmozhi (2018) found that individualism, masculinity and uncertainty avoidance exhibit a weaker influence on inward FDI while power distance has a strong influence on inward FDI which would suggest that power distance has a greater influence on inward M&A activity. Research that applied cultural distance to FDI flows show contradictory findings. Beugelsdijk and Frijns (2010), found that countries with high cultural distance are less likely to invest in each other while López-Duarte, Vidal-Suárez and González-Díaz (2015) found that foreign investments in wholly owned subsidiaries are more likely to happen between countries with high cultural distance. Vachani (1991) found that greater cultural distance is related to higher cost of investment because of the challenges of obtaining information and transferring skills, this would create the tendency to invest in countries with low cultural distance. However, Shenkar (2001) showed mixed empirical evidence for the assumption of Vachani (1991) and blamed the measurement of the cultural distance construct for this inconsistency. At the same time, Brouthers and Brouthers (2001) observed that the separate cultural dimensions may impact FDI in different manners. Besides the different influences on the dependent variable, separating the home and host country cultural dimensions also prevents the loss of potential information. Therefore, researchers might want to study the impact of cultural differences with the individual dimensions rather than using cultural distance as a composite construct. Tang (2012) validated this observation by empirically demonstrating that the four separate original cultural dimensions of Hofstede (1980) have different impacts on FDI activities.

The power distance index reflects how members of a cultural community handle differences in social hierarchy (Hofstede, 1980). Hofstede (1980) suggested that societies with a low power distance score are more inclined to innovate than societies with a high power distance score. Workplaces in societies with a low power distance score are characterized by flexibility and empowerment for employees on all levels while societies with a high power distance score are known for low interpersonal trust, centralized decision making and a high degree of control over people's behavior (Shane, 1994). Hahn and Bunyaratavej (2010) found that countries with higher levels of power distance are able to attract more foreign investments. Steigner, Riedy and Bauman (2019) found that the flow of foreign direct investment increases the greater the power distance score is in the host country relative to the home country. This implies that a high score on power distance and a higher difference between the home country and the host country power distance score are favorable for the host country M&A attractiveness.

Individualism refers to a society's focus on the individual itself or on the collective (Hofstede, 1980). Individualistic societies are characterized by independence, self-sufficiency and individual initiatives while collectivistic societies look for group approval before any action is initiated (Hofstede et al., 2010). Investors from highly individualistic societies are willing to take risks and make foreign investments in their pursuit of personal goals and therefore invest more (Beugelsdijk & Frijns, 2010). On the other hand, investors from societies that score low on individualism will be more resistant to take risks as it would break harmony in a society (Mihet, 2013). According to Steigner, Riedy and Bauman (2019), more FDI flows towards countries that score high on the individualism dimension. Tang (2012) found that a greater difference between the individualism dimension for home and host countries encourages FDI between those countries. To conclude, a high score on individualism will increase the inflow of M&A towards the host country and a high difference between the home and the host country on the individualism dimension will increase M&A activity.

The masculinity dimension describes a society's motivational environment and goals (Hofstede, 1980). A high masculinity score shows a society's orientation towards material objects with somewhat aggressive competition and higher assertiveness while a low masculinity score refers to a society that prefers cooperation and caring for others (Aggarwal, Kearney & Lucey, 2012). The level of risk-taking is higher in societies with high masculinity scores than in societies with a low score on masculinity since investors are prepared to be aggressive and to compete in challenging environments (Dai & Nahata, 2016). Head and Sorensen (2005) found that low masculinity in the host country is significantly associated with investments. Keilor, Hauser and Griffin (2009) argue that countries that have similar values on the masculinity dimension will engage more in M&A activity than countries that have culturally distant values regarding the masculinity dimension. As a result, host societies that score low on the masculinity dimension will have a higher M&A attractiveness than societies that score low on this dimension, and similar scores on masculinity will positively influence the M&A activity between countries.

Uncertainty avoidance impacts risk-taking and resistance to change (Aggarwal, Kearney & Lucey, 2012). Foreign companies seem to prefer investing in countries with a low score of uncertainty avoidance (Bhardwaj, Dietz & Beamish, 2007). This indicates that a low score on uncertainty avoidance is related to a higher host M&A attractiveness score. Societies with a low uncertainty avoidance score are more risk-tolerant and innovative (Singh, 2006). Kogut and Singh (1988) found that a higher degree of uncertainty avoidance deters the amount of cross-border investments. Tang (2012) found that countries with a lower cultural distance regarding uncertainty avoidance have more FDI activity between those countries than countries with different scores on uncertainty avoidance. This concludes that a low uncertainty avoidance and similar scores of the host and the home country on the uncertainty avoidance dimension will be positively related to the M&A attractiveness of the host country.

The ideal score for host countries is a high score on power distance and individualism and a low score on masculinity and uncertainty avoidance. This combination of cultural dimensions is, according to the literature, the most attractive environment for cross-border M&As. The combinations of cultural dimensions that predict the highest M&A attractiveness are a high difference in the scores on power distance and individualism and similar scores on masculinity and uncertainty avoidance. To conclude, the following hypotheses are stated.

Hypothesis 1: A high score on power distance and individualism and a low score on masculinity and uncertainty avoidance of a host country, are related to a high host country M&A attractiveness.

Hypothesis 2: A high difference on the power distance and individualism dimensions and low differences on the masculinity and uncertainty avoidance dimensions will positively influence the M&A attractiveness of the host country.

8.2.4 The country development factors

The MAAIS index is a scoring methodology designed to evaluate a country's capacity to attract and sustain M&A activity and relies on the following country development factor groups: regulatory and political, financial and economic, technological, socio-economic and factors related to development of physical infrastructure and the availability of assets (Appadu et al., 2016). The *regulatory and political* factor group refers to the quality of a country's regulatory system and its political stability. Saidi, Ochi and Ghadri (2013) found that political stability and regulatory quality have a significant impact on FDI flows. The *economic and financial* factor group takes a country's economic indicators and the stock market performance into account. Liu, Shu and Sinclair (2009) found that FDI plays a fundamental role in economic growth, their research observed a two-way causal relationship between trade, inward FDI, inward M&A and economic growth. The *technological* factors are related to the degree of technological innovation of a country. Chung and Alcácer (2002), argue that if there is no support for R&D or technological development, the country will stagnate internally and will be unable to retain M&A activity. The *socio-economic* factors take the country's social development and demographics into account. Sabadash, Petrovska and Petrovskyi (2017) found that there is a positive relationship between socio-economic development and cross-border investment. The *infrastructure and assets* factors comprise the assets and the accessibility by means of infrastructure of a country. The quality of transportation infrastructure is positively and significantly related to FDI and therefore aids the FDI flow (Asiedu, 2002). The sub-variable descriptions of each country development factor are given in table 1-5.

8.2.5 How do the country development factors influence M&A attractiveness

Each of the underlying country development factors influences the M&A attractiveness of a country in a different way. Different countries have different opportunities and weaknesses regarding these country development factors. By analyzing previous literature regarding each single country development factor and their effect on M&A attractiveness it can be determined which of these factors is essential to improve in order to increase the M&A attractiveness of a certain country.

Looking at literature regarding regulatory and political factors, we need to take the effect of the rule of law into consideration since it is highly relevant for assessing the attractiveness of M&A for a country. Rossi and Volpin (2004) test the relationship between shareholder/creditor rights and M&As. They conclude that there is more M&A activity in countries with better accounting standards and stronger shareholder protection. John et al. (2010) find that announcement returns in cross-border M&As by US acquirers decrease with the level of creditor protection and increase with the quality of accounting standards.
De Long and Bunch (2001) find that there is less M&A activity when information costs are high, this supports the statement that a transparent business environment attracts M&As.
The economic and financial factor group looks at economic indicators and stock markets. Democracy in the host country has a positive effect on the amount and the probability of FDI flowing from developed to developing countries (Guerin & Manzocchi, 2009). Berthelemy and Demurger (2000) find that FDI plays a fundamental role in economic growth. The presence of economic growth and trade is an essential condition for M&As to develop. According to Yartey (2008), macroeconomic factors such as income level and gross domestic investment are important determinants of stock market developments in countries.
The level of technology and entrepreneurship is shown to be of high importance in the formation of a sustainable M&A market (Porter, 1993). According to Hussinger (2010), one of the reasons that firms engage in M&A activity is to strengthen their technological competences. This means that high technological knowledge increases the M&A attractiveness of a country.
Socio-economic development is necessary for a country to be attractive for M&A activity. According to Tsai (1994), the issue of a country's social development is a key factor in the growth of M&A activity because if unemployment is high and the workforce is unskilled there will be a slow development of businesses and low interest in growth of the country.
Infrastructure and assets are essential for M&A attractiveness. Tran (2009) argues that a weak infrastructure is an obstacle for FDI investments in a country. Studies have shown that the size of a country's market and therefore the availability of assets are a driver of FDI inflow. For acquirers it is necessary that the assets, which are in this case the target firms, need to be of a certain size in order to be attractive as the potential return on investment needs to exceed the costs associated with the acquisition (Anyanwu, 2012).

To calculate the MAAIS index, Appadu et al. (2016) gave equal weights to each single country development factor. However, when looking at each country development factor separately it can be seen that different factors influence the M&A attractiveness of a country with a stronger effect than other factors. The M&A attractiveness of a country relies on all country development factors but it can be expected that technological, socio-economical, infrastructure and assets are expected to play a somewhat less important role compared to political, regulatory, economical and financial factors. Thus, the following hypothesis is formulated:

Hypothesis 3: Political and regulatory factors and economical and financial factors will be stronger indicators of the M&A attractiveness of the host country than the other country development factors.

8.3. Methodology

In paragraph 3.1 the sample and the collection of the data will be explained. In paragraph 3.2 a description of each variable used in the regression will be given. In paragraph 3.3 the method of analysis will be explained.

8.3.1 Sample and data collection

The sample of this study consists of 1164 M&A deals that took place all over the world in 2017. The host and home country of the deals were given and the scores on the Hofstede dimensions, M&A attractiveness score and the individual country development factors have been collected for both the home and the host country for each M&A deal. Data regarding the M&A deals in 2017 have been gathered from the Zephyr database. For gathering information regarding the Hofstede dimensions, the data was directly retrieved from www.hofstede-insights.com. The data regarding the M&A attractiveness score and the country development factors are received from Cass Business School. The results of 2017 were sent by the author, Appadu, himself. First, the data for each individual country was created by combining the cultural dimensions with the M&A attractiveness scores for each specific country. Then this country data was attached to each M&A deal for the home and the host country of that deal. This resulted in a sample of 1164 M&A deals which included the home and host country scores on all four cultural dimensions and the M&A attractiveness for every deal.

8.3.2 Measurement of the variables

Once the sample of the M&A deals had been determined it had to be decided which variables would be used in the analyses. In this study, the focus lies on two main constructs: cultural dimensions and M&A attractiveness. The host M&A attractiveness is in this study the dependent variable. It is expected that the independent variables, (differences between) cultural dimensions, will predict host M&A attractiveness.

Dependent variable

The main construct consists of the host country M&A attractiveness that will act as the dependent variable and the relationship with the independent variables, the host and home country cultural dimensions. The descriptions of every variable used in the research can be found in table 6 of the appendix. The dependent variable is measured by the MAAIS score that Appadu et al. (2016) calculated for each single country. These scores are based on data sources that are available for all countries and which are updatable for every year. In order to standardize the country data each variable has been converted into percentile scores, where a score of 100 represents the best achievable score in terms of the level of M&A attractiveness.

Independent variables

The independent variables consist of the four original cultural dimensions computed by Hofstede (1983) for the host and the home country, also the absolute difference of these cultural dimensions have been calculated for each M&A deal and is called the cultural distance. These scores are updated and since culture does not change fast over time it can be concluded that the scores are up to date. The different cultural dimensions are measured by the scores that the research of Hofstede assigned to each country. The cultural distance of each cultural dimension has been calculated by deducting the home country cultural dimensions from the host country cultural dimensions.

8.4. Data analysis

In this chapter, the data will be analyzed in order to test the model. Prior to the analysis, the descriptive characteristics of the sample will be given. Then the main relationship will be analyzed, which is the relationship between the cultural dimensions and the host M&A attractiveness. After that, the absolute cultural difference between the home and the host country and its relationship with the M&A attractiveness will be analyzed. Then the effect of country development factors on M&A attractiveness will be examined. Finally, a short summary of the findings will be provided.

8.4.1 Descriptive characteristics

As mentioned earlier, the sample consists of 1164 M&A deals. All variables are measured on a scale from 0 to 100. However, there are no countries that score 0 on each variable but there are home and host countries that score 100 on power distance, masculinity and uncertainty avoidance. If a country scores 100 on a certain dimension it means that this is the maximum score a country can achieve on that variable, but it is measured relatively to other countries.

First, the descriptives of the cultural dimensions will be analyzed. The values regarding the mean and the standard deviation can be seen in table 2. The host and home individualism have the highest means of all cultural variables. Regarding the standard deviation it can be seen that for host countries the individualism dimension has the highest deviation and the masculinity dimension the lowest standard deviation. For the home country cultural dimensions there is also more deviation regarding the individualism dimension but a low deviation on the power distance dimension.

8.4.2 The effect of cultural dimensions on host M&A attractiveness

The effect of the home and host cultural dimensions on the host M&A attractiveness can be examined by using a linear regression, the results can be found in table 3. The linear regression with host M&A attractiveness as dependent variable is model 1. By looking at the R square it can be seen how much the cultural dimensions explain. The R square of the linear regression of host M&A attractiveness and the cultural dimensions can be found in table 3. In table 7 of the appendix all the coefficients related to the linear regression of cultural dimensions on host M&A attractiveness can be found. According to the R square, 45,7% of the variance of the M&A attractiveness score of the host country is explained by the host and home cultural dimensions.

By looking at the significance of the cultural dimensions in table 3, it can be seen that the host cultural dimensions are more significant than the home cultural dimensions. This implies that the host cultural dimensions are more important than the home cultural dimensions regarding host M&A attractiveness, however home country individualism and masculinity have a significant effect on the host country M&A attractiveness. In table 3 it can also be seen that host individualism has a stronger influence than the other cultural dimensions. Host power distance, individualism and masculinity are positively related to host M&A attractiveness and host uncertainty avoidance is negatively related. Therefore, it can be said that the most ideal combination of cultural dimensions regarding the host country M&A attractiveness is one with a high score on power distance, individualism and masculinity and a low score on uncertainty avoidance. These findings are in line with the first hypothesis except that masculinity exercises a positive influence on host M&A attractiveness and thus a higher score of masculinity results in a higher host country M&A attractiveness score. The first hypothesis is therefore partially supported.

8.4.3 The effect of cultural distance on host M&A attractiveness

To check if the cultural distance can be better measured by absolute differences instead of home and host cultural dimension separately, a regression with the absolute difference has been performed. The results of this linear regression can be found in table 3 model 2 and the coefficients of the linear regression of absolute cultural difference and the host country M&A attractiveness score can be found in table 8 of the appendix. As can be seen in table 3, the variance explained by this model regarding the host M&A attractiveness score is 24% whereas the model with the cultural dimensions included separately (model 1, table 3), it is be 45,7%. This indicates that there is a reduction of nearly 50% of the variance of the dependent variable explained with the use of absolute cultural differences in the model instead of the separated cultural dimensions. In model 2 it can be seen that all cultural dimensions are significant. Another interesting finding from this regression is that individualism has the strongest influence. This is in accordance with the results found before and therefore strengthens the statement that the individualism dimension exercises the most influence on the M&A attractiveness score.

In order to get an insight in answering hypothesis 2, it is necessary to look at the effect of the difference of the host and the home cultural dimensions on the host M&A attractiveness which can be found in table 3 model 2. It can be seen that all cultural dimensions have a significant influence on host country M&A attractiveness. The influence of power distance on the host country M&A attractiveness is positive (β=0,093) which means that a higher distance on the power distance dimension results in a higher host M&A attractiveness score. Regarding the individualism dimension, it can be seen that individualism has a positive influence (β=0,429) on M&A attractiveness. This positive relationship indicates that a higher distance on the individualism dimension results in higher M&A attractiveness. Home masculinity has a positive influence on host M&A attractiveness (β=0,085) but on this dimension, a negative effect was expected. A higher difference on the masculinity dimension between the host and the home country positively influences the host M&A attractiveness. The relationship between uncertainty avoidance and host M&A attractiveness is a negative relationship (β=-0,242) with host M&A attractiveness. This negative relationship means that similar scores of the home and the host country on the uncertainty avoidance dimension positively influence the host M&A attractiveness. According to the hypotheses it was expected that power distance and individualism would have a positive relationship and that masculinity and uncertainty avoidance would have a negative relationship with host M&A attractiveness. Empirical results show that power distance, individualism and masculinity have a positive relationship and that uncertainty avoidance has a negative relationship with host M&A attractiveness. Therefore, hypothesis 2 is partially supported.

8.4.4 The effect of country development factors on M&A attractiveness

To extract information from the country development factors, a factor analysis has been performed in order to see whether those five factors can be collapsed into a smaller number of factors. The results of the factor reduction, that can be found in the appendix table 9, indicates that 79,16% of the country development factors of the host country is explained by only two components. This indicates that the use of five country development factors could be reduced to two factors and still explain 79,16% of the variance. By using the varimax rotation option it can be seen which country development factor should be combined to create component 1 and 2 and these results can be found in table 4. It can be seen that the regulations and policy factor can be combined with the technological factor to get one component. Socio-economic factors and the infrastructure and assets factors could be combined to get the other component. Economic and financial factors could belong to both components since the factor loadings are almost equal. This could be useful for future use of the country development factors.

The factor analysis reveals that five components might be reduced and therefore the model could be simplified. However, it is still necessary to check which factors are important for the M&A attractiveness. Therefore, a linear regression has been conducted. This linear regression shows how the host country development factors influence the host M&A attractiveness and can be found in table 3 model 3. Regarding the host country, 92,5% of the variance of the M&A attractiveness is explained by the country development factors. In table 3 model 3, the coefficients of the linear regressions are given. All of the country development factors are significant which means that all the factors contribute to the M&A attractiveness score. The regulations and policies factor have the highest beta of all country development factors (β=0,503). The regulations and policies factors are followed up by the infrastructure and assets factors with a beta of 0,360. The coefficients of the linear regression can be found in table 10 in the appendix. This concludes that the regulatory and policy factors and the infrastructure and assets factors both exercise the biggest influence on the M&A attractiveness. Therefore, hypothesis 3 is partially supported.

8.4.5 Summary

The most important regression regarding this thesis has been done in 4.2. This analyzes the main concept and takes a look at the relationship between the cultural dimensions and the host M&A attractiveness. The findings from this regression are that host country individualism has the biggest influence on host country M&A attractiveness and that a high score on power distance, individualism and masculinity and a low score on uncertainty avoidance are positively related with the M&A attractiveness of a host country. All hypotheses were partially supported.

8.5. Conlusion, discussion, contributions, limitations and suggestions

8.5.1 Conclusion

This study investigated the effects of cultural dimensions on host M&A attractiveness. The research was conducted with the following problem statement: *To what extent do the cultural differences between the home country and the host country predict the M&A attractiveness of the host country?*

For the main research model, this study drew upon the cultural dimensions founded by Hofstede and the M&A attractiveness described by Appadu. The answer to the problem statement was split in three hypotheses which combined together create insights regarding the effect of cultural dimensions on the M&A attractiveness. Regarding the theory around the cultural dimensions and the M&A attractiveness it was assumed that a high score on power distance and individualism and a low score on masculinity and uncertainty avoidance are traits of an attractive host country (H1). Results confirmed that a high score on power distance and individualism and a low score on uncertainty avoidance are characteristics of an attractive host country regarding M&As, however the results also showed that a high score on the masculinity dimension strengthens instead of weakens the M&A attractiveness of the host country and therefore hypothesis 1 is partially supported. It was argued that a high difference on the power distance and individualism dimensions and a similar score on the masculinity and uncertainty avoidance dimensions will positively influence the host M&A attractiveness (H2). This hypothesis is partially supported since a high difference on the masculinity dimension between the home and the host country is positively related to host M&A attractiveness. The last assumption that has been deducted from theory regarding the M&A attractiveness is that regulatory and political factors and economic and financial factors contribute more to the M&A attractiveness score than the other country development factors (H3). This hypothesis is partially supported since regulatory and political factors are indeed the biggest contributor towards the M&A attractiveness score, but it is followed up by infrastructure and assets factors instead of the economic and financial factors.

8.5.2 Discussion

Not all of the empirical results were in line with the literature and hypotheses. The empirical results of this study were in accordance with previous research, except regarding the masculinity dimension.

Empirical results proved the expectation that a high score on the power distance dimension for the host country would positively influence the host country M&A attractiveness. This means that a workplace that is characterized by centralized decision making and a high degree of control, which are related to a high score on power distance (Shane, 1994), do increase the M&A attractiveness of the host country more than workplaces in a low power distance society, with characteristics of flexibility and empowerment of employees on all levels (Shane, 1994). The home power distance score does not have a significant effect on the host M&A attractiveness score which means that the way how individuals handle differences in the home social hierarchy do not influence the attractiveness of the host country. A high distance between the home and the host country positively influences the host country M&A attractiveness which is in accordance with the results of prior research (Steigner, Riedy and Bauman, 2017). They found that foreign direct investment increases if the home country has a relatively higher score on the power distance dimension than the host country. However, with the empirical results of this study it could not be proven that a higher score on the home power distance relative to host power distance positively influences the host M&A attractiveness but it can be confirmed that a higher difference on the power distance dimension between the home and the host country does positively influence host M&A attractiveness.

Prior research showed that a high score on individualism increases the FDI inflow to that country (Steigner, Riedy and Bauman, 2017). Therefore, it was expected that a high score on individualism in the host country positively influences host country M&A attractiveness and empirical results confirmed this hypothesis. This is because societies that score high on the individualism dimension are more willing to take risks (Beugelsdijk & Frijns, 2010). The empirical results of this study also showed that individualism of the home country does have a small significant negative relationship (β=-0,078) with host M&A attractiveness. This means that the host M&A attractiveness is higher when the investing country is based on a more collectivistic society than an individualistic society. This is interesting since countries that score low on individualism tend to be more careful when investing (Mihet, 2013). Tang (2013) found that a greater difference on the individualism dimension between the home and the host country encourages FDI between those countries and therefore, it was expected that it would also enhance the M&A attractiveness of the host country and the empirical results of this study proved this relationship to be true.

The empirical results of this study showed that a high score of masculinity is positively related to host M&A attractiveness and the expectation was that masculinity would be negatively related with host M&A attractiveness. Prior research found that a low score on masculinity was positively related to investment (Head & Sorensen, 2005). This could indicate that the amount of cross-border investment in a host country and host country M&A attractiveness are not as related to each other as expected. This also means that more investment goes towards countries that have a less competitive environment, but that a more competitive environment increases the M&A attractiveness of a country. Regarding the second hypothesis it was expected that a similar score between the home and the host country on the masculinity dimension would positively influence the host M&A attractiveness. However, empirical results show a positive relationship with the difference on the masculinity dimension and M&A attractiveness where Keilor, Hauser and Griffin (2009) found that similar values on the masculinity dimension enhances M&A activity between the home and the host country. The difference between the results in this study and the findings of Keilor, Hauser and Griffin (2009) is possibly because in their study they focus on one home country, the United States. The United States scores 62 on the masculinity dimension which is higher than the mean of home masculinity in this study (53,51). Since home masculinity significantly influences the host M&A attractiveness (p=0,045) it is possible that the choice of only one home country for the study of Keilor, Hauser and Griffin (2009) influenced their results, compared to the empirical results of this study

The findings in this study show that uncertainty avoidance is negatively related with host M&A attractiveness. Which is in line with the findings of Bhardwaj, Dietz and Beamish (2007) that companies prefer to invest in countries that score low on the uncertainty avoidance dimension. The host M&A attractiveness is higher for countries that accept risk instead of countries that value structure. The empirical results of this study also confirmed the findings of Tang (2012) that countries with similar values on the uncertainty avoidance dimension have more FDI activity between those countries. This could be because countries that score high on uncertainty avoidance are resistant to change and are risk resistant. This could lead to implications for foreign companies trying to invest in a country with a high uncertainty avoidance.

The last partially accepted hypothesis is regarding the country development factors. According to the literature economic and financial factors should have more influence on the M&A attractiveness but according to the empirical results this was not the case. According to the results the infrastructure and assets factors were more important. This implies that the findings of Tran (2009), that a weak infrastructure is an obstacle for FDI investments, is more present than expected. An interesting finding regarding the country development factors is that the economic and financial factors have the lowest contribution to M&A attractiveness of all country development factors towards the host M&A attractiveness.

8.5.4 Limitations

The current study contains limitations that need to be taken into account when interpreting the results. The variables of cultural dimensions do have some disadvantages because culture is hard to measure. The values will not be the same for each individual within a culture and it is difficult to divide culture based on country boundaries. Besides this, there needs to be more replications of studies regarding the M&A attractiveness to support more evidence and insights on this topic. Regarding the data, the Zephyr database was not able to provide sufficient performance data in order to do this study and see whether it influences the performance of companies. However, this aspect could be interesting since then it could show whether it is helpful for companies to invest cross-border in certain countries. This study only contains data regarding the countries but if firm specific data could be included, it could shine another light on this research.