National Culture and Acquisition Choices

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Abstract

This paper examines the role of national culture as an informal-institutional setting in influencing acquisition choices by employing a large panel of 176,548 firm-year observations across 33 countries spanning the years 1990 to 2012. Using Hofstede’s four cultural dimensions (power distance, collectivism/individualism, masculinity/femininity, and uncertainty avoidance) as national-culture proxies, the empirical results show that firms located in countries embedded with high power distance, high collectivism, high masculinity, and high uncertainty avoidance are less likely to undertake acquisitions. Further, such firms are less likely to acquire large target, more likely to use cash, and pay less premiums to target firm. Moreover, this paper finds that national culture also influences on acquisition choices indirectly through its impact on the effect of leverage deficit. Overall, it indicates that, in addition to formal institutions, national culture plays an important role in explaining cross-country variations in acquisition choices.

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