The effect of institutional distance on the choice of ownership among Chinese cross-border acquisitions

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ABSTRACT

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This paper explores the relationship between the acquired proportions of equity, Chinese multinational enterprises' choice and various institutional distances namely, the government and the judicial system distance, economic distance and management distance. This paper uses 554 cases of Chinese companies' cross-border acquisitions from 2010-2019.These cases were collected by Zephyr database. This paper concludes that when Chinese companies enter an unfamiliar market, as the government and the judicial system difference expands, the Chinese companies choose to acquire a higher proportion of the targets; However, as the difference in economic system expands, Chinese multinational companies reduce the proportion of equity; The management distance effect for Chinese companies' cross-border acquisitions on share ownership is not obvious.

Keywords: Institutional distance; cross-border merger and acquisitions; Chinese multinational enterprises

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1.Introduction

Since 2008, the number of cross-border acquisitions by Chinese companies has increased sharply. For Chinese companies, cross-border acquisition is an inevitable approach to break the domestic development bottleneck and exploit new markets. If Chinese multinational companies want to open the door of foreign markets through mergers and acquisitions, then top priority for Chinese companies should be equity ownership. The ownership structure decision is whether to choose a low ownership level to defend against any uncertain factors in foreign market or to choose a high ownership level to make sure a strong control for subsequent integration. It is necessary to acquire a higher stake if the acquirer plans to obtain the decision-making right and have influence on business' operational processes, which ensures that the acquirer could meet the strategic objectives (Anderson and Gatignon (1986)). To achieve higher performance by reconfiguring the target firm, acquirers tend to choose acquisition of higher equity stake (Fowler and Schmidt (1989)). However, there is also an implied risk when firms decide to choose higher share ownership. When Chinese companies enter unfamiliar markets, lower stake ownership could help them mitigate the uncertainties and operational risks (Delos and Beamish (2001)).

As defined by many previous studies, institutions were created for social trading system which regulates the interaction between members in society (North (1991)). An institution can be divided into the following three pillars: regulative pillar, normative pillar and cognitive pillar (Scott (1995)). In neo-institutional theory, the regulative pillar refers to the certain actors' capacity, by virtue of their authority, to constrain the behavior of other actors in an institutional field (Caronna (2004)). Regulative pillar is controlled by government and the judicial system, which is also referred to as the formal institution. Normative pillar is the legal way for social members to pursue higher value. Cognitive pillar is related to social belief and common sense (Pan (2008)). Normative and cognitive pillars are combined into

informal institution. Some existing studies focus on the relationship between formal institutional differences ("distance"), between home and host nations, and capital structure. The reasons why institutional distance has an impact on equity ownership has been investigated before but the conclusions for the relationship are not consistent. Moreover, there are only a few studies that focus on Chinese multinational's cross-border cases. Currently, the mainstream theory is based on acquirers from developed economies. The Monopoly Advantage theory (Hymer (1960)), suggests that when acquirers enter host country, they face an effect, "liability of foreignness", after the completion of mergers. Compared with local enterprises, multinational companies must have ownership advantages to make up for the disadvantages of being outsiders (Hymer (1960)). Because of the liability of foreignness, acquirers lack enough experience on business model in host country market, and they may be subjected to differential treatment compared with local companies (Zaheer (1995)). However, the higher institutional distance (including formal institutional distance and informal institutional distance) also increases the incidences of higher cost of legal fees and contract fees between acquirers and targets. This results in a high likelihood that multinational companies will choose to make solo investment rather than a joint venture (Estrin et al. (2009)). Correspondingly, if this is not the first-time the acquirer is entering a host country, then institutional distance will not have a significant relationship with the equity ownership stake (Estrin et al. (2009)). Existing studies on the Chinese acquirers find that with larger institutional distance (including formal institutional distance and the informal one), Chinese companies tend to choose joint venture ownership (Chen and Fan (2014)). Specifically, with the greater formal institutional distance, Chinese multinational companies tend to choose majority acquisition rather than minority acquisition, and with the greater informal institutional distance, Chinese multinational companies tend to choose minority acquisition rather than majority acquisition (Sui (2015)). However,

because previous studies make no distinction between Greenfield Investment (In economics, a greenfield investment (GI) refers to a type of foreign direct investment (FDI) where a company establishes operations in a foreign country. In a greenfield investment, the company constructs new facilities cross-border from the ground up (Corporate Finance Institute)) and mergers and acquisitions, the impact of institutional distance on the choice of equity ownership choice has not been fully explored.

In case of cross-border acquisitions, the flexibility of ownership choices is low due to the unfamiliarity of the target market and the integration process. In recent years, studies have shown that there exists a U-shape relationship between culture distance and ownership choices (Malhotra (2011));Formal institutional distance is positively related to ownership choice corresponding to a negative relationship between informal institutional distance and ownership choice (Contractor et al. (2014)); When entering a target country with a higher institutional distance, acquirers tend to choose partial acquisitions rather than full acquisitions (Elango (2013)); Furthermore, the ownership strategies adopted by developing countries in cross-border mergers and acquisitions are different from those by developed countries (Lahiri et al. (2014)). In conclusion, there exist only a few studies that investigate the cross border merger and acquisition decisions especially those of the multinationals from emerging economies (Contractor et al. (2014); (Beule et al. (2014)).

This thesis focuses on the impact of formal institutional distance and informal distance on Chinese companies' equity strategy in cross-border mergers and acquisitions. This paper collects 554 transactions from Europe, Asia, North America, Oceania, South Africa and Africa from 2010 to 2019. This paper uses Euclidean distance to calculate institutional distance and tests different hypotheses using linear regression to examine the relationship between share ownership and formal institutional distance and informal institutional distance. This paper reaches the following conclusions: With higher government institutional distance,

Chinese acquirers like to choose higher share ownership. With higher economic distance, Chinese acquirers like to choose lower share ownership. And with higher management distance, Chinese acquirers like to choose higher share ownership. However, this relationship shows is not robust across all specifications.

2. Literature review and hypotheses development

2.1 Formal institutional distance and ownership

Institutional theory suggests that multinational companies need to consider institutional environment in the host country and need to analyze different pillars of institutional environment in order to succeed post-acquisitions (Dikova et al. (2009)). Institutional distance can be divided into formal institutional distance and informal institutional distance (Gaur and Lu (2007)). Formal institutional distance is related to rules, laws and government practices difference (Contractor (2014)). This paper divides formal institutional distance specifically into government and judicial system institutional distance which is related to the freedom and power of government and economic distance which is related to economic activity regulations.

2.1.1 Government distance and ownership

Government institutional distance can be referred to the difference in the broad environment between the acquirer's country and its target country (Dikova et al (2009)). For acquirers, government institutional distance will create positive effect on the success of acquisitions, which is supported by institution arbitrage theory. On the other hand, according to liability of foreignness, government distance will also create a negative effect.

From the prospective of the institution arbitrage theory, because of the unsystematic and unsound government policies in developing countries, the operational cost is larger for developing country acquirers doing business in home country than in the host country (Witt and Lewin (2007)). To avoid unsound government and judicial policies and get benefits from

the developed country's market, acquirers from developing countries can choose multinational operating model from early business stage. As the distance between home country and host country increases, the differences between the domestic resources available to multinational companies and the resources available in the host country increase as well, which means that multinational companies can use these heterogeneities to gain benefits (Gaur and Lu (2007)). According to policy arbitrage theory, government institutional distance may create benefits for developing acquirers and therefore acquirers choose to acquire higher proportion of shares. Furthermore, it is easier to identify government institutional distance rather than economic distance and informal institutional distance because law and judicial regulations are explicit and clear. Multinational companies can obtain government and judicial system differences easily. As a result, acquirers could choose to increase proportion of shares acquired.

However, according to liability of foreignness theory, a greater government distance represents a lack of familiarity about local institutional environment, which will increase the difficulty to establish a business. In other words, liability of foreignness leads to an uncertainty about the legitimacy of starting a business (Kostova and Zaheer (1999)). Therefore, a high government institutional distance will increase the difficulty of cross-border management, so acquirers will choose a low shareholding structure when they enter an unfamiliar market. They tend to choose joint venture rather than sole proprietorship (Anderson and Gatignon (1986)).

Therefore, we need to determine whether liability of foreignness theory dominates for Chinese cross-border merger and acquisition or policy arbitrage theory dominates. According to empirical research studies, the adverse effects of China's foreigner disadvantages in cross-border mergers and acquisitions are far less than the the benefits of institutional arbitrage, which echoes the Chinese government's call for enterprises to "go global". Chinese

companies are increasingly inclined to strategically “leave” the local market and move to the international market (Boisot and Meyer (2008)). Thus, this paper posits the following hypothesis:

Hypothesis 1: The higher the government institutional distance between the Chinese acquirer and the target company, the greater the share of ownership the Chinese companies involved in cross-border mergers & acquisitions will choose.

2.1.2 Economic distance and ownership

The difference in economic development between home country and host country has been defined as “economic distance”, usually related to financial strength, economic size, factor cost, infrastructure and technical level (Bai et al. (2014)). Based on previous research studies, many scholars have paid more attention to cultural differences’ impact on the merger and acquisition strategy and the follow-up performance (Luo and Peng (1999); Barkema (1996)). However, with the process of economic globalization, the cultural differences between countries are decreasing, and there is also an interesting phenomenon that two similar culture countries（such as China and Singapore）have completely different government systems and judicial procedures (Pan (2008)). As result, scholars tend to focus on explicit determinants, such as economic differences. With the development of economic globalization, economic distance has gradually become an essential determinant related to foreign investment and the performance of this investment (Tsang and Yip (2007)). Although some scholars believe that with the higher economic distance between the nations of acquirer company and target company, the survival rate of multinational companies is higher (Bai et al. (2014)), most research studies find that with the greater economic distance between two nations, there is a higher possibility for multinational companies to fail in their foreign business operations. With a higher economic distance, there is less intra-industry trade and based on many empirical studies, there exists a negative relationship between economic

distance and trade (Martínez-Zarzoso and Nowak-Lehmann (2004)). Therefore, with the greater economic distance between the two countries, the success rate of cross-border acquisitions is lower (Tsang and Yip (2007)). This paper proposes the following hypothesis:

Hypothesis 2: If the economic distance between a Chinese acquirer and the target company is high, the Chinese cross-border acquirer will choose a lower level of ownership in the target firm.

2.2 Informal institutional distance and ownership

Unlike formal distance, informal institutional distance is implicit, which is hard for acquirers to measure. This indicates that with higher informal institutional distance, the liability of foreignness is larger (Kostova & Zaheer (1999)). This paper focuses on the informal distance related to business management. So, this paper will only explore the relationship between share ownership and management institutional distance. This paper also investigates whether there exists a policy arbitrage or not?

2.2.1 Management distance and ownership

The management distance between the two countries of acquirer and target is in normative institutional pillar, which is difficult for foreign companies to measure precisely. Therefore, the greater the distance of the normative system, the stronger liability of foreignness (Kostova & Zaheer (1999)). From the perspective of management level, the greater management distance may cause the acquirer to be unfamiliar with the foreign business model, and thus cannot apply the domestic business model to the foreign market. The management distance mainly includes differences in corporate culture (Nadolska and Barkeman (2007)), management methods, and performance evaluation systems (Datta (1991)). Datta (1991) empirically analyzes the M&A performance of 173 US companies based on the differences between management methods and performance evaluation systems. It is found that regardless of the level of integration, with the larger differences in

management methods between the nations of acquirer and target, there is a high possibility of a poor M&A performance. This shows that corporate differences are an important factor influencing M&A performance.

A few studies indicate that knowledge transfer and integration after mergers and acquisitions is the key to improving M&A performance (Slangen (2006); Bjorkman et al. (2007); Reus and Lamont (2009)). Differences between companies can hinder communication, reduce cooperation, and increase the difficulty of knowledge transfer (Li and Scullion (2006)). In addition, differences in management practices, culture, and performance assessments can exacerbate the conflicts between acquirers and targets, resulting in brain drain and reduced M&A performance (Krug and Nigh (1998)).

Compared with multinational mergers and acquisitions of developed countries, the goal of Chinese companies' cross-border M&A is usually to enhance their technological and innovation capabilities by acquiring strategic resources (Wu (2007); Mingxia (2009)). Strategic resources are often embedded in individuals in the organization (It is contained in the daily production and operation of the enterprise and cannot be quantified by numbers or ratios). Due to the different types of knowledge acquired, the difficulty, direction and incentive mechanism of knowledge transfer are different, and tacit knowledge is often more difficult to transfer than explicit knowledge. Therefore, Chinese companies face the challenge of acquiring tacit knowledge through reverse knowledge transfer. This puts higher demands on the knowledge transfer and integration capabilities of less experienced Chinese companies. This leads to the following hypothesis:

Hypothesis 3: The higher the management distance between the nations of the acquirer and the target company, the lower the share ownership the Chinese acquirer involved in a cross-border mergers & acquisitions will choose.

3. Methodology:

3.1 Sample description and data

The sample for this paper is from the global acquisition transaction analysis library Zephyr. Zephyr is a database providing comprehensive merger & acquisition data. It currently contains more than 500,000 M&A transactions in various industries around the world and extensively covers Chinese transactions data. This paper selects the China's cross-border acquisition data during 2010-2019. This period is also a period of rapid economic development in China and increasing number of Chinese companies have chosen to expand outward. Moreover, Chinese government is also encouraging companies to go global, thereby expanding China's economic influence in the world. In order to ensure the availability of empirical variables and the accuracy of the research results, this study ensures: (a) the acquisition transaction is completed, and is not a duplicate transaction; (2) the acquirer is the enterprise entity rather than individual, and the name of the acquiring company can be obtained instead of "undisclosed"; (3) the proportion of shares acquired is publicly available, not "unknown"; (4) The acquired companies are not Chinese enterprises, and their parent companies are also not from China.

According to the above criteria, this paper uses 554 transactions as a sample. The sample description table as is following:

Table 1.

This table classifies the sample by years.

Number of Firms by Year											
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Number	19	51	40	42	66	67	114	74	61	20	554

Table 2.

This table classifies the sample by industries.

Number of Firms by Industry		
Industry	SIC code range	Number of Firms
Agriculture, Forestry and Fishing	0100-0999	5
Mining	1000-1499	40
Construction	1500-1799	5
not used	1800-1999	0
Manufacturing	2000-3999	266
Transportation, Communications, Electric, Gas and Sanitary service	4000-4999	43
Wholesale Trade	5000-5199	34
Retail Trade	5200-5999	11
Finance, Insurance and Real Estate	6000-6799	50
Services	7000-8999	100
Public Administration	9100-9729	0
Nonclassifiable	9900-9999	0
Total		554

Table 3.

This table classifies the sample by continents.

Number of Firms by Continent	
Continent	Number of Firms
Europe	336
Asia	19
North America	117
Oceania	50
South America	24
Africa	8
Total	554

Table 1 shows that from 2010 to 2019, Chinese acquirers completed 554 M&A transactions. Year 2016 is the blowout year for China's mergers and acquisitions. The reason for this may be that China’s economic growth rate became the highest in the world in 2016. From Table 2, we could see that the mergers and acquisitions activity is concentrated in the manufacturing industry. In Table 3, this provides geographic location of these deals. We can conclude that the majority of targets for Chinese acquirers are located in Europe. This leads to a few questions. Is this concentration caused by geography, culture or institution? This paper also lists top 10 target countries with highest frequency of transactions (see Appendix Table 9).

3.2 Variables

3.2.1 Dependent variable

The dependent variable used in this study is the share ownership. In prior studies, researchers focus on the ownership choice. In other words, researchers tend to divide ownership choices into specific categories – minority, majority or full (Contractor et al., 2014). However, this paper focuses on the relationship between share ownership and formal institutional distance and informal institutional distance. As result, I set share ownership directly as dependent variable rather than use categorical variables.

3.2.2 Independent variables

The first independent variable is government and judicial system institutional distance. This variable measures the government power, ability and freedom differences between the nations of home and host countries. This paper uses the most widely used method to indicate government and judicial system distance. By estimating utilizing scores of the World Bank's six Governance indicators (Kaufmann, Kraay and Mastruzzi (2008)), this paper quantifies government and judicial system institutional distance as a score. The governance indicators include accountability, political stability, government effectiveness, regulatory quality rule of law and corruption control. The composite scores range from -2.50 to +2.50, with higher score representing better governance quality (Dikova et al. (2009)). This paper applies Euclidean Distance as a methodology to integrate all aspect score into a total score to represent the broad law and judicial system quality. The Euclidean distance function is as following:

$$GD_{at} = \sqrt{\sum_{i=1}^{6} (GI_{ia} - GI_{it})^2}$$

Where GD_{at} = government and judicial system difference between acquirer and target nations, GI_{ia}= acquirer country score on a particular governance indicator, and GI_{it}=target country score on a particular governance indicator.

The second variable is the economic distance, which measures the market openness. If we include many indicators to express the broad market openness level, it leads to a multicollinearity problem. As result, in this section, this paper only includes three indicators to express a country's market freedom. These three indicators include: trade freedom, investment freedom and financial freedom. The indicators are collected from 2019 Index of Economic Freedom, which is published by Heritage Foundation and The Wall Street Journal together. And this paper also uses Euclidean distance methodology to calculate overall score:

$$ED_{at} = \sqrt{\sum_{i=3}^{3} (ED_{ia} - ED_{it})^2}$$

Where ED_{at} =economic difference between acquirer and target nations, ED_{ia} = acquirer country score on a particular economic freedom indicator, and ED_{it}= target country score on a particular economic freedom indicator.

The third variable is management distance and it measures the informal institutional distance level. This paper applies the widely used method to estimate the average management quality of one country （Pan (2008). As Pan (2008) suggests, management quality can be divided into six indicators: willingness to delegate authority, reliance on professional management, extent of staff training, innovation ecosystem, meritocracy and incentivization and R&D expenditure. These indicators are collected by The Global Competitiveness Report 2019. This paper also uses Euclidean distance methodology to calculate overall management distance score:

$$MD_{at} = \sqrt{\sum_{i=6}^{6} (MD_{ia} - MD_{it})^2}$$

Where MD_{at} =management difference between acquirer and target nations,

MD_{ia} = acquirer country score on a particular management indicator,

and MD_{it}= target country score on a particular management indicator.

3.2.3 Control variables

This paper uses economic development level, natural resources and the geographic distance of the host country as control variables. This paper uses GDP per capita as an indicator of current economic development level. In order to avoid extremum effect, I set the logarithm of GDP per capita as the control variable. The second control variable is natural resources and it can be indicated by export of fuels, ores and metals. The last control variable, the geographic distance, can indicate real geographical distance's effect on mergers and acquisitions. In addition, this paper also uses the logarithm of geographic distance to control extremum. These indicators are collected from World Bank and CETII.

Table 4.

This table provides definitions for all the variables.

Variable	Definition	Source
Dependent		
Shares	Proportion of acquired equity	Zephyr
Independent		
Government Distance	Computation based on institutional distance measure of Contractor et al (2013). Difference between China and the host country across the six governance dimensions of Kaufmann et al (2009).	World Bank
Economic Distance	Difference between China and the host country across the three dimensions.	2019 Index of Economic Freedom
Management Distance	Difference between China and the host country across the six dimensions.	The global Competitiveness Report 2019
Control		
Export	The Natural Resource Ownership Status in the host country.	World Bank
Ln(GDP)	Logarithm of the per capita gross domestic product of the host country.	World Bank
Ln(GEO)	The logarithm of the geographical distance between China and the host country.	CEPII

4. Results and Analysis

4.1Description and Correlation analysis

Table 5 shows, when Chinese companies enter foreign markets, they acquire on average 75.39% of the target company. This figure shows that Chinese companies tend to hold a higher percentage of ownership. The mean of government distance is 4.30, the standard

deviation is 1.12, the mean of economic distance is 58.44, the standard deviation is 9.30, the mean of the management distance is 34.64, and the standard deviation is 11.45. These data show that the difference of government distance between China and other host countries is smaller than the other two distances. In contrast, the management distance is the largest between China and the host countries.

Table 5.

This table provides descriptive statistics for all the variables.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
share	554	0.00%	100.00%	75.39%	35.26%
Government distance	554	1.02	6.01	4.30	1.12
economic distance	554	10.68	71.62	58.44	9.30
management distance	554	11.41	49.33	34.64	11.45
export	554	0.99	74.62	16.71	20.42
Ln(GDP)	554	2.35	9.78	7.67	1.38
Ln(GEO)	554	8.66	9.87	9.09	0.23

Table 6 provides the correlation matrix. All independent variables and control variables show correlation with dependent variable that is significant at 5% level of significance.

Table 6.

This table provides correlation matrix.

Correlations							
	1	2	3	4	5	6	7
1.Share	1						
2.Government distance	0.17***	1					
3.economic distance	0.02	0.53***	1				
4.management distance	0.23***	0.64***	0.43***	1			
5.LN(GDP)	0.14***	-0.10**	0.09**	0.33***	1		
6.export	-0.13***	0.04	-0.01	0.02	-0.08	1	
7.ln(GEO)	0.12***	-0.14***	-0.49**	0.12***	0.24***	-0.02	1

*** p<0.01, ** p<0.05, * p<0.1

The only exception is economic distance, which shows no significant relationship with the dependent variable. This paper will test the variance inflation factor (VIF) in the next section.

4.2 Regression results analysis

Table 7.

This table provides results for the regression analysis (Independent variables are government distance, economic distance and management distance). Variables are as defined in Table 4.

Model		Unstandardized Coefficients		Standardized Coefficients	
		B	Std. Error	Beta	VIF
1	(Constant)	-55.14	89.66		
	Government distance	6.17**	2.45	0.17	2.63
	Economic distance	-0.42**	0.22	-0.11	1.85
	Management distance	0.37*	0.20	0.12	2.44
	Ln(GDP)	2.85**	1.26	0.11	1.44
	Export	-0.21**	0.08	-0.115	1.15
	Ln(GEO)	10.69	9.20	0.066	1.85
	N=554 R^2=0.063				

*** p<0.01, ** p<0.05, * p<0.1

In Table 7, the highest VIF score is 2.63 which is far less than 10. Therefore, I can conclude that there is no multicollinearity issue for all independent variables.

According to regression results, the coefficient for government distance is 6.17, with the t-value of 2.52. The government distance has a p-value of less than 0.05. Therefore, I can make the following conclusions about the relationship between government distance and share: (1). Government distance has a significant effect on the share proportion choice of Chinese acquirers. (2). The relationship is positive, which is consistent with my Hypothesis 1.

The coefficient for economic distance is -0.42, with the t-value of 1.98. It is statistically significant at 5% level of significance. This implies: (1). Economic distance has a significant effect on the share proportion choice of Chinese acquirers when they choose to acquire foreign targets. (2). The relationship is negative, which is consistent with my Hypothesis 2.

The coefficient for management distance is 0.37, with the t value of 1.81, which is significant at 10% level of significance. The relationship between management distance and share ownership is not significant as government distance and economic distance. (2). This may be caused by the other two distance. However, I use regression analysis to further investigate the relationship between the management distance and share with control variables. Table 8 provides these results.

Table 8.

This table provides results for the regression analysis (Independent variables is management distance). Variables are as defined in Table 4.

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	-64.88	58.53	

management distance	0.63***	0.13	0.2
Ln(geo)	12.27*	6.61	0.08
Ln(GDP)	1.38	1.16	0.05
export	-0.22***	0.07	-0.13

*** p<0.01, ** p<0.05, * p<0.1

The results presented in Table 8 imply that: (1). There exists a significant relationship between share ownership and management distance. (2) The relationship is positive, which rejects my Hypothesis 2. I suggest one explanation for this result: As the relationship between share ownership and management distance is implicit, it is not easily observable. This distance will be implied in individual employee, leadership level and corporate culture. The proxy used in the regression may contain noise.

5. Discussion and conclusions

This paper is inspired by the contractor et al. (2014) which investigates the effects of differences between nations of host countries and home countries on the stock choice at institution, industry and culture levels. The difference between this paper and contractor et al. (2014) is that the former is more concerned with developed countries as acquirers and this paper focuses on the impact of different dimensions of Chinese multinationals in the process of entering the foreign market. This paper is also concerned about the effect of institutional environment on equity choice, but more specifically, this paper divides broad institutional environment along government and economic dimensions. This paper reaches these conclusions: When Chinese multinational companies enter a foreign market, the government distance brings policy arbitrage opportunity for the Chinese acquirers. In addition, this effect leads Chinese multinational companies to choose higher equity portion because Chinese companies are confident that this policy arbitrage will bring them better prospects for their business operations. This paper compares economic distance and government distance and

finds that economic distance unlike government distance, will bring liability of foreignness for the Chinese acquirers. This effect makes Chinese multinational companies feel less confident in generating synergy with the foreign targets. As a result, Chinese companies tend to acquire lower equity proportion in merger and acquisition transactions.

Compared with government and judicial system distance and economic distance, this paper does not find robust results for the management dimension. This paper hypothesizes a negative relationship between the management distance and the share choice of Chinese acquirers, but eventually finds no significant relationship in the model. This result is obviously disappointing. However, this paper tries to propose an appropriate explanation for this result: perhaps because the management distance is implied in the foreign market, it is not correctly measured.

There are a number of limitations for this paper: (1). A more precise measure of management distance, perhaps at firm level, can provide better insights into the relationship between difference in management level between the acquirer and the target firm on Chinese companies' merger and acquisition equity choice. (2). This article does not consider the performance post acquisition. Thus, even though the acquisition has taken place, we are not sure whether the liabilities of foreignness and institution arbitrage have occurred or not.

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Appendix

Table 9.

This table provides frequencies of the top 10 countries in the overall sample.

Target Country	Country Code	Frequency
United states	US	96
Germany	DE	81
United Kingdom	GB	55
Italy	IT	52
Australia	AU	44
France	FR	26
Russia	RU	19
Canada	CA	18
Netherlands	NL	18
Brazil	BR	16
Spain	ES	16
	Total	441

Table 10.

This table provides result for the regression analysis. Standard errors clustered by years. Variables are as defined in Table 4.

VARIABLES	(1) Share	(2) Share	(3) Share	(4) Share
Government Distance	0.080***			
	(0.021)			
Log GDP	0.057***	0.053***	0.039**	0.048***
	(0.015)	(0.015)	(0.017)	(0.015)
Log Geo Distance	0.210**	0.157	0.183*	0.111
	(0.105)	(0.105)	(0.106)	(0.104)
Economic Distance		0.004**		
		(0.002)		
Management Distance			0.005*	
			(0.003)	
Culture Distance				-0.002
				(0.001)
Constant	-1.940**	-1.326	-1.556	-0.567
	(0.943)	(0.938)	(0.971)	(0.905)
Observations	424	424	424	424
R-squared	0.381	0.363	0.388	0.357

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 11.

This table provides result for the regression analysis. Standard errors clustered by years and industries. Variables are as defined in Table 4.

VARIABLES	(1) Share	(2) Share	(3) Share	(4) Share
Government Distance	0.063**			
	(0.023)			
Log GDP	0.035***	0.031**	0.027*	0.027*
	(0.011)	(0.011)	(0.015)	(0.013)
Log Geo Distance	0.171	0.146	0.153	0.108
	(0.101)	(0.098)	(0.097)	(0.089)
Economic Distance		0.003**		
		(0.001)		
Management Distance			0.003	
			(0.002)	
Culture Distance				-0.003**
				(0.001)
Constant	-1.341	-0.997	-1.112	-0.349
	(0.966)	(0.897)	(0.924)	(0.746)
Observations	554	554	554	554
R-squared	0.067	0.042	0.071	0.047

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1