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Does religion affect cross-border acquisitions? Tales from developed and emerging economies

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ABSTRACT

This article examines how religious distance and religious freedom influence cross-border acquisition (CBA) activity and firm's choice of control. Using a global sample of 75151 CBAs across 45(57) acquirer (target) countries over a period of 34 years from 1980 to 2014, we find that the CBA volume is lower with firms preferring partial control when countries are religiously distant. We use three different constructs to examine the role of religious freedom. Our findings show that government favoritism and social regulations reduce the CBA volume whereas state regulations on religion drive CBA volume. In addition, firms opt for full control when countries exhibit higher government favouritism and lower state regulations on religion. We also demonstrate that internationalization decisions depend on the country of origin. Finally, we find that acquirers with a foothold in the target mitigate the information asymmetry associated with religious distance.

Keywords: Cross border acquisitions; religious distance; religious freedom; entry mode; emerging markets; ownership structure

JEL classifications: G34, Z12, F23, G32

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1. INTRODUCTION:

Global M&A activity experienced 17,639 deals and US\$ 3.2T volume in 2016¹. Internationalization is an important strategic initiative that enables Multinational Enterprises (MNEs) to expand their businesses and exploit their capabilities abroad. Hence there is a considerable interest in understanding the entry mode choice and ownership decisions of MNEs. In this study, we examine how religious distance and religious freedom influence the internationalization decision of MNEs.

Extant literature has examined the influence of country-level differences on the internationalization decisions of MNE's, of which culture and institutional differences have become areas of focus in recent years. Literature shows that cultural differences make a significant impact on the entry mode of choice and equity participation by the foreign acquirer (Ahern et al., 2015; Kogut and Singh, 1988). Among the cultural vectors, religion has a pervasive influence on moral and behavioural standards that are specific to all cultures around the world (Weber, 1904). As the religious difference between countries increases, so should the information asymmetry associated with the difference in normative and regulative factors of religions may rise and disrupt the internationalization decisions. Prior studies have not examined the impact of religious differences on entry mode choice because most researchers assume that religion and cultural proxies are intertwined and the role of religion in international trade is analogous to the existing cultural dimensions. We examine the impact of religious differences on Cross-Border Acquisition (CBA) activity and the ownership structure in the target. Given the influence of religion, this paper further investigates its differential effect on the entry mode choices of D-MNEs (MNEs from developed economies) and E-MNEs (MNEs from emerging economies).

Transaction cost economics (TCE) suggests that an MNE's internationalization depends on both external and internal uncertainty (Zhao et al., 2004). The factor, religion, may influence the internationalization decision of MNEs through the channels of external and internal uncertainty.

¹ Mergermarket Global report 2016

Internal uncertainty is a firm-level construct that indicates the level of unfamiliarity that an acquirer faces in the target country. Distance is the conventional proxy for internal uncertainty. With increase in the religious distance between acquirer and target country, there are differences in moral norms and behavioural standards. We investigate whether the increase in information asymmetry associated with the difference in moral norms and behavioural standards influence CBA activity and ownership structure.

External uncertainty is a contextual measure that deals with the volatility in the target country environment. Religious restrictions in the target country may create uncertain environment and under conditions of high external uncertainty in the target country, firms prefer a flexible entry mode. We examine whether the levels of religious freedom in the target country make it difficult for acquirers to assess the target's firm valuation ex-ante and thereby influence both CBA activity and ownership structure.

What happens to the CBA volume when religiously proximate acquirers encounter lower level of religious freedom in the target countries? Is there a mechanism to resolve the information asymmetry associated with religious distance? How do E-MNEs and D-MNEs behave under the influence of religious distance and religious freedom? Despite the increase in the deal value of CBAs from 16 to 24 percent in the last decade², these questions pertaining to religion have not been explored in academic research.

2. THEORY AND HYPOTHESES

RELIGION AND CBA FLOW

Over time, academicians have broadened the scope of internal and external uncertainty by including additional dimensions (Berry et al., 2010). Recently, Rossi and Volpin (2004) find that the volume of M&A activity depends on laws and regulation across countries. Erel et al. (2012) argue that geography, quality of accounting disclosure and bilateral treaty increase the likelihood of mergers. In this study, we focus on the impact of 'religion' on entry mode choices. Religion contributes to the

² KPMG international report, 2016

formation of strong community group by infusing moral and behavioural standards in a group of individuals. In the context of economic exchange, Guiso et al. (2003) find that relative trust of a country is affected by religion and conceived trust has a strong influence on cross-border investments.

Internal uncertainty arises from the real difference between the acquirer and target countries (measured traditionally by distance). As religious distance between acquirer and target country increases, MNEs experience information asymmetry imposed by the differences in moral norms and behavioural standards. As information asymmetry increases, target firms exploit the situation and misrepresent the valuation of their assets. Thus, MNEs exhibit lower CBA activity in the target country.

H1a: Larger the religious distance between acquirer and target country, lower the CBA volume.

External uncertainty is a contextual measure that reflects the political risk in the target country. The political risk is associated with the likelihood of government change in a short regime and policy level volatility in such regimes. In this study, we examine the external uncertainty attributed to religious freedom policy in a target country. MNEs have to incur information cost to overcome the uncertainty enforced by the religious freedom policy. Thus, there may be lower CBA activity in countries with lower levels of religious freedom. Religious freedom is the freedom in belief, practice, and action in accordance with one's faith in sacrality (Alon et al., 2017). Grim and Finke (2006) use three constructs to measure religious freedom, viz., government favouritism towards a religion (GFR), government regulations on religion (GRR), and social regulation of religion (SRR). GFR refers to the favoritism towards select religion or a small group of religions, which breeds corruption in the target country. Information cost is high in a corrupt environment (DiRienzo et al., 2007), and it reduces CBA activity. GRR refers to the restrictions on choice and practice of religion in state laws and policies. SRR refers to restrictions on religion by other religious groups, associations, or culture as a whole. As GRR and SRR increase, MNEs experience information asymmetry *ex-ante* and reduce the CBA activity.

H1b: Lesser the religious freedom in target country, lower the CBA volume.

Our next research question examines the moderation effect of religious freedom on the relationship between religious distance and CBA volumes. To avoid information asymmetry associated with difference in moral norms and behavioural standards, MNEs increase their CBA activity in the countries with less religious distance. But, the transaction cost associated with less religious freedom in target countries may dwarf the benefits of religious proximity. Hence, even with higher religious proximity, MNEs may reduce their CBA activity in the target countries because religious freedom is low. Accordingly, we expect the negative interaction effect between religious distance and religious freedom constructs.

H1c: Lesser the religious freedom in target country, CBA volume is lower in the religiously proximate country pairs.

Unlike the D-MNEs that typically involve FDI to exploit their firm-level capabilities in the target country, E-MNEs engage in FDI to bootstrap their capabilities abroad. E-MNEs are characteristically not like D-MNEs in assets specificity and in the manner in which these assets are exploited and augmented. Studies on internal uncertainty assume that MNEs internationalize to exploit their own resources and capabilities in foreign countries and this premise neglects the differences in strategic objectives of D-MNEs and E-MNEs. Hence, we expect the following.

H1d: The direction of CBA flow moderates the relationship between religious distance /religious freedom and CBA volume.

RELIGION AND OWNERSHIP STRATEGIES

In CBA deals, MNEs suffer from information asymmetry risks that manifests in adverse selection and moral hazards problems. The cost of acquiring information in target countries for MNEs increase with greater information asymmetry, which itself increases with greater distance (Malhotra and Gaur, 2014). As the religious distance increases, so should information asymmetry, which makes it more difficult for MNEs to value the target firm and manage the target after the acquisition. As a result, MNEs prefer partial ownership structure in the target. Hence, we expect the following.

H2a: Larger the religious distance between countries, lower the acquired equity stake.

MNEs facing high external uncertainty in the target country reduce their resource commitment by adopting joint venture as the entry mode. When restrictions on religious practice by the government and social groups in the target country are high, partial acquisitions allow MNEs to team up with local domestic partners who possess the knowledge and skills (policies and regulations on religion by the state) required to function in these countries. Government Favoritism breeds corruption and involves a higher level of information asymmetry and MNEs prefer partial ownership structure in such corrupt environments (Di Guardo et al., 2016)

H2b: Lesser the religious freedom in target country, lower the acquired equity stake.

In the CBA deals involving cross- country pairs (ADTE and AETD³), we assume that MNEs may choose lower ownership structure in an effort to reduce hierarchical governance costs associated with distance. However, E-MNEs use the internationalization process (AETD) as an opportunity to gain capabilities from developed economies (Luo and Tung, 2007) and to earn such capabilities, E-MNEs require full corporate control. In similar vein, D-MNEs require full control to exploit their capabilities in emerging economies (ADTE). Internationalization literature assumes that information costs drive the ownership strategy and neglects the motivation behind acquisitions. Hence, we argue that the findings on the religious distance / religious freedom would vary when we introduce the direction of investment.

H2c: The direction of CBA flow moderates the relationship between religious distance /religious freedom and CBA ownership level.

Information asymmetry caused by religious distance can be mitigated by experience gained by the MNEs. We consider two contingency mechanisms (Boeh, 2011) that subdue the information asymmetry associated with religious distance. MNEs that possess prior knowledge about the buyers, suppliers and other stakeholders in the related industry require less effort to realize the true worth of the target firm and they are also able to manage the difficulties in the combined entity. Hence, we propose the following:

³ ADTE- Acquirers from developed economies and targets from emerging economies
AETD- Acquirers from emerging economies and targets from developed economies

H2d: *As religious distance increases, the level of equity stake taken by the MNEs in the target increases more for the related than for the unrelated acquisitions.*

Footholds (a non-controlling equity stake in target firm before an acquisition) drive familiarity and trust in cross-border investments. Foot-holds provide a chance for the MNEs to interact with the target, and thereby, reduce information asymmetry in CBAs. Hence, we expect the following:

H2e: *As religious distance increases, the level of equity stake taken by the MNEs in the target increases more for the MNEs with foothold than for the MNEs without foothold.*

3. DATA AND METHODOLOGY

3.1. Sample

Our sample comprises all ‘completed’ CBAs from the Securities Data Corporation (SDC) Platinum database during the period 1980–2014. Our sample consists of 75151 cross-border transactions⁴ and features 45 unique acquirer countries and 57 unique target countries. CBAs are aggregated into 16245 country-pair-years that form the sample, to test the role of religious distance and religious freedom on CBA volume. For our analysis of CBA ownership level, the initial 75151 transactions are reduced to 47870 due to missing data on ownership percentage.

3.2. Dependent variables

Our first dependent variable is CBA volume and we measure it as the aggregate dollar value of all CBAs between acquirer and target in the acquisition year ‘t’ (Ahern et al., 2015). Our second dependent variable is equity stake participation by a foreign acquirer and we measure it as a continuous variable (Cuypers et al., 2015; Dow et al., 2016; Malhotra and Gaur, 2014), with values ranging from 0.1 % to 100 %. We extracted transaction size and ownership data from the SDC platinum database.

3.3. Independent variables

Religious distance

⁴ Our sample excludes financial and other regulated firms to retain focus on strategic acquirers (Bertnard et al., 2016).

Religious distance is the difference in moral and behavioural standards. Ahern et al. (2015) used a dummy variable to examine the effect of religious proximity between trade partners on CBA activity. This proxy discards valuable systemic difference (Cuypers et al., 2015) and does not account for the institutional settings associated with religious distance. We use a composite scale (R_f^5) created by Dow and Karunaratna (2006) to measure the religious distance between acquirer and target country. This scale measures the difference in religion and ranges between -1.23 and 1.64 in country dyadic pairs.

Religious Freedom

We use three different constructs (GRR, GFR & SRR) created by Grim and Finke (2006) to measure religious freedom in the target country. The final score for each construct ranges between 1 and 11, with 11 representing the highest scoring country with lower level of religious freedom.

Control variables

We include several country variables at the country, firm, and deal level that could influence CBA volume and ownership level. All variables are defined in Appendix A. The three moderators in the study are industry relatedness, foothold and CBA direction. To control for industry relatedness, we use a binary variable to indicate if acquirer and target firms share at least one digit of SIC code. Acquirers with foot-hold have little asymmetric information on the target valuation and we control for foot-hold using an indicator variable if the acquirer had any prior ownership in the target firm. CBA direction is measured as a categorical variable based on the location of acquirer and target country.

3.4. Methodology

For the empirical test of hypotheses, we estimate the following regression models.

$$\ln(\text{CBA volume}_{xy,t}) = \alpha \ln(\text{Religious distance}_{xy}) + \beta_1 \ln(\text{Religious freedom}_y) + \beta_2 (\text{Country characteristics}) + \text{Acquirer country dummies} + \text{Year dummies} + \text{constant} + \mu_{xy,t} \quad (1)$$

⁵ R_f is a single factor solution using principal component analysis from three different constructs, viz. R1, R2 and R3. R1 measures the distance between the two closest major religions of the acquirer-target dyadic pair. R2 measures the relative incidence of acquirer country's major religion in the target country and R3 measure the relative incidence of target country's major religion in the acquirer country.

In model 1, our dependent variable is cross-border acquisition volume and we control for year dummies to capture time-related shocks. We use quasi-fixed regression models (Wetzel and Berns, 2006) and include acquirer country level dummies to capture country-level effects that do not vary substantially over time⁶. Following Ahern et al.(2015), we have to account for censoring bias where there are no cross-border deals in a year and therefore no value is observed. We use tobit regression model to account for this censoring bias so that we can make consistent inferences on all countries in Model 1.

$$\text{Equity ownership} = \alpha \text{ Religious distance}_{xy} + \beta_1 \text{ Religious freedom}_y + \beta_2 (\text{Country characteristics}) + \beta_3 (\text{Deal characteristics}) + \text{Acquirer country dummies \& industry dummies} + \text{Year dummies} + \text{constant} + \mu_{xy,t} \quad (2)$$

In model 2, equity ownership is a limited dependent variable and classic ordinary least squares regression model would give inconsistent estimates. In line with prior studies (Cuypers et al., 2015; Dow et al., 2016; Malhotra and Gaur, 2014), we use tobit regression model to account for the limited nature of dependent variable. All our models are robust with mean VIFs less than 10. We also check for the robustness of our findings from Model 1 and Model 2 to alternative model specifications.

4. RESULTS AND DISCUSSION

4.1. Univariate Analysis

In line with Yilmaz and Tanyeri (2016), US deals dominate our sample with 21 % of the total deal volume. Table 1a and 1b presents the distribution of CBA volume and ownership levels based on the country of origin. One-way ANOVA is used to compare the CBA volumes and ownership level in different directions. We find that there is a statistically significant difference between the group means (F stat. = 124.66*** and 885.21***). To understand whether there is interaction effect by direction of CBA flow on the internationalization choices, we use two way ANOVA. We group the country-year pairs above the mean as religiously distant pairs and those below as religiously proximate pairs. Our results show that the effect of religious distance on CBA volume (F stat. =5.20***) and ownership

⁶ The model does not enforce target country effects because doing so would destroy the possibility of estimating our focus independent variables (Wetzel and Berns, 2006)

level (F stat. = 53.68***) varies across country-pairs. Similarly, we find that the impact of religious freedom constructs (GRR, GFR & SRR) on CBA volume and ownership level varies across country-pairs.

Fig.1 shows that CBA flow is lower when religious distance is high and religious freedom is low. Our correlation table⁷ shows that the religious distance construct of Dow and Karunaratna (2006), is not highly correlated with Hofstede cultural dimensions. We infer that religious distance captures a distinct set of factors that have the potential to disrupt the flow of information and influence the volume of exchange. Our correlation table shows that equity participation of the acquirer is highly correlated with religious distance and religious freedom at 1%. CBA volume is correlated with religious distance at 10 % but with religious freedom constructs at 1%. Number of CBA deals is correlated with religious distance and religious freedom at 1 %.

4.2. Impact of religious distance and religious freedom on CBA volume

Table 2 presents Tobit regression estimates for the effect of religious distance and religious freedom on the level of CBA activity across the 16,245 directed country-pair-year observations. Model 1 and 2 examine the effect of religious distance and religious freedom on CBA volume. Greater religious distance is significantly related to less CBA activity, after including multitude controls (Hypothesis 1a). As religious distance increases, information asymmetry associated with moral norms and behavioural standards increases, which makes it more difficult for the MNEs to value the target firms. As a result, MNEs reduce their CBA activity in the target country.

As GFR increases, there are favourable sanctions towards religious groups. This regulatory favoritism could breed corruption and acquirers may seek local partners to navigate in the target country. As transaction cost involving local partners is high, added to the information cost, MNEs reduce their CBA activity. SRR can be subtle, arising from pervasive norms and culture of the larger group. Higher SRR reflects external uncertainty and acquirers under conditions of the high external uncertainty reduce their resource commitments. Our result on GRR does not support hypothesis H1b

⁷ The correlation tables may be obtained on request from the corresponding author.

and it contributes to the findings that link institutional quality and FDI inflows. The positive relationship between GRR and CBA volume after controlling for GFR and SRR, is due to the level of efficiency in formal institutions where regulations on religion as part of institutional quality may reduce information asymmetry on favourable sanctions and social hostilities to an extent. Thus, we contend that low information cost, in turn, may encourage CBA activity. Our findings are robust to measuring CBA volume by numbers of deals, rather than dollar volumes (Model 3).

Models 4, 5 and 6 examine the interactive effects of GRR, GFR and SRR (Hypothesis 1c). When GRR and SRR in the target country are high, religiously proximate acquirers reduce their CBA volume decreases by 38.51% ($= -0.6334 + 0.2483$) and 51.08% ($= -0.9093 + 0.3985$). Religiously proximate acquirers encounter uncertainty in perceiving government regulations and social regulatory norms of a religion in the target country, thus the information cost associated with external uncertainties discourage CBA volume. Model 7 shows that the coefficient for the interaction term between GFR and religious distance is insignificant.

Table 3 presents Tobit regression estimates for the moderating effect of CBA direction⁸. As religious distance increases by 1 % in AETD acquisitions, there is 14.38 % increase in CBA volumes. Results on AETD deals support the argument of Hergueux (2011) that religious proximity is less significant in the economic exchanges that involve developed economies. Moreover, acquirers seek to escape from the home country environment for leveraging the arbitrage advantages associated with strong institutional environment (Konara and Shirodkar, 2018). Thus, AETD deals experience greater CBA volumes even with higher religious distance. In ADTE pairs, acquirers engage in CBAs to exploit their existing competitive advantages in the target countries (Chikhouni et al., 2017). AETE pairs experience similar operating environment with less institutional distance. Thus information asymmetry associated with religious distance has negligible impact in ADTE and AETE deals. Models 2 and 4 show that the impact of GRR and SRR on CBA volumes is significant only in the

⁸ Results are summarized in online supplementary material (Table A4, Panel- A).

ADTD acquisitions⁹. As GFR increases by 1 % in AETD acquisitions, there is 11.61 % decrease in CBA volumes (Model 3). This result is similar to our findings from the full sample. However, GFR does not make a significant impact in ADTE and AETE deals.

Impact of religious distance and religious freedom on ownership strategies

Table 4 provides the results for Tobit regression estimates on the effect of religion on ownership structure across 47870 deal observations. Model 1 includes religious distance variable. In Model 2, we add the religious freedom variables. Religiously distant MNEs prefer partial acquisitions in the target country (Hypothesis 2a). As religious distance increases, partial ownership structure incentivizes the target firm to reveal accurate information on moral norms and behavioural standards, which ensures cooperation during the post-integration phase.

Consistent with hypothesis 2b, MNEs prefer partial ownership structure in countries with high GRR. MNEs are new to the target country environment and are unaware of the restrictions placed by the target government on religious practices. Partial acquisitions help to overcome these unfamiliar hazards because domestic partners can help foreign acquirers navigate the local target-country environment. GFR makes a positive and significant impact on acquired ownership level in CBAs and this does not support our hypothesis 2b. Government favoritism breeds corruption and in the corrupt environment, information asymmetry levels are very high. Although partial acquisitions minimize the challenges associated with information asymmetry, MNEs also consider the cost associated with such governance structure. MNEs must rely on the target firm to navigate in the corrupt environment. Therefore, they have to engage in close monitoring to avoid opportunistic behaviors by the local partners in the corrupt environment, which may increase transaction costs. Benefits provided by domestic partners may be dwarfed by the additional monitoring and coordination costs. Thus, MNEs prefer to retain full control in the country with higher GFR. Our results also show that acquired equity ownership level by MNEs is not determined by SRR.

⁹ ADTD is the base model with higher percentage than any other directions (48 % of observations)

Table 5 presents Tobit regression estimates for the moderating effect of CBA direction¹⁰ (hypothesis H2c). Model 1 shows that as religious distance decreases by 1 %, acquirer equity participation in ADTE and AETE acquisition increase by 13.17 % and 10.92 %. In AETD acquisitions, as religious distance increases by 1 %, acquirer equity participation increases by 1.28 %. E-MNEs as acquirer, show different behaviour in developed nations and they prefer full acquisition. E-MNEs internationalize to gain capabilities from developed economies and to acquire it, they need full control.

Model 2 investigates the effect of GRR in ADTE, AETD and AETE acquisitions. Our results in ADTE and AETE deals are similar to the finding from the full sample. As the GRR decreases by 1 %, there is an increase in acquired ownership level by 26.26 % and 29.59 % in ADTE and AETE acquisitions. In AETD deals, E-MNEs internationalize to redress their capabilities and GRR in developed economies does not make any significant impact on ownership strategy. As GFR increases by 1 %, there is a decrease in acquired ownership levels by 31.36 %, 15.59% and 34.93 % in ADTE, AETD and AETE acquisitions. Our findings show that acquirer's preference for full control in countries with high GFR is constrained only to full sample, which constitutes a high proportion of ADTD acquisitions. Although SRR influence on ownership level is insignificant in full sample (Table4), it becomes highly significant in ADTE and AETE acquisitions. As SRR decreases by 1 %, ownership levels increase by 46.73% and 35.27 % in ADTE and AETE acquisitions. In the AETD deals, SRR does not make any impact on the ownership strategy of E-MNEs in the developed economies. In Table 6¹¹, Model 2 shows that moderation effect of related acquisitions on religious distance- ownership level is insignificant. In Model 3 the coefficient of the interaction term between foothold and religious distance is found to be positive and significant ($P < 0.05$). As religious distance increases by 1 %, firms with foothold acquire 10.12 % more equity stake than firms without foothold. Footholds reduce the information asymmetry risks (Boeh, 2011) and help the acquirers build trust and familiarity with the target firm.

¹⁰ Results are summarized in online supplementary material (Table A4, Panel- B & C).

¹¹ We do not include religious freedom constructs in the models of Table 7 for two reasons. First, our objective is to examine the mechanisms that subdue the information asymmetry that arises from the religious distance and secondly, we find that influence of religious freedom constructs on ownership level becomes insignificant when we include deal characteristics.

4.3. Additional analysis and Robustness checks

We checked the robustness of our results on CBA volume by using a number of alternative model specifications. First, we correct for possible correlations by clustering at the target's country level (Weitzel and Berns, 2006). Second, we test the gravity model in trade literature by including the country level differences as controls in our model. The R1 construct is a measure of religious distance based on classification system in the family of religion. Third, we examine the impact of R1 construct on CBA activity. Fourth, we use GDP per capita as an alternative proxy (Ahern *et al.*, 2015) for economic performance. Finally, we use Hofstede's (2010) six cultural dimensions¹² as an alternative proxy for cultural distance. The hypotheses on the impact of religious distance and religious freedom on CBA activity that we are able to test with different models and alternative specifications yield consistent results.

As we already know that the influence of religious freedom constructs on ownership level becomes insignificant on incorporating deal characteristics, our robustness checks with ownership level would focus only on the rigidity of religious distance in different model specifications. First, we treat ownership level as a binary categorical variable¹³ and perform logistic regression. Second, we cluster the standard errors for possible non-independence across different CBA deals involving the same foreign acquirer. Third, to control for time invariant heterogeneity, we include target country and industry fixed effect. Fourth, we increase the country level controls in our model. After all these performance checks, our findings on religious distance remain consistent. Space does not permit us to produce our robustness checks in detail here. All these additional tests are available from the authors upon request.

5. CONCLUSION

With research on internationalization decisions gaining momentum, our study is one of the few to show that CBA activity and ownership decisions are rooted not only in the perception of

¹² Following Kogut and Singh (1988), we combine them into a single composite variable.

¹³ Full acquisitions (>51%) is "1", else "0".

uncertainty, information costs and firm experience but also in the country of origin. Managers and investors in developed and emerging economies may pursue different goals and our study suggests that religious factors would undoubtedly influence the hierarchy of these goals.

Our results support the hypothesis that religiously distant country pairs experience low CBA flow because of information cost. We use three different constructs to examine the role of religious freedom. Our findings show that government favoritism and social regulations reduce CBA activity whereas state regulations on religion in a well-institutionalized environment drive CBA activity. We also show that the negative effect of religious distance and religious freedom is predominant only in ADTD deals. Cross-country pairs such as AETD and ADTE deals involve different strategic objectives and information asymmetry associated with ‘religion’ has a negligible impact on their CBA activity. In terms of ownership level, our findings on religious distance and government regulation on religion show that MNEs support partial control whereas MNEs prefer full control when government favoritism of religion is high. We also demonstrate that ownership strategies vary across cross-country pairs. Finally, we find that footholds mitigate the information asymmetry risk associated with religious distance.

Findings from our study have a few limitations, which suggest promising avenues for extending our work. First, this paper focuses solely on CBAs as entry mode choice which encounters the risks associated with information asymmetry. Despite the extensive work on entry mode literature (Dow et al., 2016; Malhotra and Gaur, 2014), further research could clarify how MNEs manage information asymmetry challenges through alternative entry modes. Secondly, we use a limited set of contingency variables. Future studies could consider different firm-level and deal-level characteristics as potential moderators in the relationship between religious distance and ownership level. Finally, our study did not analyze how the effects of the religious distance on the internationalization decision change for different families of religion. Future research shall aggregate the data at the religion level which might shed light on the firms’ ownership strategy for different religious settings.

With respect to extant knowledge, this paper offers following main contributions. First, we extend entry mode literature by examining the antecedents of CBA activity and ownership strategies for a particular entry mode. Second, we demonstrate how the direction of CBA flow moderates the impact of religious distance and religious freedom on entry mode choices of MNEs. Finally, by examining the moderating effect of foothold, we contribute to the contingency theory of foreign market entry.

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Table 1a Distribution of direction variables & CBA volume

Direction	Acquirer	Target	Country-year pairs	%	Average CBA Volume (Millions)	Average Religious distance	Average Target GRR	Average Target GFR	Average Target SRR
AETE	Emerging	Emerging	1220	0.08	86.01302	0.1181	4.8855	6.3812	5.9674
AETD	Emerging	Developed	1817	0.11	163.6362	0.1326	2.2499	4.9053	3.2158
ADTE	Developed	Emerging	5014	0.31	123.9795	-0.2201	4.3544	6.1653	5.8774
ADTD	Developed	Developed	7498	0.46	373.8401	-0.7206	2.0890	5.4298	3.2945
Full sample			16245		238.9591	-0.3874	3.0720	5.6668	4.2774
F stat.					124.66****	5.20****	6.87***	16.02***	6.75***

Table 1b Distribution of direction variables & CBA ownership level

Direction	Acquirer	Target	No. of deals	%	Average Ownership level	Average Religious distance	Average Target GRR	Average Target GFR	Average Target SRR
AETE	Emerging	Emerging	911	0.02	0.6378	0.3496	5.5603	6.6615	5.9951
AETD	Emerging	Developed	2332	0.05	0.7278	0.3976	2.0464	4.0902	2.8453
ADTE	Developed	Emerging	8497	0.18	0.6988	-0.1670	4.4457	6.1239	5.8513
ADTD	Developed	Developed	34942	0.73	0.8660	-0.7687	1.8780	4.6995	3.0190
Full sample			47870		0.8219	-0.5791	2.4609	4.9561	3.6300
F stat.					885.21***	53.68***	5.22***	8.54***	31.76***

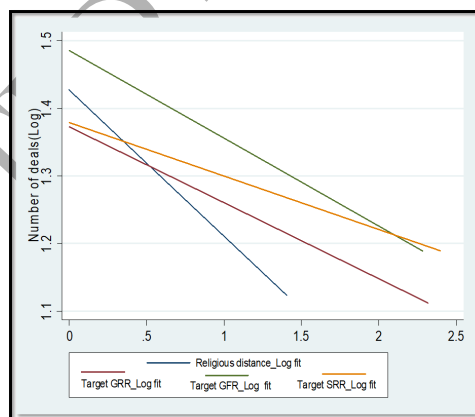
Fig.1. No. of CBA deals, Religious distance and Religious freedom

Table 2 Tobit regression results for the impact of religious distance, GRR, GFR and SRR on CBA volume

Variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	Ln (1+CBA vol.)		Ln (1+CBA vol.)		Ln (1+CBA deals)		Ln (1+CBA vol.)		Ln (1+CBA vol.)		Ln (1+CBA vol.)	
	Coeff.	t stat	Coeff.	t stat	Coeff.	t stat	Coeff.	t stat	Coeff.	t stat	Coeff.	t stat
Ln(Religious distance _{ij}) : (1)	-0.4169***	(-3.42)	-0.3320***	(-2.65)	-0.2360***	(-7.30)	-0.6334***	(-3.02)	-0.3358	(-1.40)	-0.9093***	(-3.96)
Religious freedom												
Ln(Tgt. Govt. regulation _j) : (2)			0.2130***	(3.12)	0.1220***	(6.84)	0.0408	(0.35)	0.2130***	(3.12)	0.2067***	(3.03)
Ln(Tgt. Govt. favoritism _j) : (3)			-0.6229***	(-9.31)	-0.2363***	(-13.34)	-0.6114***	(-9.10)	-0.6242***	(-6.40)	-0.6374***	(-9.51)
Ln(Tgt. Soc. regulation _j) : (4)			-0.2179***	(-3.24)	-0.0769***	(-4.37)	-0.2376***	(-3.48)	-0.2180***	(-3.23)	-0.5431***	(-4.25)
Cultural Integration												
Same legal origin	0.0180	(0.21)	-0.0629	(-0.75)	-0.0105	(-0.48)	-0.0520	(-0.62)	-0.0629	(-0.75)	-0.0456	(-0.54)
Same primary language	0.5761***	(4.22)	0.5439***	(4.00)	0.6286***	(17.54)	0.5310***	(3.90)	0.5440***	(4.00)	0.4912***	(3.58)
Ln(Cultural distance _{ij})	0.1285	(1.03)	0.1322	(1.06)	-0.1288***	(-4.02)	0.1425	(1.15)	0.1323	(1.06)	0.1091	(0.88)
Economic performance												
Ln (Acq. country_GDP)	0.2492***	(3.33)	0.3039***	(3.96)	0.2117***	(10.68)	0.3017***	(3.93)	0.3040***	(3.96)	0.2900***	(3.78)
Ln (Tgt. country_GDP)	0.3725	(1.14)	0.5012	(1.54)	0.0312	(0.37)	0.5186	(1.60)	0.5012	(1.54)	0.5018	(1.55)
Ln (Acq. International trade)	-0.0686	(-0.76)	0.0826	(0.85)	0.1369***	(5.36)	0.0253	(0.25)	0.0824	(0.84)	0.1054	(1.08)
Ln(Tgt. International trade)	0.1369	(0.28)	0.2327	(0.48)	0.1583	(1.26)	0.2680	(0.56)	0.2329	(0.48)	0.2141	(0.44)
Exchange rate growth	-0.0934	(-0.33)	-0.1835	(-0.65)	-0.0827	(-1.10)	-0.2048	(-0.72)	-0.1837	(-0.65)	-0.1857	(-0.65)
Bilateral treaty _{ij}	-0.3890***	(-4.32)	-0.2745***	(-2.97)	-0.0173	(-0.72)	-0.2767***	(-2.99)	-0.2745***	(-2.97)	-0.2882***	(-3.12)
Spatial distance												
Ln(Geographic distance _{ij})	-0.2563***	(-5.54)	-0.4200***	(-8.53)	-0.2844***	(-22.05)	-0.4192***	(-8.51)	-0.4201***	(-8.49)	-0.4152***	(-8.43)
Ln (Acq. population)	0.2628***	(3.34)	0.1970***	(2.46)	0.1012***	(4.90)	0.1797**	(2.23)	0.1968**	(2.43)	0.2280***	(2.83)
Ln (Tgt. population)	-1.8365*	(-1.91)	-1.7428*	(-1.83)	-0.4760**	(-1.94)	-1.7704*	(-1.86)	-1.7440*	(-1.83)	-1.7443*	(-1.83)
Financial development												
Ln (Acq. Market cap/GDP)	0.1319***	(2.54)	0.1021**	(1.95)	-0.0108	(-0.79)	0.0936*	(1.78)	0.1022**	(1.95)	0.0767	(1.45)
Ln(Tgt. Market cap/GDP)	0.5467***	(4.26)	0.5549***	(4.36)	0.1049***	(3.23)	0.5513***	(4.33)	0.5548***	(4.35)	0.5566***	(4.37)
Ln (Acq. Tax burden)	0.3972**	(2.01)	0.2502	(1.26)	0.0266	(0.51)	0.2265	(1.14)	0.2501	(1.26)	0.2718	(1.37)
Ln(Tgt. Tax burden)	-0.0205	(-0.06)	-0.0368	(-0.11)	0.0921	(1.06)	-0.0378	(-0.11)	-0.0366	(-0.11)	-0.0598	(-0.18)
Quality of Institutions												
Ln (Ctry. Governance _{ij})	1.6646***	(3.93)	1.0333**	(2.22)	0.4836***	(4.02)	1.0347**	(2.23)	1.0332**	(2.22)	1.0985**	(2.36)
Political risk												
Political affinity _{ij}	-0.0085	(-0.07)	0.0102	(0.08)	0.0057	(0.18)	-0.0033	(-0.03)	0.0100	(0.08)	0.0407	(0.34)
Moderation effect												
(1) X (2)							0.2483*	(1.79)				
(1) X (3)									0.0023	(0.02)		
(1) X (4)											0.3985***	(3.00)
Year Fixed effect	Yes		Yes		Yes		Yes		Yes		Yes	
Acq. Country Fixed effect	Yes		Yes		Yes		Yes		Yes		Yes	
Observation pairs (used)	16245(3384)		16245(3384)		16245(3384)		16245(3384)		16245(3384)		16245(3384)	
Log likelihood	-6800.7192		-6756.5879		-2619.5352		-6754.9833		-6756.5877		-6752.0968	
Model χ^2	1079.38***		1167.64***		3545.15***		1170.85***		1167.64***		1176.62***	
LL ratio relative to Model 2							3.21*		0.00		8.98***	

Note: t-statistics in parentheses. *, **, *** represent significance at 10%, 5% and 1% levels, respectively. "Observation pairs" is the number of CBA pairs in the sample; "used" is the number of CBA pairs with all of the independent variable data available. A constant is included in each specification but not reported in the table. All variables are defined in Appendix A.

Table 3 Tobit regression results for the moderating effect of direction on the relationship between religious distance / religious freedom and CBA volume

Variables	Model 1		Model 2		Model 3		Model 4	
	Coeff.	t stat	Coeff.	t stat	Coeff.	t stat	Coeff.	t stat
Ln(Religious distance _{ij})	0.0227	(0.16)	0.0696	(0.73)	0.0288	(0.30)	0.0564	(0.59)
Religious freedom								
Ln(Tgt_Govt. regulation _j)	0.0531	(0.73)	0.0496	(0.50)	0.0581	(0.79)	0.0458	(0.63)
Ln(Tgt_Govt. favoritism _j)	-0.6244***	(-9.42)	-0.6351***	(-9.52)	-0.5619***	(-6.27)	-0.6434***	(-9.78)
Ln(Tgt_Soc. regulation _j)	-0.2204***	(-3.26)	-0.2204***	(-3.26)	-0.2158***	(-3.18)	-0.2417**	(-2.18)
Cultural Integration								
Same legal origin	-0.0192	(-0.23)	-0.0261	(-0.32)	-0.0158	(-0.19)	-0.0244	(-0.30)
Same primary language	0.4806***	(3.64)	0.4410***	(3.32)	0.4568***	(3.42)	0.4480***	(3.39)
Ln(Cultural distance) _{ij}	0.3160***	(3.42)	0.2638***	(2.83)	0.2735***	(2.98)	0.2689***	(2.88)
Economic performance								
Ln (Acq. country_GDP)	0.1825**	(2.09)	0.1623*	(1.84)	0.1718**	(1.96)	0.1652*	(1.88)
Ln (Tgt. country_GDP)	0.5710***	(4.95)	0.5747***	(4.98)	0.6257***	(5.41)	0.5771***	(5.00)
Ln (Acq. International trade)	0.0654	(0.67)	0.0160	(0.16)	0.0578	(0.60)	0.0340	(0.35)
Ln(Tgt. International trade)	0.0819	(0.76)	0.1168	(1.10)	0.1523	(1.44)	0.1287	(1.21)
Exchange rate growth	-0.0866	(-0.31)	-0.1042	(-0.37)	-0.1358	(-0.49)	-0.1140	(-0.41)
Bilateral treaty _{ij}	-0.3274***	(-3.77)	-0.3338***	(-3.87)	-0.3024***	(-3.49)	-0.3203***	(-3.71)
Spatial distance								
Ln(Geographic distance _{ij})	-0.4086***	(-9.32)	-0.4169**	(-9.56)	-0.4006***	(-9.04)	-0.4259***	(-9.75)
Ln (Acq. country_population)	0.2178***	(2.58)	0.2216***	(2.64)	0.2275***	(2.70)	0.2246***	(2.68)
Ln (Tgt. country_population)	-0.0047	(-0.05)	-0.0010	(-0.01)	-0.0249	(-0.25)	0.0055	(0.06)
Financial development								
Ln (Acq. Market cap/GDP)	0.1256***	(2.51)	0.1043**	(2.09)	0.1060***	(2.11)	0.1078**	(2.15)
Ln(Tgt. Market cap/ GDP)	0.4438***	(6.93)	0.4712***	(7.47)	0.4541***	(7.16)	0.4777***	(7.55)
Ln (Acq. Tax burden)	0.2631	(1.25)	0.3041	(1.48)	0.3079	(1.50)	0.3197	(1.55)
Ln(Tgt. Tax burden)	0.5495***	(2.83)	0.5393***	(2.79)	0.5659***	(2.93)	0.5475***	(2.83)
Quality of Institutions								
Ln (Ctry. Governance _{ij})	0.0141	(0.04)	0.1406	(0.37)	0.1838	(0.48)	0.1464	(0.38)
Political risk								
Political affinity _{ij}	-0.1548	(-1.50)	-0.2135**	(-2.00)	-0.1342	(-1.28)	-0.1962*	(-1.84)
Direction								
Direction 1 : ADTE	-0.4859**	(-2.29)	-0.5374**	(-2.91)	-0.3820	(-1.40)	-0.5439**	(-2.39)
Direction 2 : AETD	-0.4451	(-1.52)	-0.2301	(-0.90)	0.4282	(1.43)	-0.3962	(-1.11)
Direction 3 : AETE	-0.1110	(-0.36)	-0.2218	(-0.67)	-0.3232	(-0.77)	-0.4146	(-1.15)
Ln(Religious distance _{ij}) x ADTE	-0.1663	(-0.88)						
Ln(Religious distance _{ij}) x AETD	0.5889**	(2.28)						
Ln(Religious distance _{ij}) x AETE	0.0885	(0.37)						
Ln(Tgt_Govt. regulation _j)x ADTE			-0.0632	(-0.60)				
Ln(Tgt_Govt. regulation _j) x AETD			0.2405	(1.50)				
Ln(Tgt_Govt. regulation _j)x AETE			0.1230	(0.70)				
Ln(Tgt_Govt. favoritism _j) x ADTE					-0.1397	(-1.02)		
Ln(Tgt_Govt. favoritism _j) x AETD					-0.3121**	(-2.03)		
Ln(Tgt_Govt. favoritism _j) x AETE					0.1488	(0.75)		
Ln(Tgt_Soc. regulation _j) x ADTE							-0.0391	(-0.31)
Ln(Tgt_Soc. regulation _j) x AETD							0.2994	(1.28)
Ln(Tgt_Soc. regulation _j) x AETE							0.2411	(1.33)
Year Fixed effect	Yes		Yes		Yes		Yes	
Observation pairs (used)	16245(3373)		16245(3373)		16245(3373)		16245(3373)	
Log likelihood	-6807.4058		-6809.15		-6808.1944		-6808.9901	
Model χ^2	1031.03***		1027.55***		1029.46***		1027.87***	

Note: t-statistics in parentheses. *, **, *** represent significance at 10%, 5% and 1% levels, respectively. "Observation pairs" is the number of CBA pairs in the sample; "used" is the number of CBA pairs with all of the independent variable data available. A constant is included in each specification but not reported in the table. All variables are defined in Appendix A.

Table 4 Regression results for the impact of religious distance, GRR, GFR and SRR on CBA ownership level

Variables	Model 1		Model 2	
	Coeff.	t stat	Coeff.	t stat
Religious distance _{ij}	-0.0424***	(-7.37)	-0.0370***	(-5.98)
Religious freedom				
Tgt_Govt. regulation _j			-0.0045*	(-1.92)
Tgt_Govt. favoritism _j			0.0055***	(3.19)
Tgt_Soc. regulation _j			-0.0025	(-1.02)
Cultural Integration				
Same legal origin	-0.0158	(-1.65)	-0.0147	(-1.53)
Same primary language	0.0423***	(3.40)	0.0409***	(3.19)
Cultural distance _{ij}	-0.0027***	(-11.46)	-0.0028***	(-11.10)
Economic performance				
Ln(Acquirer GDP)	-0.0439**	(-2.00)	-0.0460**	(-2.09)
Ln(Target GDP)	0.0407***	(17.08)	0.0421***	(16.54)
Exchange rate growth	-0.0427*	(-1.91)	-0.0444**	(-1.98)
Spatial characteristics				
Ln(Geographic distance _{ij})	-0.0216***	(-5.46)	-0.0202***	(-4.91)
Financial development				
Acquirer Tax burden	0.0002	(0.81)	0.0002	(0.80)
Target Tax burden	-0.0007***	(-2.51)	-0.0007**	(-2.27)
Quality of Institutions				
Ctry. Governance _{ij}	-0.0552***	(-8.63)	-0.0480***	(-6.59)
Year Fixed effect	Yes		Yes	
Acq. Country Fixed effect	Yes		Yes	
Acq. Industry Fixed effect	Yes		Yes	
Observations (used)	47870(23085)		47870(23085)	
Log likelihood	-13259.777		-13252.618	
Model χ^2	4417.08***		4431.40***	

Note: t-statistics in parentheses. *, **, *** represent significance at 10%, 5% and 1% levels, respectively. "Observations" is the number of CBA deals in the sample; "used" is the number of CBA deals with all of the independent variable data available. A constant is included in each specification but not reported in the table. All variables are defined in Appendix A.

Table 5 Tobit regression results for the moderation effect of direction on the relationship between religious distance /religious freedom and CBA ownership level

Variables	Model 1		Model 2		Model 3		Model 4	
	Coeff.	t stat	Coeff.	t stat	Coeff.	t stat	Coeff.	t stat
Religious distance _{ij}	-0.1119***	(-18.38)	-0.0909***	(-18.69)	-0.0911***	(-18.63)	-0.0887***	(-18.44)
Religious freedom								
Tgt_Govt. regulation _j	-0.0152***	(-6.29)	-0.0332***	(-9.60)	-0.0183***	(-7.42)	-0.0127***	(-5.35)
Tgt_Govt. favoritism _j	-0.0014	(-0.75)	-0.0026	(-1.43)	-0.0086***	(-4.08)	-0.0008	(-0.44)
Tgt_Soc. regulation _j	-0.0002	(-0.07)	0.0016	(0.63)	0.0023	(0.88)	-0.0483***	(-12.05)
Cultural Integration								
Same legal origin	-0.0389***	(-3.97)	-0.0346***	(-3.53)	-0.0343***	(-3.51)	-0.0253***	(-2.60)
Same primary language	0.1145***	(9.58)	0.0972***	(8.09)	0.1033***	(8.65)	0.0815***	(6.81)
Cultural distance _{ij}	0.0009***	(4.87)	0.0014***	(7.22)	0.0011***	(5.73)	0.0018***	(9.07)
Economic performance								
Ln(Acquirer GDP)	0.0281***	(9.63)	0.0293***	(10.04)	0.0310***	(10.58)	0.0351***	(11.99)
Ln(Target GDP)	0.0250***	(8.11)	0.0223***	(7.12)	0.0285***	(9.28)	0.0127***	(3.95)
Exchange rate growth	-0.0319	(-1.40)	-0.0393	(-1.72)	-0.0312	(-1.37)	-0.0211	(-0.93)
Spatial characteristics								
Ln(Geographic distance _{ij})	0.0021	(0.55)	-0.0012	(-0.31)	-0.0021	(-0.56)	-0.0016	(-0.43)
Financial development								
Acquirer Tax burden	0.0002	(1.00)	0.0002	(0.94)	0.0002	(0.90)	0.0002	(0.92)
Target Tax burden	0.0007**	(2.20)	0.0004	(1.36)	0.0003	(0.97)	0.0001	(0.46)
Quality of Institutions								
Ctry. Governance _{ij}	0.0406***	(3.83)	0.0225**	(2.10)	0.0359***	(3.38)	0.0572***	(5.39)
Direction								
Direction 1 : ADTE	-0.1836***	(-10.48)	-0.2944***	(-14.73)	-0.3397***	(-13.64)	-0.5411***	(-20.06)
Direction 2 : AETD	-0.1042***	(-4.96)	-0.1239***	(-4.54)	-0.1686***	(-4.93)	-0.0373	(-0.91)
Direction 3 : AETE	-0.1697***	(-6.91)	-0.3342***	(-7.24)	-0.3838***	(-5.15)	-0.4099***	(-7.97)
(Religious distance _{ij}) x ADTE	0.0519***	(5.33)						
(Religious distance _{ij}) x AETD	0.1170***	(6.72)						
(Religious distance _{ij}) x AETE	0.0605***	(3.02)						
(Tgt_Govt. regulation _j) x ADTE			0.0318***	(8.62)				
(Tgt_Govt. regulation _j) x AETD			0.0009	(0.12)				
(Tgt_Govt. regulation _j) x AETE			0.0383***	(4.95)				
(Tgt_Govt. favoritism _j) x ADTE					0.0261***	(7.61)		
(Tgt_Govt. favoritism _j) x AETD					0.0127*	(1.84)		
(Tgt_Govt. favoritism _j) x AETE					0.0345***	(3.26)		
(Tgt_Soc. regulation _j) x ADTE							0.0738***	(15.90)
(Tgt_Soc. regulation _j) x AETD							-0.0095	(-0.87)
(Tgt_Soc. regulation _j) x AETE							0.0572***	(6.05)
Year Fixed effect	Yes		Yes		Yes		Yes	
Acq. Industry Fixed effect	Yes		Yes		Yes		Yes	
Observations (used)	47870(22710)		47870(22710)		47870(22710)		47870(22710)	
Log likelihood	-13190.45		-13181.07		-13191.901		-13086.77	
Model χ^2	3765.12***		3783.88***		3762.22***		3972.48***	

Note: t-statistics in parentheses. *, **, *** represent significance at 10%, 5% and 1% levels, respectively. "Observations" is the number of CBA deals in the sample; "used" is the number of CBA deals with all of the independent variable data available. A constant is included in each specification but not reported in the table. All variables are defined in Appendix A.

Table 6 Tobit regression results for the moderating effect of related acquisitions, foot- hold on the relationship between religious distance and CBA ownership level

Variables	Model 1		Model 2		Model 3	
	Coeff.	t stat	Coeff.	t stat	Coeff.	t stat
Religious distance $_{ij}$: (1)	-0.0261***	(-4.66)	-0.0303***	(-4.46)	-0.0285***	(-4.99)
Cultural Integration						
Same legal origin	-0.0103	(-1.09)	-0.0106	(-1.11)	-0.0105	(-1.11)
Same primary language	0.0293**	(2.37)	0.0293**	(2.38)	0.0294**	(2.39)
Cultural distance $_{ij}$	-0.0017***	(-6.59)	-0.0017***	(-6.62)	-0.0017***	(-6.61)
Economic performance						
Ln(Acquirer GDP)	-0.0159	(-0.77)	-0.0160	(-0.78)	-0.0160	(-0.78)
Ln(Target GDP)	0.0231***	(10.00)	0.0231***	(9.99)	0.0232***	(10.02)
Exchange rate growth	-0.0045	(-0.22)	-0.0049	(-0.24)	-0.0049	(-0.24)
Spatial characteristics						
Ln(Geographic distance $_{ij}$)	-0.0141***	(-3.47)	-0.0141***	(-3.48)	-0.0142***	(-3.49)
Financial development						
Acquirer Tax burden	0.0003	(1.30)	0.0003	(1.32)	0.0003	(1.28)
Target Tax burden	-0.0004	(-1.30)	-0.0004	(-1.28)	-0.0004	(-1.36)
Quality of Institutions						
Ctry. Governance $_{ij}$	-0.0476***	(-7.34)	-0.0477***	(-7.35)	-0.0474***	(-7.31)
Deal characteristics						
Related acquisitions : (2)	0.0159***	(2.52)	0.0196***	(2.73)	0.0160***	(2.52)
Foot hold : (3)	0.0529***	(4.01)	0.0530***	(4.01)	0.0677***	(4.61)
Prior CBA experience	0.0099	(1.16)	0.0099	(1.15)	0.0101	(1.18)
Mode of payment	-0.0536***	(-6.08)	-0.0538***	(-6.09)	-0.0539***	(-6.11)
Tender offer	0.1714***	(7.94)	0.1715***	(7.95)	0.1723***	(7.99)
Deal attitude	0.1570***	(14.57)	0.1567***	(14.55)	0.1576***	(14.63)
Target Public status	-0.3466***	(-39.39)	-0.3468***	(-39.41)	-0.3456***	(-39.25)
Acquirer Public status	0.0101	(1.43)	0.0099	(1.40)	0.0102	(1.45)
Privatization deal	-0.0637***	(-4.41)	-0.0640***	(-4.43)	-0.0643***	(-4.45)
(1) X (2)			0.0078	(1.07)		
(1) X (3)					0.0335**	(2.31)
Year Fixed effect	Yes		Yes		Yes	
Acq. Country Fixed effect	Yes		Yes		Yes	
Acq. Industry Fixed effect	Yes		Yes		Yes	
Observations (used)	47870(9181)		47870(9181)		47870(9181)	
Log likelihood	-4656.1868		-4655.6104		-4653.5132	
Model χ^2	4676.55***		4677.71***		4681.90***	
LL ratio relative to Model 1			1.16		5.35**	

Note: t-statistics in parentheses. *, **, *** represent significance at 10%, 5% and 1% levels, respectively. "Observations" is the number of CBA deals in the sample; "used" is the number of CBA deals with all of the independent variable data available. A constant is included in each specification but not reported in the table. All variables are defined in Appendix A.

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APPENDIX A

Variables	Description and source
Religious distance $_{ij}$	Religious distance $_{ij}$ between acquirer (i) and target (j) is measured using the corresponding scale created by Dow and Karunaratna (2006).
Religious freedom	(Source: Grime and Finke, 2006)
Target _Govt. regulation $_j$	The restrictions placed on the practice, profession, or selection of religion by the target government. The index varies ranges from 1(High religious freedom) to 11(Low religious freedom)
Target _Govt. favoritism $_j$	The level of favoritism provided by the target government to a select religion or a small group of religions. The index varies ranges from 1(High religious freedom) to 11(Low religious freedom)
Target _Soc. regulation $_j$	The restrictions placed on the practice, profession, or selection of religion by other religious groups, associations, or the culture at large in the target country. The index varies ranges from 1(High religious freedom) to 11(Low religious freedom)
Cultural Integration	
Same legal origin	"1" if both acquirer and target country have common legal origin, "0" otherwise. Source: La Porta et al. (1999)
Same primary language	"1" if both acquirer and target country have primary spoken language, "0" otherwise. Source : CIA fact-book
Ln(Cultural distance $_{ij}$)	Log difference in the restraint index of acquirer country and target country in the year 't' of acquisition. Source : geert-hofstede.com
Ln(Cultural distance _Hf $_{ij}$)	We combined Hofstede's (2010) six culture dimensions into one composite variable. Log difference in hofstede dimensions of acquirer country and target country in the year 't' of acquisition. Source : geert-hofstede.com
Economic performance	
Acquirer Market cap	Market capitalization of acquirer country scaled by GDP in the year 't' of acquisition. Source: World bank.
Target Market cap	Market capitalization of target country scaled by GDP in the year 't' of acquisition. Source: World bank.
Diff_ Market cap $_{ij}$	Difference in the market capitalization/GDP of acquirer country and target country in the year 't' of acquisition.
Acquirer GDP	Gross-domestic product of acquirer country in the year 't' of acquisition. Source: World bank.
Target GDP	Gross-domestic product of target country in the year 't' of acquisition. Source: World bank.
Diff_ GDP $_{ij}$	Difference in the Gross Domestic Product of acquirer country and target country in the year 't' of acquisition.
Acquirer GDP per capita	Gross-domestic product per capita of acquirer country in the year 't' of acquisition. Source: World bank.
Target GDP per capita	Gross-domestic product per capita of target country in the year 't' of acquisition. Source: World bank.
Acquirer International trade	Sum of imports and exports scaled by GDP of acquirer country in the year 't' of acquisition. Source: World bank
Target International trade	Sum of imports and exports scaled by GDP of target country in the year 't' of acquisition. Source: World bank.
Diff_ International Trade $_{ij}$	Difference in sum of imports and exports scaled by GDP of acquirer country and target country in the year 't' of acquisition.
Exchange rate growth	Following Wetzel and Berns (2006), we measure exchange rate growth as lagged change (t-1 to t) in exchange rate between acquirer and target country. Source: World bank.
Bilateral investment treaty $_{ij}$	"1" if the acquirer and target nation signed a bilateral investment treaty or else "0". Source: UNCTAD
Spatial characteristics	
Ln(Geographic distance $_{ij}$)	Log- distances between capital / important cities of acquirer and target country. We source this from CEPII.
Acquirer Population	Population of acquirer country in the year 't' of acquisition. Source: World bank.
Target Population	Population of target country in the year 't' of acquisition. Source: World bank.
Diff_ Population $_{ij}$	Difference in population of acquirer country population and target county population in the year 't' of acquisition.
Financial development	
Acq. Market cap/GDP	Market capitalization scaled by GDP of acquirer country in the year 't' of acquisition. Source: World bank.
Tgt. Market cap/ GDP	Market capitalization scaled by GDP of acquirer country in the year 't' of acquisition. Source: World bank.
Diff_ Market cap/ GDP $_{ij}$	Difference in the market capitalization of acquirer country and target country in the year 't' of acquisition.
Acquirer Tax burden	Tax burden score of acquirer country in the year 't' of acquisition. Source: Heritage Foundation
Target Tax burden	Tax burden score of target country in the year 't' of acquisition. Source: Heritage Foundation.
Diff_ Tax burden $_{ij}$	Difference in tax burden of acquirer country and target country in year 't' of acquisition.
Political risk	
Political affinity $_{ij}$	Spearman rank order correlations of roll-call voting patterns in the UN General Assembly with values ranging between -1 and 1. Source : Strezhnev and Voeten (2013)
Deal characteristics	
Related acquisitions	"1" if the acquirer and target firm share atleast 1 digit of their SIC code or else "0".
Foot hold	"1" if acquirer holds up to 25 % of the target at the time of announcement or else "0".
Prior CBA experience	"1" if the acquirer took over another target in the host country prior to acquisition announcement or else "0".
Mode of payment	"1" if the acquisition is a cash deal or else "0".
Tender offer	"1" if the acquisition is consummated via tender offer or else "0".
Deal attitude	"1" if an acquisition attitude is classified as friendly or else "0".
Target Public status	"1" if the target firm is a public or else "0".
Acquirer Public status	"1" if the acquirer firm is a public or else "0".
Privatization deal	"1" if the seller or ultimate parent of the seller is Government.