

Do differences in societal trust let the cross-border mergers die?¹

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The paper further contributes to our understanding about the role of societal trust in influencing mergers outcome. Using a large sample of cross-border mergers across 56 countries between 1985 and 2014, we show that, conditional on announcement of cross-border mergers, larger differences of societal trust between acquirer and target countries increase the withdrawn mergers intensity, at country, country-industry, and deal level. The results hold after controlling for deal characteristics, acquirer, and target country's time-varying characteristics, saturation of dense set of fixed effects, are robust to endogeneity concerns, and are not driven by omitted variable bias. These differences lead to significantly lower synergy gains in withdrawn cross border mergers and the effect is 7 times higher relative to completed mergers which validates our priors. Moreover, we unfold that similarity based on level of trust between countries as generally perceived in the literature has heterogeneous effects on the observed relationship. Mergers between high trusting countries are less likely to be withdrawn while the reverse is not true.

Keywords: Culture, Trust, Cross-border Mergers

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1. Introduction:

The volume of ‘withdrawn’ cross-border mergers and acquisitions (M&A) has been increased through time with aggregate transaction value of \$2.693 trillion, which is almost 25% of total value of announced cross-border M&A transactions². Despite its large economic magnitude, limited efforts have been made till date to understand the determinants of those withdrawn cross-border transactions. Recent contributions on cross-border mergers mainly focus on the completed cross-border M&As including Rossi and Volpin (2004), Erel, Liao and Weisbach (2012), Ahern, Daminelli and Fracassi (2015), Dessaint, Golubov and Volpin (2017), Fresard, Hege and Philipps (2017) and Ahmad, de Bodt and Harford (2018) which explain the flows of M&A transactions between countries can be explained by differences in corporate governance, exchange rate, stock market valuations, cultural traits, labor market institutions, industry specialization and international trade, respectively.

International business transactions reflect either symmetric or asymmetric conceptions of trust among collaborating partners from different countries. While the countries differ not only in terms of level of trust but also the nature of trust and institutional and cultural support for trust (Zaheer and Zaheer, 2006), such differences may foster positive or negative implications for cross-border merger decisions. Not all cross-border announced M&A transactions are completed and a good number of announced transactions are subsequently withdrawn for several reasons including non-agreement of both the parties involved due to mistrust. It is important to understand the determinant of withdrawal of cross-border M&A transactions as they are more costly to organize. Withdrawal of announced M&A transactions³ have worse effects for both shareholders, and managers of the acquiring firms, possibly their removal.

In this paper, we try to understand the role of differences in the trust level between countries to explain the withdrawn cross-border M&A activity. Particularly, we develop an idea that the intensity of withdrawn M&A transactions can be driven by differences in the level of trust across countries which may play vital role in hindering the takeover process once the M&A deals are publicly announced. Existing research has shown that there is variation in the level of trust across

² 16% cross-border M&A transactions are withdrawn (based on number of announced M&A transactions).

³ See Appendix 1 for details on cross-border M&A process.

countries and these differences have implications on cross-border economic transactions. For example, in sociology literature, a study has shown that the Japanese demonstrate lower level of trust towards the strangers than the Americans do (Yamagishi, Cook and Watabe: 1998). Thus, in an M&A transaction involving US and Japanese partners, due to differences in trust level, the two may not go along with the announced transaction and pull themselves out of the deal. As Hajro (2014) highlights, how values of one country differ from another until both the countries are brought into contact, announced M&A transactions provide better empirical setting to test the role of trust in those transactions.

In empirical studies, the researchers have shown that trust is an important determinant of economic decision making. Guiso, Sapienza and Zingales (2008) argue that the level of trust varies across countries and these differences can be explained by the different level of educational back ground (Guiso, Sapienza and Zingales, 2004), and their religions (Guiso, Sapienza and Zingales, 2003). When two partners with different level of trust join hands, which means that they come along with different expected behavior. In the valuation of the risk and return trade-off from the available data, the important question is that how much the data can be trusted and considered reliable, depends on the perception (trust) of the individuals. The issue becomes bigger when the individuals lack trust and are unfamiliar with the partners' profile. The information asymmetry is greater in cross-border transactions.

The role of trust in cross-border mergers was first investigated by Ahern et al. (2015), they show that differences in level of trust between acquirer and target countries reduce the M&A volume between them and experience lower cumulative abnormal returns around the announcement date. However, unlike us, they mainly focus on the completed deals but do not explain the effects of such differences on deal outcome. Extending their work, we argue that the differences in trust between two parties increase the complexity of the transactions and these differences posit a threat for completion of the announced M&A transactions. We expect large differences in level of trust between the countries increase the likelihood of the deal withdrawn. To test this prediction, we build on Williamson's (2000) multi-level analyses which has 4 different layers. Level 1 make-up of country's informal institutions such as believes, social values and norms, and they are quite persistent through time, level 2 make-up of the formal institutions such as legal, institutional and

rule of law which exerts formal constraints on individuals, level 3 make-up of governance structure of the country, and level 4 make-up of economic transactions and reallocation of resources. Level 1 affects the level 2, 3 and 4, level 2 affects level 3 and 4, and level 3 affects level 4. We test in this paper the effects of level 1 (societal trust) on level 4 (reallocation of resources (M&A deal outcomes)). The results presented in the paper confirm this prior that differences in the level of trust between acquirer and target countries increase the volume of ‘withdrawn’ M&A deals, conditional on M&A deals being announced.

We measure the trust at both acquirer and target country level from widely used measure of World Value Survey (WVS). We construct our measure by focusing on a question “Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?” which is appropriate for our concept of trust. We extract cross-border M&A data from SDC and include both completed and withdrawn deals, and calculate the proportion of withdrawn deals to total announced deals between acquirer and target country as a measure of withdrawn M&A intensity. Finally using a sample of 43,418 cross-border mergers worth of \$13.849 trillion between 1985 and 2014 across 56 countries around the world, we perform regression analyses where we examine the effects of differences in level of trust between acquirer and target countries on withdrawn M&A volume either based on *number of deals* or *dollar transactions value* based, measured at country-industry pair level or country-pair level, controlling for potentially correlated factors to cross-border M&A activity identified in extant research and saturation of dense set of fixed effects.

The empirical results show that trust differences have statistically significant and economically adverse effects on the deal outcome. Particularly, conditional on deal announcement, larger trust differences between acquirer and target countries increase the intensity of withdrawn mergers, suggesting that these differences increase the complexity of the announced transaction and the acquirers and/or target pull themselves out of the announced transaction. The economic impact is also large, one standard deviation increase in trust difference leads to 1.32 percentage points increase in withdrawn mergers intensity⁴ which translates into almost 10% increase in withdrawn M&A transactions from the sample average of 14%. The results hold after controlling for deal

⁴ Based on number of transaction.

characteristics, acquirer and target country time varying characteristics, country-pair characteristics, in addition to acquirer industry-year, target industry-year, acquirer country-industry and target country-industry fixed effects. This suggests that other determinants of cross-border mergers activity do not potentially drive the reported results. The inclusion of acquire and target industry-year fixed effects mitigates the concern of industry level merger waves, and acquire and target country-industry fixed effects eliminates concerns of time-invariant changes in same industry across all countries in our sample. In an additional analysis, we include acquirer and target country-year fixed effects which help us in controlling for the effects of time varying country's macroeconomic and institutional characteristics such as corporate governance reforms introduced by the countries across over the sample period. We further mitigate the endogeneity concerns using instrumental variable approach and our main results remain unchanged.

A natural question we test, then, is about the role of (a)symmetry of trust in the cross-border mergers outcome. Our analyses show that (a)symmetry of trust between acquirer and target countries has the heterogenous effects on deal outcome. When both high-trust acquirer and target meet, we find lower intensity of deal withdrawn but low-trust acquirer and target do not have similar effect. We then look at the trust level of each individual country in each country-pair and find that – in our base line results – presence of high trust acquirers in a country-pair have economically lower impact on withdrawn mergers relative to a country-pair wherein we have a low trust acquirer, suggesting that acquirer's level of trust matters more than the target's trust level.

To investigate the value implications of the withdrawn mergers, we, next, investigate the effects of the differences on expected synergy gains. Consistent with Ahern et al. (2015), we find that differences in level of trust reduces the synergy gains for completed cross-border mergers, additionally, the impact is worse for withdrawn mergers. The impact is also economically significant and much worse for the latter, one standard deviation increase in the differences on the level of societal trust lead to reduction in combined CAR by 0.51 (4.58) percentage points for the completed (withdrawn) deals, which translates into decrease of CAR by 22% (153%) from the sample mean CAR for the completed (withdrawn) deals.

The study makes several contributions. First, we contribute to the literature that explores the effects of culture on cross-border mergers transactions. Frijns, Gilbert, Lehnert and Tourani-Rad (2013) use uncertainty avoidance as a proxy of culture and document that acquirers that score high on this dimension are less likely to engage in cross-border mergers and experience lower announcement returns. Ahern et al. (2015) demonstrate the role of culture in explaining who merges with whom and provide evidence that the cultural distance decreases the merger volume between two countries and have negative effects on the expected synergy gains. Lim, Makhija and Shenkar (2016) document the asymmetric effects of culture distance on merger premium by providing empirical evidence that US acquirers pay lower premium for foreign targets while reciprocal is not true. The findings are explained by the familiarity channel. However, surprisingly, none of the study has yet explored the factors that could explain the likelihood of deal withdrawn. We bridge this gap by exploring the effects of differences in societal trust on mergers outcomes.

Second, it contributes to the growing stream of literature of determinants of cross-border mergers and acquisitions. Beginning with the work of Rossi and Volpin (2004), who provide evidence that better investor protection and accounting standards increases the merger activity in countries. In cross-border mergers, target firms are from the countries with poor corporate governance standards, suggesting the corporate governance improvement motive for those transactions. Martynova and Renneboog (2008) document that differences in corporate governance between acquirer and target countries have value implication for cross-border mergers and is positively associated with the takeover returns. In a similar analysis, Bris, Brisley and Cabolis (2008) show that Tobin's Q of an industry increases when the acquirer is from countries that have better shareholder protection. Bris, Cabolis and Janowski (2007) and Lel and Miller (2015) find that merger activity increases in the countries that adopt takeover and anti-trust laws. Erel et al. (2012) and Maekew (2012) who provide broad support for neo-classical explanation and show that the market valuation and exchange rate differences increase the cross-border mergers activity. Fresard et al. (2017) document that return is large when acquirer from specialized industries acquires a firm in less specialized industry. Ahmad et al. (2018) explore the relationship between trade and merger activity. Using network analysis, they show that trade explains the cross-border mergers activity and how merger waves transmits across border.

Third, this paper builds on the literature that investigates the effects of trust on different financial outcomes. The studies explore the effects of trust on international contracting (Brockman, El Ghouli, Guedhami and Zheng, 2018), innovation (Xie, Zhang, Zhang, 2017), corporate cash holding (Dudley and Zhang, 2016), provision of trade credit (Wu, Firth and Rui, 2016), peer-to-peer lending (Durate, Siegel and Young, 2012), bilateral trade (Guiso, Sapienza and Zingales, 2009) and financial development (Guiso et al., 2004).

Fourth, the paper contributes to the growing literature of culture and finance. This stream of literature use different proxies of culture as an informal institution and studies their effects on different economic decisions making such as capital structure (Chui, Kwok, Lloyd and Kwok, 2002), dividend policy (Shao, Kwok and Guedhami, 2010), earnings management (Han, Kang, Salter and Yoo, 2010), foreign bias in international asset allocation (Beugelsdijk and Frijns, 2010), international investment flows (Siegel, Licht and Schwartz, 2011), corporate debt maturity (Zheng, El Ghouli, Guedhami and Kwok, 2012), foreign portfolio investments (Aggarwal, Kearney, and Lucey, 2012), corporate investments (Shao, Kwok and Zhang, 2013), corporate risk taking (Li, Griffin, Yue and Zhao, 2013), stock price co-movements (Eun, Wang and Xiao, 2015), executive compensation (Bryan, Nash and Patel, 2015), corporate cash holding (Chen, Dou, Rhee, Truong and Veeraraghavan, 2015), cost of debt (Chui, Kwok and Zhou, 2016), trade credit provisions (El Ghouli and Zheng, 2016) and firm growth (Boubakri and Saffar, 2016).

The rest of the paper is organized as follows. Section 2 describes data and research design. Section 3 provides empirical results and section 4 concludes the paper.

2. Data and Research Design

2.1. Mergers Sample:

We extract our merger data from the SDC for 56 countries which are covered in World Value Survey (WVS) for the period 1985 to 2014. We include deals where SDC reports deal status as completed and withdrawn. We also include the deals which are pending for more than 2 years⁵. We drop firms where the public status of acquirer and target firms is Govt., joint ventures and Mutual Funds and where the form of acquisition is buyback, exchange offers, recapitalization and acquisition of partial interests. We also drop the self-dealing transaction where CUSIP is same for acquirer and target. We require that each country in our sample have either at least 1 cross-border merger each year or 30 mergers across our sample period (30 years). Lastly, we drop the deals where deal value is either missing or less than \$1 million. Our data filter yields sample of 43,418 cross-border mergers worth of \$13.850 trillion, out of which 36,373 (7,045) mergers valued at \$11,157 (\$2.693) million are completed (withdrawn).

Figure 1 presents the cross-border merger activity across our sample period. Sub-figures A, B and C show the total announced, completed and completed mergers, respectively. Sub-figure B reveals that cross-border merger waves coincide with the well-studied US merger waves. We observe peak in cross-border merger activity in years 1998 and 2007 which is consistent with the US domestic merger activity. Year 2014 also indicates the heightened cross-border merger activity and is consistent with Ahmad et al. (2018). Sub-figure C provides the snapshot of withdrawn mergers across our sample period and show similar trend as of completed mergers. Largest number of cross-border mergers are withdrawn in year 2007, 622 mergers worth of \$ 507 billion.

Table 1 reports the distribution of number and dollar transaction value of completed and withdrawn deals across countries. Top three countries in our sample with large number of announced cross-border merger transactions are United States (9,857), United Kingdom (7,462) and Canada (4,806). Top three countries with large number of withdrawn cross-border merger transactions are Canada (1,242), United States (1,188) and Hong Kong (849). We note huge variation in withdrawn merger intensity across countries, notable countries with the highest proportion of withdrawn cross-border

⁵ In a robustness test reported in *section 3.2*, we exclude the pending deals from our analyses and results remain unchanged.

mergers⁶ are Hong Kong (56%), China (43%), Malaysia (40%) and Taiwan (39%). These are typically the countries that have large barriers to foreign direct investment and poor legal developments (Ahmad et al., 2018).

2.2. Measuring Withdrawn Mergers Intensity:

Our primary tests are designed to establish the degree to which to which the difference on the level of trust between acquirer and target countries increases withdrawn mergers intensity conditional upon the announcement. We compute two measures to capture the withdrawn mergers intensity between acquirer and target countries.

Our first measure is based on the number of mergers which is calculated as the number of mergers withdrawn by between acquirer-industry and target country-industry scaled by total number of mergers between acquirer country-industry and target country-industry in a given year.

$$\text{Withdrawn Mergers Intensity}_{\text{Numbers based}_{ijt}} = \frac{\text{Number of withdrawn Mergers}_{ijt}}{\text{Number of announced}_{ijt}} \quad \text{Equation 1}$$

Where i , j and t are acquirer country-industry, target country-industry and year respectively. Scaling withdrawn cross-border mergers with total announced cross-border mergers allows us to capture the withdrawn intensity *within* and *across* country-industry pairs.

Our second measure is based on the dollar value of mergers which is calculated as the sum of the dollar value of withdrawn mergers by between acquirer-industry i and target country-industry j scaled by sum of the dollar value of announced mergers between acquirer-industry i and target country-industry j in a given year t .

$$\text{Withdrawn Mergers Intensity}_{\text{value based}_{ijt}} = \frac{\text{Value of withdrawn mergers}_{ijt}}{\text{Value of announced mergers}_{ijt}} \quad \text{Equation 2}$$

⁶ Based on number of mergers. And in terms of dollar transaction value, top countries with highest proportion of withdrawn mergers are Kazakhstan (51%), Qatar (50%) and Kuwait (46%).

For country level analyses, we compute withdrawn mergers intensity same way as in *equation 1* when the dependent variable is based on number of mergers and as in *equation 2* when the dependent variable is based on the value of M&A transactions while the unit of observation is country-pair per year level. We also conduct robustness of our results at deal level, wherein dependent variable is dummy variable which is equal to 1 if mergers are withdrawn and 0 if the deal is completed.

2.3. Measuring Trust

To proxy our measure of trust we rely on widely used World Value Survey (WVS) both in finance and international business literature such as La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997) and Sapienza, Toldra, and Zingales (2013), Guiso et al. (2008), Ahern et al. (2015), and Brockman et al. (2018). The survey is conducted in five different waves (1981/1984, 1989/1993, 1994/1998, 1999/2004, and 2005/2008). We can track the exact year for each country when the survey was conducted. We measure trust using the following question:

“Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?”

We match the trust score of each country with the merger sample with closest survey year. Then we compute the difference in level of trust between each country pair by taking the absolute difference between the trust score of acquirer and target country.

$$Trust = abs |Trust Score_{Acq.} - Trust Score_{Tgt.}|_{Acq. \neq Tgt.} \quad \text{Equation 3}$$

In sensitivity analyses, we construct the trust differences in two different alternate ways. First, we fill in the gap of trust score between two surveys with the score of previously available survey. Secondly, we interpolate the trust score between two surveys years for each country. Then we compute the trust differences in both cases as in *equation 3*.

2.4. Control Variables

To potentially control for the effects of other potentially correlated factors that can explain the withdrawn mergers intensity, we control for factors at various level such deal level, acquirer country characteristics, target country characteristics, and country-pair characteristics.

Furthermore, at the deal level analysis, we also control for additional deal and firm characteristics. We include these set of variables following existing literature (Rossi and Volpin (2004), Billet and Xu (2007), Erel et al. (2012), Ahern et al. (2015), Lel and Miller (2015), Ahmad and Lambert (2017), Ahmad et al. (2018)).

At deal level, we control for acquirer and target types, and to account for various acquirer and target country characteristics. To control for size of the country, we include GDP of both acquirer and target countries. Institutional environment of the countries affects the merger activity of those countries, we proxy the institutional environment by time-variant indices from International Country Risk's Guide (ICRG) capturing the investment profile and quality of institutions. At the country-pair level, geographic distance between countries have significant impact on the merger activity between them, therefore, we control for geographic distance in all our regressions. Countries which have the same legal origin, language, religion are likely to have heightened cross-border merger activity (Erel et al. (2012), Ahern et al. (2015), Ahmad et al. (2018) and Ahmad and Lambert (2018)), we include those variables in our baseline specification. We also include a dummy variable if a country-pair share their border. In a robustness check, we replicate our baseline results at deal level and in a complementary analysis, we explore the effects of trust differences on expected synergies of the deal. These analyses allow us to include various deal and firm characteristics, such as deal value, market capitalization, relative deal size, cash only dummy, number of bidders, hostile deal dummy, financial acquirer dummy.

2.5. Validity of Trust Measure

For the validity of the World Value Survey, refer to the detailed discussion in Ahern et al. (2015). We mainly emphasize in this section whether our measure of trust differences is comparable with existing literature. To validate it, we replicate Ahern et al. (2015) base-line results in Appendix Table 1. The dependent variable is natural logarithm of mergers volume, either based on number of mergers or the dollar transaction value of the mergers. Panel A of appendix Table 1 reports the results when the unit of observation is country-industry-pair per year level and Panel B of the appendix table 1 reports the results when the unit of observation is country-pair per year level. The variable of interest is our proxy of trust differences between each country-pair.

The coefficient on trust is negative and significant at 1% level in columns (1) and (2) of the Panel A of the table which confirms their findings i.e. differences in level of trust between countries reduce the mergers volume between countries. The results remain robust after controlling for deal characteristics, acquirer and target country characteristics, country-pair characteristics, and saturation of dense set of fixed effects. The results do not change when we perform analysis at the country-industry-pair level⁷ (Panel B of the appendix Table 1) which is the main unit of analyses in our paper. Taken together, these findings establish the validity of our trust measure that we use in this study.

2.6. Descriptive Statistics

Table 2 presents the descriptive statistics of dependent variables, variable of interest, deal characteristics, time variant country characteristics and country-pair characteristics. Time invariant variables at country level are absorbed by the fixed effects we include in our analyses. We refrain ourselves from commenting on the control variables as they are consistent with the existing studies (see Erel et al. 2012, Ahern et al. 2015, Ahmad et al. 2018 and Ahmad and Lambert (2018)). We only comment here on our dependent variables and main variable of interest. Across all country-industry-pairs in our sample, the mean percentage of withdrawn cross-border mergers relative to total announced cross-border merger is 14.5% (14.3%) based on number of deals (\$ value of deals) and there is also significant variation in the ratio across those country pairs. These ratios suggest that withdrawn cross-border mergers are economically important part of merger activity. Mean difference of Trust score between all country-pairs is 0.17 and is very similar to Ahern et al. (2015). Figure 2 plots the withdrawn cross-border merger intensity between country-pairs that have high differences on Trust score and low differences on Trust score. Based on number of deals, average withdrawn merger intensity is 24.4% for the country-pairs whose trust difference score is in the top quartile, and on the other hand, withdrawn merger intensity for the country-pairs whose trust difference score is in bottom quartile is 19%. The difference in withdrawn merger intensity between both the group is 5.4% and is also statistically significant at 1%. When we compare the withdrawn merger intensity using the dollar value of transactions between both the group, we find the similar results.

⁷ We also confirm Ahern et al. (2015) results about the negative effects of trust differences on synergy gains in completed cross-border mergers in section 3.7 which enhances further our confidence on validity of Trust score used in the paper.

2.7. Econometric Specification

We compute the following regression model for our base-line results:

$$y_{jit} = \beta \cdot Trust_{jt} + \gamma \cdot X_{kt} + \alpha_{i \times t} + \alpha_{j \times i} + \varepsilon_{jit} \quad (1)$$

where j denotes a country, i an industry and t a year and is computed at country-industry-pair per year level. The dependent variable, y_{jit} , is either the number of M&A deals based or the dollar transaction value of M&A based. $Trust_{jt}$ is the absolute difference in the trust score between acquirer and target countries in year t . X_{kt} is a set of control variables that takes into account deal characteristics (private mergers and public mergers) computed at country-industry-pair per year level, time-variant country characteristics (acq. GDP, tgt. GDP, acq. investment profile, tgt. Investment profile, acq. quality of institution, and tgt. Quality of institution) at country-pair per year level, and country-pair characteristics (geographic distance, share border, same legal origin, same language, and same colony) at country-pair level. $\alpha_{i \times t}$ is industry \times year fixed effects and we add them separately for acquirer and target industries. $\alpha_{j \times i}$ is country \times industry fixed effects and we add them separately for acquirer and target countries and industries. ε_{jit} is an error term. In all of our models, we adjust standard errors for heteroskedasticity and cluster at country-pair level⁸.

3. Empirical Results

3.1 Trust Differences and withdrawn Merger Intensity

Table 3 presents the coefficient estimates of fixed effects regression models and is computed from our econometric specification (1). The dependent variables are either based on number of deals (computed from *equation 1*) or \$ transaction value based (computed from *equation 2*). Our dependent variable is truncated between 0 and 1. We compute the regressions using linear model because we introduce a dense set of fixed effects in all of our models. As pointed out in Green (2004), adding a large number of fixed effects in Tobit regression models may bias the coefficient

⁸ We cluster standard errors alternatively at different levels such as two-way clustering (country-pair and year), acquirer country level and target country level. The results are presented in table A2.

estimates. However, we report the results from Tobit model in *section 3.2*. The variable of interest *Trust* is computed from *equation 3*.

Panel A of the table presents the results for country-industry pair level analyses and Panel B of the table presents the results when we aggregate our sample at country-pair level. In columns (1 – 4), the dependent variable is based on number of deals and in columns (5 – 8), the dependent variable is based on \$ transaction value based. In all our models, we add *Acquirer Industry × Year* and *Target Industry × Year* fixed effects to account for the industry level dynamics in both acquiring and target countries separately. Besides that, we also add *Acquirer Country × Acquirer Industry* and *Target Country × Target Industry* fixed effects to take into account the differences in same acquirer (target) industry across all acquirer (target) countries.

In columns (1) and (5), we do not add control variables. The coefficient of variable of interest *Trust* (β in econometric specification (1)) is positive and significant at 1% level. In columns (2) and (6), columns (3) and (7) and columns (4) and (8), we progressively introduce deal level, country level and country-pair level controls, respectively. Across all columns (1) – (8), the coefficient on *Trust* is always positive and significant at 1% level and the economic magnitude is also very similar. The economic impact is also sizable. For an average sized country-industry pair, a one standard deviation increase in *Trust* differences leads to an increase of 1.32 percentage points (calculated from the coefficient estimates of column (4) of Panel A of table 3, 0.077×0.172), which translates in to an increase in the withdrawn mergers intensity of almost 10% from the sample average of 14.5%. Similarly, we find an increase of withdrawn merger intensity by 1.22 percentage points⁹ in column (8) which translates into almost 9% increase in withdrawn M&A from the sample average of 14.3%. The coefficient on private merger is negative and significant at conventional level (5%) which shows that withdrawn merger intensity decreases for the deals involving private acquirers. While coefficient on public mergers are positive and significant which demonstrates the increased withdrawn merger intensity for the deals involving public acquirers. In our model, we add vector of control variables which are potentially correlated with the merger activity. The sign on the coefficients appears as expected. For example, the geographic proximity reduces the withdrawn merger intensity between country-industry pairs.

⁹Using coefficient from column (8) of Panel A of table 3, (0.071×0.172)

In Panel B of the table, we next examine the effects of *Trust* differences on withdrawn mergers intensity when we aggregate our dependent variables at country-pair per year level. We compute the mirror model specification in Panel A of the table throughout columns (1) – (8). We add *Year* fixed effects to account for time trends such as merger waves and *Acquire Country* and *Target Country* fixed effects to control for time invariant country characteristics explaining the merger activity. The coefficient on *Trust* is always positive and significant at 1% in all the models. The economic impact is also comparable to the results reported in Panel A. For example, for an average sized country pair, a one standard deviation increase in *Trust* differences leads to an increase of 1.40 percentage points (calculated from the coefficient estimates of column (4) of Panel B of table 3, 0.182×0.075), which translates in to 9% increase in the withdrawn mergers intensity of almost 10% from the sample average of 16.9% (unreported). Similarly, we find an increase of withdrawn merger intensity by 1.53 percentage points¹⁰ in column (8) which translates into almost 10% increase from the sample average of 14.5%. Signs of the coefficients and significance of deal level variables is also consistent with the Panel A of the table. Other country, and country-pair level characteristics also exhibit the persistent coefficient signs. Better quality of institutions of acquirer countries and/or better investment profile of the target countries reduces the withdrawn mergers intensity. As expected, the geographical proximity has negative and significant impact on withdrawn mergers intensity.

Taken together, these findings show that *Trust* differences between acquirer and target countries is a key factor explaining the withdrawn merger intensity worldwide. Having established our baseline results, next we turn to examine the sensitivity of our main findings.

3.2 Sensitivity Analyses

To validate our main findings, we perform a battery of robustness test and presents the results in Panels A – I of Table 4. We perform the robustness tests at both country-industry-pair. In all panels, we control for deal, country, and country-pair characteristics similar to column (4) of Panel A of table 3 and also add the same set of fixed effects in each respective specification. We also perform the mirror analyses of Panel A – G of Table 4 at *country-pair* level and report the results in *Internet Appendix* for brevity purposes.

¹⁰Using coefficient from column (8) of Panel B of table 3, (0.082×0.186).

3.2.1. Sub-sample Analyses

In Panel A, we drop countries (USA, UK and Canada) with most active market for corporate control and 45% of withdrawn mergers in our sample are also from those countries. Columns (1) – (4) present the results when the dependent variable is number of deals based and columns (5) – (8) present the results when the dependent variable is \$ transaction value based. We drop USA in columns (1) and (5), UK in columns (2) and (6), Canada in columns (3) and (7). We also drop all countries together from our sample in columns (4) and (8). Across all columns (1) – (8), the coefficient of *Trust* is positive and significant at 1% level, except in columns (4) and (8) where the significance level is at conventional (5%).

3.2.1. Sub-period Analyses

Our sample spans over a period of 30 years and starts from 1985. The merger sample coverage is not comprehensive in late 80s and early 90s because SDC starts reporting the merger transactions with missing deal value after period year 1992. Furthermore, 2008-2009 financial crisis is also structural shock on merger activity and specially have implications for withdrawn mergers. We address these issues by splitting the sample into 3 sub-periods, year < 2000, >=2000 and <2007. Our results remain robust to applying across different sub-periods. Moreover, we observe a significant drop in coefficient of *Trust* for sub-period between year 2000 and 2014 while restricting sample to before crisis period, the coefficient remains qualitatively similar. One potential reason for the drop of coefficient could be financial crisis and when we exclude crisis years (unreported results) from the sample, the coefficient improves which suggests that financial crisis have implication for our findings.

3.2.1. Alternative Estimation Method – Tobit Model

The dependent variable – either numbers based, or value based – is truncated between 0 and 1. We include a comprehensive set of fixed in all our models and inclusion of fixed effects can bias our coefficient estimates with Tobit model (See Green (2004) for details). Therefore, we use linear models to compute our results. However, in a robustness tests, we re-compute our baseline results (Panel A of table 4) using Tobit model. Panel C of table 4 presents the coefficient estimates from Tobit model and *Trust* variable is highly significant at 1% level in all the models¹¹.

¹¹ Mirror results for Panel B of table 3 using Tobit model is shown in *Internet Appendix*.

3.2.1. Restricting to at least 1 Withdrawn Merger between each Country-Industry-Pair

In another robustness test, we limit our analyses to a sub-sample where we exclude the country-industry pair which have no withdrawn merger across our sample period. So, we restrict our sample to country-industry pair that have at least 1 withdrawn merger across over sample period and show the results in Panel D of table 4. The results remain robust, showing that having so many zeros in the dependent variable is not affecting our results.

3.2.1. Controlling for Cultural Differences

One concern could be that cultural differences between acquirer and target countries could be explaining the observed relationship. We mitigate this concern by controlling for the cultural differences between the countries. We use the Hofstede (1980, 2001) culture dimensions and modify our baseline regression to include them. Panel E of table 4 reports the results while controlling for Hofstede's four culture dimensions. In columns (1) and (6), we add culture differences based on *Individualism*, in columns (2) and (7), (3) and (8), and (4) and (9), we, respectively, control for culture difference based on *Uncertainty Avoidance*, *Power Distance* and *Masculinity*, while in columns (5) and (10), we include all four culture dimensions together. We do not find an evidence that change our prior results. The coefficient sign on the cultural differences is positive and globally insignificant. This robustness test confirms that we are picking up the effects of *Trust* differences between the countries, rather than the cultural differences.

3.2.1. Alternative Estimation of Trust Score

The trust score is computed from WVS and is not available by year for each country. To further validate our findings, we reconstruct our trust score using two different alternative ways and form two variables (i) *Treated Trust* and (ii) *Intrapolated Trust*. In the first case (*Treated Trust*), we take trust score of a given year from WVS and use the same score until the updated score is available or until end of the sample period, while in the second case (*Intrapolated Trust*), we linearly interpolate the trust score between two survey years. We present the results – when trust differences are computed from these two alternate trust scores – in Panel F of table 4. The results are very similar to our main findings.

3.2.1. Excluding 'Pending' Deals

We consider a deal as *withdrawn* if the deal is pending in SDC for more than 730 days (see in 2.1). In a robustness test, we restrict our sample to only those M&A deals which SDC reports as '*Withdrawn*'. Panel G of table 4 presents the results, which are robust.

3.2.1. Cross-Sectional Analysis

Our main tests are done on the panel dataset. One could argue that the correlation among the observation over the sample period could explain our results. To address this issue, we do a cross-sectional analysis where the unit of observation is country-industry pair rather than country-industry pair per year. Panel H presents the results of cross-sectional analysis and they are broadly in line with our main results.

3.2.1. Deal Level Analysis

Further, we perform our analyses at the deal level. The dependent variable is an indicator variable which take value 1 if the deal is 'withdrawn' or 0 if the deal is completed. The deal level analyses allow us to control for additional deal level characteristics (deal value, number of bidders, cash only (dummy), financial acquirers (dummy), hostile deals (dummy)). Panel G reports the coefficient estimates of the deal level analyses. In column (1), we obtain coefficient estimate from Probit model and in column (2), the coefficient estimated is computed from linear probit model. The economic impact is sizable. We find an increase in likelihood of withdrawn merger by 4.0 percentage points in column (2) which translates into almost 25% increase from the sample average of 15.6%.

All the sensitivity tests do not change our base-line results and increase our confidence for the notion that differences in trust level between countries spurs the withdrawn merger intensity between them.

3.3 Omitted Variable Bias

In table 5, we address the issue of omitted variable bias. Although, in our baseline specification, we include for time variant acquirer and target country characteristics but other unobservable macroeconomic changes such as tax rate changes across countries (Huizinga and Voget, 2009)

could affect the motives of merger deals and ultimately on the likelihood of deal withdrawn. We address this issue by modifying our baseline econometric specification and compute the following regression model:

$$y_{jit} = \beta \cdot Trust_{jt} + \gamma \cdot X_{kt} + \alpha_{i \times t} + \alpha_{j \times t} + \varepsilon_{jit} \quad (2)$$

Where $\alpha_{j \times t}$ denotes country \times year fixed effects where j denotes a country and t a year. We include acquirer *country \times year* and target *country \times year* fixed effects. They will capture occurrence of all the macroeconomic changes in acquirer and target countries across our sample period. In column (1) of the table, we report the coefficient estimated when the dependent variable is based on number of deals, while in column (2), the dependent variable is based on \$ transaction value. In both the column, the *Trust* is positive and statistically significant at 1% level. We find similar results when the dependent variable is constructed at country-pair level (see *Internet Appendix*).

3.4 2SLS Instrumental Variable Regressions

Our baseline results provide a strong evidence for the support of differences in level of trust between two countries amplify the withdrawn mergers intensity. However, there could be the case of the reverse causality that the differences in level of trust between two countries increase following the large number of withdrawn cross-border mergers. Secondly, to further alleviate the concern of that differences in societal trust could proxy the omitted differences in institutional characteristics of the countries. Ahern et al. (2015) document that people residing in countries that have a history of fair government could be more trustful. This could have impact on both withdrawn mergers and trust level of those countries.

To account for these issues, we follow Ahern et al. (2015) and Guiso et al. (2009) and use genetic and somatic differences to instrument our differences in level of trust. For genetic distance, we employ F_{st} which captures the probability of variations in Gene (DNA) from two different populations will be different ((CavalliSforza, Menozzi, and Piazza (1994) and Spolaore and Wacziarg (2009)), and for somatic distance, we use the data of Biansutti (1954) which captures the height, hair color and cephalic index and is available for the European countries only. Somatic distance data is collected from Guiso et al. (2009).

We employ 2 SLS variable regression models and present the results in Table 6. Panel A of the table presents the results when the trust differences are instrumented by genetic differences and Panel B of the table presents the results when the trust differences are instrumented by somatic differences. Column (1) in both the panels shows the results of 1st stage regression, and columns (2) and (3) when the dependent variable is based on number of deals and is based on \$ transaction value of the deals, respectively. In Panel A, the coefficient on genetic differences is positive and significant at 1% level. *Trust* in second stage regression proxied by genetic differences is positive and significant at 10% level in column (2) and 5% level in column (3), respectively. In panel B, the coefficient on somatic differences is also positive and significant at 5% level in column (1), and *Trust* proxied by somatic differences is positive and significant at 5% level in both columns (1) and (2) of the table. It is worth noting that the results in Panel B of the table remain significant in a small sample size (i.e., restricted to European countries only). We find qualitatively and quantitatively similar results at country-pair level and provide these results in *Internet Appendix* of the paper. These results increase our confidence that difference in trust increases the withdrawn merger intensity and are not driven by omitted variable bias or reverse causality. These findings also establish the fact that country's informal institutions (e.g., beliefs, inherited values, etc.) leads to the formal institutions (e.g., legal, macroeconomic factors, etc.), while vice-versa is not true. These observations are consistent with Licht, Goldschmidt, and Schwartz (2007), Tabellini (2008), Gorodnichenko and Roland (2017) and Ahern et al. (2015).

3.5 *Trust Differences within U.S.*

The main challenge for cross-country studies is to disentangle the effects of differences in societal values and from the effects of differences in countries' institutional characteristics. In our base-line results, we take into account this concern by adding the time-variant country characteristics of both the acquirer and target countries, and several other differences and similarities between them such as geographical distance, legal origin, etc. We also include dense set of fixed effects in all our regressions to potentially mitigate the concern about unobservable factors could be explaining our reported results. We further include *acquirer country* \times *year* and *target country* \times *year* fixed effects in Table 5 to absorb the time-variant country characteristics of both the countries and use instrument variables to proxy our *Trust* variable in Table 6.

In this section, we provide additional evidence that our results are not driven by institutional differences, rather by differences in the level of trust. To do so, we re-run our analyses using the domestic mergers in U.S. We calculate the *Trust* score from WVS for 10 U.S. Census geographic regions as in Ahern et al. (2015) and compute our *Trust* variable from equation 3 (for instance, trust differences between Pacific and South Atlantic regions). Trust differences are low across U.S. regions compared to the cross-country trust differences which could have effects on the significance of the results. However, the key advantage of this setting is that the institutional environment is almost identical across the U.S. regions, and we could pick up the effects of differences in level of trust on withdrawn merger intensity. We calculate our dependent variable at the state level and include comprehensive set of fixed effects such as *acquirer state* \times *year* and *target state* \times *year* fixed effects which will absorb the state level time-invariant and time-variant macroeconomic and institutional factors. We also include the *acquirer industry* \times *year* and *target industry* \times *year* fixed effects to capture the dynamics of U.S. industries across our sample period.

Table 7 presents the coefficient estimates of the *Trust* on the withdrawn merger intensity within U.S. Column (1) of the table presents the results when the dependent variable is number based and column (2) present the result when the dependent variable is dollar value based. We find that coefficient of *Trust* is positive and statistically significant at conventional level 5% in columns (1) and (2). Moreover, our results are robust when we calculate our dependent variable at U.S. region level (see *Internet Appendix*). These empirical evidences further substantiate our claim that the differences in societal trust between countries are not proxied merely by macroeconomic and institutional differences.

3.6 (A) *Symmetry of Trust and Withdrawn Merger Intensity*

Having established the fact that the differences in trust have significant and positive impact on the withdrawn merger intensity across the world and within U.S. A natural question we address in this section is, whether the similarities in trust have significant and opposite (negative) effect on withdrawn merger intensity? Further, we are also interested in identifying that in a country-pair whose level of trust matters more in explaining the withdrawn merger intensity. To answer these questions, we modify our baseline econometric specification and double interact our variable of interest *Trust* with *High (Low) Trust Acq.* dummy and/or *High (Low) Trust Tgt.* dummy. High Trust

Acq. (Tgt.) dummy takes value 1 if the acquirer (target) country's trust score is equal or above median of the sample and 0 otherwise. Low Trust Acq. (Tgt.) dummy is equal to 1 if acquirer (target) country's trust score is below median of the sample and 0 otherwise. In this way, we form four additional variables:

- (1) $Trust \times High\ Trust\ Acq. \times High\ Trust\ Tgt.$
- (2) $Trust \times Low\ Trust\ Acq. \times Low\ Trust\ Tgt.$
- (3) $Trust \times High\ Trust\ Acq. \times Low\ Trust\ Tgt.$
- (4) $Trust \times Low\ Trust\ Acq. \times High\ Trust\ Tgt.$

Our first two variables capture the similarities in the level of trust between two countries, but their similarities in level of trust are fundamentally different. In the 1st case, both the acquirer and the target countries have high level of trust score, while in 2nd case the two countries have low level of trust score. We expect that the similarities – which are presumed in the literature – do not have identical effects on the withdrawn merger intensity. The 3rd variable identify a country-pair in which acquirer country has high level of trust and 4th variable identify a country-pair where the target country has high level of trust. Traditionally, the acquirers are more active and especially decision to pull out of the announced deal lies with the acquirer in most of the cases and their level of trust should matter more when exploring the effects of trust differences between countries on withdrawn merger intensity.

Table 8 reports the coefficient estimates of these analyses. Panel A of the table presents the results when we restrict the sample to country-industry pair per year that have at least \$100 million of announced merger transactions between them, while Panel B presents the results when we decrease the threshold to \$50 million¹². Columns (1) – (4) present the results when the dependent variable is number of deals and in columns (5) – (8) our dependent variable is based on \$ transaction value. In columns (1) and (5) we include our first interaction variable $Trust \times High\ Trust\ Acq. \times High\ Trust\ Tgt.$, in columns (2) and (6) we include our 2nd variable $Trust \times Low\ Trust\ Acq. \times Low\ Trust\ Tgt.$, in columns (3) and (7), we include our 3rd variable interaction $Trust \times High\ Trust\ Acq. \times Low$

¹² We provide the results from full sample in appendix Table A3. The interaction variables are insignificant. However, at deal level analysis, the results are qualitatively and quantitatively similar for full sample (see *Internet Appendix*).

Trust Tgt., while in columns (4) and (8), we include our 4th variable of interaction *Trust × Low Trust Acq. × High Trust Tgt.*

As expected, the coefficient on interaction term *Trust × High Trust Acq. × High Trust Tgt.* is negative and statistically significant at 1% level in column (1), meaning that countries that share similar trust level (*when both the acquirer and target countries have high level of trust*), it reduces the withdrawn mergers intensity between them. However, in column (2) of the table, the coefficient on interaction term *Trust × Low Trust Acq. × Low Trust Tgt.* is negative and insignificant suggesting that the similarity in level of trust (*when both the acquirer and target countries have low level of trust*) do not assert similar effects. These results provide interesting insight on the fact that we need to be careful while discussing the effects of similarities in social values between countries and their impact on economic outcomes. Next, the coefficients on *Trust × High Trust Acq. × Low Trust Tgt.* in column (3) and on *Trust × Low Trust Acq. × High Trust Tgt.* in column (4) are positive and statistically significant at conventional level of 5%. These results suggest that irrespective of the level of trust of acquirer and target countries, trust differences increase the withdrawn merger intensity. However, when we compare the magnitude of the coefficients of column (3) and column (4), we find higher economic impact in column (4). This means that the effect of trust differences on withdrawn merger intensity is more pronounced when the acquirer country has low level of trust, and they are consistent with our theoretical prior that the likelihood of withdrawal of an announced merger is mainly dependent on acquirers' level of trust. We also find qualitatively and quantitatively similar results when the dependent variable is based on \$ transaction value. In Panel B of the table, we decrease the threshold to \$50 million and our results are qualitatively similar. We re-produce the mirror results at country-pair level and deal level and find qualitatively similar results (see *Internet Appendix*).

3.7 Trust Differences and Combined Cumulative Abnormal Returns

We have investigated the effects of trust differences on withdrawn merger intensity. Next, we engage ourselves in a complementary analysis by examining the effects of those differences on expected synergy gains proxied by combined Cumulative Abnormal Returns (CAR). The combined firm CAR is the value weighted CAR of acquirer and target firms whereas the weights are given based on market value of each firm 4 weeks prior to the announcement date. We include same set of controls as in column (3) of Panel A of Table 3 and following the extant literature (for

example, Ahern et al. (2015)) complement the model with the additional deal level controls (size of deal, acquirer and target market value, relative size of deal, cash only dummy, no. of bidders, hostile deals, financial acquirers dummy) which are known to affect the merger gains. We include acquirer country, target country, acquirer industry, target industry and year fixed effects in all our models.

Table 9 reports the coefficient estimates of *Trust* on expected synergy gains. In column (1) of the table, we include all deals (completed and withdrawn), column (2) restricts the sample to completed deals (like Ahern et al. (2015)), and in column (3), we restrict our sample to withdrawn deals only. The coefficient on deal level controls show the expected sign and statistical significance consistent with the prior literature, such as negative effects of acquirer size, positive effects of target relative size to acquirer and cash as a payment method.

Consistent with our hypothesis, we find negative and significant effects of *Trust* on expected synergy gains in all columns (1) – (3). The economic impact is also sizable. One standard deviation increase in *Trust* difference leads to a decrease of 0.51 percentage points in column (2) which translates into a decrease of 22% from the sample mean, and a decrease of 4.58 percentage points in column (3) which equals to 153% decrease of combined CAR from the sample mean. In dollar terms, this implies decrease in value of an average sized combined firm, approximately, by \$94 million for completed mergers and \$662 million in the case of withdrawn deals. Hence, the adverse effects of trust differences between countries is 7 times higher in the case of withdrawn deals relative to completed deals.

4. Conclusion

This paper explores the effects of trust differences on the withdrawn merger intensity of cross-border deals. Using a large sample of 43,814 cross-border mergers across 56 countries between 1985 – 2014, we find that conditional upon announcement of the cross-border mergers, trust differences increase the intensity of merger withdrawal and also cast adverse effects on combined firm value. The results remain robust after controlling for a host of potentially correlated factors including country-pair variables explaining the cross-border merger activity and saturating a dense set of fixed effects. The effect is economically large. We address the issue of reverse causality

using instrumental variable approach and main results survive in the analyses. To further alleviate the concern about potential omitted country level institutional factors explaining our results, we test the effects of trust differences on U.S. domestic mergers where institutional environment was almost identical, and our results remain robust.

Additionally, we show that the *similarity* in level of trust between countries has no symmetrical effects on intensity of withdrawn cross-border mergers. Only country-pair where both the acquirer and target countries have *high* level of trust decreases the withdrawn merger intensity, while a country-pair where both the acquirer and target countries have *low* level of trust do not have similar effects. Our results offer an interesting insight about the effects of similarity on level of trust between countries and their effects on economic outcomes. We further investigate the effects of trust differences on expected synergy gains. As expected, trust differences have negative and significant effects on the value of combined firm and the effect is 7 times larger for withdrawn mergers relative to completed mergers.

Overall, our results further our understanding about the role of trust differences in cross-border mergers while focusing on *withdrawn* cross-border merger. They further provide caution that effects of similarities in social values on financial decision making should be interpreted carefully. It adds to the growing body of literature that brings sociology and finance together.

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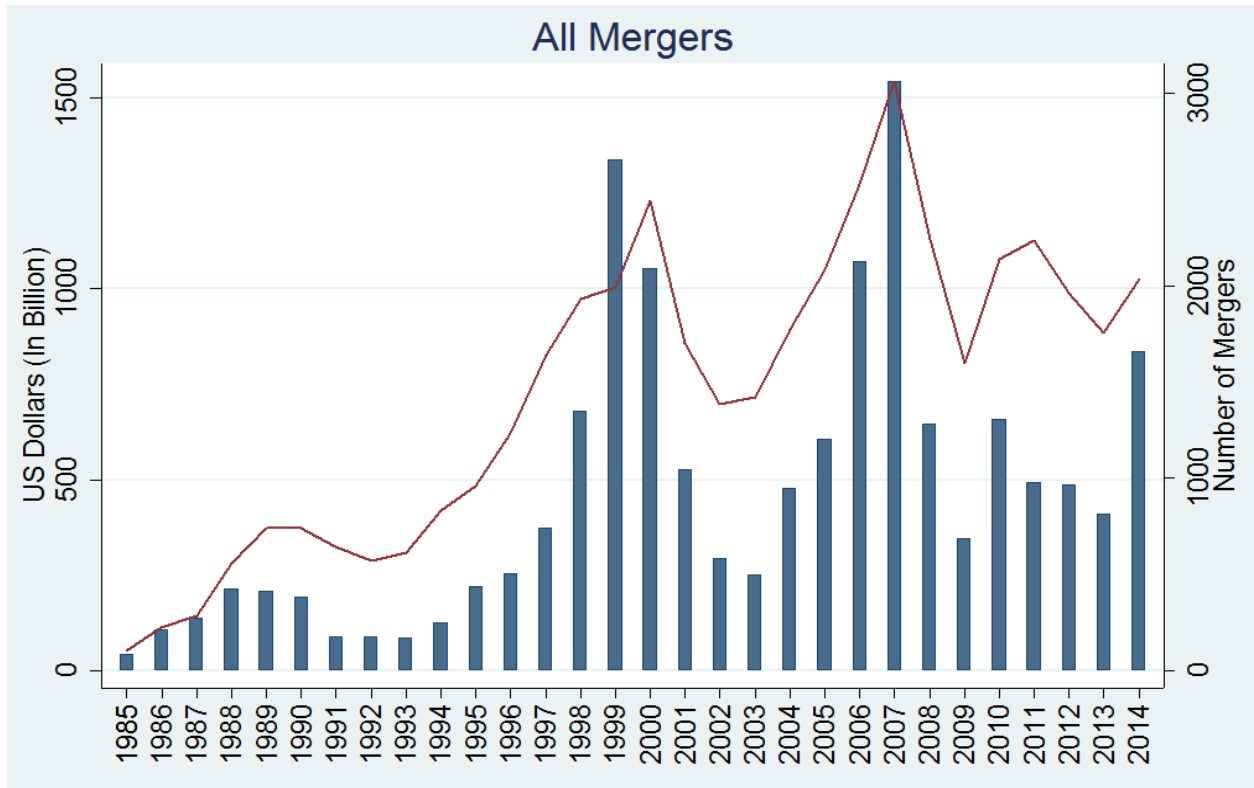
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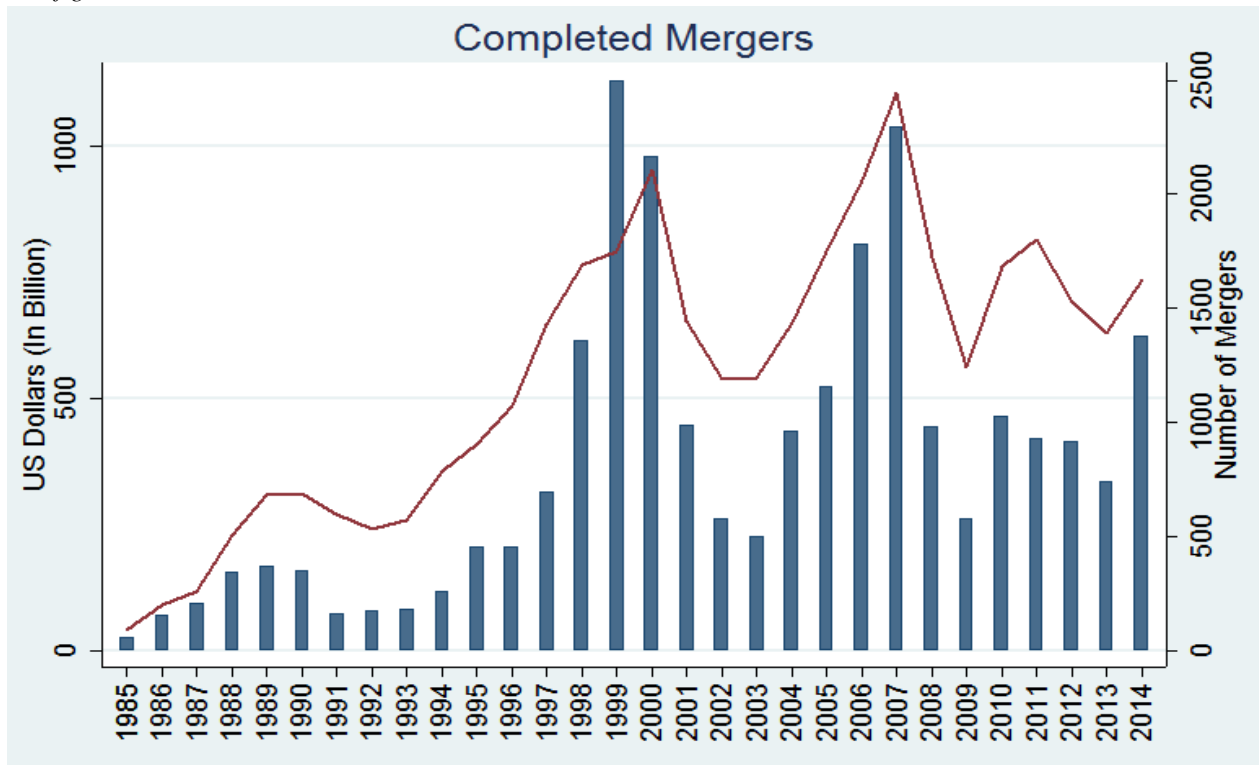
Figure 1. Cross-border Merger Activity

Subfigures A, B and C respectively, show all, completed, and withdrawn cross-border mergers across 56 countries for the period starting from 1985 to 2014. The bars corresponds to dollar transaction value of meregrs and the line plot corresponds to number of meregrs. (Source: SDC Database)

Sub-figure A



Sub-figure B



Sub-figure C

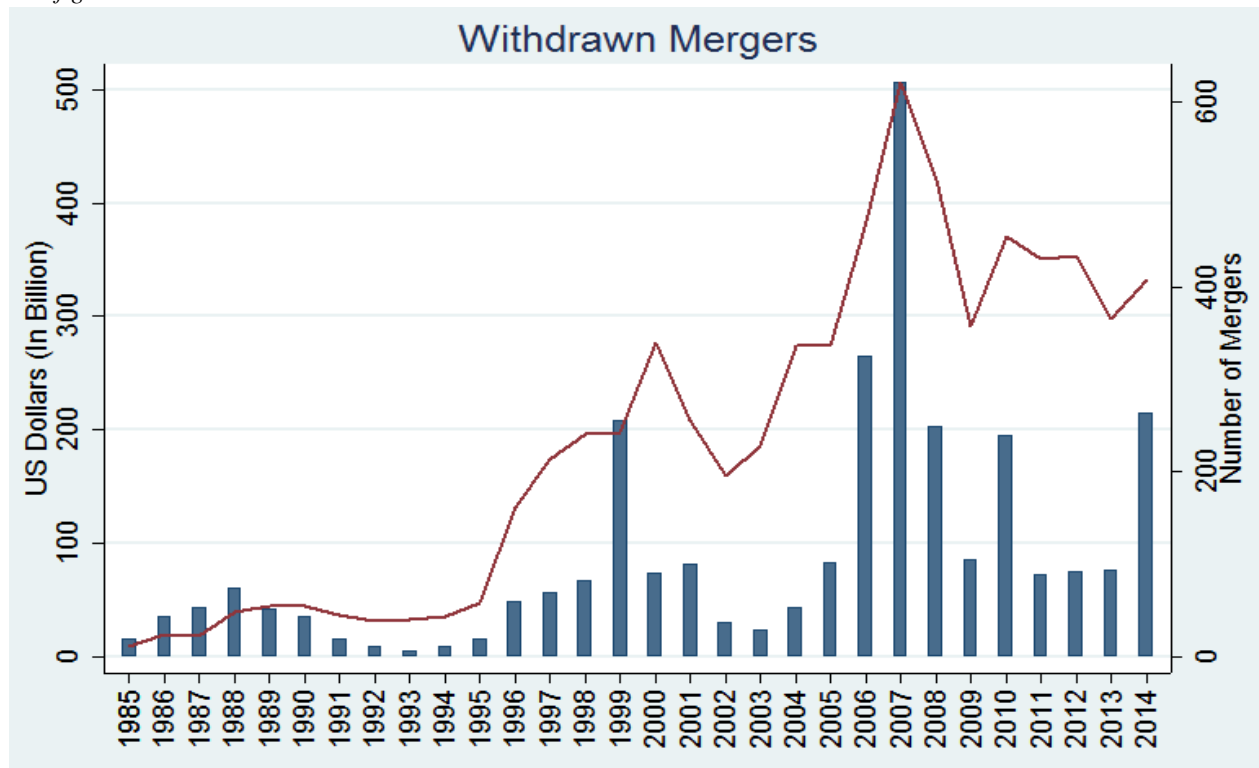


Figure 2. Trust Differences and Withdrawn Mergers

The figure compares the intensity of withdrawn mergers between high trust and low trust country-pairs across 56 countries over the sample period (1985 – 2014). *High Trust (Low Trust)* country-pair is defined as if the absolute difference of Trust score between country-pairs is in top (bottom) quartile.

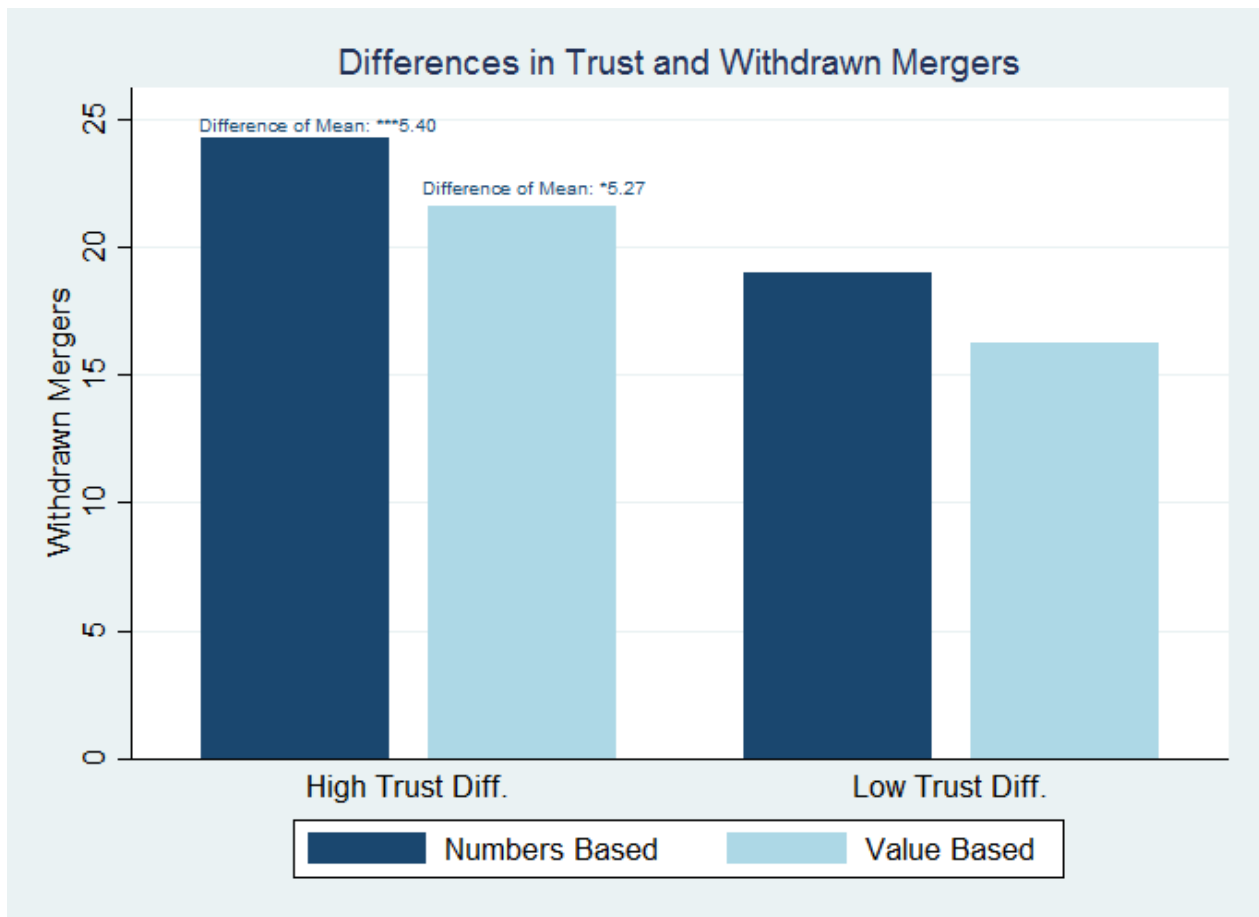


Table 1: Sample by Country

This table presents the cross-border merger sample (number and \$ value based) and trust score by acquirer country. Information over number of deals and \$ transaction value (US\$) includes both withdrawn and completed deals and proportion (percentage) of withdrawn over completed deals. Merger data is from SDC and trust score is from World Value Surveys (WVS).

Acquirer Country	Number of Deals				\$ Transaction Value				Trust Score
	Failed	Completed	Total	Prop. (%)	Failed	Completed	Total	Prop. (%)	
United States	1,188	8,669	9,857	14	590,287	2,264,757	2,855,044	21	0.38
United Kingdom	711	6,751	7,462	11	456,695	2,084,535	2,541,230	18	0.30
Canada	1,242	3,560	4,802	35	128,965	702,726	831,690	16	0.42
Hong Kong	849	1,518	2,367	56	86,805	318,005	404,810	21	0.48
Australia	413	1,552	1,965	27	234,011	343,655	577,666	41	0.54
France	210	1,502	1,712	14	207,040	961,855	1,168,894	18	0.19
Germany	168	1,402	1,570	12	327,207	859,479	1,186,687	28	0.42
Singapore	342	1,086	1,428	31	39,774	165,463	205,237	19	0.39
Japan	199	1,192	1,391	17	43,459	378,563	422,022	10	0.39
Netherlands	143	1,208	1,351	12	62,404	632,066	694,469	9	0.67
Sweden	88	917	1,005	10	10,673	206,874	217,547	5	0.65
Switzerland	107	768	875	14	115,052	602,179	717,231	16	0.51
China	235	542	777	43	70,246	136,017	206,263	34	0.59
Italy	81	690	771	12	31,019	237,942	268,961	12	0.29
Spain	74	663	737	11	82,794	379,189	461,982	18	0.20
Malaysia	170	426	596	40	9,581	37,803	47,383	20	0.09
India	105	464	569	23	13,331	50,811	64,142	21	0.34
Israel	81	362	443	22	7,064	66,551	73,615	10	0.23
Finland	29	408	437	7	12,360	97,405	109,765	11	0.64
South Korea	99	326	425	30	12,221	44,722	56,943	21	0.30
South Africa	51	294	345	17	6,078	65,945	72,023	8	0.24
Taiwan	76	197	273	39	6,149	18,185	24,334	25	0.30
New Zealand	38	210	248	18	4,782	44,957	49,739	10	0.57
Russia	31	184	215	17	15,603	72,767	88,370	18	0.29
Mexico	25	159	184	16	18,747	72,352	91,100	21	0.12
Brazil	35	145	180	24	25,440	71,738	97,178	26	0.07
Cyprus	33	121	154	27	6,926	24,862	31,788	22	0.09
Chile	31	106	137	29	4,994	19,550	24,545	20	0.13
Poland	25	106	131	24	1,642	10,604	12,246	13	0.23
Thailand	22	89	111	25	3,551	14,282	17,834	20	0.33
Indonesia	23	60	83	38	2,097	10,014	12,111	17	0.43
Philippines	20	57	77	35	1,504	5,755	7,259	21	0.03
Colombia	5	59	64	8	326	16,172	16,498	2	0.04
Argentina	5	58	63	9	1,789	16,992	18,781	10	0.23
Kuwait	8	53	61	15	11,557	13,398	24,955	46	0.30
Bahrain	6	54	60	11	881	18,692	19,573	5	0.34
Turkey	10	50	60	20	716	7,639	8,355	9	0.12
Saudi Arabia	6	49	55	12	1,336	23,878	25,214	5	0.53
Peru	7	38	45	18	376	2,313	2,688	14	0.08
Qatar	9	29	38	31	21,387	21,329	42,716	50	0.21
Hungary	6	31	37	19	2,227	3,676	5,904	38	0.28
Czech Rep.	2	34	36	6	7	4,985	4,992	0	0.29
Croatia	5	21	26	24	140	1,087	1,226	11	0.25
Slovenia	6	17	23	35	230	588	818	28	0.20
Ukraine	3	20	23	15	143	1,407	1,550	9	0.25
Egypt	3	19	22	16	928	3,026	3,954	23	0.21
Estonia	2	17	19	12	18	1,060	1,078	2	0.40
Bulgaria	3	13	16	23	71	391	462	15	0.22
Lebanon	3	13	16	23	215	1,722	1,936	11	0.11
Kazakhstan	5	9	14	56	11,749	11,493	23,242	51	0.39
Lithuania	1	13	14	8	35	331	366	10	0.22
Venezuela	0	14	14	0	0	3,232	3,232	0	0.16
Romania	4	7	11	57	471	563	1,034	46	0.07
Slovakia	0	9	9	0	0	741	741	0	0.27
Jordan	1	6	7	17	14	158	172	8	0.13
Latvia	1	6	7	17	18	92	110	16	0.25
All Countries	7,045	36,373	43,418	16	2,693,137	11,156,569	13,849,707	19	

Table 2: Summary Statistics

The table provides descriptive statistics of dependent variables, variable of interest, deal characteristics, country characteristics and country-pair characteristics from 56 countries for the period 1985-2014. Definitions of the variables are in Appendix 2.

Variables	Nbr	Mean	25th Percentile	Median	75th Percentile	Standard Deviation
<i>A. Dependent Variable</i>						
Withdrawn Merger Intensity (<i>Number of Deals Based</i>)	20488	0.145	0.000	0.000	0.000	0.330
Withdrawn Merger Intensity (<i>\$ Transaction Value Based</i>)	20488	0.143	0.000	0.000	0.000	0.337
Combined CAR (-1, +1)	1103	0.025	-0.01	0.015	0.052	0.066
<i>B. Variable of Interest</i>						
Trust	20488	0.172	0.080	0.150	0.250	0.123
<i>Deal Characteristics</i>						
Private Mergers	20488	0.352	0.000	0.000	1.000	0.452
Public Mergers	20488	0.162	0.000	0.000	0.000	0.350
\$ Transaction Value	1103	5.704	4.198	5.724	7.262	2.121
Acq. Market Capitalization	1103	7.755	6.137	8.001	9.470	2.368
Tgt. Market Capitalization	1103	5.490	3.887	5.390	7.035	2.086
Relative Deal Size	1103	58.405	3.690	16.368	50.269	184.878
Cash Only	1103	0.638	0.000	1.000	1.000	0.481
No. of Bidders	1103	1.131	1.000	1.000	1.000	0.383
Hostile Deals	1103	0.034	0.000	0.000	0.000	0.182
Financial Acquirers	1103	0.047	0.000	0.000	0.000	0.212
<i>C. Country Characteristics</i>						
Acq. GDP	20488	27.790	26.687	27.897	28.704	1.485
Tgt. GDP	20488	27.448	26.325	27.533	28.503	1.600
Acq. Investment Profile	20488	9.902	8.167	10.813	12.000	2.124
Tgt. Investment Profile	20488	9.366	7.500	9.583	11.625	2.283
Acq. Quality of Institutions	20488	13.009	12.000	13.500	14.917	2.378
Tgt. Quality of Institutions	20488	12.025	9.375	13.000	14.500	3.004
<i>D. Country-Pair Characteristics</i>						
Geographic Distance	20488	8.206	7.272	8.661	9.135	1.166
Share Border	20488	0.123	0.000	0.000	0.000	0.328
Same Legal Origin	20488	0.393	0.000	0.000	1.000	0.488
Same Religion	20488	0.250	0.000	0.000	1.000	0.433
Same Language	20488	0.237	0.000	0.000	0.000	0.425
Same Colony	20488	0.155	0.000	0.000	0.000	0.362
Individualism	18577	0.263	0.090	0.200	0.430	0.221
Uncertainty Avoidance	18577	0.234	0.080	0.190	0.370	0.174
Masculinity	18577	0.185	0.05	0.140	0.260	0.165
Power Distance	18577	0.191	0.05	0.160	0.300	0.157

Table 3: Trust Differences and Withdrawn Merger Intensity

This table presents the results from fixed effects model. The dependent variable is the withdrawn merger intensity, defined as the number of withdrawn deals divided by the total number of announced deals in columns (1) to (4), and \$ transaction value of the withdrawn deals divided by the total \$ transaction value of announced deals in columns (5) to (8). The variable of interest Trust is the absolute difference between trust score of acquirer and target countries and is measured from a WVS survey question “whether people believe most other people can be trusted or not”. Panel A present the results of country-industry-pair level analyses and Panel B presents the results when we aggregate our dependent variable at country-pair level. Inclusion of fixed effects (FE) is indicated at the end of table. All variables are defined in Appendix 2. For all models, we correct standard errors for heteroscedasticity at acquirer and target country level and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

Panel A – Country-Industry-Pair Level Analyses

<i>Variable of Interest</i>	<i>Number of Deals Based</i>				<i>\$ Transaction Value Based</i>			
	1	2	3	4	5	6	7	8
Trust	***0.085 (3.50)	***0.086 (3.53)	***0.083 (3.42)	***0.077 (3.05)	***0.082 (3.26)	***0.083 (3.29)	***0.080 (3.18)	***0.071 (2.74)
<i>Deal Characteristics</i>								
Private Mergers		**_0.015 (2.52)	**_0.014 (2.42)	**_0.014 (2.42)		**_0.013 (2.26)	**_0.013 (2.16)	**_0.013 (2.16)
Public Mergers		***0.052 (6.33)	***0.051 (6.30)	***0.052 (6.31)		***0.060 (6.78)	***0.059 (6.74)	***0.060 (6.76)
<i>Country Characteristics</i>								
Acq. GDP			0.000 (0.03)	-0.001 (0.07)			0.003 (0.19)	0.002 (0.15)
Tgt. GDP			0.004 (0.26)	0.003 (0.25)			0.000 (0.01)	0.000 (0.01)
Acq. Investment Profile			0.000 (0.03)	0.000 (0.05)			0.000 (0.15)	-0.001 (0.18)
Tgt. Investment Profile			***_0.011 (4.05)	***_0.011 (4.10)			***_0.012 (4.21)	***_0.012 (4.24)
Acq. Quality of Institutions			-0.006 (1.47)	-0.006 (1.49)			*_0.007 (1.69)	*_0.007 (1.70)
Tgt. Quality of Institutions			-0.005 (1.30)	-0.005 (1.30)			-0.005 (1.27)	-0.005 (1.27)
<i>Country-Pair Characteristics</i>								
Geographic Distance				-0.003 (0.74)				-0.002 (0.50)
Share Border				-0.006 (0.62)				-0.010 (0.98)
Same Legal Origin				0.001 (0.12)				0.002 (0.23)
Same Religion				-0.005 (0.83)				-0.005 (0.85)
Same Language				-0.009 (0.79)				-0.010 (0.80)
Same Colony				-0.006 (0.77)				-0.006 (0.74)
Acquirer Industry × Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Industry × Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country × Acquirer Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country × Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.087	0.090	0.091	0.091	0.077	0.081	0.082	0.082
Number of Observations	20488	20488	20488	20488	20488	20488	20488	20488

Panel B – Country-Pair Level Analysis

Variable of Interest	Number of Deals Based				\$ Transaction Value Based			
	1	2	3	4	5	6	7	8
Trust	***0.085 (2.84)	***0.087 (2.90)	***0.086 (2.86)	**0.075 (2.48)	***0.094 (2.94)	***0.096 (3.00)	***0.095 (2.96)	**0.082 (2.56)
<i>Deal Characteristics</i>								
Private Mergers		** -0.018 (2.04)	** -0.019 (2.09)	** -0.018 (2.03)		-0.015 (1.64)	* -0.015 (1.68)	-0.015 (1.62)
Public Mergers		***0.045 (4.05)	***0.045 (4.04)	***0.045 (4.03)		***0.067 (5.35)	***0.067 (5.33)	***0.067 (5.31)
<i>Country Characteristics</i>								
Acq. GDP			0.021 (1.18)	0.021 (1.17)			0.022 (1.14)	0.021 (1.12)
Tgt. GDP			0.012 (0.76)	0.012 (0.75)			0.007 (0.41)	0.007 (0.40)
Acq. Investment Profile			0.002 (0.52)	0.002 (0.51)			0.001 (0.26)	0.001 (0.26)
Tgt. Investment Profile			*** -0.011 (3.47)	*** -0.011 (3.58)			*** -0.011 (3.28)	*** -0.011 (3.35)
Acq. Quality of Institutions			*** -0.013 (2.65)	*** -0.013 (2.67)			** -0.013 (2.45)	** -0.013 (2.47)
Tgt. Quality of Institutions			0.002 (0.49)	0.002 (0.52)			0.002 (0.38)	0.002 (0.40)
<i>Country-Pair Characteristics</i>								
Geographic Distance				** -0.011 (2.44)				** -0.011 (2.31)
Share Border				-0.010 (0.79)				-0.016 (1.17)
Same Legal Origin				-0.006 (0.61)				-0.008 (0.79)
Same Religion				-0.009 (1.02)				-0.010 (1.11)
Same Language				-0.018 (1.37)				-0.011 (0.75)
Same Colony				0.005 (0.39)				0.001 (0.08)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.065	0.068	0.07	0.071	0.042	0.047	0.049	0.049
Number of Observations	9440	9440	9440	9440	9440	9440	9440	9440

Table 4: Sensitivity Analyses

This table presents the coefficient estimates of the various sensitivity analyses at country-industry pair level. The dependent variable is the withdrawn merger intensity, defined as the (i) number of withdrawn deals divided by the total number of announced deals and (ii) \$ transaction value of the withdrawn deals divided by the total \$ transaction value of announced deals. The variable of interest Trust is the absolute difference between trust score of acquirer and target countries and is measured from a WVS survey question “whether people believe most other people can be trusted or not”. In Panel A, we drop the countries with the most active takeover markets such as USA, Canada and UK, in Panel B, we divide the sample into different sub-periods, Panel C presents the coefficients estimated from Tobit model, Panel D restricts sample to country-pairs that have at least 1 withdrawn mergers during our sample period, Panel E presents the results when we control for cultural differences based on (Hofstede 1980; 2001) culture dimensions, and Panel F reports the results when we alternatively construct Trust variable, i.e., (i) Treated trust in which we replace the missing values of a given year with the score of the previous survey year and (ii) Interpolated trust in which the missing values are replaced using interpolation method), respectively. Panel G, H, and I, respectively, present the results with the sample excluding pending deals, Probit and Linear Probit model as alternate specifications, and deal level analysis. Inclusion of fixed effects (FE) is indicated at the end. All variables are defined in Appendix 2. For all models, we correct standard errors for heteroscedasticity at acquirer and target country level and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

Panel A – Sub-sample Analyses

Variable of Interest	Number of Deals Based				Dollar Transaction Value Based			
	1	2	3	4	5	6	7	8
Trust	***0.071 (2.70)	***0.081 (3.16)	***0.078 (2.79)	**0.077 (2.56)	**0.065 (2.42)	***0.076 (2.90)	***0.076 (2.66)	**0.078 (2.53)
USA Drop	Yes				Yes			
Canada Drop		Yes				Yes		
UK Drop			Yes				Yes	
All Drop				Yes				Yes
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Industry × Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Industry × Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country × Acquirer Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country × Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.091	0.087	0.088	0.082	0.082	0.080	0.078	0.075
Number of Observations	17135	19146	17927	13232	17135	19146	17927	13232

Panel B – Sub-period Analyses

Variable of Interest	<2000	>=2000	<2007	<2000	>=2000	<2007
	Number of Deals Based			Dollar Transaction Value Based		
	1	2	3	4	5	6
Trust	***0.122 (2.65)	*0.057 (1.68)	***0.107 (3.18)	**0.108 (2.24)	*0.058 (1.67)	***0.091 (2.63)
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Industry × Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Target Industry × Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country × Acquirer Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Target Country × Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.096	0.089	0.096	0.085	0.079	0.087
Number of Observations	6133	14355	12308	6133	14355	12308

Panel C – Alternative Estimation Method - Tobit Model

<i>Variable of Interest</i>	<i>Number of Deals Based</i>				<i>Dollar Transaction Value Based</i>			
	1	2	3	4	5	6	7	8
Trust	***0.864 (12.68)	***0.888 (12.81)	***0.840 (10.97)	***0.949 (12.38)	***0.859 (12.51)	***0.883 (12.65)	***0.834 (10.82)	***0.939 (12.17)
Deal Characteristics		Yes	Yes	Yes		Yes	Yes	Yes
Country Characteristics			Yes	Yes			Yes	Yes
Country-Pair Characteristics				Yes				Yes
Acquirer Industry × Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Industry × Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country × Acquirer Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country × Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo R ²	0.15	0.154	0.155	0.156	0.149	0.154	0.155	0.155
Number of Observations	20488	20488	20488	20488	20488	20488	20488	20488

Panel D – Restricting to at least 1 Withdrawn Merger Between each Country-Industry-Pair

<i>Variable of Interest</i>	<i>Number of Deals Based</i>	<i>Dollar Transaction Value Based</i>
	1	2
Trust	***0.146 (2.92)	**0.119 (1.97)
Deal Characteristics	Yes	Yes
Country Characteristics	Yes	Yes
Country-Pair Characteristics	Yes	Yes
Acquirer Industry × Year FE	Yes	Yes
Target Industry × Year FE	Yes	Yes
Acquirer Country × Acquirer Industry FE	Yes	Yes
Target Country × Target Industry FE	Yes	Yes
Adjusted R ²	0.301	0.220
Number of Observations	3789	3789

Panel E – Controlling for Cultural Differences

	<i>Number of Deals Based</i>					<i>Dollar Transaction Value Based</i>				
	1	2	3	4	5	6	7	8	9	10
<i>Variables of Interest</i>										
Trust	***0.074 (2.90)	***0.066 (2.64)	***0.068 (2.62)	***0.072 (2.65)	**0.060 (2.21)	**0.066 (2.50)	**0.056 (2.17)	**0.061 (2.27)	**0.066 (2.37)	*0.051 (1.81)
Individualism	0.015 (1.02)				-0.002 (0.11)	0.010 (0.70)				-0.009 (0.49)
Uncertainty Avoidance		0.031 (1.57)			0.026 (1.20)		**0.041 (2.06)			*0.037 (1.69)
Power Distance			0.035 (1.61)		0.030 (1.05)			0.032 (1.47)		0.032 (1.09)
Masculinity				0.004 (0.20)	0.010 (0.47)				-0.004 (0.17)	0.004 (0.18)
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Industry × Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Industry × Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country × Acquirer Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country × Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.088	0.088	0.088	0.088	0.088	0.079	0.08	0.08	0.079	0.08
Number of Observations	18577	18577	18577	18577	18577	18577	18577	18577	18577	18577

Panel F – Alternative Estimations of Trust Score

<i>Variable of Interest</i>	Treated Trust		Interpolated Trust	
	<i>Number of Deals Based</i>	<i>\$ Transaction Value Based</i>	<i>Number of Deals Based</i>	<i>\$ Transaction Value Based</i>
	1	2	3	4
Trust	**0.065 (2.08)	*0.057 (1.77)	***0.152 (2.67)	**0.144 (2.50)
Deal Characteristics	Yes	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes	Yes
Acquirer Industry × Year FE	Yes	Yes	Yes	Yes
Target Industry × Year FE	Yes	Yes	Yes	Yes
Acquirer Country × Acquirer Industry FE	Yes	Yes	Yes	Yes
Target Country × Target Industry FE	Yes	Yes	Yes	Yes
Adjusted R ²	0.091	0.082	0.097	0.088
Number of Observations	20488	20488	7764	7764

Panel G – Excluding ‘Pending’ Deals

<i>Variable of Interest</i>	<i>Number of Deals Based</i>	<i>\$ Transaction Value Based</i>
	1	2
Trust	**0.034 (2.08)	*0.029 (1.74)
Deal Characteristics	Yes	Yes
Country Characteristics	Yes	Yes
Country-Pair Characteristics	Yes	Yes
Acquirer Industry × Year FE	Yes	Yes
Target Industry × Year FE	Yes	Yes
Acquirer Country × Acquirer Industry FE	Yes	Yes
Target Country × Target Industry FE	Yes	Yes
Adjusted R ²	0.068	0.063
Number of Observations	18789	18789

Panel H – Cross-Sectional Analysis

<i>Variable of Interest</i>	<i>Number of Deals Based</i>	<i>\$ Transaction Value Based</i>
	1	2
Trust	**0.084 (1.96)	*0.078 (1.66)
Deal Characteristics	Yes	Yes
Country Characteristics		
Country-Pair Characteristics	Yes	Yes
Acquirer Country × Acquirer Industry FE	Yes	Yes
Target Country × Target Industry FE	Yes	Yes
Adjusted R ²	0.118	0.095
Number of Observations	6148	6148

Panel I – Deal Level Analysis

<i>Variable of Interest</i>	Probit	LPM
	1	2
Trust	**0.239 (2.00)	*0.040 (1.66)
Deal Characteristics	Yes	Yes
Country Characteristics	Yes	Yes
Country-Pair Characteristics	Yes	Yes
Acquirer Industry × Year FE	Yes	Yes
Target Industry × Year FE	Yes	Yes
Acquirer Country × Acquirer Industry FE	Yes	Yes
Target Country × Target Industry FE	Yes	Yes
Log Likelihood	-14573.637	-13447.913
Pseudo R ²	0.173	
Adjusted R ²		0.127
Number of Observations	39342	39342

Table 5: Omitted Variables Bias

This table presents the results from fixed effects model. The dependent variable is the withdrawn merger intensity, defined as the number of withdrawn deals divided by the total number of announced deals in column (1), and \$ transaction value of the withdrawn deals divided by the total \$ transaction value of announced deals in column (2). The variable of interest Trust is the absolute difference between trust score of acquirer and target countries and is measured from a WVS survey question “whether people believe most other people can be trusted or not”. Inclusion of fixed effects (FE) is indicated at the end of table. All variables are defined in Appendix 2. We correct standard errors for heteroscedasticity at acquirer and target country level and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

	<i>Number of Deals Based</i>	<i>\$ Transaction Value Based</i>
	1	2
<i>Variable of Interest</i>		
Trust	***0.079 (2.97)	***0.073 (2.66)
Deal Characteristics	Yes	Yes
Country Characteristics		
Country-Pair Characteristics	Yes	Yes
Acquirer Industry × Year FE	Yes	Yes
Target Industry × Year FE	Yes	Yes
Acquirer Country × Year FE	Yes	Yes
Target Country × Year FE	Yes	Yes
Adjusted R ²	0.101	0.089
Number of Observations	22343	22343

Table 6: 2SLS Instrumental Variables

This table presents the results of 2SLS instrument variables regression model of trust differences on withdrawn merger intensity, where the trust is instrumented by genetic distance ($\ln(1+F_{st})$) for the majority population in a country in Panel A (CavalliSforza, Menozzi, and Piazza, 1994), and somatic difference ($\ln(1+\text{Somatic distance})$) based on height, hair color (pigmentation), and cephalic index in Panel B (Biasutti, 1954), respectively. The dependent variable is the withdrawn merger intensity, defined as the number of withdrawn deals divided by the total number of announced deals in column (2) and \$ transaction value of the withdrawn merger deals divided by the total number of announced deals in column (3) of the two panels. The variable of interest Trust is the absolute difference between trust score of acquirer and target countries and is measured from a WVS survey question “whether people believe most other people can be trusted or not”. Inclusion of fixed effects (FE) is indicated at the end of table. All variables are defined in Appendix 2. Tests of joint exclusion, under-identification and weak instruments are based on Kleibergen and Paap (2006). For all models, we correct standard errors for heteroscedasticity and cluster at country-pair level, and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

Panel A: Trust is instrumented by genetic distance

	1st Stage	2nd Stage	
	Trust	Number of Deals Based	\$ Transaction Value Based
	1	2	3
<i>Variables of Interest</i>			
Genetic Distance	***0.007 (2.80)		
Trust		*0.623 (1.92)	**0.648 (1.98)
Deal Characteristics	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes
Acquirer Industry × Year FE	Yes	Yes	Yes
Target Industry × Year FE	Yes	Yes	Yes
Acquirer Country × Year FE	Yes	Yes	Yes
Target Country × Year FE	Yes	Yes	Yes
Joint test of excluded instruments	7.83 Prob >F = (0.01)		
Test of under-identification	8.01 (0.00)		
Test of weak instruments	7.83		
Number of Observations	8998	8998	8998

Panel B: Trust is instrumented by somatic distance.

	1st Stage	2nd Stage	
	Trust	Number of Deals Based	\$ Transaction Value Based
	1	2	3
<i>Variables of Interest</i>			
Somatic Distance	**0.029 (2.33)		
Trust		**0.256 (2.12)	**0.278 (2.01)
Deal Characteristics	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes
Acquirer Industry × Year FE	Yes	Yes	Yes
Target Industry × Year FE	Yes	Yes	Yes
Acquirer Country × Year FE	Yes	Yes	Yes
Target Country × Year FE	Yes	Yes	Yes
Joint test of excluded instruments	5.43 Prob >F = (0.02)		
Test of under-identification	5.74 (0.02)		
Test of weak instruments	5.43		
Number of Observations	2507	2507	2507

Table 7: Trust Differences within U.S.

This table presents the results at U.S. state-pair level from fixed effects model. The dependent variable is the withdrawn merger intensity, defined as the number of withdrawn deals divided by the total number of announced deals in column (1), and \$ transaction value of the withdrawn deals divided by the total \$ transaction value of announced deals in column 2. The variable of interest Trust is the absolute difference between trust score of acquirer and target U.S. regions and is measured from a WVS survey question “whether people believe most other people can be trusted or not”. Inclusion of fixed effects (FE) is indicated at the end of the table. All variables are defined in Appendix 2. For all models, we correct standard errors for heteroscedasticity at acquirer and target state level and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

	<i>Number of Deals Based</i>	<i>\$ Transaction Value Based</i>
	1	2
Trust	**0.106 (2.43)	**0.114 (2.51)
Deal Characteristics	Yes	Yes
Acquirer Industry × Year FE	Yes	Yes
Target Industry × Year FE	Yes	Yes
Acquirer State × Year FE	Yes	Yes
Target State × Year FE	Yes	Yes
Adjusted R ²	0.071	0.068
Number of Observations	22349	22349

Table 8: (A)symmetry of Trust and Withdrawn Merger Intensity

This table presents the coefficient estimates of the analyses of the effects of trust differences/similarities between acquirer and target countries over withdrawn merger intensity. The dependent variable is the withdrawn merger intensity, defined as the number of withdrawn deals divided by the total number of announced deals in columns (1) to (4), and \$ transaction value of the withdrawn deals divided by the total number of announced deals in Columns (5) to (8). The variable Trust is the absolute difference between trust score of acquirer and target countries and is measured from a WVS survey question “whether people believe most other people can be trusted or not”. The variables of interest are defined as the interaction of *Trust* with high trust acquirer and high trust target in columns (1) and (5), low trust acquirer and low trust target in columns (2) and (6), high trust acquirer and low trust target in columns (3) and (7), and low trust acquirer and high trust target in columns (4) and (8), respectively. Panel A and B present the results when deal value equal and above \$100 million and \$50 million at country-industry-pair level, respectively. Inclusion of fixed effects (FE) is indicated at the end of the table. All variables are defined in Appendix 2. For all models, we correct standard errors for heteroscedasticity at acquirer and target country level and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

Panel A – Deal Value equal and above \$100 million at Country-industry-pair Level

	<i>Number of Deals Based</i>				<i>\$ Transaction Value Based</i>			
	1	2	3	4	5	6	7	8
<i>Variables of Interest</i>								
Trust	***0.138 (3.28)	0.077* (1.94)	0.018 (0.41)	0.037 (0.91)	***0.114 (2.67)	0.051 (1.24)	-0.007 (0.16)	0.007 (0.18)
Trust × High Trust Acq. × High Trust Tgt.	***-0.152 (3.06)				***-0.157 (3.15)			
Trust × Low Trust Acq. × Low Trust Tgt.		-0.058 (0.25)				-0.090 (0.37)		
Trust × High Trust Acq. × Low Trust Tgt.			**0.148 (2.54)				**0.149 (2.57)	
Trust × Low Trust Acq. × High Trust Tgt.				**0.172 (2.12)				**0.183 (2.23)
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Industry x Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Industry x Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country x Acquirer Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country x Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.09	0.092	0.092	0.09	0.08	0.082	0.082	0.08
Number of Observations	8357	8447	8447	8357	8357	8447	8447	8357

Panel B – Deal Value equal and above \$50 million at Country-industry-pair Level

<i>Variables of Interest</i>	<i>Number of Deals Based</i>				<i>\$ Transaction Value Based</i>			
	1	2	3	4	5	6	7	8
Trust	**0.093 (2.36)	0.059 (1.56)	0.029 (0.67)	0.021 (0.53)	*0.076 (1.94)	0.039 (1.03)	0.007 (0.16)	-0.006 (-0.16)
Trust × High Trust Acq. × High Trust Tgt.	** -0.097 (-2.08)				** -0.111 (-2.37)			
Trust × Low Trust Acq. × Low Trust Tgt.		0.015 (0.07)				0.034 (0.16)		
Trust × High Trust Acq. × Low Trust Tgt.			0.068 (1.24)				0.073 (1.33)	
Trust × Low Trust Acq. High Trust Tgt.				*0.132 (1.69)				*0.154 (1.93)
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Industry × Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Industry × Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country × Acquirer Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country × Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.09	0.089	0.089	0.09	0.075	0.075	0.075	0.075
Number of Observations	10726	10878	10878	10726	10726	10878	10878	10726

Table 9: Trust Differences and Combined Abnormal Returns

This table presents the results from fixed effects model on the effects of trust difference over combined cumulative abnormal returns. The dependent variable is the combined abnormal announcement return of the acquirer and the target over (-1,+1) days, weighted by market values, over the period 1985–2014. The variable of interest Trust is the absolute difference between trust score of acquirer and target countries and is measured from a WVS survey question “whether people believe most other people can be trusted or not”. Inclusion of fixed effects (FE) is indicated at the end of the table. All variables are defined in Appendix 2. We correct standard errors for heteroscedasticity at acquirer and target country level and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

<i>Variable of Interest</i>	All	Completed	Withdrawn
	1	2	3
<i>Trust</i>	** -0.070 (2.58)	* -0.051 (1.67)	*** -0.458 (2.86)
<i>Deal Characteristics</i>			
\$ Transaction Value	* 0.006 (1.77)	* 0.007 (1.88)	-0.012 (0.61)
Acq. Market Capitalization	*** -0.011 (6.38)	*** -0.012 (5.40)	* -0.012 (1.89)
Tgt. Market Capitalization	0.003 (0.74)	0.001 (0.31)	0.019 (1.19)
Relative Deal Size	** 0.000 (2.05)	0.000 (1.23)	0.000 (0.29)
Cash Only	*** 0.024 (3.90)	*** 0.028 (3.96)	0.023 (1.39)
No. of Bidders	0.002 (0.32)	-0.009 (1.14)	** 0.044 (2.71)
Hostile Deals	0.008 (0.68)	-0.017 (1.37)	0.049 (1.06)
Financial Acquirers	-0.009 (1.06)	-0.006 (0.62)	-0.011 (0.27)
<i>Country Characteristics</i>			
Acq. GDP	-0.014 (0.58)	0.003 (0.11)	** -0.213 (2.61)
Tgt. GDP	-0.012 (0.52)	0.008 (0.40)	* -0.176 (1.84)
Acq. Investment Profile	0.003 (0.82)	0.003 (0.85)	* 0.035 (1.74)
Tgt. Investment Profile	0.002 (0.50)	0.000 (0.09)	-0.018 (0.77)
Acq. Quality of Institutions	-0.001 (0.11)	-0.005 (0.81)	0.018 (0.78)
Tgt. Quality of Institutions	0.001 (0.14)	0.002 (0.38)	-0.035 (1.19)
<i>Country-Pair Characteristics</i>			
Geographic Distance	* -0.006 (1.85)	-0.001 (0.30)	-0.021 (1.29)
Share Border	-0.010 (0.96)	0.014 (1.09)	-0.108 (1.47)
Same Legal Origin	0.004 (0.42)	0.002 (0.19)	-0.081 (0.83)
Same Religion	-0.003 (0.59)	-0.001 (0.21)	0.015 (0.44)
Same Language	-0.011 (0.96)	-0.007 (0.52)	0.085 (0.87)
Same Colony	0.008 (1.00)	0.006 (0.65)	0.029 (0.48)
Year FE	Yes	Yes	Yes
Acquirer Industry FE	Yes	Yes	Yes
Target Industry FE	Yes	Yes	Yes
Acquirer Country FE	Yes	Yes	Yes
Target Country FE	Yes	Yes	Yes
Adjusted R ²	0.131	0.118	0.126
Number of Observations	1103	880	223

Appendix 1. M&A Procedure

M&A procedure is a series of discrete events. The extant literature explains M&A procedure in a variety of manner (e.g. Aktas, Xu and Yortoglu (2018), Chenxi, Jinhong and Qui (2016), Boone and Mulherin (2007)). A typical transaction goes through two stages: a pre-completion stage and a post-merger integration (Boone and Mulherin, 2007). Aktas, et al. (2018) divides the pre-completion stage of M&A procedure into two distinct phases. The private phase of the procedure begins with the deal initiation and lasts until the first public announcement, where the intermediate steps involve variety of agreements including confidentiality, exclusivity and letter of intent. Then, the M&A enters into public phase of pre-completion stage with the public announcement and culminates at the deal resolution where the deal is either completed or withdrawn.

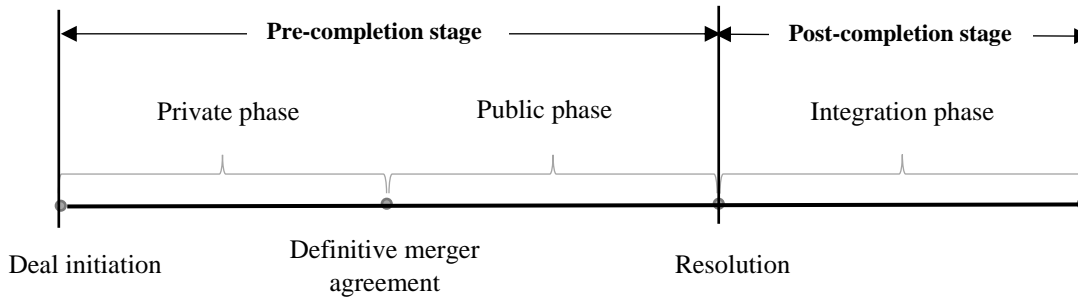


Figure 1 M&A procedure

Unlike the general process, cross-border M&A are more complex in execution with a higher degree of uncertainty and unfamiliarity for acquirers (Chenxi, et al., 2016). The extant literature in finance and law suggests various factors leading to M&A withdrawals. While a misunderstanding or overlooking of some important existing information may lead to M&A failure during the private phase of merger process (Chenxi, et al., 2016), release of unanticipated new information can cause a merger to die during the public phase of the process (Hotchkiss, Qian, and Song, 2005).

Further, during the public phase, confirmatory due diligence often becomes a daunting task while entering both the developed and emerging markets (Rosenbloom, 2002) due to issues relating to exchange rates, local taxes and accounting standards, stringent trade regulations and risk of expropriation that might be imposed by the foreign government (Kissin and Herrera,

1990). In line with Chenxi, et al., (2016), we assume that differences in the level of trust between countries can either heighten or lower the learning barriers that may influence volume of withdrawn M&A.

Appendix 2. Variables Definitions and Sources

Variable Name	Definition and Source
<i>Dependent Variables</i>	
Withdrawn Merger Intensity (Number of Deals based)	The number of withdrawn M&A transactions relative to total announced M&A transactions between a country pair in a given year (<i>Source</i> : SDC, and authors calculation)
Withdrawn Merger Intensity (\$ Transaction Value based)	The dollar value of withdrawn M&A transactions relative to total dollar value of announced M&A transactions between a country pair in a given year (<i>Source</i> : SDC, and authors calculation)
Combined CARs (-1,+1)	The combined firm CAR (cumulative abnormal return) is the value weighted CAR of acquirer and target firms where the weights are given based on market value of each firm 4 weeks prior to the announcement date. It is calculated over a 3-day window around the announcement date. Abnormal returns are calculated using the market model relative to a local equity market index. The value weighted index for U.S. firms is obtained from CRSP, while for other countries local indices (proxies of market portfolio) are retrieved from Thomson Reuters DataStream. The parameters of the market model are 200-days estimation period spread over (-235,-36) (<i>Sources</i> : CRSP, Compustat Global, and authors' calculations).
<i>Variable of Interest</i>	
Trust	Trust is the absolute difference between trust score of acquirer and target countries. Following Ahern et al. (2015), Trust score is calculated using the question "Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?" (<i>Source</i> : World Value Survey).
<i>Deal Characteristics</i>	
Private Mergers	The total number of M&A transactions by private companies relative to total announced M&A transactions between a country pair in a given year (<i>Source</i> : SDC, and authors calculation).
Public Mergers	The total number of M&A transactions by public companies relative to total announced M&A transactions between a country pair in a given year (<i>Source</i> : SDC, and authors calculation).
<i>Country Characteristics</i>	
Acq. GDP	The natural logarithm of Gross Domestic Product of acquirer country (<i>Source</i> : World Bank).
Tgt. GDP	The natural logarithm of Gross Domestic Product of target country (<i>Source</i> : World Bank).
Acq. Investment Profile	Time-varying index measuring the government's attitude towards investment of acquirer country. The investment profile is determined by summing the three following components: (1) risk of expropriation or contract viability; (2) payment delays; and (3) repatriation of profits. Each component is scored on a scale from 0 (very high risk) to 4 (very low risk) (<i>Source</i> : ICRG).
Tgt. Investment Profile	Time-varying index measuring the government's attitude toward investment of target country. The investment profile is determined by summing the three following components: (1) risk of expropriation or contract viability; (2) payment delays; and (3) repatriation of profits. Each component is scored on a scale from 0 (very high risk) to 4 (very low risk) (<i>Source</i> : ICRG).
Acq. Quality of Institutions	Time-varying index measuring institutional quality of acquirer country, which is calculated by summing the three following components: (1) corruption; (2) law and order; and (3) bureaucratic quality. High score indicates countries with higher institutional quality and vice versa (<i>Source</i> : ICRG).
Tgt. Quality of Institutions	Time-varying index measuring institutional quality of target country, which is calculated by summing the three following components: (1) corruption; (2) law and order; and (3) bureaucratic quality. High score indicates countries with higher institutional quality and vice versa (<i>Source</i> : ICRG).

Individualism	The widely available Hofstede culture measure (see e.g. http://www.geert-hofstede.nl or Aggarwal et al. (2012)). The measure is calculated as the absolute difference between the acquirer and target countries score.
Power Distance	As above.
Masculinity	As above.
Power Distance	As above.
<i>Deal- and Firm-Level Characteristics</i>	
\$ Transaction Value	The natural logarithm of dollar transaction value of announced M&A transactions (<i>Source: SDC</i>).
Market Capitalization	The natural logarithm of market capitalization of acquirer firm 4 weeks prior to announcement date (<i>Source: SDC</i>).
Relative Deal Size	The ratio of deal value to the market capitalization of target firm 4 weeks prior to announcement date (<i>Source: SDC</i>).
Cash Only	Dummy variable equal to 1 if 100% of deal value is paid in cash, and 0 otherwise (<i>Source: SDC</i>).
No. of Bidders	Dummy variable equal to 1 if deal attitude is classified as “Hostile” by SDC, and 0 otherwise (<i>Source: SDC</i>).
Hostile Deals	Dummy variable equal to 1 if deal attitude is classified as “Hostile” by SDC, and 0 otherwise (<i>Source: SDC</i>).
Financial Acquirer	Dummy variable equal to 1 if acquirer is a financial firm, and 0 otherwise (<i>Source: SDC</i>).
<i>Country-Pair Characteristics</i>	
Geographic Distance	The geographic distance between capital cities of acquirer and target countries and is calculated using great-circle distance formula which uses the longitude and latitude of the countries. (www.mapsofworld.com)
Share Border	Dummy variable equal to 1 if acquirer and target countries share the border, and 0 otherwise. (<i>Source: Djankov et al., 2008</i>).
Same Legal Origin	Dummy variable equal to 1 if acquirer and target countries share the same legal origin, and 0 otherwise. (<i>Source: CEPII</i>).
Same Religion	Dummy variable equal to 1 if acquirer and target countries share the same dominant religion, and 0 otherwise. (<i>Source: CEPII</i>).
Same Language	Dummy variable equal to 1 if acquirer and target countries share the same official language, and 0 otherwise. (<i>Source: CEPII</i>).
Same Colony	Dummy variable equal to 1 if acquirer and target countries are in colonial relationship, and 0 otherwise. (<i>Source: CEPII</i>).

Table A1. Trust Differences and Merger Volume – Ahern et al. (2015)

The table presents the results from fixed effects model. The dependent variable is the M&A volume either based on number of deals in column (1) or based on \$ transaction value in column (2). The variable of interest Trust is difference between trust score of acquirer and target countries and is measured from a WVS survey question “whether people believe most other people can be trusted or not”. Inclusion of fixed effects (FE) is indicated at the end. All variables are defined in Appendix 2. Panel A presents the results when the dependent variable is aggregated at country-pair level and in Panel B, the dependent variable is aggregated at country-industry-pair level. We correct standard errors for heteroscedasticity at acquirer and target country level and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

Panel A – Country-pair Level Analysis

<i>Variable of Interest</i>	<i>Number of Deals Based</i>		<i>\$ Transaction Value Based</i>	
	1		2	
Trust	***-0.386		***-1.050	
	(3.41)		(3.61)	
<i>Deal Characteristics</i>				
Private Mergers	***-0.044		***-0.818	
	(2.83)		(14.32)	
Public Mergers	***0.117		***0.749	
	(5.55)		(9.43)	
<i>Country Characteristics</i>				
Acq. GDP	***0.169		**0.310	
	(4.44)		(2.02)	
Tgt. GDP	***0.184		***0.591	
	(5.26)		(5.70)	
Acq. Investment Profile	***0.029		0.033	
	(4.27)		(1.38)	
Tgt. Investment Profile	*0.010		**0.051	
	(1.66)		(2.43)	
Acq. Quality of Institutions	**0.021		***0.107	
	(2.21)		(3.11)	
Tgt. Quality of Institutions	0.008		-0.023	
	(0.91)		(0.83)	
<i>Country-Pair Characteristics</i>				
Geographic Distance	***-0.271		***-0.514	
	(11.47)		(11.05)	
Share Border	*0.170		*0.319	
	(1.81)		(1.81)	
Same Legal Origin	0.021		0.196**	
	(0.67)		(2.33)	
Same Religion	*0.078		***0.243	
	(1.66)		(2.66)	
Same Language	***0.313		***0.404	
	(4.26)		(3.12)	
Same Colony	**0.169		0.200	
	(2.40)		(1.45)	
Year FE	Yes		Yes	
Acquirer Country FE	Yes		Yes	
Target Country FE	Yes		Yes	
Adjusted R ²	0.507		0.355	
Number of Observations	9440		9440	

Panel B - Country-industry-pair Level Analysis

<i>Variable of Interest</i>	<i>Number of Deals Based</i>	<i>\$ Transaction Value Based</i>
	1	2
Trust	***-0.284 (4.26)	***-0.975 (4.48)
<i>Deal Characteristics</i>		
Private Mergers	-0.013 (1.58)	***-0.664 (16.54)
Public Mergers	**0.032 (2.51)	***0.696 (10.73)
<i>Country Characteristics</i>		
Acq. GDP	***0.062 (3.06)	0.131 (1.17)
Tgt. GDP	***0.077 (2.62)	***0.431 (4.19)
Acq. Investment Profile	***0.019 (3.55)	0.037 (1.61)
Tgt. Investment Profile	*0.006 (1.69)	***0.042 (2.71)
Acq. Quality of Institutions	0.003 (0.53)	**0.069 (2.46)
Tgt. Quality of Institutions	0.007 (1.06)	-0.006 (0.26)
<i>Country-Pair Characteristics</i>		
Geographic Distance	***-0.101 (7.84)	***-0.156 (4.75)
Share Border	0.083 (1.54)	*0.245 (1.78)
Same Legal Origin	-0.008 (0.38)	-0.026 (0.38)
Same Religion	0.000 (0.01)	0.055 (0.79)
Same Language	***0.182 (3.69)	*0.209 (1.70)
Same Colony	**0.099 (2.53)	**0.198 (2.23)
Acquirer Industry x Year FE	Yes	Yes
Target Industry x Year FE	Yes	Yes
Acquirer Country x Acquirer Industry FE	Yes	Yes
Target Country x Target Industry FE	Yes	Yes
Adjusted R ²	0.365	0.285
Number of Observations	20488	20488

Table A2: Trust Differences and Withdrawn Merger Intensity – Alternate Clustering

This table presents the results from fixed effects model. The dependent variable is the withdrawn merger intensity, defined as the number of withdrawn deals divided by the total number of announced deals in columns (1) to (4), and \$ transaction value of the withdrawn deals divided by the total \$ transaction value of announced deals in columns (5) to (8). The variable of interest Trust is the absolute difference between trust score of acquirer and target countries and is measured from a WVS survey question “whether people believe most other people can be trusted or not”. Panel A present the results of country-industry-pair level analyses, and Inclusion of fixed effects (FE) is indicated at the end of the table. All variables are defined in Appendix 2. For all models, we correct standard errors for heteroscedasticity at different levels and are indicated at the end of the table, and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

	<i>Number of Deals Based</i>	<i>\$ Transaction Value Based</i>	<i>Number of Deals Based</i>	<i>\$ Transaction Value Based</i>	<i>Number of Deals Based</i>	<i>\$ Transaction Value Based</i>
	1	2	3	4	5	6
<i>Variable of Interest</i>						
Trust	***0.077 (3.36)	***0.071 (2.98)	***0.077 (2.86)	**0.071 (2.65)	***0.077 (2.87)	***0.071 (2.66)
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Industry x Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Target Industry x Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country x Acquirer Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Target Country x Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.086	0.077	0.088	0.079	0.088	0.079
Number of Observations	20308	20308	20308	20308	20308	20308
Cluster Level	Country-pair and Year		Acquirer Country		Target Country	

Table A3: (A)symmetry of Trust and Withdrawn Merger Intensity – Full Sample

This table presents the coefficient estimates of the analyses of the effects of trust differences/similarities between acquirer and target countries-industries over withdrawn merger intensity. The dependent variable is the withdrawn merger intensity, defined as the number of withdrawn deals divided by the total number of announced deals in columns (1) to (4), and \$ transaction value of the withdrawn deals divided by the total number of announced deals in columns (5) to (8). The variable Trust is the absolute difference between trust score of acquirer and target countries and is measured from a WVS survey question “whether people believe most other people can be trusted or not”. The variables of interest are defined as the interaction of Trust with high trust acquirer and high trust target in columns (1) and (5), low trust acquirer and low trust target in columns (2) and (6), high trust acquirer and low trust target in columns (3) and (7), and low trust acquirer and high trust target in columns (4) and (8), respectively. Inclusion of fixed effects (FE) is indicated at the end of the table. All variables are defined in Appendix 2. For all models, we correct standard errors for heteroscedasticity at acquirer and target country level and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

	Number of Deals				\$ Transaction Value			
	1	2	3	4	5	6	7	8
<i>Variables of Interest</i>								
Trust	***0.086 (3.03)	***0.073 (2.83)	***0.081 (2.64)	*0.050 (1.78)	***0.084 (2.90)	**0.066 (2.47)	**0.071 (2.27)	0.036 (1.25)
Trust x High Trust Acq. x High Trust Tgt.	-0.034 (0.97)				-0.048 (1.34)			
Trust x Low Trust Acq. x Low Trust Tgt.		-0.085 (0.55)				-0.116 (0.76)		
Trust x High Trust Acq. x Low Trust Tgt.			-0.008 (0.18)				0.000 (0.01)	
Trust x Low Trust Acq. x High Trust Tgt.				0.084 (1.57)				*0.106 (1.90)
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Industry x Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Industry x Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country x Acquirer Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country x Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.089	0.091	0.091	0.089	0.08	0.082	0.082	0.08
Number of Observations	19920	20488	20488	19920	19920	20488	20488	19920

Internet Appendix
[Not for Publication]

This internet appendix presents additional results to accompany the paper “Do differences in societal trust let the cross-border mergers die?”.

The contents are as follows:

Internet Appendix A presents the sensitivity analyses results from Table 4 (*Panel A – Panel G*) in the paper, at country-pair level.

Internet Appendix B presents the results from Table 5, at country-pair level.

Internet Appendix C presents the results from Table 6, at country-pair level.

Internet Appendix D presents the results from Table 7, at U.S. region-pair level.

Internet Appendix E presents the results from Table 8, at country-pair level.

Internet Appendix F presents the results from Table 8, at deal level.

Internet Appendix A: Sensitivity Analyses

This table presents the coefficient estimates of the various sensitivity analyses at country-pair level. The dependent variable is the withdrawn merger intensity, defined as the (i) number of withdrawn deals divided by the total number of announced deals in columns (1) to (4) and (ii) \$ transaction value of the withdrawn deals divided by the total \$ transaction value of announced deals in columns (5) to (8). The variable of interest Trust is the absolute difference between trust score of acquirer and target countries and is measured from a WVS survey question “whether people believe most other people can be trusted or not”. In Panel A, we drop the countries with the most active takeover markets such as USA, Canada and UK, in Panel B, we divide the sample into different sub-periods, Panel C presents the coefficients estimated from Tobit model, Panel D restricts sample to country-pairs that have at least 1 withdrawn mergers during our sample period, Panel E presents the results when we control for cultural differences based on (Hofstede 1980; 2001) culture dimensions and Panel F reports the results when we alternatively construct Trust variable i.e., (i) Treated trust in which we replace the missing values of a given year with the score of the previous survey year and (ii) Interpolated trust in which the missing values are replaced using interpolation method, respectively. Panel G presents the results with the sample excluding pending -deals. Inclusion of fixed effects (FE) is indicated at the end. All variables are defined in Appendix 2. For all models, we correct standard errors for heteroscedasticity at acquirer and target country level and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

Panel A – Sub-sample Analyses

	Number of Deals				\$ Transaction Value			
	1	2	3	4	5	6	7	8
<i>Variable of Interest</i>								
Trust	**0.074 (2.42)	**0.070 (2.33)	**0.077 (2.44)	**0.072 (2.23)	**0.079 (2.45)	**0.079 (2.45)	**0.084 (2.51)	**0.081 (2.35)
USA Drop	Yes				Yes			
Canada Drop		Yes				Yes		
UK Drop			Yes				Yes	
All Drop				Yes				Yes
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.07	0.062	0.07	0.06	0.045	0.045	0.049	0.044
Number of Observations	8532	8852	8621	7125	8852	8852	8621	7125

Panel B – Sub-period Analyses

	<2000		≥2000		<2007	
	Number of Deals			\$ Transaction Value		
	1	2	3	4	5	6
<i>Variable of Interest</i>						
Trust	***0.156 (2.95)	0.047 (1.22)	***0.117 (2.99)	**0.127 (2.24)	*0.068 (1.65)	**0.102 (2.47)
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Target Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.079	0.064	0.084	0.065	0.043	0.061
Number of Observations	2713	6727	5454	2713	6727	5454

Panel C – Alternative Estimation Method – Tobit Model

<i>Variable of Interest</i>	Number of Deals		\$ Transaction Value	
	1		2	
Trust	*0.227		*0.246	
	(1.73)		(1.79)	
Deal Characteristics	Yes		Yes	
Country Characteristics	Yes		Yes	
Country-Pair Characteristics	Yes		Yes	
Year Fixed Effects	Yes		Yes	
Acquirer Country Fixed Effects	Yes		Yes	
Target Country Fixed Effects	Yes		Yes	
Pseudo R2	0.080		0.070	
Number of Observations	9440		9440	

Panel D – Restricting to at least 1 Withdrawn Merger Between each Country-pair

<i>Variable of Interest</i>	Number of Deals		\$ Transaction Value	
	1		2	
Trust	**0.132		**0.159	
	(2.20)		(2.13)	
Deal Characteristics	Yes		Yes	
Country Characteristics	Yes		Yes	
Country-Pair Characteristics	Yes		Yes	
Year Fixed Effects	Yes		Yes	
Acquirer Country Fixed Effects	Yes		Yes	
Target Country Fixed Effects	Yes		Yes	
Adjusted R ²	0.478		0.310	
Number of Observations	3141		3141	

Panel E – Controlling for Cultural Differences

<i>Variable of Interest</i>	Number of Deals					\$ Transaction Value				
	1	2	3	4	5	6	7	8	9	10
Trust	***0.085 (2.73)	**0.079 (2.51)	**0.079 (2.51)	***0.088 (2.78)	**0.078 (2.38)	***0.090 (2.69)	**0.081 (2.39)	**0.085 (2.48)	***0.092 (2.67)	**0.077 (2.16)
Individualism	**0.036 (2.02)				0.033 (1.43)	0.015 (0.77)				0.003 (0.12)
Uncertainty Avoidance		0.026 (1.11)			0.020 (0.84)		0.033 (1.34)			0.030 (1.16)
Power Distance			0.035 (1.38)		0.002 (0.05)			0.029 (1.08)		0.021 (0.61)
Masculinity				-0.008 (0.27)	-0.003 (0.09)				-0.003 (0.11)	0.002 (0.08)
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.074	0.074	0.074	0.074	0.074	0.049	0.049	0.049	0.048	0.048
Number of Observations	8095	8095	8095	8095	8095	8095	8095	8095	8095	8095

Panel F – Alternative Estimation of Trust Score

	Treated Trust		Interpolated trust	
	<i>Number of Deals Based</i>	<i>\$ Transaction Value Based</i>	<i>Number of Deals Based</i>	<i>\$ Transaction Value Based</i>
	1	2	3	4
<i>Variable of Interest</i>				
Trust	**0.082 (2.12)	**0.087 (2.13)	**0.149 (2.24)	**0.170 (2.42)
Deal Characteristics	Yes	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Acquirer Country Fixed Effects	Yes	Yes	Yes	Yes
Target Country Fixed Effects	Yes	Yes	Yes	Yes
Adjusted R ²	0.072	0.046	0.084	0.055
Number of Observations	9440	9440	2919	2919

Panel G – Excluding ‘Pending’ Deals

	Number of Deals Based	\$ Transaction Value Based
	1	2
<i>Variable of Interest</i>		
Trust	**0.043 (2.17)	**0.046 (2.09)
Deal Characteristics	Yes	Yes
Country Characteristics	Yes	Yes
Country-Pair Characteristics	Yes	Yes
Year Fixed Effects	Yes	Yes
Acquirer Country Fixed Effects	Yes	Yes
Target Country Fixed Effects	Yes	Yes
Adjusted R ²	0.049	0.055
Number of Observations	8786	8786

Internet Appendix B: Omitted Variables Bias

This table presents the results at country-pair level using fixed effects model. The dependent variable is the withdrawn merger intensity, defined as the number of withdrawn deals divided by the total number of announced deals in column (1), and \$ transaction value of the withdrawn deals divided by the total \$ transaction value of announced deals in column (2). The variable of interest Trust is the absolute difference between trust score of acquirer and target countries and is measured from a WVS survey question “whether people believe most other people can be trusted or not”. Inclusion of fixed effects (FE) is indicated at the end of the table. All variables are defined in Appendix 2. We correct standard errors for heteroscedasticity at acquirer and target country level and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

<i>Variable of Interest</i>	Number of Deals Based	\$ Transaction Value Based
	1	2
Trust	**0.071 (2.10)	**0.084 (2.28)
Deal Characteristics	Yes	Yes
Country Characteristics		
Country-Pair Characteristics	Yes	Yes
Year Fixed Effects	Yes	Yes
Acquirer Country x Year FE	Yes	Yes
Target Country x Year FE	Yes	Yes
Adjusted R ²	0.139	0.090
Number of Observations	9440	9440

Internet Appendix C: 2SLS Instrumental Variables

This table presents the results of 2SLS instrument variables regression model of trust level on withdrawn merger intensity, at country-pair level, where the trust is instrumented by genetic distance ($\ln(1+F_{st})$) for the majority population in a country in Panel A (CavalliSforza, Menozzi, and Piazza, 1994), and somatic distance ($\ln(1+Somatic\ distance)$) based on height, hair color (pigmentation), and cephic index in Panel B (Biasutti, 1954), respectively. The dependent variable is the withdrawn M&A intensity, defined as the number of withdrawn merger deals divided by the total number of announced deals in column (2) and \$ transaction value of the withdrawn deals divided by the total number of announced deals in column (3) of the two panels. The variable of interest Trust is the absolute difference between trust score of acquirer and target countries and is measured from a WVS survey question “whether people believe most other people can be trusted or not”. Inclusion of fixed effects (FE) is indicated at the end of table. All variables are defined in Appendix 2. Tests of joint exclusion, under-identification and weak instruments are based on Kleibergen and Paap (2006). For all models, we correct standard errors for heteroscedasticity and cluster at country-pair level, and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

Panel A: Trust is instrumented by genetic distance.

	First Stage	2nd Stage	
	Trust	Number of Deals Based	\$ Transaction Value Based
	1	2	3
<i>Variables of Interest</i>			
Somatic Differences	***0.049 (3.13)		
Trust		0.212** (2.12)	0.251** (2.11)
Deal Characteristics	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes
Acquirer Country Fixed Effects	Yes	Yes	Yes
Target Country Fixed Effects	Yes	Yes	Yes
Joint test of excluded instruments	9.78 Prob >F = (0.00)		
Test of under-identification	7.84 (<0.001)		
Test of weak instruments	9.78		
Adjusted R ²	0.457	0.037	0.031
Number of Observations	1052	1052	1052

Panel B: Trust is instrumented by somatic distance.

	First Stage	2nd Stage	
	Trust	Number of Deals Based	\$ Transaction Value Based
	1	2	3
<i>Variables of Interest</i>			
Genetic Differences	***0.008 (2.66)		
Trust		0.715* (1.83)	0.643* (1.68)
Deal Characteristics	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes
Acquirer Country Fixed Effects	Yes	Yes	Yes
Target Country Fixed Effects	Yes	Yes	Yes
Joint test of excluded instruments	7.07 Prob >F = (0.00)		
Test of under-identification	7.11 (<0.001)		
Test of weak instruments	7.07		
Adjusted R ²	0.479	0.04	0.032
Number of Observations	4257	4275	4275

Internet Appendix D: Trust Differences within U.S.

This table presents the results at US region-pair level from fixed effects model. The dependent variable is the Withdrawn merger intensity, defined as the number of withdrawn deals divided by the total number of announced deals in column 1, and \$ transaction value of the withdrawn deals divided by the total \$ transaction value of announced deals in Column 2. The variable of interest Trust is difference between trust score of acquirer and target US regions and is measured from a WVS survey question “whether people believe most other people can be trusted or not”. Inclusion of fixed effects (FE) is indicated at the end. All variables are defined in Appendix 2. For all models, we correct standard errors for heteroscedasticity at acquirer and target region level and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

	Number of Deals Based	\$ Transaction Value Based
	1	2
Trust	*0.079 (1.75)	*0.085 (1.70)
Deal Characteristics	Yes	Yes
Acquirer Industry x Year FE	Yes	Yes
Target Industry x Year FE	Yes	Yes
Acquirer Region x Year FE	Yes	Yes
Target Region x Year FE	Yes	Yes
Adjusted R ²	0.079	0.079
Number of Observations	11524	11524

Internet Appendix E: (A)symmetry of Trust and Withdrawn Merger Intensity – Country-Pair Level Analysis

This table presents the coefficient estimates of the analyses of the effects of trust differences/similarities between acquirer and target countries over withdrawn merger intensity. The dependent variable is the withdrawn merger intensity, defined as the number of withdrawn deals divided by the total number of announced deals in columns (1) to (4), and \$ transaction value of the withdrawn deals divided by the total number of announced deals in columns (5) to (8). The variable Trust is the absolute difference between trust score of acquirer and target countries and is measured from a WVS survey question “whether people believe most other people can be trusted or not”. The variables of interest are defined as the interaction of Trust with high trust acquirer and high trust target in columns (1) and (5), low trust acquirer and low trust target in columns (2) and (6), high trust acquirer and low trust target in columns (3) and (7), and low trust acquirer and high trust target in columns (4) and (8), respectively. Panel A and B present the results when deal value equal and above \$100 million and \$50 million at country-pair level, respectively. Inclusion of fixed effects (FE) is indicated at the end of the table. All variables are defined in Appendix 2. For all models, we correct standard errors for heteroscedasticity at acquirer and target country level and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

Panel A – Deal Value equal and above \$100 million at Country-pair Level

	<i>Number of Deals Based</i>				<i>\$ Transaction Value Based</i>			
	1	2	3	4	5	6	7	8
<i>Variables of Interest</i>								
Trust	*0.071 (1.82)	**0.080 (2.02)	0.034 (0.63)	0.035 (0.63)	*0.080 (1.81)	**0.090 (2.07)	0.014 (0.23)	0.058 (0.94)
Trust x High Trust Acq. x High Trust Tgt.	*-0.139 (-1.75)				*-0.162 (1.85)			
Trust x Low Trust Acq. x Low Trust Tgt.		-0.079 (0.99)				-0.115 (1.27)		
Trust x High Trust Acq. x Low Trust Tgt.			0.083 (1.31)				**0.138 (1.98)	
Trust x Low Trust Acq. x High Trust Tgt.				0.096 (1.17)				0.072 (0.79)
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.100	0.097	0.097	0.099	0.056	0.054	0.055	0.056
Number of Observations	4213	4309	4309	4213	4213	4309	4309	4213

Panel B – Deal Value equal and above \$50 million at Country-pair Level

	<i>Number of Deals Based</i>				<i>\$ Transaction Value Based</i>			
	1	2	3	4	5	6	7	8
<i>Variables of Interest</i>								
Trust	**0.089 (2.26)	**0.094 (2.45)	0.073 (1.43)	*0.090 (1.67)	**0.093 (2.30)	**0.097 (2.42)	0.057 (1.05)	*0.097 (1.69)
Trust x High Trust Acq. x High Trust Tgt.	-0.048 (0.60)				-0.061 (0.73)			
Trust x Low Trust Acq. x Low Trust Tgt.		-0.007 (0.10)				-0.043 (0.55)		
Trust x High Trust Acq. x Low Trust Tgt.			0.036 (0.61)				0.070 (1.12)	
Trust x Low Trust Acq. x High Trust Tgt.				0.007 (0.10)				0.005 (0.06)
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.080	0.081	0.081	0.08	0.047	0.048	0.048	0.047
Number of Observations	5805	5995	5995	5805	5805	5995	5995	5805

Internet Appendix F: (A)symmetry of Trust and Withdrawn Merger Intensity – Deal Level Analysis

This table presents the coefficient estimates of the analyses of the effects of trust differences/similarities between acquirer and target countries over withdrawn merger intensity, at deal level. The dependent variable is an indicator variable which is equal to 1 if the deal is withdrawn and 0 otherwise. The variable Trust is the absolute difference between trust score of acquirer and target countries and is measured from WVS survey question “whether people believe most other people can be trusted or not”. The variables of interest are defined as the interaction of Trust with high trust acquirer and high trust target in column (1), low trust acquirer and low trust target in column (2), high trust acquirer and low trust target in column (3), and low trust acquirer and high trust target in column (4), respectively. Inclusion of fixed effects (FE) is indicated at the end of the table. All variables are defined in Appendix 2. For all models, we correct standard errors for heteroscedasticity at acquirer and target country level and report t-statistics in parentheses. Significance at 10%, 5%, and 1% is indicated by *, **, and ***, respectively.

	1	2	3	4
<i>Variables of Interest</i>				
Trust	**0.063 (2.11)	0.040 (1.60)	0.001 (0.02)	-0.008 (0.29)
Trust x High Trust Acq. x High Trust Tgt.	***-0.099 (2.76)			
Trust x Low Trust Acq. x Low Trust Tgt.		-0.163 (0.92)		
Trust x High Trust Acq. x Low Trust Tgt.			*0.079 (1.83)	
Trust x Low Trust Acq. x High Trust Tgt.				**0.119 (2.09)
Deal Characteristics	Yes	Yes	Yes	Yes
Country Characteristics	Yes	Yes	Yes	Yes
Country-Pair Characteristics	Yes	Yes	Yes	Yes
Acquirer Industry x Year Fixed Effects	Yes	Yes	Yes	Yes
Target Industry x Year Fixed Effects	Yes	Yes	Yes	Yes
Acquirer Region x Year Fixed Effects	Yes	Yes	Yes	Yes
Target Region x Year Effects	Yes	Yes	Yes	Yes
Adjusted R ²	0.106	0.119	0.107	0.106
Number of Observations	40968	40968	40968	40968