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The Role of Accounting Characteristics in Cross-border Mergers and Acquisitions: Do accounting and auditing add value in transactions?

Master Thesis Accounting, Auditing & Control

Accounting and Auditing

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ABSTRACT

This research focusses on the role of accounting characteristics in cross-border M&A transactions. Specifically, tested is if these characteristics influence the M&A quality. The accounting characteristics investigated in this research are accounting similarity, accounting quality, common auditors and having a big 4 auditor. This study uses data from several different sources, including Zephyr, Orbis, Datastream, the World Values Survey and the CEPII database. The main tests focus on, the direct effect of the accounting characteristic and the interaction effect of the accounting characteristics and cultural differences between countries. Thereby, a separate panel of results is included in order to show difference for private versus public targets. After using multiple proxies for these characteristics, only weak evidence in support of the several hypotheses is found. Even some conflicting results are observed. Additional tests are run to check for different measures of M&A quality and cultural differences. After these additional tests and several robustness checks there still isn't enough evidence to confirm any of the hypotheses.

Keywords: Cross-border mergers and acquisitions; accounting characteristics; cultural differences.

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1. Introduction

"HP announced today it is writing down more than $5 billion, or almost half of the acquisition price, because of serious accounting improprieties, misrepresentation and disclosure failures." (McKenna, 2012)

This announcement was made approximately one year after the acquisition of Autonomy by Hewlett-Packard (HP). Where the main goal of mergers and acquisitions (M&A) is to add value, taking advantage of synergies and thereby increasing the value of the new combined organization (Erel, Liao, & Weisbach, 2012), it turned out that the perceived added value upfront was higher than it turned out to be. This led to the voluminous write-offs one year later.

If M&A really can add value is questioned by prior research. Where Erel et al. (2012) state that M&As are incentivized based on the perceived added value from management, other research states that the average performance post-transaction doesn't necessarily go up (Agrawal, Jaffe, & Mandelker, 1992). King, Dalton, Daily, and Covin (2004) add to this literature that the general performance of an acquiring company after an M&A transaction is negatively affected. Xu (2017) adds in her study that whether and/or to what extent added value is found, that depends on the existence of M&A waves. She concludes that when M&As happen during a wave, defined as a response to industry-level structural changes caused by economic, regulatory or technological shocks (Harford, 2005), they tend to significantly add value.

Examples of such shocks are deregulation and financial liberalization, which has led to an increase in cross-border M&A (Coeurdacier, Santis, & Aviat, 2014). Policymakers can create an environment in which cross-border mergers are more or less encouraged (Buch & DeLong, 2004). Erel et al. (2012) reported on the increase in cross-border M&As over the years 1998 until 2007. They state that cross-border M&A transactions were respectively 23% and 45% of total M&A volume. Where globalization led to the world being more and more organized in a single global market place (Sachs, 1998), the options for potential targets logically increased. However, cultural differences between countries tend to mitigate synergy gains following from these cross-border M&As.

An important economic event that seems to increase cross-border M&As is the mandatory adoption of International Financial Reporting Standards (IFRS). In a working paper study, Louis and Urcan (2014) examined whether the 2005 mandatory adoption led to an increase in cross-border M&A activity. They find a significant increase of cross-border M&A activity, and state that this is driven by the mandatory adoption itself, and not by potential confounding enforcement changes. They assign this effect to the increase in comparability due to many countries using a common reporting system.

However, for private firms, this harmonization of accounting standards is not present since only listed European firms are subject to IFRS. Private firms are nonetheless often involved in cross-border M&As

(Capron & Shen, 2007). The involvement of private firms is also sometimes referred to as the vast majority of cross-border mergers (Erel et al., 2012). When looking specifically at UK acquirers, Conn, Cosh and Guest (2005) state that of all cross-border acquisitions, 94% involved privately-held targets. Despite the high involvement of private firms in cross-border M&As, there has been little research on the topic.

This paper will anticipate on this gap in research. To be more specific, in this study the role of intermediaries in (private) cross-border M&A transactions will be examined. Thereby, I will look at accounting characteristics, such as quality and similarity in the accounting and auditing of the involved parties. I will specifically look at whether these characteristics moderate the effect of cultural differences on the M&A quality. This M&A quality is defined as the economic surplus that is created by combining two firms (Martin & Shalev, 2016). In additional tests, another measure for M&A quality is used, namely the cumulative abnormal returns of the acquirer, in line with amongst others Chircop, Johan and Tarsalewska (2018).

Previous literature suggests that cultural differences between two companies negatively affect the M&A quality of a transaction between those companies. Thereby it can be expected that certain accounting characteristics positively affect M&A quality and mitigate the negative effect of cultural differences on M&A quality. The results found in this study show mixed evidence. For some characteristics, weak evidence is found, whereas for other characteristics conflicting evidence is found. Whether and to what extent accounting is of added value thus remains quite inconclusive.

The study contributes to the following streams of literature. First, it adds to the existing literature on cross-border M&A transactions. Differences between countries have been shown to complicate cross-border transactions due to a higher information barrier (Erel et al., 2012; Ahern, Dominalli, & Fracassi, 2015; Francis, Huang, & Khurana, 2016). With this study I tend to show which factors could mitigate this information barrier, leading to higher M&A quality.

Prior research that has been performed in this area is often focused on the country-level. They compare different country matches and then conclude which countries tend to have more cross-border M&A activity compared to others and which factors could influence this. This study distinguishes itself from these studies by looking at the firm-level which enables the opportunity to look at not only country differences, but also firm-specific factors. Where research on country-level identifies mandatory accounting standards, by looking at the firm-level accounting practice and auditor involvement are possible to examine.

A specific focus within this stream of literature is on the literature on private cross-border M&A. As mentioned before, this is a rather unexplored subject but it does have great relevance through the number of private firms that are involved in cross-border M&A transactions. First of all, I would like to

add to existing literature the role of financial intermediaries in private transactions. Thereby, I would like to address the differences between the role of financial intermediaries in public and private transactions through this research.

Since I will be focussing on accounting and auditing, I will also add to this the literature that studies the role these intermediaries play in transactions. Prior literature has already shown that having the same auditor (Cai, Kim, Park, & White, 2016), the same accounting standards (Francis et al., 2016), and high accounting quality (Marquardt and Zur, 2014) positively affects the post-announcement returns of public M&A transactions. This study further elaborates this field of research to examine the role of these factors in the context of private cross-border M&A transactions.

The rest of this paper is organized as follows. The next session discusses prior research on (private) cross-border M&A, M&A quality and the role of accounting, audit and financial intermediaries. Section 3 contains the hypothesis development. Section 4 describes the research design. The selection of data and descriptive statistics will be provided in section 5. Section 6 will present the results of the test and section 7 will contain a conclusion of this study.

2. Literature review

In this section, I will look at underlying prior research related to this study. First, I will elaborate on prior research focused on cross-border M&As and the complications that arise in such transactions to clarify the main problems with cross-border M&As. These problems are introduced to clarify how financial intermediaries could add value. Thereby, I will elaborate on additional challenges due to the involvement of private firms in such transactions. After this, I will look at research focused on the role of intermediaries, such as accounting, audit and financial advisors, play in economic transactions. The focus here will be on their involvement and influence in the M&A process.

2.1 Cross-border mergers and acquisitions

Conceptually, it can be said that cross-border M&As occur for the same reason as within border transactions. M&A is seen as a means to allocate assets in the best possible way. That said, M&As happen because it is seen as increasing value from the perspective of the managers from the acquiring company (Erel et al., 2012). Prior research has questioned whether these transactions do add value. Xu (2017) states in her research that whether an added value is found, this depends on the existence of M&A waves. Within M&A waves she finds significant added value, whereas she doesn't find this for transactions outside of these waves. King et al. (2004) find in their research that they don't find added value at all after the transactions, and state that the transactions negatively affects performance.

The waves earlier mentioned, are the consequence of shocks in the economic, regulatory and technological environment of the organization (Harford, 2005). Buch and DeLong (2004) state that regulation is a key factor in cross-border M&A activity when focusing on cross-border bank M&As. They imply that policymakers can create an environment in which cross-border mergers are encouraged. This is in line with the theory that economic or regulatory shocks lead to an increase in M&A activity or waves.

Globalization has led to the world being increasingly organized in a single global market place (Sachs, 1998). But, although markets might be integrated, information cost barriers still exist and can be hard to overcome (Buch & DeLong, 2004). These information cost barriers arise from the involvement of different nations in cross-border transactions. National borders seem to complicate M&As since these borders are associated with friction (Erel et al., 2012). In the next sections, I will further elaborate on these frictions.

2.1.1 Complications cross-border mergers and acquisitions

Where Page (2007) states that diversity could lead to innovation and better problem solving, prior research mainly states that differences lead to complications within cross-border M&As. The first difference is the location of the two parties. Geographic difference and thus physical distance is shown to increase the cost of combining two firms (Rose, 2000; Erel et al., 2012). Rose (2000) thereby states a so-called home-bias. This bias leads to more transactions within countries than between countries. Slightly in line with this, Erel et al. (2012) state that the odds of acquiring a target in a country nearby, preferably a contiguous country, are higher than buying a firm located more distant. Ahern et al. (2015) state the increased costs are because people in different countries tend to speak different languages and have different religions. Next to frictions in cross-border M&A transactions due to geographical differences, cultural distance is an important factor. Erel et al. (2012) combine these geographic and cultural factors and state that these positively affect costs related to the transactions. When it comes to cultural factors affecting economic transactions, prior research brings forward trust, hierarchy, and individualism (Ahern et al., 2015). Guiso, Sapienza, and Zingales (2009) thereby add that the influence of cultural factors is not only present in the decision making of unsophisticated consumers but also influences sophisticated professionals. One cultural factor was brought forward by Arrow (1972), stating trust is a facilitator of trade. Thereby trust is the confidence that the other party involved in the transaction performs his obligations related to the deal. Differences in trust in general or not trusting another party could thus affect transactional outcomes.

Table 1: Summary of prior literature concerning factors affecting M&A (quality)

Paper	Level of analysis			Dependent	Independent
	Crossborder/domestic	Public/private firms	Country/firm level		
Ahern et al. (2015)	Crossborder	Both	Both	# of deals between countries, CAR (for public acquirers)	Cultural distance
Cai et al. (2016)	Domestic	Public	Firm	CAR on announcement of deal (acquirer)	Common auditors
Capron & Shen (2007)	Crossborder	Public acquirers Public & private targets	Firm	CAR (acquirer)	Dummy "Private"
Conn et al. (2005)	Both	Public acquirers Public & private targets	Firm	CAR on announcement and post-acquisition (acquirer)	M&A announcement/M&A crossborder/domestic/private/ public target
Chircop et al. (2018)	Crossborder	Public	Firm	CAR on announcement of the deal (acquirer), ΔROA, premium	Common auditors
Erel et al. (2012)	Crossborder	Public	Country	% of crossborder deals of country i and y of total amount of deals of country i	Geography, economic development, accounting quality, currency movements, stock market performance
Francis et al. (2016)	Crossborder	Public	Country	% of crossborder deals of total deals for country i (measured in amount and dollar volume)	Accounting similarity/ comparability
Louis & Urcan (2014)	Crossborder	Public	Country	Number of acquisitions of targets in adopting countries	Mandatory adoption of IFRS
Marquardt & Zur (2015)	Domestic	Public	Firm	Likelihood of M&A as negotiation versus auction[1] process, speed of the deal, likelihood of deal completion	Accounting quality
Martin & Shalev (2016)	Domestic	Public	Firm	CAR (acquirer, target and combined), ΔROA	Target firm specific information (non-synchronicity, Abnormal Accruals)
Rossi & Volpin (2004)	Crossborder	Both	Both	Number of deals, probability hostile takeover, %of crossborder deals of total deals	Investor protection

Notes: In this table the main prior literature is summarized with information on the level of analysis and the main dependent and independent variables. Not all papers discussed in the literature review are stated here. Only literature with a comparable type of research (the effect of a certain characteristic on M&A quality) is included here. [1]The process with an auction is seen as having more uncertainty, whereas for negotiations high quality accounting information will lead to better information availability and thus better valuations in the negotiations.

When looking at the World Values Survey (WVS) related to trust, two seemingly opposing questions are asked to participants. On the one hand, respondents are asked to what extent they trust people within their own country. Of all people that answered this question, 20% responded they completely trust people within their country, and 39% trust them a little. Another question included in the WVS relates to the extent of trust put in people with another nationality, and thus cross-border. Where 35% trusts people with another nationality, only 5% trust these people completely. This represents one of the issues when it comes to cross-border M&A transactions.

Ahern et al. (2015) state that next to trust also hierarchy and individualism might affect economic transactions. Differences concerning the level of hierarchy are likely to complicate post-transaction integration or collaboration. These complications can follow from for example a rather hierarchical supervisor working with a more egalitarian worker, who doesn't follow orders straight away. Differences in the level of individualism may lead to involved people not having the same goals in mind, impeding the realization of synergy gains. Zak and Knack (2001) add to this that not having the same cultural values leads to mistrust, misunderstanding next to mismatched goals. These can lead to costly monitoring.

Whether culture affects decision making or transactions at all can however be doubted. Ahern et al. (2015), who also state the negative effects of cultural differences on cross-border M&As, mention in their study that it might not be that obvious that culture should play an important role. They state that if the underlying rationale for the M&A transaction is solid, culture should only play a minor role in the success of a transaction.

Other widely discussed issues in cross-border transactions are accounting standards and financial reporting. In transactions where there are differences between the accounting standards that both parties use, there seems to be a higher information barrier (Francis et al., 2016). This could be due to a lack of comparability. Francis et al. (2016) also mention that the difference in accounting standards might lead to valuation problems. These valuation problems thereby could lead to acquirers having difficulties with valuing potential target opportunities which might cause suboptimal decision making (Goodman, Neamtiu, Shroff, & White, 2013).

Whereas in public M&A activity IFRS, and thus the harmonization of accounting standards, plays an important role (Louis & Urcan, 2014; Francis et al., 2016), for private firms this harmonization is not present. The mandatory adoption of IFRS in 2005 is referred to as one of the most significant regulatory changes in accounting history, but it is only applicable to listed firms in adopting countries (Daske, Hail, Leuz, & Verdi, 2008). Whilst not under the scope of IFRS, private firms can choose to report under it voluntarily. Next to potential voluntary reporting according to IFRS, private firms will

report in their national standards, the local GAAP. Alford, Jones, Leftwich, and Zmijewski (1993) found important differences across countries, concerning financial reporting.

The consequences of differences in accounting standards are also brought forward by Alford et al. (1993). The results of their study indicate that the differences in accounting standards affect the informativeness of reported financial information. Differences are found based on the examination of the timeliness of information and the value-relevance of information. A more practical view on this is the distance between different local GAAPs and the forecast accuracy. Prior research has shown that the extent to which GAAP differs between two countries, is negatively related to the forecast accuracy (Bae, Tan, & Welker, 2008). Derived from this is that analysts, but intuitively also investors and potential acquirers, might experience difficulties in valuating and forecasting other parties, that are reporting under another local GAAP.

Accounting standards itself are not the only factor that shapes financial reporting. Prior research has shown that firms tend to interpret accounting rules in a unique way (Blacconiere, Frederickson, Johnson, & Lewis, 2011; Francis, Pinnuck, & Watanabe, 2014). This implies that despite parties having the same accounting standards, they might interpret them differently. For example, via a certain framework the auditor uses. It can be questioned if this might lead to less comparability.

Another factor of interest, in the presence of similar accounting standards, is the level of enforcement. If there is a lack of enforcement, this could lead to non-compliance with rules and regulations. Thereby, differences in enforcement could lead to differences in accounting practices and thereby differences in the quality of financial reporting (Holthausen, 2009).

Most of the above-mentioned frictions lead to information barriers, whereas rational investors do prefer assets that they are better informed about (Merton, 1987). It is thus essential that as an acquirer you are well-informed on your potential target, information is key in the decision-making process. Information barriers, or information asymmetry, indicate uncertainty (Chircop et al., 2018) and are reported as increasing the risk of making bad decisions (Francis et al., 2016). With information asymmetry, one party has more information at their disposal than the other party (Healy & Palepu, 2001). Gaining more information could lead to extra information costs which could lead to a less efficient M&A transaction (Rossi & Volpin, 2004).

M&A efficiency, or quality, is in prior research referred to as the surplus generated by an acquisition (Martin & Shalev, 2016). Information asymmetry negatively affects M&A quality, due to uncertainty and potential cost to gain information. Rossi and Volpin (2004) state that the presence of information asymmetry can even prevent M&A transactions from taking place. Martin and Shalev (2016) acknowledge the negative association. In their study, they find that more target firm-specific information leads to less information asymmetry and higher acquisition efficiency. Chircop et al.

(2018) find that a reduction in uncertainty, such as information asymmetry, leads to higher M&A efficiency.

2.2 Accounting and intermediaries

For obtaining a target at the start of the M&A process, the goal is to gather publicly available information (Chircop et al., 2018). This information is used to make assumptions that can be used in the price negotiations but even more important, this information is used to estimate of the potential synergies that will result in the deal. These synergies affect the overall success and efficiency of the deal, via the post-transaction performance (Wangerin, 2018). For example, financial reports tend to play an important role in the screening process (Louis & Urcan, 2015).

Once a target has been selected, a lengthy due diligence process follows. In this process the focus is on developing an extensive understanding of the target, valuing the target itself and the potential synergies. For the due diligence, not only public information by also private information is used, which is obtained after signing a confidentiality agreement (Skaife & Wangerin, 2013). The information should enable the acquirer, to fully understand the business of the target, to overcome information barriers.

Information could, either in high quality (Angwin, 2001) or quantity (Martin & Shalev, 2009) overcome information barriers and thereby reduce uncertainty. In the M&A process, there is a high level of uncertainty, which includes potential negative effects on the firm value itself (McNichols & Stubben, 2015). The quantity and quality of information that is available for public firms is higher than that of private firms and this difference likely influences the acquirer (Capron & Shen, 2007). Private firms have more control over their information environment and can stir the information they want to share with the public (Reuer and Ragozzino, 2008). This might complicate transactions, and lead to more uncertainty. Intermediaries can, however, add value when deals are rather complex and there is more uncertainty (Servaes & Zenner, 1996).

As stated previously, financial reports are often used in the M&A process as a source of information. Accounting standards thereby support the understanding. Harmonization in accounting standards, leading to more comparability, reduces the information costs that are associated with foreign investments (Barth, Clinch, & Shibano, 1999). Francis et al. (2016) find that more similarity in GAAP leads to lower information barriers. Lower information barriers thereby lead to lower costs of the transaction.

Next to comparability, also quality has been examined by prior research. As Dechow, Ge and Schrand (2010) state, quality influences investment decisions. Acquirers tend to pay lower prices for foreign targets based in countries where accounting is known to be less value relevant and thus has a lower quality (Black, Carnes, Jandik, & Henderson, 2007). Marquardt and Zur (2014) conclude in their study

that financial accounting quality is positively associated with an efficient allocation of economic resources. One of their findings is that if the quality is higher, the speed of the process is also higher, leading to lower transaction costs. Low-quality financial reporting, however, contributes to the probability of deals failing in the end (Skaife & Wangerin, 2013).

Also, auditors are one of the intermediaries that are involved in the M&A process. Cai, Kim, Park, and White (2016) state that auditors can reduce uncertainty in the process. In their study, they focus on the acquirer and target having a common auditor which improves communication between parties and financial statement comparability. Francis et al. (2014) affirm that firms with common auditors have more similar accruals and earnings. The benefits of having a common auditor that are described above are however mainly for the acquirer (Dhaliwal, Lamoreaux, Litov, & Neyland, 2016). Implying that having a common auditor could decrease information costs for the acquirer.

Also, for firms that have a big n auditor, information asymmetry tends to be lower (Clinch, Stokes, & Zhu, 2012). They assign this to the role audit quality plays in the quality of financial reporting information. Beatty (1989) states that information audited by big n firms is perceived as more valid. Big n audits are thereby seen as being of higher quality (Eshleman & Guo, 2014). The involvement of a Big n auditor could lead to less information asymmetry and more assurance about the available information.

3. Hypothesis Development

Within my research, I focus on M&A transactions, specifically cross-border deals, that provide information asymmetry and thus uncertainty. Within these situations, I then investigate certain accounting characteristics that could increase the M&A quality.

Previous literature has provided the effect of accounting similarity on the frequency and volume of cross-border M&A transactions. Francis et al. (2016) find that there is more M&A activity and the transactions are of greater volume between countries with higher similarity in accounting standards. I would like to extend this research by examining whether accounting similarity could also lead to a higher quality. Prior literature has shown that similarity in GAAP leads to lower information barriers and thereby lower costs. Therefore, my first hypothesis is as following:

Hypothesis 1: Higher accounting similarity leads to higher M&A quality

There has been more extensive research on accounting quality and how it relates to M&A transactions. Erel et al. (2012) find that higher quality accounting disclosures increase the likelihood of M&As. In line with these findings, Rossi and Volpin (2004) state the volume of M&As with countries with higher quality accounting standards is significantly higher. Marquardt and Zur (2014) find that high accounting quality leads to a more efficient allocation of capital resources in an economy. By

interpreting the more efficient allocation as higher quality transactions, they thus conclude that higher accounting quality leads to higher quality transactions.

Low-quality accounting is thereby stated to be associated with a higher probability of a deal going bust (Skaife & Wangerin, 2013). Acquisitions tend to be more profitable when firms disclose accounting information of higher quality, according to McNichols and Stubben (2015). Accounting information thereby reduces uncertainty, lowers information asymmetry and enables an acquirer to make a better valuation. This better valuation will eventually result in a more efficient deal. According to these findings, the next hypothesis is stated as follows:

Hypothesis 2: Higher target accounting quality leads to higher M&A quality

Next to accounting also auditing has been shown to play a role in M&A transactions. Auditing can reduce uncertainty in M&A transactions, due to auditors acting as information intermediaries (Cai et al., 2016). Having a common auditor tends to reduce uncertainty due to better communication and financial statement comparability (Chircop et al., 2018). As Francis et al. (2014) found, firms tend to have a unique style in interpreting the accounting rules. Having a common auditor, however, leads to different companies interpreting the standards in the same way and thus their statements are comparable.

Dhaliwal et al. (2016) examined the effect of common auditors in a cross-country M&A transaction setting but they were only focusing on transactions between publicly traded firms. Also, similar research by Chircop et al. (2018) left out private companies. This research found that the positive effect of having a common auditor on M&A quality is greater if there is more uncertainty. Given that with the greater information asymmetry of private companies, the uncertainty is bigger. I expect to find that having a common auditor also leads to higher M&A quality for private firms. I will examine this by testing the following hypothesis:

Hypothesis 3: Having a common auditor leads to higher M&A quality

Next, to prior research on common auditors in M&A transactions, there are also reasons to believe that there might be some explanatory role of involvement of a big 4 auditor on M&A quality. As identified in the literature review, information audited by a big 4 auditor is perceived to be more valid, and big 4 audits are thereby thus seen as being of higher quality. Information asymmetry is lower for companies that have a big 4 auditor. Taking this together with the research on less information asymmetry leading to better transactions I come to the following, and last hypothesis:

Hypothesis 4: Involvement of a Big 4 auditor leads to higher M&A quality

4. Research design

4.1 Research model

In this section, I discuss the research design used for the above-formulated hypotheses. To test the hypotheses, I will use ordinary least squares (OLS) regressions. The basic model for this hypothesis is the following:

$$M\&A\ Quality = \alpha + \beta_1 Characteristic\#Cultural\ differences + \beta_2 Characteristic + \beta_3 Cultural\ differences + \sum \beta_i\ Controls + Fixed\ effects$$

In the main analyses, M&A quality will be measured by an accounting-based measure, the change in the Return on Assets (ROA). It will be measured as the difference between the average ROA of the firms the year after transaction and the average ROA of the acquirer and target in the year prior to the acquisition, in line with Chircop et al. (2018). Additional tests are performed by using the cumulative abnormal returns for 10 days surrounding the deal announcement, as a measure for M&A quality.

As mentioned before, cultural distance tends to influence M&A quality. Due to differences in cultural values between the acquirer and the target, synergy gains tend to be lower. This leads to lower M&A quality. A few measures for cultural values will be used, namely trust, hierarchy, and individualism, in line with Ahern et al. (2015). Per deal, the cultural difference will be calculated using the difference in cultural values between the target and the acquirer. The regressions are run for each cultural value measure separately, and a combined regression is included. In each of the regressions an interaction term of the cultural difference and the accounting characteristic of the respective hypothesis will be included, to see whether the accounting characteristic moderates the effect of the cultural distance on the M&A quality. Thereby, the accounting characteristic itself will also be included on a standalone basis, to test the direct relation with M&A quality. Additional tests are performed by replacing the cultural difference measures by a measure for geographical distance.

4.2 Accounting similarity

For the first hypothesis, focused on accounting similarity, I expect that for deals with more similarity in the accounting of the acquirer and the target the M&A quality is higher. For accounting similarity, I use different measures, which were introduced by Francis et al. (2014; 2016). Francis et al. (2016) use a country-level indicator for accounting similarity. This similarity is based on the GAAP difference measure from Bae et al. (2008). For 49 countries, the similarity to 21 key accounting items as described by IAS rules is tested. For each country-pair per item is given a GAAP similar score of 1 if they both are similar to the IAS rules, or if both are not similar to the IAS rule. The GAAP scores for all 21 items are added and then divided by 21 resulting in a theoretical score that can reach from 0 to 1, with 1 being fully similar and 0 being fully dissimilar. This measure is limited in that it is a static measure and, in the

way, that it only captures accounting standards and not accounting practices. The following proxies introduced by Francis et al. (2014) try however to capture the accounting practice.

The first proxy for accounting similarity based on firm-pair observations is the difference in accruals, which is measured as the absolute difference between the accruals of the acquirer and the target. The following formula is used to measure the "closeness of accruals":

$$Difference\_TA_{ijt} = abs(Total\ Accruals_{it} - Total\ Accruals_{jt})$$

Total accruals are calculated as the difference between income and cash flow in year t. There will be controlled for extraordinary items. Since accrual structures differ over industries and can be influenced by exogenous shocks, only M&A transactions in the same industry will be included, captured by the two-digit SIC classification. The total accruals are scaled by total assets of year t-1 because total accruals are inherent to size.

Another measure for accounting similarity is the covariation in earnings. This will be calculated as the adjusted R^2 of the following regression:

$$Earnings_i = \alpha + \beta Earnings_j + e$$

Earnings are measured as income before extraordinary items for target firm i and acquirer firm j, scaled by their total assets respectively. A higher adjusted R^2 for this regression indicates higher comparability between the acquirer and target firm's earnings. This indicates a higher accounting similarity. By using only transactions within industry, I control for economic fundamental differences between industries.

4.2 Target accounting quality

The second hypothesis addresses the role of the targets' accounting quality in M&A transactions. Since accounting quality is stated to mitigate uncertainty and thereby lower information barriers, I expect that higher accounting quality is associated with higher M&A quality. Accrual models have served as proxies for accounting quality in prior research since they tend to capture to what extent accounting standards give management discretion in reporting. I will calculate total accruals and estimate the coefficients using the basic Jones (1991) model:

$$\left(\frac{TA_{t-j}}{A_{t-j-1}}\right) = a_1 * \left(\frac{1}{A_{t-j-1}}\right) + a_2 * \left(\frac{\Delta REV_{t-j}}{A_{t-j-1}}\right) + a_3 * \left(\frac{PPE_{t-j}}{A_{t-j-1}}\right) + \varepsilon_{t-j}$$

Here TA_{t-j} is the total accruals of all years from all companies and $A_{t-j-1}$is the lagged total assets for all years for all companies. Total accruals are calculated as earnings before extraordinary items minus cash flow from operations. ΔREV_{t-j} and PPE_{t-j} are respectively the change in revenues and the value of property, plant and equipment for all the years and all the companies. Once a_1, a_2, and a_3 are estimated using this model, I run the following model to calculate the non-discretionary accruals using the basic Jones-model:

$$\widehat{NDA_{it}} = \hat{a}_1 * \left(\frac{1}{A_{it}}\right) + \hat{a}_2 * \left(\frac{\Delta REV_{it}}{A_{it-1}}\right) + \hat{a}_3 * \left(\frac{PPE_{it}}{A_{it-1}}\right) + \varepsilon_{it}$$

In this model $\widehat{NDA_{it}}$ is the total non-discretionary accruals for firm i in year t, the part of the accruals that can be explained by economic events. A_{it-1} is the total asset of firm i at the beginning of year t. ΔREV_{it} is the change in revenue in year t. The gross property, plant and equipment at the beginning of year t is measured with PPE_{it}.

After calculating these non-discretionary accruals I calculate the discretionary accruals by subtracting non-discretionary accruals from the total accruals. The higher the level of discretionary accruals, the lower the perceived quality of the accounting, since this part of the accruals is not the result of economic events but rather the effect of management's discretion.

4.3 Common auditor and BIG N auditors

For the third and fourth hypotheses, dummy variables are created. For the third hypothesis, I use an indicator variable for the two firms involved in the transactions having a common auditor. This variable equals one if both parties have the same auditor, and zero otherwise. For hypothesis 4 the indicator variable Big N is used, which equals one if the target has a Big 4 (or former Big 5) auditor and equals zero otherwise.

4.4 Control variables

The control variables included in this research can be placed into three categories. First of all, target-specific controls are included. In line with prior research from Chircop et al. (2018), target size, target pre-acquisition profitability and whether the target is a high-tech company is included. As Chircop et al. (2018) state, it is harder for the acquirer to measure expected synergies due to less information being available on smaller targets. Uncertainty can influence M&A quality and could be mitigated by factors such as accounting and auditing. The size will be measured by the natural logarithm of the total assets.

Whether a target operates in a high-tech industry is also included as a control, to capture uncertainty and information asymmetry since these tend to be bigger for the high-tech industry according to Chircop et al. (2018). The pre-acquisition profitability of the target, measures by the ROA, is a factor that could influence the extent to which the performance is really affected by the deal and thus the M&A quality. For a similar reason, the relative size of the target is included. Where the absolute size relates more to the information availability, relative size is more brought forward by prior research as influencing the extent to which performance is affected by an M&A deal. Acquiring a small target is likely to be a less important economic event for the acquiring party than acquiring a bigger one (Agrawal et al., 1992).

Next to target-specific controls, acquirer specific controls are included and contain of acquirer pre-acquisition profitability and acquirer size. Both controls are also used in Chircop et al. (2018). Acquirer

pre-acquisition profitability is measured by the ROA of the acquirer before the deal. Acquirer size is measured by the natural logarithm of the total assets of the acquirer and is included to control for the ability of the acquirer to collect information on its own, without need for financial intermediaries. Bigger acquirers might have access to more resources to obtain the needed information about potential targets.

Furthermore, deal-specific controls are included. Whether and to what extent the acquirer has an initial stake in the target is captured by the control variable toehold. This variable is the percentage of initial stake the acquirer had in the target, before the deal. Having a significant initial stake could be an indication of a lower information barrier due to prior knowledge on the target. This control is also used by Chircop et al. (2018).

Other deal-specific controls, following prior research from Ahern et al. (2015) include an indicator variable that equals one if both firms operate in the same industry, geographic distance, whether the target and acquirer have a shared border and if both parties speak the same language. Acquirers are in general more informed about their industry than other industries, so being in the same industry should imply less uncertainty.

5. Data

5.1 Data sources

The data used in this study are obtained from several sources, namely Bureau van Dijk databases, the World Values Survey, CEPII, and the Datastream database. All sources are shortly described and for the World Values Survey, the CEPII data, and Datastream a brief description of the used variables is given to get a better understanding of the data.

5.1.1 Bureau van Dijk

For the collection of data, I primarily use data issued by Bureau van Dijk. Data is obtained from two different databases. Data on M&A transactions is obtained from Zephyr, a database that contains over a million deals of both public and private companies. These deals vary from M&A deals to IPO's and private equity transactions. Financial and auditor data on the target and acquirer are obtained via Orbis and Orbis Historic. These Bureau van Dijk databases are unique by means of their coverage of private and European companies. To include both private and public companies and companies from various countries, these databases are thus preferred compared to other databases.

5.1.2 World Values Survey

To measure the cultural differences, I use the World Values Survey. This survey is one of the largest conducted international cultural surveys and contains about 100 countries worldwide. The survey is conducted in several stages over the years and for most countries, there is data on several years in

the period between 1981 and 2015. The survey consists of about 250 questions on different culture-related topics. There are only a few of these questions that I will use as measures for cultural differences, in line with Ahern et al. (2015).

Trust: To measure the level of trust in countries I will use data on the following question:

> *Would you say that most people can be trusted, or should you be careful in dealing with people?*
>
> If answers are more towards that most people can be trusted it could be said that this represents a culture with high trust. If, however, people from a certain country respond more with the option that you can't be too careful, this represents a culture with distrust.

Hierarchy: The level of hierarchy is measured by the following question:

> *Should you follow your superior's instructions right away (also when you don't agree) or do you need to be convinced first?*
>
> If people are more likely to follow orders right away this suggests a hierarchical culture. In more egalitarian cultures, people need to be convinced first.

Individualism: The following question is used to measure individualism in countries:

> *Imagine the following scale from 1 to 10, with 1 being "Incomes should be made more equal" and 10 being "We need larger income differences as incentives for individual effort". What would be your score on this scale?*
>
> A higher score suggests a more individualistic culture within a country, whereas lower values seem to represent more collectivism amongst the people.

5.1.3 CEPII

This database provides information on the geographic distance between two countries, whether countries share borders and on spoken languages in the countries. These data are obtained from the GeoDist dataset which focuses on bilateral distances between countries, based on the city level. In this database the Geographic distance variable is captured as the distance between the capitals, using the great circle formula. This formula uses latitudes and longitudes of the most important city (based on population), or of the capital city. In this same database also an indicator variable is included, whether two countries are contiguous, or if they have a shared language. The last is based on whether one of the official languages from one country corresponds with one of the official languages from the other country.

5.1.4 Datastream

For the additional measure of M&A quality, the cumulative abnormal returns, Datastream is used. By using the MSCI Europe Index, abnormal returns for 10 days around the announcement date of a deal are calculated by Datastream for each deal. An estimation period of 20 trading days 4 months prior to

the deal is thereby used. The abnormal deals Datastream provides are later used to calculate the cumulative abnormal returns.

5.2 Sample construction

From the Zephyr universe, I take the M&A deals with a European target with more than 50% of the shares acquired and that I could match to the Orbis Financials database, to combine the Zephyr dataset with financial information of the target. After combining Zephyr with financial information on the targets the sample consists of 66,980 M&A deals in the years 1997-2017. However, within these deals are deals without an identifier of the acquirer so these deals are excluded from the sample. After this, the sample consists of 54,380 deals. Some targets are subject to multiple deals. To prevent overrepresentation of individual companies, only one deal per target is kept in the data. Otherwise, multiple deals with the same accounting characteristics would be included. The last deal per target is kept since there is more information available for later years. After controlling for this overrepresentation, the sample contains 52,368 deals.

The dataset containing of the deals and the target financials, I combine the dataset with the acquirer financials. Not for all acquirers data was available so in combining the acquirer data with the target and deal data, the number of deals decreased with 4,073, leaving a sample of 48,295 deals. Next, I looked at whether the target and acquirer data contained all information needed from the years surrounding the deal. For example, when looking at the main dependent variable, the change in ROA, the data needs to contain total assets from two years before the deal and net income from one year before the deal to calculate pre-deal ROA. If the needed data for the tests are missing, the deal is excluded from the sample. After selecting data based on these selection criteria, the data consists of 13,631 deals.

The last step in conducting the general sample is to combine the cultural data with the deal and financial data. Not for all companies in the data, cultural data is available. Amongst others, deals involving companies from Belgium, Denmark and Portugal are dropped due to the unavailability of cultural data. This leads to a final sample of 11,609 deals from the years 1997-2016. The entire sample selection is also stated in table 2.

5.2.1 Subsamples

For the first hypothesis, two subsamples are created. The first subsample is constructed based on available information on the country-level measure of accounting standard similarity, following Francis et al. (2016). For this measure accounting standard similarity for the two countries is measure based on table 1 provided in Bae et al. (2008). In this table, the similarity of a certain country's accounting standards to several IAS items is given. Two local GAAPs are then seen as being similar if both are, or aren't in line with a specific IAS item, and this is then tested for every IAS item.

In this measure not all countries of the sample are covered so deals with missing data for this measure are excluded, resulting in a sample of 10,715 deals. For the second subsample, only deals from the same industry can be used since the measures for accounting similarity on the firm level can only be used for two firms operating in the same industry. Here for another subsample is constructed. Of all the deals included in the general sample, only the same industry deals are included in this sample. This results in a sample containing of 4,143 deals.

To test the second hypothesis, an accrual model is used to measure the accounting quality of the target. Starting from the general sample again, the sample for this hypothesis is established by excluding deals with missing values for the needed variables for the Jones-model. The subsample for the second hypothesis then contains of 3,773 deals.

Table 2: Sample selection process.

	Deals	Total obs.
Panel A: Total sample (hypothesis 3 and 4)		
Zephyr combined with Orbis Target financials	66,998	813,459
Deals that do have an identifier for the acquirer	54,380	674,780
Keep the last deal per target to control for overrepresentation	52,368	674,780
Deals where there is any acquirer information available for the years surrounding the deal	48,295	630,385
Deals that have all needed financial data surrounding the deal	13,631	203,965
Deals that have available cultural values data from the World Values Survey	11,609	145,311
Total sample	**11,609**	**145,311**
Panel B1: Subsample hypothesis 1 (country level measure)		
Deals with information on the standard similarity measure	10,715	136,489
Total subsample hypothesis 1 (country measure)	**10,715**	**136,489**
Panel B2: Subsample hypothesis 1 (firm level measure)		
Deals within the same industry	4,143	53,642
Total subsample hypothesis 1 (firm measures)	**4,143**	**53,642**
Panel D: Subsample hypothesis 2		
Deals with non-missing data for the measurement of target accounting quality	3,773	22,308
Total subsample hypothesis 2	**3,773**	**22,308**

Notes: First a general sample is constructed which meets all the mentioned selection criteria. The number of deals mentioned is the amount of deals that is left after meeting the cumulative criteria. This sample is used for the third and fourth hypothesis and is the starting point for constructing the subsamples for the first and second hypothesis separately. For the first hypothesis only deals that are intra-industry are included. For the second hypothesis only deals that have non-missing values for the computation of the Jones-model, used to measure target accounting quality, are included.

5.3 Modifications to the data

Most of the data obtained are modified to be ready to use. When it comes to the cultural data from the WVS, all the answers have been rescaled to a scale between zero and one. For each country, all the individual respondent's answers are taken together, and a country average is computed for all

three of the variables. These values and the number of observations per country are shown in table 2 of Appendix B. For these variables, the natural logarithm of 1 plus the absolute difference between the acquirer and target are taken as the measures for cultural difference. A higher value for these variables implicates a larger difference between the target and acquirer country.

Auditor related variables are constructed in the following way. In the original data, the same auditor can be referred to in various ways. Therefore, the most leading international auditors' names are transformed into a uniform format to be able to create the variables for the third and fourth hypotheses. Potential bias in this variable can come from the fact that not all auditors are transformed into a uniform format and thereby not all common auditors from the acquirer and target will be recognized in the study. Another potential bias can arise due to global networks local auditors are affiliated with, but that are not mentioned in the Orbis database. The target and acquirer might then have different auditors but if these are affiliated within the same global network, the firms practically would have all the benefits assigned to deals with common auditors. However, Orbis does not identify these global networks, so this could potentially lead to a bias in the measurement of the effect of a common auditor in an M&A transaction.

Next to auditor data, Orbis provided several financials for both acquirer and target. These financials are both directly and indirectly used in this study. To calculate the return on assets (ROA) variable, net income is divided by the total assets. Also, a combined ROA is calculated, based on the combined net income divided by the combined total assets of the target and acquirer. Both calculated ROAs are winsorized at the 5% level per year, to control for outliers. To calculate the change in ROA the pre-acquisition combined ROA is deducted from the post-acquisition combined ROA. Also, a percentual change in ROA is calculated, by dividing the change of ROA by the pre-acquisition combined ROA.

Dummy variables such as Cross-border, Same industry, High-tech, and Private are created, to make distinctions between types of deals and be able to create a subsample. Cross-border equals one when the ISO country code is different for the target and acquirer, and zero otherwise. Same Industry equals one if the two-digit US SIC code is equal for the target and acquirer and equals zero otherwise. Hightech equals one when the US SIC code of the target equals the SIC code of a so-called tech-industry, in line with Loughran and Ritter (2004), and applied by Chircop et al. (2018). The variable Private equals one when a company is unlisted or delisted, and it equals zero when a company is listed. The geographic distance measure is constructed by taking the natural logarithm of the distance measure obtained via the CEPII database.

The standard similarity measure is a measure created based on prior research. In line with Francis et al. (2016), I used the GAAP similar scores provided by Bae et al. (2008) to calculate a similarity measure. Bae et al. (2008) indicate for every country the similarity with 21 IAS items. Francis et al.

(2016) build a GAAP similarity score based on this where the GAAP similar score per item equals one if both countries are similar to the IAS item, or if both countries differ from the IAS item. I calculate this GAAP similarity score manually for every item per country-combination. Per country-combination then a total GAAP similar score is calculated, and this total is divided by the total of 21 (the number of items). This results in a similarity score which theoretically lies between zero and one, with one indicating perfect similarity between countries' accounting standards.

An extra factor must be accounted for in this sample. Where the sample of Francis et al. (2016) ended in 2004, before the mandatory adoption of IFRS, the sample in this study does contain years where IFRS is mandatory for listed companies in several countries. For all countries dates on the mandatory adoption of IFRS are collected and for the listed firms for this year, and the years hereafter similarity to the IAS items is set to 21. The GAAP similarity score is adjusted and thereby also the similarity measure. If both target and acquirer are using IFRS, this results in a similarity score of 21.

The adjusted R2 is calculated as the adjusted R2 for the regression of acquirer earnings on target earnings. It will measure the explanatory power of the acquirer earnings on the target earnings, to measure earnings covariation and thereby accounting similarity. A higher adjusted R2 indicates more similar accounting between target and acquirer. The other measure for accounting similarity, the difference in total accruals, is measured as the absolute difference in total accruals, and is scaled by total assets since accruals are affected by the size of a company. The total accruals are calculated as the difference between net income and cash flows. A low difference in total accruals indicates a higher accounting similarity between target and acquirer.

Discretionary accruals are calculated as the difference between total accruals and the non-discretionary accruals calculated by the Jones model. Then the absolute value is taken. A lower value for discretionary accruals indicates a higher accounting quality since accruals are then more supported by economic events. Further variable definitions can be found in appendix A.

5.4 Descriptive statistics

Table 3 presents the summary statistics of the variables used in the analysis. Panel A contains the full sample which is used for hypothesis three and four. This sample also serves as the baseline sample for constructing the subsamples for hypothesis one and two. In table 4 the samples are split out in domestic M&As and cross-border M&As. Thereby, a test on the difference of the means is provided to indicate significant differences between domestic and cross-border deals.

In panel A there is a total of 11,609 deals. Of these deals, 23,3% is a cross-border deal, resulting in 2,700 crossborder and 8,909 domestic deals. For the sample as a whole, almost 40% of the deals where interindustry deals. There is no significant difference between domestic and cross-border deals when distinguishing between targets and acquirer (not) operating in the same industry.

Table 3: Summary statistics of variables.

Variables	Mean	St. dev.	Min	Median	Max	N
Panel A: General sample						
Crossborder	0.233	0.422	0	0	1	11,609
Same industry	0.384	0.486	0	0	1	11,609
Common auditor	0.080	0.272	0	0	1	11,609
BIG N auditor	0.250	0.433	0	0	1	11,609
Private	0.988	0.110	0	1	1	11,392
Change ROA	-0.014	0.106	-0.365	-0.007	0.371	11,609
Cumulative abnormal returns	0.012	0.113	-0.320	0.006	0.391	3,215
Difference trust	0.032	0.075	0.000	0.000	0.433	11,609
Difference hierarchy	0.024	0.061	0.000	0.000	0.313	5,317
Difference individualism	0.016	0.038	0.000	0.000	0.281	11,609
Pre-acquisition ROA target	0.053	0.180	-0.409	0.042	0.550	11,575
Pre-acquisition ROA acquirer	0.059	0.103	-0.322	0.050	0.368	11,595
Toehold	0.009	0.056	0.000	0.000	0.406	11,609
High-tech	0.118	0.323	0	0	1	11,609
Geographic distance	5.743	0.954	3.980	5.531	9.742	11,609
Share border	0.057	0.231	0	0	1	11,609
Common language	0.811	0.391	0	1	1	11,609
Size target	8.681	2.089	0.000	8.656	20.252	11,601
Size acquirer	11.611	2.672	0.693	11.542	21.649	11,606
Relative size target	0.773	0.274	0.000	0.754	16.357	11,598
Panel B: Accounting similarity						
Similarity standards	0.848	0.265	0.048	1.000	1.000	10,715
Adjusted R2 earnings	0.111	0.278	-0.416	0.012	0.999	4,143
Difference total accruals	0.044	0.071	0.000	0.023	0.524	3,608
Panel C: Accounting quality						
Discretionary accruals	0.064	0.116	0.001	0.026	0.719	3,763

Notes: This table presents means, number of observations, medians, standard deviation and the minimum and maximum for each variable. In panel A the descriptive statistics follow from the general sample, constructed to test the third and fourth hypothesis. In panel B and C the descriptive statistics are taken from the subsamples created to measure hypothesis one and two respectively. All continuous variables are winsorized at the 1% level, except for ROA variables (5%), due to high deviations. All variables are defined in Appendix A.

Only 8% of the deals involved a common auditor for the target and acquirer. For domestic and crossborder deals this was 7,3% and 10,5% respectively. The difference in the mean tests implies this is a significant difference between the two types of deals. It is important to keep in mind the limitation of this variable. Local auditors could be part of a global network and thereby benefit from the shared network with other local auditors. However, these global networks are not included, so this amount could be higher when taking the networks into account.

A quarter of the deals includes targets having a big N auditor. For cross-border deals, this amount is slightly higher than for domestics deals, 27,5% to 24,2%. Intuitively, a higher percentage of big N auditors would be expected. This can probably be explained by looking at the Private variable. Almost 99% of the deals in this sample contain a private target. Thereby, most private targets aren't required to have an auditor. Since the big N variable equals zero whenever a target does have a non-big N

auditor, doesn't have an auditor at all, or if there isn't any information available on the auditor of the target, the number of private targets explains the number of targets involved with a big N auditor.

When looking at the combined ROA of both firms included in the deal, the average change in ROA is slightly negative with -0.014 percentage point. This is contrary to the expectations since acquirers tend to initiate deals to improve their performance. One explanation for the average change in ROA being negative is that shortly after the deal, full efficiency is not yet reached and the synergy gains aren't realized yet. For the change in ROA surrounding the event of a deal, no significant difference is found between the domestic and cross-border deals.

The cumulative abnormal returns are on average positive, with 1.2%. For cross-border and domestic deals there is no significant difference in the market reaction to a deal announcement. For domestic deals, the average cumulative abnormal return equals 1.3%, and for cross-border deals, this is slightly lower, with 1.0%. Following this measure of M&A quality, it can be said that on average the market reacts positively to the announcement of an M&A deal.

Intuitively, there is a significant difference between the cultural differences, represented by the difference in trust, hierarchy, and individuality, between domestic and cross-border deals. Where the cultural differences are zero for domestic deals, the average differences are 0.136, 0.130 and 0.069 respectively.

Targets have on average a positive ROA of 5.3% in the year before the deal. This makes sense in a way that when such a company is performing well, it might be more likely to become a target eventually. However, when looking at the minimum value and standard deviation of the pre-acquisition ROA of the target, it follows that also a significant number of targets has a negative ROA in the year before the deal. There is a minor significant difference in the pre-acquisition performance of targets in domestic and cross-border deals.

Also, acquirers have a positive pre-deal performance on average. For the sample as a whole, this is on average 5.9%. There is a minor significant difference between acquirers who are involved in crossborder deals and domestic deals. Acquirers involved in cross-border deals tend to be, on average, slightly more profitable in the year before a transaction than acquirers involved in domestic deals, 6.4% versus 5.7%.

Observed in un-tabulated results, it turns out that for almost 97% of the deals the initial stake, reported as the toehold, is equal to zero. This explains the relatively low mean, compared to the observations with an actual toehold. This variable thus has a right-skewed distribution.

The variable High-tech measures whether a target is classified as operating in a technological industry or not. Only 11.8% of all targets are classified as a high-tech target. For targets involved in cross-border deals, this percentage is 15.1%. For domestic deals, this percentage is significantly lower, 10.8%.

Table 4: Summary statistics for domestic and crossborder M&As.

	Domestic						Crossborder						Difference of the mean	
Variables	Mean	St. dev.	Min	Median	Max	N	Mean	St. dev.	Min	Median	Max	N	t-test	p-value
Panel A: General Sample														
Same industry	0.382	0.486	0	0	1	8.909	0.394	0.489	0	0	1	2,700	-1.136	0.256
Common auditor	0.073	0.260	0	0	1	8.909	0.105	0.306	0	0	1	2,700	-4.930	0.000***
BIG N auditor	0.242	0.428	0	0	1	8.909	0.275	0.447	0	0	1	2,700	-3.425	0.001***
Private	0.989	0.103	0	1	1	8.774	0.983	0.130	0	1	1	2,618	2.339	0.019**
Change ROA	-0.014	0.110	-0.365	-0.007	0.371	8.909	-0.016	0.094	-0.365	-0.006	0.371	2,700	0.896	0.371
Cumulative abnormal returns	0.013	0.117	-0.320	0.009	0.391	2,047	0.010	0.104	-0.320	0.003	0.391	1,168	0.739	0.460
Difference trust	0.000	0.000	0.000	0.000	0.000	8.909	0.136	0.098	0.000	0.100	0.433	2,700	-72.205	0.000***
Difference hierarchy	0.000	0.000	0.000	0.000	0.000	4.345	0.130	0.082	0.001	0.132	0.313	972	-49.561	0.000***
Difference individualism	0.000	0.000	0.000	0.000	0.000	8.909	0.069	0.052	0.000	0.049	0.281	2,700	-69.422	0.000***
Pre-acquisition ROA	0.052	0.181	-0.409	0.040	0.550	8.882	0.058	0.173	-0.409	0.046	0.550	2,693	-1.779	0.075*
Pre-acquisition ROA acquirer	0.057	0.106	-0.322	0.047	0.368	8,895	0.064	0.093	-0.322	0.056	0.368	2,700	-3.573	0.000***
Toehold	0.009	0.056	0.000	0.000	0.406	8.909	0.010	0.056	0.000	0.000	0.406	2,700	-0.114	0.909
High-tech	0.108	0.310	0	0	1	8,909	0.151	0.358	0	0	1	2,700	-5.603	0.000***
Geographic distance	5.335	0.275	3.980	5.385	7.349	8,909	7.091	1.137	4.394	7.044	9.742	2,700	-79.575	0.000***
Share border	0	0	0	0	0	8,909	0.244	0.430	0	0	1	2,700	-29.520	0.000***
Common language	1	0	1	1	1	8,909	0.189	0.391	0	0	1	2,700	107.656	0.000***
Size target	8.447	2.057	0.000	8.445	20.252	8.901	9.451	2.008	0.693	9.354	17.663	2,700	-22.635	0.000***
Size acquirer	11.120	2.514	0.693	11.098	21.638	8.907	13.231	2.536	1.609	13.236	21.649	2,699	-37.955	0.000***
Relative size target	0.784	0.285	0.000	0.767	16.357	8.899	0.735	0.230	0.048	0.719	5.974	2,699	9.253	0.000***
Panel B: Accounting similarity														
Similarity standards	0.921	0.242	0.048	1.000	1.000	8,291	0.601	0.175	0.048	0.619	1.000	2,424	72.013	0.000***
Adjusted R2 earnings	0.117	0.286	-0.416	0.013	1.000	3.210	0.089	0.247	-0.416	0.009	0.994	933	2.947	0.003***
Difference total accruals	0.045	0.073	0.000	0.023	0.524	2.779	0.043	0.065	0.000	0.024	0.524	829	0.756	0.450
Panel C: Accounting quality														
Discretionary accruals	0.063	0.117	0.001	0.025	0.719	2.877	0.066	0.111	0.001	0.030	0.719	886	-0.548	0.584

Notes: This table presents means, number of observations, medians, standard deviation and the minimum and maximum for each variable. In panel A the descriptive statistics follow from the general sample, constructed to test the third and fourth hypothesis. In panel B and C the descriptive statistics are taken from the subsamples created to measure hypothesis one and two respectively. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively. All variables are defined in Appendix A.

When looking at the demographic variables included, significant differences are found for domestic and cross-border deals. Intuitively, this makes sense. For domestic deals, the spoken language is the same, and the distance is rather low. For cross-border deals, only 18.9% of the deals are made between countries with the same languages. Almost 25% of the cross-border deals involved two parties of countries that are contiguous.

When focusing on the size of the acquirers and targets, acquirers are on average bigger than targets. The relative size of targets on acquirers is lower than one. The distribution is approximately normal, which is to be expected when taking the natural logarithm of the total assets. On average, targets and acquirers involved in cross-border deals tend to be bigger in absolute numbers, but the difference in size, the relative size, is smaller.

The similarity in accounting standards is on average nearly 85%. For domestic deals this is 92.1%. The reason accounting standards for domestic deals aren't 100% similar, comes from the fact that some firms are required to use IFRS, where other firms use the local GAAP of the country. For cross-border deals accounting standards are on average for 60% similar.

The adjusted R^2 variable represents the explanatory power of the acquirer earnings on the target earnings. As is stated in the summary statistics, nearly 12% of the earnings of targets can be explained by the earnings of the acquirer. When distinguishing between cross-border and domestic deals, it turns out that the adjusted R^2 is significantly higher for domestic deals than for cross-border deals. The difference of 2,8% points can be explained by the fact that domestic companies are more likely to have similar accounting practice than foreign companies. Negative adjusted R^2 results can be interpreted as being zero and indicate no explanatory power of acquirer earnings on target earnings.

For the other measure for accounting similarity, no significant difference between cross-border and domestic deals is found. The average difference in total accruals for all deals taken together is 0.044 with a maximum of 0.524. This indicates that for a lot of observations, the difference is minimal and close to zero. This should indicate a high accounting similarity between the targets and acquirers.

Also, a skewed pattern is found for the discretionary accruals, which proxies accounting quality. In the tables is shown the mean is relatively low compared to the standard deviation, and thereby the mean is small compared to the maximum. This would again indicate a lot of observations that have a low value, close to zero, for this variable.

The main differences between domestic and cross-border deals have already been noted while describing variables based on the non-split summary statistics of table 1. Following what is stated in that table, it can be said that there are significant differences between domestic and cross-border deals. The main factor in this is the cultural differences between involved parties, as Ahern et al. (2015) state in prior literature.

In Appendix B the Pearson correlation table can be found in table 3. The correlation between multiple sets of the variables is significant, this means that I have to be careful when directly interpreting the results later on in this research. In regressions, the cultural difference variables are used to capture cross-border deals and to measure cultural distance itself. Following this logic, it can indeed be seen in the correlation table there is a highly significant correlation between the cultural differences and the crossborder variable. But thereby, it can also be found that the three cultural differences variables are highly correlated with each other, this might have implications for the combined regressions.

When focusing on the accounting characteristics measures examined in this study, the table shows there isn't a significant correlation between common auditor and the change in ROA. Having a big N auditor isn't significantly correlated with both of the performance measures. Of the accounting similarity measures, the adjusted R^2 measure and the country-level similarity measure are significantly correlated with change in ROA and all the others don't show any significance.

6. Results

6.1 Main results

In this section, the results of the previously introduced tests are discussed. In the regressions, the role of accounting characteristics in crossborder M&A transaction is tested. For all hypotheses, two panels of regressions are included. Panel A contains the baseline regression, as described in the research design. The focus is on the interaction of the accounting characteristic with the cultural difference measures. Prior research indicates that cultural differences lead to M&A complexities and are thus related to lower synergies and lower M&A quality. This study investigates if accounting characteristics can mitigate these effects.

In the second panel, panel B, the same regressions are shown, but with an extra interaction with the variable private. As shown in the data section, deals with both private and public targets are included in the sample. The extra interaction is included to see whether for private targets, where there is usually more uncertainty due to less information availability, certain accounting characteristics play a greater role. Note that in all regressions control variables are included, but they are untabulated. In general, the control variables have a significant effect in the regressions.

All tests are run on both a cross-border deals only-sample and a pooled sample that includes both cross-border and domestic deals. Since this study focusses on cross-border deals, these results will be mainly discussed.

6.1.2 Accounting similarity

For accounting similarity, there are three different measures used. First of all, the country-level accounting standard similarity measure is used in testing the role of accounting similarity in M&A transactions. The results for this measure are shown in table 6. When looking at panel A, no significant

results are found. The results don't imply any significant effect from two parties having similar accounting on the quality of an M&A transaction between these parties.

Panel B shows different results for the different measures of cultural distance. When looking at the difference in trust as a measure of cultural difference, only a minor significant effect of the interaction between private and accounting similarity is found. The coefficient of 0.164 implies that for equal accounting similarity, there is higher M&A quality for deals with a private target. Accounting similarity can thereby be seen as adding more value in private-target deals.

In the model where the difference in individuality is used as the cultural difference measure, all coefficients are significant. Accounting similarity is negative, implying that having more similar accounting leads to a lower change in ROA, which is conflicting concerning the described theory. However, the same result is also found in the tests on the pooled sample. M&A quality, however, tends to be lower for deals including private targets, but if a target is private and accounting is more similar this tends to improve the deal, by a higher change in ROA. For the test with all cultural difference measures combined, quite similar results are found. A greater cultural difference tends to decrease M&A quality, but similar accounting tends to increase M&A quality by bigger cultural differences. However, if the target is private, the effect turns out to be the opposite, where bigger cultural differences combined with more similar accounting tend to decrease M&A quality.

In tables 7 and 8, the results are shown for the tests of the firm-level measures for accounting similarity on M&A quality. Note that some intended variables are omitted in running these regressions (and also other regressions in this study) due to collinearity. As follows from the correlation table, some of the included variables are correlated which each other, which could lead to this collinearity. If two of such variables are correlated, the predictive ability for both variables cannot always be estimated since it isn't sure which variable causes the variance in the dependent variable. For instances where there are omitted variables, I will focus on variables that are included.

In table 7 the adjusted R^2 of the regression from acquirer earnings on target earnings is used as a proxy for accounting similarity. The basic regression doesn't show any significant results, implying there isn't a significant effect of accounting similarity on M&A quality, also not via decreasing the effects of cultural differences on M&A quality. The positive coefficient of private for the first column in panel B implies that deals with private deals tend to have higher quality. However, this coefficient is only significant at the 10% level, and this effect is not found in the other regressions. The slightly significant negative coefficient of the adjusted R^2 in the third regression implies that having a higher R^2 is associated with a lower M&A quality. This would imply that more similar accounting would be associated with lower M&A quality, which is contrary to expectations based on prior literature.

Table 6: The effect of accounting similarity on M&A quality.

Panel A: Basic regression				
Change ROA	(1)	(2)	(3)	(4)
Accounting Similarity	0.011	0.004	0.026	0.062
	(0.43)	(0.07)	(1.06)	(0.57)
Trust	0.025			0.197
	(0.29)			(0.52)
Accounting Similarity # Trust	-0.037			-0.176
	(-0.26)			(-0.30)
Hierarchy		0.047		0.439
		(0.17)		(1.16)
Accounting Similarity # Hierarchy		-0.014		-0.513
		(-0.03)		(-0.82)
Individuality			0.283	-0.192
			(1.15)	(-0.31)
Accounting Similarity # Individuality			-0.394	0.235
			(-1.09)	(0.26)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	2417	792	2417	792
Adjusted R-squared	0.305	0.337	0.305	0.377
Panel B: Private/public target				
Accounting Similarity	-0.146	0.813	-0.407***	-0.925**
	(-1.51)	(0.48)	(-3.50)	(-2.05)
Private	-0.061	0.366	-0.247***	-0.482
	(-1.16)	(0.42)	(-3.99)	(-1.60)
Private # Accounting Similarity	0.164*	-0.765	0.441***	1.004**
	(1.67)	(-0.45)	(3.78)	(2.16)
Trust	0.208			-3.459
	(0.74)			(-1.37)
Accounting Similarity # Trust	-0.133			7.940*
	(-0.22)			(1.76)
Private # Trust	-0.193			3.682
	(-0.66)			(1.43)
Private # Accounting Similarity # Trust	0.103			-8.139*
	(0.17)			(-1.76)
Hierarchy		11.660		0.492
		(0.60)		(1.29)
Accounting Similarity # Hierarchy		-18.80		-0.597
		(-0.62)		(-0.95)
Private # Hierarchy		-11.260		0
		(-0.58)		(.)
Private # Accounting Similarity # Hierarchy		18.340		0
		(0.60)		(.)
Individuality			-2.032***	-0.211
			(-3.25)	(-0.33)
Accounting Similarity # Individuality			3.289***	0.233
			(3.08)	(0.25)
Private # Individuality			2.319***	0
			(3.58)	(.)
Private # Accounting Similarity # Individuality			-3.706***	0
			(-3.36)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	2345	792	2345	792
Adjusted R-squared	0.311	0.380	0.313	0.377

Notes: In this table the results are shown for the multivariate regressions of the country-based measure of accounting similarity on M&A quality, measured by the change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 7: The effect of accounting similarity on M&A quality

Panel A: Basic regression				
Change ROA	(1)	(2)	(3)	(4)
Adjusted R2	0.002	0.018	-0.031	-0.043
	(0.06)	(0.26)	(-1.05)	(-0.29)
Trust	0.054			0.093
	(1.07)			(0.35)
Adjusted R2 # Trust	-0.199			0.159
	(-1.33)			(0.27)
Hierarchy		0.035		0.330
		(0.42)		(0.74)
Adjusted R2 # Hierarchy		-0.401		-0.419
		(-0.76)		(-0.51)
Individuality			-0.117	-0.289
			(-0.79)	(-0.40)
Adjusted R2 # Individuality			0.113	0.211
			(0.27)	(0.19)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	931	322	931	322
Adjusted R-squared	0.291	0.338	0.289	0.370
Panel B: Private/public target				
Adjusted R2	-0.329	-0.042	-0.488*	-0.085
	(-0.92)	(-0.45)	(-1.65)	(-0.65)
Private	0.105*	1.459	0.521	1.587
	(1.85)	(1.37)	(0.83)	(1.42)
Private # Adjusted R2	0.321	0	0.464	0
	(0.90)	(.)	(1.59)	(.)
Trust	0.084			0.183
	(0.24)			(0.70)
Adjusted R2 # Trust	5.228			0.160
	(1.04)			(0.27)
Private # Trust	-0.039			0
	(-0.11)			(.)
Private # Adjusted R2 # Trust	-5.371			0
	(-1.06)			(.)
Hierarchy		0.151		0.296
		(0.67)		(0.70)
Adjusted R2 # Hierarchy		-0.179		-0.326
		(-0.26)		(-0.41)
Individuality			8.159	-0.328
			(0.92)	(-0.46)
Adjusted R2 # Individuality			28.120	0.584
			(1.15)	(0.48)
Private # Individuality			-8.266	0
			(-0.93)	(.)
Private # Adjusted R2 # Individuality			-28.190	0
			(-1.15)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	904	322	904	322
Adjusted R-squared	0.291	0.400	0.291	0.387

Notes: In this table the results are shown for the multivariate regressions of one of the firm-based measure of accounting similarity (the adjusted R^2) on M&A quality, measured by the change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 8: The effect of accounting similarity on M&A quality

Panel A: Basic regression				
Change ROA	(1)	(2)	(3)	(4)
Difference Accruals	0.141	0.046	0.217	0.032
	(0.92)	(0.18)	(1.13)	(0.05)
Trust	0.046			0.016
	(0.78)			(0.06)
Difference Accruals # Trust	-1.352			-3.560
	(-1.58)			(-0.93)
Hierarchy		0.116		0.660
		(1.11)		(1.38)
Difference Accruals # Hierarchy		-1.086		-6.465**
		(-0.67)		(-2.13)
Individuality			0.076	-0.442
			(0.46)	(-0.67)
Difference Accruals # Individuality			-4.636*	12.580*
			(-1.72)	(1.83)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	827	281	827	281
Adjusted R-squared	0.258	0.319	0.259	0.361
Panel B: Private/Public target				
Difference Accruals	-0.903	0.158	-31.080	0.032
	(-0.07)	(0.38)	(-1.58)	(0.05)
Private	0.017	-0.064	-0.494*	-0.104
	(0.09)	(-1.09)	(-1.76)	(-1.38)
Private # Difference Accruals	1.052	0	31.300	0
	(0.09)	(.)	(1.59)	(.)
Trust	0.250			0.016
	(0.43)			(0.06)
Difference Accruals # Trust	5.233			-3.560
	(0.14)			(-0.93)
Private # Trust	-0.204			0
	(-0.35)			(.)
Private # Difference Accruals # Trust	-6.600			0
	(-0.18)			(.)
Hierarchy		0.398*		0.660
		(1.71)		(1.38)
Difference Accruals # Hierarchy		-2.259		-6.465**
		(-0.84)		(-2.13)
Individuality			-7.430	-0.442
			(-1.64)	(-0.67)
Difference Accruals # Individuality			558.1	12.580*
			(1.59)	(1.83)
Private # Individuality			7.508*	0
			(1.66)	(.)
Private # Difference Accruals # Individuality			-562.7	0
			(-1.60)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	804	281	804	281
Adjusted R-squared	0.252	0.362	0.253	0.361

Notes: In this table the results are shown for the multivariate regressions of one of the firm-based measure of accounting similarity (difference in total accruals) on M&A quality, measured by the change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

The difference in accruals is the other proxy for accounting similarity between firms. From the tabulated results no direct effect of these is found on the M&A quality. However, when looking at the third and fourth columns of the basic regressions, some significant expected results are found. In the third column, the interaction between the difference of accruals and individuality (-4.636) and the interaction between the difference in accruals and hierarchy in the fourth column (-6.465) are in line with expectations and are significant at the 10% level. These results imply that for two deals with the same cultural difference, a deal with a bigger difference in accruals between the target and acquirer, so accounting is less similar, M&A quality tends to be lower. These results are however not found in the other regressions, and the result for the interaction of difference in accruals and individuality is even contrary in the combined regression, with a positive significant coefficient of 12.58.

Quite similar results are found in the panel B regressions. In addition, slightly significant results are found for the variable private. Transactions with a private target tend to be of lower quality, the change in ROA is on average almost 0.5 percent point lower. This is however only based on one regression, this result is not found in the other regressions in this panel. To summarize the main results of the first hypothesis, mixed results are found for this hypothesis by using different proxies.

6.1.2 Target accounting quality

In the baseline regressions, no significant effect of the discretionary accruals on the change in ROA is found. This implies that there isn't any significant effect of the target's accounting quality on the quality of an M&A deal. However, in the B panel, some significant results are found. When focussing on the second regression, an increase in discretionary accruals seems to significantly decrease the change of ROA. Since lower discretionary accruals are associated with higher accounting quality, this result shows a positive relation between accounting quality and the quality of an M&A deal. Also in the pooled-sample tests, similar evidence is found. Deals with a private target seem to be performing poorer than deals with public targets, a 0.9 percent point lower change in ROA is expected. This results, on the other hand, is not supported by the combined regression, where a positive significant coefficient is found for the private variable.

For the interaction of private and discretionary accruals quite similar results are found. For private companies, an increase of one in discretionary accruals has an additional effect of 3.5 (3.2 in the combined regression) percent point on the change in ROA. This is about just as big as the negative effect of the coefficient of the discretionary accruals itself. On average an increase of discretionary accruals (lower accounting quality) of one for public targets results in a decrease of change in ROA of 3.5 percent point, and for a private target, this is approximately 0.9 percent points. I can conclude based on this, that the role of accounting quality is more pronounced in public deals than private deals.

Table 9: The effect of target accounting quality on M&A quality

Panel A: Basic regression				
Change ROA	(1)	(2)	(3)	(4)
Discr. accruals	0.049	-0.051	0.042	-0.040
	(0.97)	(-0.59)	(0.77)	(-0.14)
Trust	0.042			0.047
	(0.91)			(0.43)
Discr. accruals # Trust	-0.173			-0.057
	(-0.69)			(-0.06)
Hierarchy		-0.026		0.150
		(-0.42)		(1.30)
Discr. accruals # Hierarchy		0.457		0.246
		(0.96)		(0.26)
Individuality			0.118	-0.106
			(1.22)	(-0.52)
Discr. accruals # Individuality			-0.300	0.136
			(-0.56)	(0.12)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	885	372	885	372
Adjusted R-squared	0.137	0.252	0.138	0.164
Panel B: Private/Public target				
Discr. accruals	0.550	-3.564***	-0.002	-3.203***
	(1.07)	(-4.26)	(-0.00)	(-3.64)
Private	0.075	-0.928***	0.021	0.377***
	(1.38)	(-4.20)	(0.31)	(5.34)
Private # Discr. accruals	-0.488	3.573***	0.083	3.254***
	(-0.94)	(4.29)	(0.21)	(4.15)
Trust	0.353			5.568***
	(1.37)			(4.73)
Discr. accruals # Trust	-3.324			-0.149
	(-1.07)			(-0.15)
Private # Trust	-0.315			-5.516***
	(-1.23)			(-4.52)
Private # Discr. accruals # Trust	3.160			0
	(1.01)			(.)
Hierarchy		-7.804***		0.188*
		(-4.50)		(1.69)
Discr. accruals # Hierarchy		-0.123		-0.171
		(-0.16)		(-0.17)
Private # Hierarchy		7.934***		0
		(4.57)		(.)
Individuality			0.245	-0.175
			(0.35)	(-0.86)
Discr. accruals # Individuality			-0.088	-0.239
			(-0.02)	(-0.21)
Private # Individuality			-0.096	0
			(-0.13)	(.)
Private # Discr. accruals # Individuality			-0.548	0
			(-0.13)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	780	351	780	351
Adjusted R-squared	0.137	0.163	0.137	0.149

Notes: In this table the results are shown for the multivariate regressions of target accounting quality on M&A quality, measured by the change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Results in line with prior literature are found in the second regression of panel B of table 9 when looking at the effect of hierarchical difference on M&A quality. A bigger difference in the cultural value is associated with a lower change in ROA and thus lower M&A quality. This result is significant at the 1% level. However, discretionary accruals, and thereby thus accounting quality, don't tend to mitigate this effect, since no significant effect of the interaction is found.

For this hypothesis, no mitigating effect of accounting quality on the effect of cultural differences on M&A quality is found. There is some evidence of a direct effect of cultural difference on M&A quality and also some differences between deals with private and public targets are found.

6.1.3 Common auditors

Table 10 shows the results for the third hypothesis, that focuses on common auditors. In this hypothesis, the effect of targets and acquirers having a common auditor on M&A quality is tested. Expected is that having a common auditor is positively associated with M&A quality. However, this is only found in the third regression of the B panel. Following this coefficient, having a common auditor is significantly associated with a higher change in ROA and thus with higher M&A quality. This result is also found in the pooled-sample tests. For private firms there is an additional negative significant effect, undoing the direct effect of the common auditor on M&A quality.

When looking further into the main focus of the study, the second regression in panel B shows some results in line with previous literature. A bigger cultural difference, based on the hierarchy measure, tends to decrease M&A quality. However, this effect is not found for transactions with private targets. There the change in ROA is increasing in an incline in cultural difference measured by hierarchy. Thereby, no mitigating effect of having a common auditor is found for both private and public targets. In the third regression results contrary to expectation are found. The coefficient for the interaction between common auditor and individuality could be interpreted as follows. For two deals with the same cultural difference based on the individuality measure, deals including a target and acquirer with a common auditor have lower quality than deals where there is no common auditor. Thus for this hypothesis, mixed results are found.

6.1.4 BIG N auditors

The results for the final hypothesis are tabulated in table 11. In panel A, for one of the three measures of cultural difference significant results are found, but thereby a certain pattern is found for all three measures. The coefficient for the cultural difference in each measure is negative, but not significant. Thereby, the interaction of the Big N variable with the cultural difference measure is positive, implying that the accounting characteristic tested here has a mitigating effect on the relation of cultural difference on the M&A quality. However, this effect is only significant for the difference in hierarchy variable in the standalone regression and the combined regression.

Table 10: The effect of common auditors on M&A quality.

Panel A: Basic regression				
Change ROA	(1)	(2)	(3)	(4)
Common auditor	-0.001	0.003	0.012	-0.028
	(-0.14)	(0.14)	(1.21)	(-0.58)
Trust	-0.018			0.014
	(-0.63)			(0.16)
Common auditor # Trust	0.046			0.178
	(0.76)			(0.98)
Hierarchy		0.030		0.157**
		(0.71)		(2.29)
Common auditor # Hierarchy		-0.014		0.119
		(-0.08)		(0.59)
Individuality			0.017	-0.092
			(0.25)	(-0.68)
Common auditor # Individuality			-0.118	-0.041
			(-1.07)	(-0.12)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	2692	972	2692	972
Adjusted R-squared	0.307	0.344	0.307	0.363
Panel B: Private/Public target				
Common auditor	-0.053	0.142	0.121**	0.337
	(-0.68)	(1.03)	(2.50)	(0.96)
Private	0.034	-0.001	0.016	0.043
	(1.40)	(-0.03)	(0.51)	(0.96)
Common auditor # Private	0.052	-0.150	-0.112**	-0.378
	(0.66)	(-1.06)	(-2.24)	(-1.05)
Trust	0.170			0.159
	(1.42)			(0.61)
Common auditor # Trust	1.002			-3.326
	(1.04)			(-0.73)
Private # Trust	-0.194			-0.132
	(-1.63)			(-0.53)
Common auditor # Private # Trust	-0.958			3.545
	(-0.99)			(0.78)
Hierarchy		-0.388**		-0.516
		(-2.48)		(-1.15)
Common auditor # Hierarchy		-0.882		0.132
		(-0.48)		(0.64)
Private # Hierarchy		0.534***		0.687
		(3.40)		(1.57)
Common auditor # Private # Hierarchy		0.977		0
		(0.53)		(.)
Individuality			0.197	0.510
			(0.60)	(0.43)
Common auditor # Individuality			-1.122**	0.013
			(-2.46)	(0.04)
Private # Individuality			-0.175	-0.649
			(-0.55)	(-0.55)
Common auditor # Private # Individuality			1.044**	0
			(2.18)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	2610	965	2610	965
Adjusted R-squared	0.312	0.368	0.312	0.365

Notes: In this table the results are shown for the multivariate regressions of common auditors on M&A quality, measured by the change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 11: The effect of a Big N auditor on M&A quality.

Panel A: Basic regression				
Change ROA	(1)	(2)	(3)	(4)
Big N	0.004	-0.021	-0.002	-0.045
	(0.48)	(-1.51)	(-0.22)	(-1.58)
Trust	-0.018			0.009
	(-0.57)			(0.10)
Big N # Trust	0.018			0.094
	(0.41)			(0.88)
Hierarchy		-0.026		0.081
		(-0.53)		(1.12)
Big N # Hierarchy		0.203**		0.277***
		(2.55)		(2.82)
Individuality			-0.034	-0.130
			(-0.48)	(-0.93)
Big N # Individuality			0.121	0.051
			(1.47)	(0.29)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	2692	972	2692	972
Adjusted R-squared	0.308	0.350	0.308	0.375
Panel B: Private/Public target				
Big N	-0.024	-0.042	0.070	-0.029
	(-0.64)	(-0.56)	(1.37)	(-0.41)
Private	0.022	-0.051	0.018	0.010
	(0.77)	(-0.92)	(0.45)	(0.17)
Big N # Private	0.028	0.014	-0.073	-0.017
	(0.74)	(0.19)	(-1.41)	(-0.23)
Trust	0.052			0.142
	(0.40)			(0.55)
Big N # Trust	0.348*			0.107
	(1.81)			(1.00)
Private # Trust	-0.073			-0.122
	(-0.57)			(-0.47)
Big N # Private # Trust	-0.336*			0
	(-1.70)			(.)
Hierarchy		-0.567**		-0.810**
		(-2.37)		(-2.29)
Big N # Hierarchy		0.256***		0.259***
		(2.63)		(2.62)
Private # Hierarchy		0.639***		0.904**
		(2.69)		(2.57)
Individuality			0.072	0.951
			(0.19)	(1.01)
Big N # Individuality			-0.552	0.074
			(-1.16)	(0.41)
Private # Individuality			-0.103	-1.107
			(-0.28)	(-1.15)
Big N # Private # Individuality			0.688	0
			(1.42)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	2610	965	2610	965
Adjusted R-squared	0.313	0.378	0.313	0.375

Notes: In this table the results are shown for the multivariate regressions the target having a Big N auditor on M&A quality, measured by the change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

The pattern described above can also be found for the hierarchy variable in the B panel of table 11. Differences in hierarchy tend to affect M&A quality significantly negative, but the interaction of Big N with the hierarchy variable is positively significant. Thereby, results show a positive significant relation for the private and hierarchical difference interaction. This implies that for deals with the same hierarchical difference, deals with a private target have a higher M&A quality than those with public targets. These same results also hold for the combined regression (4) in panel B of table 11. For this hypothesis, some expected significant results are found. However, not all results do support the hypothesis.

6.1.5 Summary main results

In the main analysis, the focus is on the standalone effect of the accounting characteristic, the standalone effect of cultural difference, measured by different proxies, and the interaction of these two taken together. Using different proxies for accounting similarity, mixed evidence is found for the first hypothesis. For the second hypothesis, some evidence is found that accounting quality directly positively affects M&A quality. Besides the direct effect, no mitigating effect of accounting quality on the effect of cultural differences on M&A quality is found.

Evidence on the third hypothesis is mixed. Some evidence is found that common auditors positively affect M&A quality. But when looking at the mitigating effect, both positive and negative significant results are found. For the fourth hypothesis, weak evidence is found on the mitigating effect of a big 4 auditor on the effect of cultural difference on M&A quality. No significant direct effect of a big n auditor is found.

6.2 Additional results

For additional results, two different tests are used. For the first additional test, the cumulative abnormal returns of the acquirer are used as a proxy for M&A quality. In the second additional test, the cultural difference measures are replaced by a geographic distance measure.

6.2.1 Cumulative abnormal returns

In prior research, cumulative abnormal returns are often used as a proxy for M&A quality. However, this measure can only be used if the acquirer is a public company. Since the data in this study include both private and public acquirers and targets, the main dependent variable is an accounting-based measure that could be applied to all deals. But in addition to the main tests, also tests including the cumulative abnormal returns of the acquirer 10 days surrounding the deal announcement are performed based on a subsample of deals. Thereby, higher levels of cumulative abnormal returns around the announcement of a deal, are seen as indicating deals with higher quality.

The tabulated results for these additional tests can be found in table 4 until table 9 of Appendix B. In this section, the most important findings and differences with the main results will be briefly discussed.

For the first hypothesis, which tests the role of accounting similarity in M&A deals, mixed evidence is found related to prior literature. When focusing on the country-level measure for accounting standard similarity, mainly unexpected results are found. In panel A the combined regression shows a positive significant effect of cultural difference, measured by the difference in trust, on M&A quality. Thereby, the interaction of cultural differences and accounting similarity has a negative significant result on M&A quality in this same regression. These results imply that the higher the cultural difference, the higher the quality of an M&A and keeping the level of difference in trust constant, more similar accounting results in a lower quality of M&A deals. This same effect occurs in the combined regression of panel B of this table. These results are not in line with prior described theory.

The firm-pair based measures of accounting similarity do give the same results as the main tests performed for some variables. For the test including the adjusted R^2, approximately the same significant relation between the private variable and M&A quality is found. Also, a positive significant result is found for the private variable in the third regression of panel A in table 5. For the test including the difference of accruals in table 6, a negative significant result is found for the interaction of discretionary accruals and individuality. This result implies that for leaving the difference in deals with the same level of cultural difference, measured by individuality, in deals with a target with higher discretionary accruals, lower M&A quality is expected. Higher target accounting quality thereby thus has an indirect positive effect on M&A quality. This same relation is also found in panel B of this table. Concluding based on the additional results, on the country-level no results are found that support the first hypothesis. Based on the firm-pair measurement of accounting similarity, some results are in line with the theory and thus the hypothesis.

For the second hypothesis, none of the main results are also found in this additional test. The only significant result found in the additional test for this hypothesis is the effect of cultural difference on M&A quality. The coefficient for the difference in trust is negative and significant on the 10% level. This implies that the bigger the difference in culture, the lower the market reaction is and thus the lower the M&A quality is.

The results in regression (3), based on individuality, of panel B in table 8 of Appendix B show a negative relation between cultural difference and M&A quality. M&A quality tends to be lower for deals with greater cultural differences. However, no mitigating effect is found and the first regression of this panel shows a conflicting result. In this regression also, a positive relation between the private variable and cumulative abnormal returns is found, but thereby a negative relation between the interaction of private and trust is significantly negative, with a coefficient of greater magnitude. Taken these two effects for the private variable together, it can be concluded that on average deals with a private target tend to have a lower quality than deals with a public target, leaving all else constant. In this table, no

significant role for common auditors is found in M&A deals, not directly nor via mitigating the negative effect of cultural difference on the M&A quality. Also, the results found in the main analysis aren't found in these additional tests.

For the additional tests for the fourth hypothesis, I refer to table 9 of Appendix B. Contrary to expectations, some evidence is found that having an M&A transaction with a target with a Big N auditor, negatively affects M&A quality, when looking at the third regression in Panel A. Further results in this table based on the effect of a Big N auditor on M&A transaction turn out to be insignificant. The results found in the main analysis, are not found in these additional results.

Results in panel B of this table give mixed evidence on the effect of cultural differences on M&A quality. Where the difference in trust in regression (1) has a positive significant effect on the cumulative abnormal returns, in the third regression the effect of differences in individuality has a negative significant effect. For both measures, however, I see that for deals with private targets the effect of cultural difference is smaller.

In general, the results found in these additional tests aren't completely in line with the main results. For some relations, the same results are found, but the two analyses mainly have different results.

6.2.2 Geographic distance

Another additional test is based on the geographic distance between the target and acquirer. Next to cultural differences, also the geographical distance is brought forward by prior literature as a factor of influence. In this additional test, the direct effect of geographical distance on M&A quality is tested. Thereby, I also test whether or not the accounting characteristics previously tested mitigate the effect of geographic distance on M&A quality. The results for this additional test can be found in table 10 of Appendix B.

I do find results in line with prior research that states that a higher geographic distance results in lower M&A quality. In all the regressions a negative coefficient for the geographic distance variable is found, and for almost all regressions the coefficient is significant. Also, slightly significant interaction effects are found for the interactions of accounting similarity and Big N with geographic distance. Both coefficients are significant at the 10% level and are positive. These results imply that for the same geographical distance, more similar accounting or a target with a Big N auditor, positively affect M&A quality. However, for accounting similarity, a standalone negative significant effect on M&A quality is found. This result implicates that having more similar accounting negatively affects M&A quality. Overall, this additional test gives mixed results when looking at prior research and discussed theory.

To summarize, all additional results show mixed results related to prior literature and the main results.

6.3 Robustness checks

To test the robustness of my results, two alterations of the main dependent variable are included. First of all, the change of ROA variable is altered into a percentual change of ROA. This is calculated as

the difference between post and pre-transaction ROA divided by the ROA before the transaction. Another alteration contains the change of ROA over a longer period of time. Where the main variable of interest is based on one year before and one year after the deal, as a robustness check the change in ROA from one year prior to the deal to 3 years after the deal is used. As already stated in the descriptive statistics, one year after the deal the synergies of the deal might not be realized. By taking a longer timeframe, I expect the synergies to be realized, capturing the M&A quality even better.

6.3.1 Percentual change ROA

First, the robustness test using the percentual change in ROA is tested and these results can be found in table 11 until table 16 in Appendix B. For the first hypothesis main results are overall not found in the robustness checks. For the country-level test only contradicting results are found in the robustness, and this also applies to one of the firm-level accounting similarity measures, the adjusted R^2. For this last one, in the main results, a negative relation between accounting similarity and M&A quality is found, which is not in line with prior literature. However, the robustness test on this measure shows a positive effect, which is in line with the theory. The mitigating effect of accounting similarity, proxied by the difference in accruals, which is found in the main results, is also found in the regressions including the percentual change in ROA. However, the effect is found based on a regression including another measure for cultural difference than in which the effect was found in the main tests.

The direct effect of accounting quality on M&A quality as found in the main analysis is also found in the robustness check. But when taking another measure for the cultural difference in the test, an adverse effect, and thus a conflicting result, is found when looking at results for this direct effect of accounting quality on M&A quality.

For the third hypothesis, some results are supported by the robustness check. This applies to the direct effect of a common auditor on M&A quality. But for the rest of the results, either a contradicting result is found, or no significant effect at all is found in the robustness test.

The mitigating effect of a Big N auditor, in line with hypothesis four, is not found in the robustness check. In these results, also no effect of cultural difference on M&A quality is found.

Overall the robustness checks, using the percentual change in ROA, don't confirm the results found in the main hypothesis. Most of the effects found in the main results are not found in the robustness check, whereas for some effects a contradicting effect is found.

6.3.2 Long term change ROA

For the other robustness check, the main dependent variable is replaced by a variable that measures the long-term change in ROA. The main focus in this robustness check is on the change in ROA between one year prior to the deal and three years thereafter. However, the same regressions are also run for a variable that captures the change in ROA for one year prior, and five years after the deal. These results are untabulated, but important results will be discussed.

For the first hypothesis, the robustness checks confirm the results as found in the main hypothesis for the country-level accounting similarity measure. In both tests, a negative significant effect of accounting similarity on M&A quality is found. For the first firm-level accounting similarity measure, the adjusted R^2, this result was also found in the main analysis but not on the robustness check. A mitigating effect of accounting similarity on the effect of cultural difference on M&A quality is found in both the main analysis and the robustness check performed with using the difference in accruals as a measure for accounting similarity. This effect is in line with previously described research. Overall the robustness checks for this hypothesis are somewhat confirming the main results found, but this doesn't apply to all results found in the main analysis.

The robustness check for the second hypothesis doesn't confirm the results found in the main hypothesis. The negative significant relation between discretionary accruals and M&A quality isn't present in this result. For the third hypothesis, however, a positive significant relation is found between the accounting characteristic and M&A quality. Having a common auditor tends to positively influence M&A quality. On the other hand, when looking at the regression that includes another measure for cultural difference, there is found a significant negative effect of having a common auditor on M&A quality. The evidence is thus mixed.

Such mixed results are also found for the effect of cultural differences on M&A quality. Both significant positive and negative results are found in the robustness check, whereas in the main results a negative effect of cultural difference on M&A quality is found. The robustness thus doesn't fully confirm the findings of the main test related to the effect of cultural differences. The robustness checks are however in line with the main results for the interaction effect of cultural difference and common auditor. In both main results and robustness results, the effect is negative and significant, implying that for the same level of cultural difference, deals with a common auditor tend to have a lower M&A quality. This result is however not in line with prior literature. But although results are not always in line with the theory for this hypothesis, the robustness check results are mainly in line with the main results.

For the last hypothesis, which tests the effect of a Big N auditor on M&A quality, the results found in the main analysis are mainly not confirmed by these robustness checks. The mitigating effect that a Big N auditor on the effect of cultural difference on M&A quality seems to have, following the main results including cultural measure hierarchy, is not found in the robustness tests. For the effect of cultural difference on M&A quality mixed evidence is found. The negative significant result found in the main analysis is found for some of the regressions ran in the robustness checks, but also a positive significant effect is found in the robustness check.

Whether this robustness check confirms the results found in the main analysis depends on the hypothesis. For some hypotheses main results are also found in the robustness checks, whereas for some hypothesis none of the results are confirmed by the robustness results.

7. Conclusion

This research has focussed on the effect that accounting characteristics might have on cross-border M&A transactions. Via several hypotheses and multiple proxies per hypothesis, no decisive confirmation can be made about any of the aforementioned hypotheses. Thus concluding that all off the hypothesis stay unconfirmed. A negative association between greater cultural differences and lower M&A quality, as described by prior research, also isn't found. Thereby the effect of accounting characteristics showed mixed evidence.

This research used data from several different sources and no specific limitations on the timeframe of the data were applied. The main reason observations were excluded from the research was when observations lacked key information for some of the regressions, although this was limited by the use of multiple sub-samples. By running multiple additional regressions and also including several robustness checks the results didn't change in a major way. In the results from all the additional test still only weak evidence in support of the hypotheses was found.

The biggest limitations of this study are inherent in the research question of this paper. Since there is generally less high-quality data available for private companies than for public and almost all the targets in the M&A transactions used in this research were private companies. The second limitation is the difficulty of capturing accounting characteristics in useable proxy variables. This is mitigated by using several different proxies for the same characteristic, but still concepts like M&A quality, accounting quality or cultural difference are abstract and can only be approximately approached by indirect variables.

An example of difficulties with proxies is the country-level accounting similarity measure, based on Bae et al. (2008). This measure is based on accounting standards itself, and thus doesn't capture accounting practices. Thereby, it is a static measure. Similarity is based on observations of just one year. In order to better capture similarity at the time of the deal, such an index should be made for every year to capture changes in standards. For this index also an indication could be made whether all of the 21 items are of equal importance, or if the items should be included in the index based on certain weighting.

A third limitation to highlight is that this research isn't distinguishing the type of deal. The effects of accounting quality might be different when looking at management buyouts, acquisitions or mergers.

Future research might mitigate these limitations in several ways. Since the availability of high-quality data is relatively limited, future researchers might want to switch to a different research design. The data indicated that several companies are involved with multiple mergers. It might be interesting to do a case study on these companies with in-depth interviews to better understand what role accounting characteristics play in these transactions. As stated before, future research could also introduce new proxies that capture the same concepts of this research or look specifically into the effect of accounting characteristics with an interaction on certain deal types.

Opportunities for future research also follow from the mixed evidence found in this research. By extensively testing the role of certain accounting characteristics in M&A transactions, I haven't focussed on potential explanations for the conflicting evidence. Future research could build on this by looking at specific conflicting evidence and examine what might cause this.

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Appendix A: Variable definitions

Variable	Description	Scale	Data Source
Panel A: Dependent Variables			
ROA	Return on assets, computed as the net income divided by the total assets of previous year. This variable is computed separately for both target and acquirer, and also computed taken together.	Continuous	Orbis (Historic)/ Computed
Pre-combined ROA	Combined return on assets of the target and acquirer, in the year prior to the deal.	Continuous	Orbis (Historic)/ Computed
Post combined ROA	Combined return on assets of the target and acquirer, in the year after the deal.	Continuous	Orbis (Historic)/ Computed
Change combined ROA	Change in return on assets, of the target and acquirer taken together. This variable serves as the quality indicator for the M&A deal. This variable is calculated as the difference between the post- and pre-deal combined ROA.	Continuous	Orbis (Historic)/ Computed
Percentual change ROA	Percentual change in return on assets, of the target and acquirer taken together. This variable serves as another quality indicator of the M&A deal. The variable is calculated as the change in combined ROA divided by the pre-deal combined ROA.	Continuous	Orbis (Historic)/ Computed
Cumulative Abnormal Returns	The cumulative abnormal returns of the acquirer around the announcement date of the deal. Abnormal returns, based on the MSCI Europe Index, from 5 days prior to and 5 days after the deal are added. This variable serves as the dependent variable for the additional tests.	Continuous	Datastream / Computed
Panel B: Independent Variables			
Difference Trust	One of the 3 measures of cultural difference. This variable is calculated as the absolute difference between the cultural value trust in the target and acquirer country and is scaled between zero and one.	Continuous	World Values Survey/Computed
Difference Hierarchy	One of the 3 measures of cultural difference. This variable is calculated as the absolute difference between the cultural value hierarchy in the target and acquirer country and is scaled between zero and one.	Continuous	World Values Survey/Computed
Difference Individualism	One of the 3 measures of cultural difference. This variable is calculated as the absolute difference between the cultural value individualism in the target and acquirer country and is scaled between zero and one.	Continuous	World Values Survey/Computed
Crossborder	An indicator variable that equals one if the target and acquirer are located in the same country based on the ISO Country code obtained via Orbis.	Binary	Created
Private	An indicator variable that equals one if the target private company, and zero if it is a public company. The variable is created based on the listed/unlisted information provided in Orbis.	Binary	Created
Similarity standards	A country-level measure for similarity in accounting standards. Using the 21 IAS items listed in table 1 of Bae et al. (2008), the countries are assigned a similarity score of 1 for an item if both countries are in line, or if both countries are not in line with the IAS item. This is done for every item, and the sum of these is divided by the maximum score of 21. The result is a similarity score. High values of this similarity score reflect more similarity in accounting standards between two countries. IFRS adopters are seen as having a similarity of 21 with the IAS items. If both countries are IFRS adopters, this would thus result in a similarity score of 1.	Continuous	Created
Adjusted R2	One of the two measures for accounting similarity on the firm level. This is the adjusted R2 of the regression from the acquirer earnings on the target earnings and serves as a measure for the earnings covariation.	Continuous	Computed
Difference total accruals	One of the two measures for accounting similarity on the firm level. The difference of total accruals is computed as the	Continuous	Computed

	absolute difference between the total accruals at time t from the target and the acquirer. Total accruals are thereby computed as the difference between net income and cashflows, divided by the lagged total assets.		
Discretionary accruals	The measure for accounting quality of the target. The discretionary accruals variable is computed as the absolute difference between the total accruals and the non-discretionary accruals calculated using the Jones (1991) accrual model.	Continuous	Computed
Auditor name	This variable is a modification on the auditor variable obtained from Orbis. In Orbis the same auditor can be referred to in several ways, so in order to be able to create the common auditor variable, this variable is created by making a uniform reference per auditor. Only the top international auditors are considered for creating this variable.	Nominal	Created
Common auditor	An indicator variable that equals one if the target and the acquirer have the same auditor in year t based on the created auditor name variable. The variable equals zero if the companies don't have the same auditor, don't have an auditor or if there is no auditor information available.	Binary	Created
BIGN auditor	An indicator variable that equals one if the target has a BIGN auditor. If the target doesn't have a BIG N auditor, doesn't have an auditor, or no information on auditors is available, the variable equals zero.	Binary	Created
Panel C: Control variables			
Pre-deal ROA	Return on assets, computed as the net income divided by the total assets of year t-1. Used as a measure for pre-deal profitability of both the target and the acquirer.	Continuous	Orbis (Historic)/ Computed
Toehold	The percentage of initial stake the acquirer has in the target prior to the deal.	Continuous	Zephyr
Same industry	An indicator variable that equals one if the target and acquirer of a deal operate in the same industry based on the 2-digit US SIC code obtained via Orbis.	Binary	Created
High-tech	This variable is an indicator variable that equals one if the target is seen as a high-tech company according to Loughran and Ritter (2004) and equals zero otherwise.	Binary	Created
Geographic distance	Geographic distance is the distance between the capitals, using the great circle formula. This formula uses latitudes and longitudes of the most important city (based on population), or of the capital city. The natural logarithm is taken of this absolute distance.	Continuous	CEPII
Share border	An indicator variable that equals one if the countries of the involved parties in a deal have a shared border. If two countries don't share a border, or if the deal is a domestic deal the variable equals zero.	Binary	CEPII
Common language	An indicator variable that equals one if the two involved parties share one or more language, based on the official languages of their countries. if none of the official languages is the same for the target and acquirer, the variable equals zero.	Binary	CEPII
Size	This is calculated as the natural logarithm of the total assets, calculated for both the acquirer and the target. This variable is used to control for the size of the companies.	Continuous	Orbis (Historic)/ Computed
Relative size	This is calculated as the natural logarithm of the total assets of the target, divided by the natural logarithm of the total assets of the acquirer. This variable is used to control for the relative size of the target to the acquirer.	Continuous	Orbis (Historic)/ Computed
Fixed effects	In all tests, acquirer country-year fixed effects and target country-year fixed effects are included to control for deals within the same year and country.	Continuous	Created

Appendix B: Tables

Table 1: Cultural data obtained from the World Values Survey.

Country	Total	Trust		Hierarchy		Individualism	
	N	N	Mean	N	Mean	N	Mean
Australia	6,174	6,083	0.470	2,030	0.541	4,863	0.523
Bosnia Herzegovina	2,400	2,326	0.248	2,303	0.533	2,390	0.545
Brazil	5,911	5,854	0.065	2,897	0.209	5,809	0.538
Bulgaria	2,073	1,771	0.253	984	0.494	2,012	0.542
Canada	4,095	4,017	0.397	1,908	0.635	4,025	0.539
Chile	5,700	5,559	0.190	3,639	0.521	5,643	0.456
China	7,791	7,438	0.573	3,356	0.351	7,158	0.544
Colombia	10,562	10,475	0.109	-	-	7,503	0.551
Croatia	1,196	1,088	0.251	1,161	0.285	1,170	0.481
Cyprus	2,050	2,026	0.110	-	-	2,032	0.413
Czech Republic	2,071	2,017	0.293	2,052	0.423	2,052	0.701
Egypt	7,574	7,533	0.265	2,985	0.539	7,533	0.673
Estonia	2,554	2,490	0.323	1,011	0.346	2,489	0.431
Finland	3,004	2,952	0.550	1,954	0.390	1,980	0.445
France	1,001	996	0.187	-	-	999	0.487
Germany	6,136	5,871	0.367	2,004	0.334	5,995	0.422
Hong Kong	2,252	2,223	0.443	-	-	2,206	0.523
Hungary	3,121	3,039	0.296	2,025	0.590	1,632	0.407
India	12,621	11,666	0.290	5,667	0.433	11,146	0.374
Israel	1,199	1,168	0.235	-	-	1,186	0.377
Italy	1,012	953	0.292	-	-	987	0.586
Japan	8,170	7,545	0.407	3,398	0.612	6,303	0.549
Latvia	1,200	1,160	0.247	1,193	0.319	1,167	0.643
Lithuania	1,009	981	0.219	968	0.301	978	0.509
Malaysia	2,501	2,501	0.087	-	-	2,501	0.662
Netherlands	2,952	2,862	0.594	-	-	2,852	0.545
Norway	2,152	2,136	0.695	1,117	0.635	2,139	0.509
Poland	4,057	3,841	0.232	-	-	3,890	0.685
Romania	4,518	4,360	0.154	1,144	0.499	4,342	0.542
Russia	8,534	8,052	0.292	3,879	0.448	7,991	0.549
Saudi Arabia	1,502	1,431	0.530	1,411	0.506	1,474	0.668
Serbia	3,700	3,476	0.216	2,391	0.422	3,587	0.552
Singapore	3,484	3,464	0.282	1,504	0.361	3,475	0.621
Slovakia	1,561	1,508	0.258	1,547	0.444	1,537	0.581
Slovenia	3,113	3,049	0.180	990	0.286	3,043	0.400
South Africa	16,786	13,341	0.213	7,318	0.520	14,910	0.541
South Korea	7,070	6,971	0.314	4,589	0.413	6,076	0.618
Spain	6,319	6,080	0.270	3,675	0.438	6,132	0.516
Sweden	4,172	3,968	0.626	1,927	0.595	3,174	0.555
Switzerland	3,853	3,181	0.438	1,187	0.454	2,406	0.401
Taiwan	3,245	3,190	0.298	760	0.296	3,173	0.623

Thailand	2,734	2,710	0.376	-	-	2,733	0.617
Turkey	9,289	9,112	0.121	6,197	0.482	9,134	0.435
Ukraine	5,311	4,906	0.288	2,642	0.438	5,020	0.562
United Kingdom	2,134	2,095	0.300	-	-	2,081	0.508
United States	8,548	8,410	0.383	4,945	0.702	6,094	0.559
Total	208,411	197,875	0.309	88,758	0.451	187,022	0.533

Notes: For each country the total respondents (N) for the World Values Survey (WVS) are given. Thereby for each of the measures for cultural values the total respondents that answered these questions and the average answer per country is given. The value Hierarchy is not measured in all countries. For countries missing this value, the value is reported as missing.

Table 2: GAAP similarity according to Bae et al. (2008)

Panel A: The 21 IAS items used in measuring the GAAP difference measure

Item	IAS Rule	Item	IAS Rule
1	IAS 1.7	12	IAS 35
2	IAS 12	13	IAS 36
3	IAS 14	14	IAS 37
4	IAS 17	15	IAS 37.14
5	IAS 19	16	IAS 37.45
6	IAS 19.52	17	IAS 38.42
7	IAS 2.36	18	IAS 38.51
8	IAS 22.56/38.99	19	IAS 7
9	IAS 24	20	IAS 8.6
10	IAS 32.18/32.23	21	SIC 12
11	IAS 32.77		

Panel B: Differences from IAS per country (following Bae et al. (2008))

Country	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Argentina		1	1	1	1					1	1	1	1		1	1	1	1		1	1
Australia					1							1		1			1				
Austria	1		1					1	1		1	1	1		1	1			1	1	1
Belgium			1		1			1	1	1	1	1			1	1	1		1	1	1
Brazil			1	1	1					1		1	1		1	1	1		1		1
Canada	1						1	1							1	1					
Chile	1		1		1		1	1		1	1	1	1		1	1				1	1
China		1			1		1			1	1	1				1				1	1
Czech	1		1	1	1				1	1		1	1		1	1	1		1	1	1
Denmark	1		1	1	1			1		1		1	1	1						1	1
Egypt	1	1	1	1		1				1	1				1						1
Estonia	1				1					1	1	1	1								1
Finland	1		1	1		1	1		1	1	1	1	1		1	1	1		1		1
France	1			1	1		1	1	1	1		1	1		1	1				1	
Germany	1						1	1	1	1	1	1			1	1				1	1
Greece	1	1	1	1		1	1		1	1	1	1			1	1	1	1	1	1	1
Hong Kong					1					1	1										
Hungary	1	1	1		1		1		1	1	1	1	1		1	1				1	
India	1									1	1	1	1		1	1	1				
Indonesia						1	1				1										1

Ireland											1											
Israel			1			1		1				1				1						1
Italy	1		1	1						1	1	1	1		1	1			1	1		1
Japan	1			1	1		1					1	1		1	1				1		
Korea					1					1	1				1	1						1
Luxembourg	1	1	1	1	1		1	1		1	1	1	1		1	1	1	1	1	1		1
Malaysia						1				1	1	1	1	1				1				1
Mexico													1									
Netherlands	1														1	1				1		
New Zealand					1								1					1				
Norway	1				1			1		1			1		1		1					
Pakistan										1		1	1	1								
Peru					1																	
Philippines				1		1		1		1	1		1		1	1	1					1
Poland			1		1		1	1		1	1		1		1	1	1			1		1
Portugal	1	1					1		1	1	1	1	1	1			1	1		1		1
Russia	1	1			1		1		1	1	1	1	1		1	1	1	1	1	1		1
Singapore																						
Slovenia	1	1	1		1		1				1	1			1					1		
South Africa																						
Spain	1		1	1			1	1	1	1	1	1	1		1	1	1		1	1		1
Sweden	1					1		1		1	1	1	1		1	1	1					
Switzerland	1		1			1	1			1	1	1	1		1	1				1		1
Taiwan							1			1		1	1			1						1
Thailand		1			1							1		1								
UK										1												
Turkey	1	1	1	1	1		1		1	1	1	1	1			1	1			1		
US								1		1					1	1						
Venezuela					1					1	1	1				1						

Notes: For items where a "1" is stated, the local GAAP from the country matches with the IAS item. Two GAAPs are seen as similar for an item if both countries have either a 1 for an item, or if both don't have a 1 for an item. If two GAAPs are seen as similar for an item, they will be assigned a GAAP similar score of 1 for that item, and otherwise zero. This total score is divided by 21 resulting in a similarity score.

Table 3: Correlation matrix according to the Pearson correlation

	1	2	3	4	5	6	7	8	9	10	11	12
1 Crossborder	1											
2 Same industry	0.102***	1										
3 Common auditor	0.035	-0.010	1									
4 BIG N auditor	-0.062*	-0.048	0.366***	1								
5 Private	0.038	-0.058	-0.071*	-0.009	1							
6 Change ROA	-0.088**	-0.005	0.033	0.016	-0.052	1						
7 CAR	-0.012	0.038	0.010	0.010	-0.029	0.018	1					
8 Difference trust	0.767***	0.098**	0.001	-0.086**	0.046	-0.082**	0.029	1				
9 Difference hierarchy	0.821***	0.084**	0.026	-0.042	0.036	-0.063*	0.003	0.592***	1			
10 Difference individualism	0.771***	0.080**	0.015	-0.050	0.013	-0.061*	-0.022	0.445***	0.723***	1		
11 Pre-acquisition ROA (target)	0.018	-0.021	-0.056	-0.020	0.069*	-0.158***	-0.023	0.022	0.016	0.001	1	
12 Pre-acquisition ROA (acquirer)	0.118***	-0.002	-0.014	0.007	0.014	-0.591***	-0.019	0.117***	0.064*	0.079**	0.172***	1
13 High-tech	0.058	0.201***	-0.023	-0.029	-0.060*	-0.042	0.043	0.036	0.050	0.036	-0.015	0.017
14 Toehold	-0.037	0.054	0.050	0.071*	0.012	-0.041	0.001	-0.025	-0.011	-0.033	-0.096**	-0.017
15 Geographic distance	0.736***	0.020	0.019	-0.029	0.031	-0.077*	0.011	0.652***	0.682***	0.482***	-0.003	0.080**
16 Share border	0.501***	0.093**	0.029	0.001	0.062*	-0.030	-0.039	0.104***	0.384***	0.496***	0.043	0.065*
17 Common language	-0.832***	-0.063*	-0.001	0.087**	-0.012	0.089**	-0.006	-0.771***	-0.600***	-0.568***	0.008	-0.091**
18 Size target	0.121***	0.041	0.119***	0.044	-0.205***	-0.016	0.063*	0.076*	0.088**	0.124***	-0.115***	0.067*
19 Size acquirer	0.293***	0.019	0.079**	0.027	-0.042	-0.074*	-0.047	0.281***	0.250***	0.218***	-0.037	0.220***
20 Relative size target	-0.106***	0.027	0.067*	0.029	-0.206***	0.051	0.122***	-0.145***	-0.106***	-0.042	-0.113***	-0.139***
21 Similarity standards	-0.453***	-0.005	0.011	0.142***	-0.052	0.125***	0.031	-0.337***	-0.422***	-0.365***	-0.089**	-0.174***
22 Adjusted R2 earnings	-0.185***	-	0.054	0.034	-0.282***	0.020	0.043	-0.138*	-0.191***	-0.166**	0.025	-0.046
23 Difference total accruals	-0.044	-	0.010	-0.002	0.118*	0.083	0.097	-0.088	-0.038	-0.023	-0.165**	-0.267***
24 Discretionary accruals	0.031	0.130*	0.043	0.110*	0.061	-0.073	-0.034	0.066	0.023	-0.002	-0.070	0.075

Notes: The *, ** and *** indicate a 5%, 1% and 0.1% significance level respectively. Some correlations are missing due to working with multiple samples and not all variables are in all samples.

Table 3 (continued): Correlation matrix according to the Pearson correlation

	13	14	15	16	17	18	19	20	21	22	23	24
1 Crossborder												
2 Same industry												
3 Common auditor												
4 BIG N auditor												
5 Private												
6 Change ROA												
7 CAR												
8 Difference trust												
9 Difference hierarchy												
10 Difference individualism												
11 Pre-acquisition ROA (target)												
12 Pre-acquisition ROA (acquirer)												
13 High-tech	1											
14 Toehold	0.037	1										
15 Geographic distance	0.076*	-0.036	1									
16 Share border	0.015	-0.007	-0.032	1								
17 Common language	-0.071*	0.051	-0.803***	-0.070*	1							
18 Size target	-0.084**	0.145***	0.131***	0.012	-0.132***	1						
19 Size acquirer	-0.055	0.120***	0.294***	0.017	-0.307***	0.542***	1					
20 Relative size target	-0.033	0.055	-0.087**	-0.008	0.099**	0.669***	-0.243***	1				
21 Similarity standards	-0.044	0.094**	-0.348***	-0.225***	0.380***	-0.024	-0.104***	0.060	1			
22 Adjusted R2 earnings	0.070	-0.067	-0.165**	-0.054	0.188***	0.211***	-0.114*	0.356***	-	1		
23 Difference total accruals	0.187***	0.071	-0.065	0.022	0.056	-0.105	-0.171**	0.017	-	0.022	1	
24 Discretionary accruals	-0.012	-0.030	0.093	-0.086	-0.071	-0.037	0.078	-0.107	-	-	-	1

Notes: The *, ** and *** indicate a 5%, 1% and 0.1% significance level respectively. Some correlations are missing due to working with multiple samples and not all variables are in all samples.

Table 4: The effect of accounting similarity on M&A quality measured by acquirer CAR (-5; +5).

Panel A: Basic regression				
Cumulative abnormal returns	(1)	(2)	(3)	(4)
Accounting Similarity	-0.059	-0.099	-0.064	1.057
	(-0.92)	(-0.59)	(-1.04)	(1.58)
Trust	0.137			4.888***
	(0.68)			(3.88)
Accounting Similarity # Trust	-0.054			-7.881***
	(-0.16)			(-3.73)
Hierarchy		-0.250		1.375
		(-0.43)		(1.05)
Accounting Similarity # Hierarchy		0.699		-2.089
		(0.77)		(-0.99)
Individuality			-0.178	-3.584
			(-0.38)	(-1.61)
Accounting Similarity # Individuality			-0.103	5.020
			(-0.14)	(1.41)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	1077	358	1077	358
Adjusted R-squared	0.059	0.050	0.059	0.134
Panel B: Private/Public targets				
Accounting Similarity	-0.040	-0.162	-0.279	1.057
	(-0.04)	(-0.42)	(-0.58)	(1.58)
Private	0.189	-0.179	-0.152	-0.626***
	(0.33)	(-1.56)	(-0.42)	(-3.93)
Private # Accounting Similarity	-0.023	0	0.206	0
	(-0.03)	(.)	(0.44)	(.)
Trust	-3.715			4.888***
	(-0.42)			(3.88)
Accounting Similarity # Trust	6.790			-7.881***
	(0.48)			(-3.73)
Private # Trust	3.832			0
	(0.43)			(.)
Private # Accounting Similarity # Trust	-6.808			0
	(-0.48)			(.)
Hierarchy		-0.255		1.375
		(-0.20)		(1.05)
Accounting Similarity # Hierarchy		0.913		-2.089
		(0.42)		(-0.99)
Individuality			-2.192	-3.584
			(-0.22)	(-1.61)
Accounting Similarity # Individuality			1.166	5.020
			(0.08)	(1.41)
Private # Individuality			1.877	0
			(0.19)	(.)
Private # Accounting Similarity # Individuality			-1.054	0
			(-0.07)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	1061	358	1061	358
Adjusted R-squared	0.054	0.075	0.053	0.134

Notes: In this table the results are shown for the multivariate regressions of the country-based measure of accounting similarity on M&A quality, measured by the Cumulative Abnormal Returns (-5; +5) of the acquirer. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 5: The effect of accounting similarity on M&A quality measured by acquirer CAR (-5; +5).

Panel A: Basic regression				
Cumulative abnormal returns	(1)	(2)	(3)	(4)
Adjusted R2	0.051	0.108	-0.025	-0.353
	(0.85)	(0.67)	(-0.46)	(-0.42)
Trust	0.146			-1.498
	(0.74)			(-1.67)
Adjusted R2 # Trust	-0.540			0.400
	(-1.35)			(0.16)
Hierarchy		0.266		0.030
		(1.02)		(0.04)
Adjusted R2 # Hierarchy		-0.566		1.799
		(-0.58)		(0.69)
Individuality			0.170	0.329
			(0.31)	(0.23)
Adjusted R2 # Individuality			0.226	-0.247
			(0.27)	(-0.09)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	455	155	455	155
Adjusted R-squared	-0.033	0.279	-0.041	0.333
Panel B: Private/Public targets				
Adjusted R2	0.038	-0.240	-0.023	-0.353
	(0.65)	(-0.84)	(-0.40)	(-0.42)
Private	0.165*	-0.487	0.198**	0.244
	(1.81)	(-1.38)	(2.20)	(1.15)
Trust	0.088			-1.498
	(0.44)			(-1.67)
Adjusted R2 # Trust	-0.471			0.400
	(-1.20)			(0.16)
Hierarchy		1.706		0.030
		(0.76)		(0.04)
Adjusted R2 # Hierarchy		1.263		1.799
		(0.78)		(0.69)
Individuality			0.490	0.329
			(0.88)	(0.23)
Adjusted R2 # Individuality			0.112	-0.247
			(0.13)	(-0.09)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	447	155	447	155
Adjusted R-squared	-0.035	0.369	-0.038	0.333

Notes: In this table the results are shown for the multivariate regressions of one of the firm-based measure of accounting similarity (the adjusted R^2) on M&A quality, measured by the Cumulative Abnormal Returns (-5; +5) of the acquirer. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 6: The effect of accounting similarity on M&A quality measured by acquirer CAR (-5; +5).

Panel A: Basic regression				
Cumulative abnormal returns	(1)	(2)	(3)	(4)
Difference Accruals	-0.149	-0.369	0.495***	-0.631
	(-0.47)	(-0.64)	(2.66)	(-0.30)
Trust	-0.035			-0.899
	(-0.15)			(-1.27)
Difference Accruals # Trust	0.808			-3.345
	(0.63)			(-0.29)
Hierarchy		0.173		1.607
		(0.46)		(1.30)
Difference Accruals # Hierarchy		2.894		-7.808
		(0.73)		(-0.87)
Individuality			0.423	-1.101
			(0.71)	(-0.42)
Difference Accruals # Individuality			-11.160***	23.010
			(-3.14)	(0.68)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	416	144	416	144
Adjusted R-squared	-0.023	0.296	0.013	0.329
Panel B: Private/Public targets				
Difference Accruals	-0.157	-0.171	0.514***	-0.631
	(-0.50)	(-0.17)	(2.83)	(-0.30)
Private	0.208**	-0.363	0.236**	0.364***
	(2.16)	(-0.76)	(2.28)	(2.81)
Trust	-0.069			-0.899
	(-0.31)			(-1.27)
Difference Accruals # Trust	0.836			-3.345
	(0.64)			(-0.29)
Hierarchy		1.784		1.607
		(0.71)		(1.30)
Difference Accruals # Hierarchy		-1.077		-7.808
		(-0.14)		(-0.87)
Individuality			0.605	-1.101
			(1.06)	(-0.42)
Difference Accruals # Individuality			-11.670***	23.010
			(-3.37)	(0.68)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	409	144	409	144
Adjusted R-squared	-0.018	0.340	0.024	0.329

Notes: In this table the results are shown for the multivariate regressions of one of the firm-based measure of accounting similarity (the difference in accruals) on M&A quality, measured by the Cumulative Abnormal Returns (-5; +5) of the acquirer. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 7: The effect of target accounting quality on M&A quality measured by acquirer CAR (-5; +5).

Panel A: Basic regression				
Cumulative abnormal returns	(1)	(2)	(3)	(4)
Discr. accruals	0.071	0.149	0.136	-1.013
	(0.39)	(0.84)	(0.94)	(-1.61)
Trust	-0.748*			-2.056
	(-1.87)			(-0.53)
Discr. accruals # Trust	-0.157			4.353
	(-0.21)			(1.66)
Hierarchy		0.013		0.515
		(0.05)		(0.60)
Discr. accruals # Hierarchy		-0.511		-1.075
		(-0.39)		(-0.35)
Individuality			-0.072	-2.893
			(-0.12)	(-1.27)
Discr. accruals # Individuality			-1.287	9.642
			(-0.83)	(1.19)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	241	119	241	119
Adjusted R-squared	0.161	-0.188	0.107	0.311
Panel B: Private/Public targets				
Discr. accruals	-1.812	-0.249	3.680	-2.643
	(-0.32)	(-0.76)	(0.58)	(-0.40)
Private	-0.246	-0.254	0.218	-2.293
	(-0.49)	(-0.45)	(0.55)	(-0.61)
Private # Discr. accruals	1.969	0	-3.642	0
	(0.35)	(.)	(-0.58)	(.)
Trust	-4.421			8.947
	(-0.80)			(0.64)
Discr. accruals # Trust	-0.588			5.346
	(-0.68)			(0.24)
Private # Trust	3.795			0
	(0.70)			(.)
Hierarchy		-0.323		-2.859
		(-0.47)		(-0.47)
Discr. accruals # Hierarchy		1.687		5.563
		(0.74)		(0.40)
Individuality			0.495	3.187
			(0.12)	(0.35)
Discr. accruals # Individuality			-0.090	13.24
			(-0.04)	(0.49)
Private # Individuality			-0.858	0
			(-0.22)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	210	106	210	106
Adjusted R-squared	0.035	0.170	-0.013	0.328

Notes: In this table the results are shown for the multivariate regressions of target accounting quality on M&A quality, measured by the Cumulative Abnormal Returns (-5; +5) of the acquirer. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 8: The effect of common auditors on M&A quality measured by acquirer CAR (-5; +5).

Panel A: Basic regression				
Cumulative abnormal returns	(1)	(2)	(3)	(4)
Common auditor	-0.012	-0.077*	-0.005	-0.021
	(-0.48)	(-1.74)	(-0.21)	(-0.15)
Trust	0.091			-0.018
	(1.17)			(-0.07)
Common auditor # Trust	-0.003			0.152
	(-0.02)			(0.20)
Hierarchy		0.115		0.161
		(1.12)		(0.55)
Common auditor # Hierarchy		0.493		0.783
		(1.55)		(1.42)
Individuality			-0.118	0.029
			(-0.64)	(0.06)
Common auditor # Individuality			-0.110	-1.409
			(-0.41)	(-1.04)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	1167	418	1167	418
Adjusted R-squared	0.045	0.059	0.045	0.089
Panel B: Private/Public targets				
Common auditor	-0.016	-0.045	0.035	-0.020
	(-0.15)	(-0.69)	(0.30)	(-0.15)
Private	0.102**	0.224	-0.089	0.215
	(2.51)	(1.30)	(-1.19)	(1.24)
Common auditor # Private	0.001	0	-0.039	0
	(0.01)	(.)	(-0.34)	(.)
Trust	0.636**			-0.016
	(2.13)			(-0.06)
Common auditor # Trust	0.010			0.150
	(0.08)			(0.20)
Private # Trust	-0.559*			0
	(-1.84)			(.)
Hierarchy		0.190		0.161
		(0.74)		(0.55)
Common auditor # Hierarchy		0.388		0.781
		(0.97)		(1.41)
Individuality			-2.028**	0.028
			(-2.41)	(0.06)
Common auditor # Individuality			-0.107	-1.408
			(-0.39)	(-1.04)
Private # Individuality			1.962**	0
			(2.27)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	1146	413	1146	413
Adjusted R-squared	0.042	0.091	0.041	0.089

Notes: In this table the results are shown for the multivariate regressions of a common auditor on M&A quality measured by the Cumulative Abnormal Returns (-5; +5) of the acquirer. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 9: The effect of a Big N auditor on M&A quality measured by acquirer CAR (-5; +5).

Panel A: Basic regression				
Cumulative abnormal returns	(1)	(2)	(3)	(4)
Big N	-0.023	-0.024	-0.029*	-0.011
	(-1.27)	(-0.61)	(-1.75)	(-0.15)
Trust	0.080			0.066
	(0.93)			(0.23)
Big N # Trust	0.029			-0.003
	(0.28)			(-0.01)
Hierarchy		0.112		0.204
		(0.99)		(0.66)
Big N # Hierarchy		0.0843		0.050
		(0.39)		(0.17)
Individuality			-0.170	0.014
			(-0.92)	(0.03)
Big N # Individuality			0.175	-0.155
			(0.82)	(-0.34)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	1167	418	1167	418
Adjusted R-squared	0.050	0.052	0.049	0.067
Panel B: Private/Public targets				
Big N	0.052	-0.018	-0.094	-0.011
	(1.33)	(-0.42)	(-1.37)	(-0.14)
Private	0.123***	0.256	-0.109	0.246
	(2.81)	(1.49)	(-1.30)	(1.43)
Big N # Private	-0.080**	0	0.067	0
	(-2.05)	(.)	(1.02)	(.)
Private # Trust	-0.626**			0
	(-2.03)			(.)
Trust	0.685**			0.068
	(2.27)			(0.24)
Big N # Trust	0.064			-0.004
	(0.62)			(-0.01)
Hierarchy		0.205		0.205
		(0.75)		(0.66)
Big N # Hierarchy		0.015		0.046
		(0.05)		(0.16)
Individuality			-2.210**	0.013
			(-2.53)	(0.02)
Big N # Individuality			0.133	-0.153
			(0.61)	(-0.33)
Private # Individuality			2.110**	0
			(2.34)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	1146	413	1146	413
Adjusted R-squared	0.047	0.087	0.046	0.067

Notes: In this table the results are shown for the multivariate regressions of a Big N auditor on M&A quality measured by the Cumulative Abnormal Returns (-5; +5) of the acquirer. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 10: The effect of accounting characteristics and geographic distance on M&A quality.

Change ROA	(1)	(2)	(3)	(4)	(5)	(6)
Geographic distance	-0.021**	-0.021**	-0.009	-0.020**	-0.006	-0.008*
	(-2.16)	(-2.17)	(-0.91)	(-2.01)	(-1.40)	(-1.87)
Accounting Similarity	-0.199*					
	(-1.79)					
Accounting Similarity # Geographic distance	0.028*					
	(1.850					
Adjusted R2		0.008				
		(0.08)				
Adjusted R2 # Geographic distance		-0.004				
		(-0.30)				
Difference total accruals			0.061			
			(0.10)			
Difference total accruals # Geographic distance			-0.015			
			(-0.18)			
Discr. accruals				0.175		
				(0.95)		
Discr. accruals # Geographic distance				-0.021		
				(-0.88)		
Common auditor					-0.009	
					(-0.25)	
Common auditor # Geographic distance					0.002	
					(0.37)	
Big N						-0.039
						(-1.56)
Big N # Geographic distance						0.006*
						(1.85)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2417	931	827	885	2692	2692
Adjusted R-squared	0.307	0.29	0.25	0.138	0.307	0.309

Notes: In this table the results are shown for the multivariate regressions of the accounting characteristics on M&A quality measured by the change in ROA. Included in all the regressions is the natural logarithm of the geographic distance between the target and acquirer. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 11: The effect of accounting similarity on M&A quality measured by percentage change ROA.

Panel A: Basic regression				
% Change ROA	(1)	(2)	(3)	(4)
Accounting Similarity	0.342	-0.727	0.298	1.751
	(0.75)	(-0.65)	(0.71)	(0.92)
Trust	1.074			5.857
	(0.74)			(0.88)
Accounting Similarity # Trust	-2.925			-9.982
	(-1.24)			(-0.96)
Hierarchy		-2.390		14.88**
		(-0.52)		(2.43)
Accounting Similarity # Hierarchy		5.547		-17.82*
		(0.74)		(-1.80)
Individuality			5.187	-19.08
			(1.31)	(-1.61)
Accounting Similarity # Individuality			-7.781	22.26
			(-1.30)	(1.25)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	2417	792	2417	792
Adjusted R-squared	0.036	0.052	0.036	0.053
Panel B: Private/Public targets				
Accounting Similarity	2.664	-52.93	-3.475	30.27***
	(1.47)	(-1.42)	(-1.39)	(4.19)
Private	0.506	-26.89	-1.560	10.70**
	(0.50)	(-1.38)	(-1.22)	(2.18)
Private # Accounting Similarity	-2.342	54.52	3.778	-28.07***
	(-1.25)	(1.47)	(1.51)	(-3.71)
Trust	12.97**			260.2***
	(2.18)			(5.34)
Accounting Similarity # Trust	-40.15**			-600.6***
	(-2.28)			(-7.11)
Private # Trust	-12.10**			-254.2***
	(-1.98)			(-5.10)
Private # Accounting Similarity # Trust	37.66**			590.8***
	(2.12)			(6.80)
Hierarchy		-363.8		16.65***
		(-0.89)		(2.71)
Accounting Similarity # Hierarchy		621.2		-20.40**
		(0.97)		(-2.06)
Private # Hierarchy		375.5		0
		(0.92)		(.)
Private # Accounting Similarity # Hierarchy		-636.0		0
		(-0.99)		(.)
Individuality			-11.41	-19.48
			(-0.83)	(-1.65)
Accounting Similarity # Individuality			29.50	22.07
			(1.20)	(1.24)
Private # Individuality			15.82	0
			(1.15)	(.)
Private # Accounting Similarity # Individuality			-36.74	0
			(-1.49)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	2345	792	2345	792
Adjusted R-squared	0.035	0.061	0.030	0.061

Notes: In this table the results are shown for the multivariate regressions of the country-based measure of accounting similarity on M&A quality, measured by the percentage change of the ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 12: The effect of accounting similarity on M&A quality measured by percentage change ROA.

Panel A: Basic regression				
% Change ROA	(1)	(2)	(3)	(4)
Adjusted R2	0.779	0.0280	-0.820	-0.202
	(1.56)	(0.02)	(-1.49)	(-0.07)
Trust	2.496**			8.003
	(2.23)			(1.53)
Adjusted R2 # Trust	-7.369**			-17.59
	(-2.34)			(-1.28)
Hierarchy		-2.175		-8.467
		(-1.00)		(-1.06)
Adjusted R2 # Hierarchy		-4.096		-3.447
		(-0.53)		(-0.34)
Individuality			0.288	5.022
			(0.09)	(0.45)
Adjusted R2 # Individuality			10.61	13.84
			(1.27)	(0.57)
Constant	0.776	-0.793	0.847	-4.530
	(0.55)	(-0.54)	(0.58)	(-0.93)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	931	322	931	322
Adjusted R-squared	0.149	0.174	0.138	0.279
Panel B: Private/Public targets				
Adjusted R2	20.60***	-1.650	15.79**	-0.0990
	(4.20)	(-0.90)	(2.42)	(-0.04)
Private	-2.828**	-7.888	-27.13**	-3.887
	(-2.54)	(-0.33)	(-2.41)	(-0.16)
Private # Adjusted R2	-19.80***	0	-16.39**	0
	(-4.02)	(.)	(-2.52)	(.)
Trust	10.59**			7.782
	(2.46)			(1.45)
Adjusted R2 # Trust	-285.4***			-17.60
	(-4.16)			(-1.27)
Private # Trust	-8.039*			0
	(-1.86)			(.)
Private # Adjusted R2 # Trust	278.4***			0
	(4.04)			(.)
Hierarchy		-3.552		-8.385
		(-0.71)		(-1.05)
Adjusted R2 # Hierarchy		0.126		-3.674
		(0.01)		(-0.36)
Individuality			-404.4**	5.117
			(-2.41)	(0.45)
Adjusted R2 # Individuality			-1186.4**	12.93
			(-2.47)	(0.52)
Private # Individuality			404.9**	0
			(2.41)	(.)
Private # Adjusted R2 # Individuality			1194.1**	0
			(2.48)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	904	322	904	322
Adjusted R-squared	0.160	0.268	0.144	0.274

Notes: In this table the results are shown for the multivariate regressions of one of the firm-based measures of accounting similarity (the adjusted R^2) on M&A quality, measured by the percentage change of the ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 13: The effect of accounting similarity on M&A quality measured by percentage change ROA.

Panel A: Basic regression				
% Change ROA	(1)	(2)	(3)	(4)
Difference Accruals	-0.858	-9.571*	-5.638**	-7.229
	(-0.40)	(-1.76)	(-2.04)	(-0.55)
Trust	1.445			3.003
	(1.13)			(0.45)
Difference Accruals # Trust	-1.868			-43.84
	(-0.19)			(-0.45)
Hierarchy		-5.972**		-10.61
		(-2.16)		(-1.14)
Difference Accruals # Hierarchy		73.30**		81.36
		(2.10)		(1.43)
Individuality			-2.453	-0.625
			(-0.71)	(-0.05)
Difference Accruals # Individuality			79.02**	4.997
			(2.04)	(0.05)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	827	281	827	281
Adjusted R-squared	0.154	0.157	0.160	0.305
Panel B: Private/Public targets				
Difference Accruals	177.6	-10.49	467.9*	-7.229
	(0.84)	(-1.37)	(1.71)	(-0.55)
Private	1.213	-1.614	5.171	-2.113
	(0.32)	(-1.35)	(1.22)	(-1.23)
Private # Difference Accruals	-178.8	0	-473.0*	0
	(-0.84)	(.)	(-1.73)	(.)
Trust	10.34			3.003
	(0.93)			(0.45)
Difference Accruals # Trust	-965.0			-43.84
	(-1.51)			(-0.45)
Private # Trust	-8.942			0
	(-0.80)			(.)
Private # Difference Accruals # Trust	965.3			0
	(1.51)			(.)
Hierarchy		-10.12**		-10.61
		(-2.24)		(-1.14)
Difference Accruals # Hierarchy		81.15*		81.36
		(1.73)		(1.43)
Individuality			120.4*	-0.625
			(1.71)	(-0.05)
Difference Accruals # Individuality			-10,844.4**	4.997
			(-2.19)	(0.05)
Private # Individuality			-122.3*	0
			(-1.74)	(.)
Private # Difference Accruals # Individuality			10,911.9**	0
			(2.20)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	804	281	804	281
Adjusted R-squared	0.165	0.329	0.169	0.305

Notes: In this table the results are shown for the multivariate regressions of one of the firm-based measures of accounting similarity (Difference in accruals) on M&A quality, measured by the percentage change of the ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 14: The effect of target accounting quality on M&A quality measured by percentage change ROA.

Panel A: Basic regression				
% Change ROA	(1)	(2)	(3)	(4)
Discr. Accruals	-0.484	-1.129	0.326	-1.035
	(-0.48)	(-1.08)	(0.36)	(-0.21)
Trust	-1.051			-0.952
	(-1.14)			(-0.42)
Discr. Accruals # Trust	1.696			11.82
	(0.33)			(0.68)
Hierarchy		-1.631		0.852
		(-1.26)		(0.33)
Discr. Accruals # Hierarchy		3.205		11.86
		(0.37)		(0.70)
Individuality			1.338	0.739
			(0.62)	(0.14)
Discr. Accruals # Individuality			-7.585	-36.74*
			(-0.76)	(-1.89)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	885	372	885	372
Adjusted R-squared	0.026	0.073	0.025	-0.006
Panel B: Private/Public targets				
Discr. Accruals	26.26**	-51.15**	-2.947	-53.04**
	(2.35)	(-2.30)	(-0.41)	(-2.60)
Private	1.246	-14.23**	-0.188	6.279***
	(1.46)	(-2.43)	(-0.17)	(3.56)
Private # Discr. Accruals	-26.41**	49.66**	3.555	51.65***
	(-2.35)	(2.23)	(0.49)	(2.67)
Trust	5.259			91.83***
	(1.21)			(3.08)
Discr. Accruals # Trust	-150.8**			14.02
	(-2.19)			(0.72)
Private # Trust	-6.322			-92.96***
	(-1.43)			(-3.08)
Private # Discr. Accruals # Trust	151.7**			0
	(2.18)			(.)
Hierarchy		-122.7***		0.337
		(-2.65)		(0.12)
Discr. Accruals # Hierarchy		7.773		15.17
		(0.52)		(0.78)
Private # Hierarchy		123.1***		0
		(2.67)		(.)
Individuality			-5.412	0.477
			(-0.48)	(0.09)
Discr. Accruals # Individuality			104.7	-38.21*
			(1.28)	(-1.68)
Private # Individuality			6.071	0
			(0.54)	(.)
Private # Discr. Accruals # Individuality			-112.8	0
			(-1.38)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	780	351	780	351
Adjusted R-squared	-0.007	-0.043	-0.010	-0.051

Notes: In this table the results are shown for the multivariate regressions of target accounting quality on M&A quality, measured by the percentage change of the ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 15: The effect of a common auditor on M&A quality measured by percentage change ROA.

Panel A: Basic regression				
% Change ROA	(1)	(2)	(3)	(4)
Common auditor	-0.126	0.033	0.046	-0.880
	(-0.57)	(0.07)	(0.23)	(-1.00)
Trust	-0.804			-0.702
	(-1.50)			(-0.51)
Common auditor # Trust	0.958			4.410
	(0.79)			(1.08)
Hierarchy		1.101		3.257**
		(1.26)		(2.42)
Common auditor # Hierarchy		-4.726		-3.679
		(-1.58)		(-0.86)
Individuality			0.772	-2.314
			(0.60)	(-0.96)
Common auditor # Individuality			-0.727	2.681
			(-0.30)	(0.34)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	2692	972	2692	972
Adjusted R-squared	0.036	0.070	0.035	0.056
Panel B: Public/Private targets				
Common auditor	0.848	5.411**	-0.236	16.85***
	(0.91)	(2.12)	(-0.22)	(2.88)
Private	-0.517	1.825	0.318	3.533**
	(-1.02)	(1.08)	(0.51)	(1.97)
Common auditor # Private	-0.967	-5.614**	0.279	-17.84***
	(-1.01)	(-2.12)	(0.26)	(-2.96)
Trust	-3.681			8.767
	(-1.01)			(0.98)
Common auditor # Trust	-18.78*			-210.1***
	(-1.87)			(-2.87)
Private # Trust	2.898			-9.463
	(0.80)			(-1.06)
Common auditor # Private # Trust	19.67*			214.8***
	(1.94)			(2.92)
Hierarchy		19.71**		12.96
		(2.23)		(1.05)
Common auditor # Hierarchy		-74.14***		-3.327
		(-2.67)		(-0.76)
Private # Hierarchy		-17.28*		-10.03
		(-1.96)		(-0.82)
Common auditor # Private # Hierarchy		70.72**		0
		(2.51)		(.)
Individuality			5.528	24.93
			(0.87)	(0.96)
Common auditor # Individuality			-1.331	2.739
			(-0.15)	(0.34)
Private # Individuality			-4.881	-27.11
			(-0.75)	(-1.04)
Common auditor # Private # Individuality			0.589	0
			(0.06)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	2610	965	2610	965
Adjusted R-squared	0.032	0.062	0.030	0.056

Notes: In this table the results are shown for the multivariate regressions of a common auditor on M&A quality, measured by the percentage change of the ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 16: The effect of a BIG N auditor on M&A quality measured by percentage change ROA.

Panel A				
% Change ROA	(1)	(2)	(3)	(4)
Big N	0.010	-0.162	-0.203	-0.655
	(0.06)	(-0.53)	(-1.37)	(-1.03)
Trust	-0.601			-0.565
	(-1.05)			(-0.39)
Big N # Trust	-0.369			0.427
	(-0.42)			(0.18)
Hierarchy		0.371		2.639*
		(0.36)		(1.74)
Big N # Hierarchy		1.822		1.807
		(1.02)		(0.80)
Individuality			-0.015	-3.560
			(-0.01)	(-1.35)
Big N # Individuality			2.559	4.731
			(1.42)	(1.29)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	2692	972	2692	972
Adjusted R-squared	0.036	0.062	0.036	0.049
Panel B				
Big N	0.275	4.373**	1.907*	5.709***
	(0.38)	(2.24)	(1.87)	(2.72)
Trust	-5.496			-4.278
	(-1.27)			(-0.65)
Big N # Trust	6.916			0.227
	(1.32)			(0.10)
Private	-0.143	2.853**	1.120	3.588*
	(-0.25)	(1.97)	(1.34)	(1.86)
Big N # Private	-0.255	-4.813**	-2.114**	-6.461***
	(-0.35)	(-2.48)	(-2.07)	(-3.12)
Private # Trust	4.995			3.854
	(1.15)			(0.59)
Big N # Private # Trust	-7.488			0
	(-1.41)			(.)
Hierarchy		24.86***		22.15**
		(3.14)		(2.43)
Big N # Hierarchy		3.390		2.493
		(1.51)		(1.13)
Private # Hierarchy		-23.23***		-19.75**
		(-2.94)		(-2.19)
Individuality			7.268	16.91
			(0.88)	(0.74)
Big N # Individuality			-8.757	5.235
			(-0.90)	(1.40)
Private # Individuality			-7.517	-20.47
			(-0.89)	(-0.87)
Big N # Private # Individuality			11.14	0
			(1.13)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	2610	965	2610	965
Adjusted R-squared	0.034	0.059	0.033	0.053

Notes: In this table the results are shown for the multivariate regressions of a Big N auditor on M&A quality, measured by the percentage change of the ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 17: The effect of accounting similarity on M&A quality measured by long-term change ROA.

Panel A: Basic regression				
Change in ROA (long term)	(1)	(2)	(3)	(4)
Accounting Similarity	0.047	-0.050	-0.004	0.292
	(0.93)	(-0.48)	(-0.07)	(1.38)
Trust	0.269			0.232
	(1.51)			(0.34)
Accounting Similarity # Trust	-0.509*			-0.849
	(-1.85)			(-0.84)
Hierarchy		-0.534		0.742
		(-1.23)		(1.00)
Accounting Similarity # Hierarchy		0.969		-0.952
		(1.40)		(-0.84)
Individuality			0.197	0.001
			(0.40)	(0.00)
Accounting Similarity # Individuality			-0.358	-0.679
			(-0.49)	(-0.40)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	1408	509	1408	509
Adjusted R-squared	0.267	0.352	0.264	0.375
Panel B: Private/Public target				
Accounting Similarity	-0.082	0.173	-0.407**	0.322
	(-0.60)	(1.09)	(-2.28)	(1.51)
Private	-0.037	0.180**	-0.034	0.204*
	(-0.41)	(2.14)	(-0.25)	(1.84)
Private # Accounting Similarity	0.133	0	0.400**	0
	(0.92)	(.)	(2.18)	(.)
Trust	0.392			0.303
	(1.14)			(0.45)
Accounting Similarity # Trust	-0.949			-0.836
	(-1.33)			(-0.84)
Private # Trust	-0.122			0
	(-0.31)			(.)
Private # Accounting Similarity # Trust	0.424			0
	(0.54)			(.)
Hierarchy		0.888		0.929
		(1.31)		(1.24)
Accounting Similarity # Hierarchy		-1.540		-1.253
		(-1.43)		(-1.09)
Individuality			0.560	-0.173
			(0.34)	(-0.15)
Accounting Similarity # Individuality			1.733	-0.622
			(0.89)	(-0.38)
Private # Individuality			-0.606	0
			(-0.35)	(.)
Private # Accounting Similarity # Individuality			-2.042	0
			(-0.98)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	1351	509	1351	509
Adjusted R-squared	0.259	0.375	0.259	0.375

Notes: In this table the results are shown for the multivariate regressions of the country-based measure of accounting similarity on M&A quality, measured by the long-term change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 18: The effect of accounting similarity on M&A quality measured by long-term change ROA.

Panel A: Basic regression				
Change in ROA (long term)	(1)	(2)	(3)	(4)
Adjusted R2	0.001	0.209	0.100	0.204
	(0.01)	(1.28)	(1.00)	(0.66)
Trust	0.0479			-0.792
	(0.45)			(-0.76)
Adjusted R2 # Trust	0.123			1.263
	(0.26)			(0.95)
Hierarchy		-0.015		1.568
		(-0.07)		(1.34)
Adjusted R2 # Hierarchy		-1.498		0.190
		(-1.37)		(0.11)
Individuality			-0.056	-0.665
			(-0.17)	(-0.29)
Adjusted R2 # Individuality			-1.298	-4.499
			(-1.11)	(-0.89)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	545	207	545	207
Adjusted R-squared	0.215	0.286	0.221	0.298
Panel B: Private/Public target				
Adjusted R2	-0.670	0.196	-0.624	0.204
	(-0.81)	(0.71)	(-0.76)	(0.66)
Private	-0.072	-0.403***	-0.055	-0.349
	(-0.76)	(-4.05)	(-0.58)	(-0.81)
Private # Adjusted R2	0.659	0	0.765	0
	(0.77)	(.)	(0.95)	(.)
Trust	0.050			-0.792
	(0.41)			(-0.76)
Adjusted R2 # Trust	0.280			1.263
	(0.51)			(0.95)
Hierarchy		1.112***		1.568
		(3.03)		(1.34)
Adjusted R2 # Hierarchy		-1.541		0.190
		(-0.87)		(0.11)
Individuality			-0.122	-0.665
			(-0.35)	(-0.29)
Adjusted R2 # Individuality			-1.814	-4.499
			(-1.40)	(-0.89)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	523	207	523	207
Adjusted R-squared	0.176	0.284	0.188	0.298

Notes: In this table the results are shown for the multivariate regressions of one of the firm-based measures of accounting similarity (the adjusted R2) on M&A quality, measured by the long-term change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 19: The effect of accounting similarity on M&A quality measured by long-term change ROA.

Panel A: Basic regression				
Change in ROA (long term)	(1)	(2)	(3)	(4)
Difference Accruals	0.865**	0.476	0.988***	-1.723
	(2.40)	(1.08)	(2.69)	(-1.26)
Trust	0.095			-0.268
	(0.78)			(-0.22)
Difference Accruals # Trust	-4.150**			19.42
	(-2.48)			(1.45)
Hierarchy		0.045		6.152***
		(0.15)		(4.08)
Difference Accruals # Hierarchy		-1.903		-19.59***
		(-0.68)		(-2.71)
Individuality			0.541	-9.058***
			(1.07)	(-3.04)
Difference Accruals # Individuality			-14.03**	36.22**
			(-2.59)	(2.04)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	484	179	484	179
Adjusted R-squared	0.168	0.232	0.174	0.080
Panel B: Private/Public target				
Difference Accruals	39.35	0.681	35.82	-1.723
	(1.39)	(1.33)	(1.32)	(-1.26)
Private	0.171	-0.507***	0.145	-1.330***
	(0.78)	(-3.96)	(0.77)	(-3.98)
Private # Difference Accruals	-38.45	0	-34.78	0
	(-1.36)	(.)	(-1.29)	(.)
Trust	0.117			-0.268
	(0.91)			(-0.22)
Difference Accruals # Trust	-4.154**			19.42
	(-2.54)			(1.45)
Hierarchy		1.391***		6.152***
		(2.99)		(4.08)
Difference Accruals # Hierarchy		-4.578		-19.59***
		(-1.28)		(-2.71)
Individuality			0.417	-9.058***
			(0.77)	(-3.04)
Difference Accruals # Individuality			-14.55***	36.22**
			(-2.68)	(2.04)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	466	179	466	179
Adjusted R-squared	0.150	0.088	0.159	0.080

Notes: In this table the results are shown for the multivariate regressions of one of the firm-based measures of accounting similarity (difference in accruals) on M&A quality, measured by the long-term change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 20: The effect of target accounting quality on M&A quality measured by long-term change ROA.

Panel A: Basic regression				
Change in ROA (long term)	(1)	(2)	(3)	(4)
Discr. accruals	0.261	-0.144	0.144	0.037
	(1.63)	(-0.47)	(0.76)	(0.10)
Trust	0.332***			0.031
	(3.03)			(0.17)
Discr. accruals # Trust	-1.327			-1.998
	(-1.56)			(-1.54)
Hierarchy		0.0269		0.230
		(0.23)		(1.01)
Discr. accruals # Hierarchy		0.843		-0.484
		(0.52)		(-0.31)
Individuality			0.149	-0.279
			(0.56)	(-0.61)
Discr. accruals # Individuality			-1.032	2.737
			(-0.50)	(1.66)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	431	182	431	182
Adjusted R-squared	0.337	0.488	0.315	0.633
Panel B: Private/Public target				
Discr. accruals	-5.381	-0.115	-3.876	0.161
	(-0.76)	(-0.34)	(-0.30)	(0.42)
Private	-0.081	0.188	0.032	0.136
	(-0.27)	(1.60)	(0.07)	(0.69)
Private # Discr. accruals	5.690	0	4.074	0
	(0.80)	(.)	(0.31)	(.)
Trust	0.244			0.116
	(0.27)			(0.54)
Discr. accruals # Trust	-13.27			-2.550*
	(-0.46)			(-1.80)
Private # Trust	0.139			0
	(0.15)			(.)
Private # Discr. accruals # Trust	11.71			0
	(0.41)			(.)
Hierarchy		0.037		0.352
		(0.19)		(1.34)
Discr. accruals # Hierarchy		0.450		-1.034
		(0.24)		(-0.61)
Individuality			1.914	-0.611
			(0.21)	(-1.06)
Discr. accruals # Individuality			-49.26	2.555
			(-0.19)	(1.33)
Private # Individuality			-1.947	0
			(-0.22)	(.)
Private # Discr. accruals # Individuality			47.82	0
			(0.18)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	348	165	348	165
Adjusted R-squared	0.347	0.618	0.317	0.646

Notes: In this table the results are shown for the multivariate regressions of target accounting quality on M&A quality, measured by the long-term change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 21: The effect of common auditors on M&A quality measured by long-term change ROA.

Panel A: Basic regression				
Change in ROA (long term)	(1)	(2)	(3)	(4)
Common auditor	-0.052**	0.005	-0.019	-0.061
	(-2.06)	(0.12)	(-0.73)	(-0.46)
Trust	-0.084			-0.267*
	(-1.32)			(-1.88)
Common auditor # Trust	0.334**			0.618
	(2.16)			(1.03)
Hierarchy		-0.003		0.138
		(-0.03)		(0.99)
Common auditor # Hierarchy		-0.249		-0.579
		(-0.82)		(-1.25)
Individuality			-0.102	-0.435*
			(-0.72)	(-1.77)
Common auditor # Individuality			0.251	1.005
			(0.90)	(0.80)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	1567	620	1567	620
Adjusted R-squared	0.271	0.345	0.268	0.379
Panel B: Private/Public target				
Common auditor	0.232*	0.060	-0.041	-0.064
	(1.76)	(0.83)	(-0.33)	(-0.48)
Private	0.021	4.681**	0.106	-0.681
	(0.35)	(2.17)	(1.21)	(-1.64)
Common auditor # Private	-0.286**	0	0.024	0
	(-2.17)	(.)	(0.18)	(.)
Trust	-0.046			-11.99*
	(-0.19)			(-1.78)
Common auditor # Trust	-3.303*			0.629
	(-1.95)			(1.05)
Private # Trust	-0.055			11.76*
	(-0.23)			(1.73)
Common auditor # Private # Trust	3.653**			0
	(2.18)			(.)
Hierarchy		40.27**		0.082
		(2.14)		(0.65)
Common auditor # Hierarchy		-0.375		-0.565
		(-0.89)		(-1.23)
Private # Hierarchy		-40.33**		0
		(-2.14)		(.)
Individuality			0.946	-0.385
			(1.08)	(-1.57)
Common auditor # Individuality			0.544	0.986
			(0.42)	(0.79)
Private # Individuality			-1.152	0
			(-1.32)	(.)
Common auditor # Private # Individuality			-0.325	0
			(-0.24)	(.)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	1501	614	1501	614
Adjusted R-squared	0.264	0.381	0.262	0.380

Notes: In this table the results are shown for the multivariate regressions of common auditors on M&A quality, measured by the long-term change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 21: The effect of a Big N auditor on M&A quality measured by long-term change ROA.

Panel A: Basic regression				
Change in ROA (long term)	(1)	(2)	(3)	(4)
Big N	-0.010	-0.005	-0.011	0.026
	(-0.57)	(-0.19)	(-0.59)	(0.48)
Trust	-0.063			-0.240
	(-0.92)			(-1.55)
Big N # Trust	0.041			-0.166
	(0.41)			(-0.88)
Hierarchy		-0.008		0.174
		(-0.07)		(1.06)
Big N # Hierarchy		-0.039		-0.160
		(-0.25)		(-0.86)
Individuality			-0.109	-0.422
			(-0.71)	(-1.56)
Big N # Individuality			0.111	0.054
			(0.60)	(0.18)
Controls	Yes	Yes	Yes	Yes
Acquirer country year fixed effects	Yes	Yes	Yes	Yes
Target country year fixed effects	Yes	Yes	Yes	Yes
Observations	1567	620	1567	620
Adjusted R-squared	0.268	0.343	0.268	0.379
Panel B: Private/Public target				
Big N	0.035	-0.000	0.232*	0.026
	(0.37)	(-0.01)	(1.88)	(0.49)
Private	0.035	4.819**	0.236***	-0.700*
	(0.58)	(2.24)	(2.88)	(-1.72)
Big N # Private	-0.047	0	-0.246*	0
	(-0.49)	(.)	(-1.96)	(.)
Trust	-0.120			-12.32*
	(-0.49)			(-1.86)
Big N # Trust	0.089			-0.183
	(0.22)			(-0.98)
Private # Trust	0.044			12.12*
	(0.18)			(1.82)
Big N # Private # Trust	-0.041			0
	(-0.10)			(.)
Hierarchy		41.39**		0.113
		(2.21)		(0.75)
Big N # Hierarchy		-0.093		-0.148
		(-0.49)		(-0.80)
Private # Hierarchy		-41.42**		0
		(-2.21)		(.)
Individuality			1.994**	-0.368
			(2.28)	(-1.36)
Big N # Individuality			-2.080	0.040
			(-1.55)	(0.13)
Private # Individuality			-2.266**	0
			(-2.54)	(.)
Big N # Private # Individuality			2.229	0
			(1.63)	(.)
Observations	1501	614	1501	614
Adjusted R-squared	0.260	0.381	0.263	0.381

Notes: In this table the results are shown for the multivariate regressions of a Big N auditor on M&A quality, measured by the long-term change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 22: The effect of accounting similarity on M&A quality (pooled sample).

Panel A: Basic regression					
Change ROA	(1)	(2)	(3)	(4)	(5)
Accounting Similarity	-0.008	-0.031**	-0.007	-0.027*	-0.008
	(-1.56)	(-2.34)	(-1.37)	(-1.79)	(-1.43)
Trust	-0.045			-0.251	
	(-0.93)			(-1.00)	
Accounting Similarity # Trust	0.060			0.368	
	(0.81)			(0.93)	
Hierarchy		-0.129		0.454*	
		(-1.02)		(1.76)	
Accounting Similarity # Hierarchy		0.261		-0.731*	
		(1.35)		(-1.76)	
Individuality			0.077	-0.442	
			(0.53)	(-0.86)	
Accounting Similarity # Individuality			0.003	0.585	
			(0.01)	(0.74)	
Crossborder transaction					0.002
					(0.16)
Crossborder transaction # Accounting Similarity					0.012
					(0.85)
Observations	10668	4515	10668	4515	10668
Adjusted R-squared	0.275	0.308	0.275	0.301	0.275
Panel B: Private/public target					
Accounting Similarity	0.022	0.044	0.006	0.051	0.036
	(0.75)	(0.68)	(0.20)	(0.73)	(1.12)
Private	0.037*	0.057	0.021	0.067	0.048*
	(1.66)	(1.00)	(0.84)	(1.05)	(1.90)
Private # Accounting Similarity	-0.031	-0.071	-0.014	-0.080	-0.045
	(-1.05)	(-1.07)	(-0.44)	(-1.12)	(-1.38)
Trust	0.564***			-1.477	
	(3.53)			(-0.46)	
Accounting Similarity # Trust	-0.912***			3.409	
	(-3.03)			(0.50)	
Private # Trust	-0.636***			1.183	
	(-3.81)			(0.37)	
Private # Accounting Similarity # Trust	1.007***			-2.980	
	(3.24)			(-0.44)	
Hierarchy		1.798		9.400	
		(1.54)		(0.73)	
Accounting Similarity # Hierarchy		-2.944*		-14.40	
		(-1.89)		(-0.79)	
Private # Hierarchy		-1.708		-8.929	
		(-1.46)		(-0.69)	
Private # Accounting Similarity # Hierarchy		2.721*		13.66	
		(1.75)		(0.75)	
Individuality			0.527*	-4.502	
			(1.67)	(-0.42)	
Accounting Similarity # Individuality			-0.655	6.681	
			(-1.44)	(0.51)	
Private # Individuality			-0.468	4.028	
			(-1.35)	(0.38)	
Private # Accounting Similarity # Individuality			0.687	-6.065	
			(1.36)	(-0.46)	
Crossborder transaction					0.108***
					(3.36)
Crossborder transaction # Accounting Similarity					-0.143***
					(-3.06)
Crossborder transaction # Private					-0.111***
					(-3.38)
Crossborder transaction # Private # Accounting Similarity					0.161***
					(3.32)
Observations	10468	4512	10468	4512	10468
Adjusted R-squared	0.276	0.301	0.276	0.300	0.276

Notes: In this table the results are shown for the multivariate regressions of the country-based measure of accounting similarity on M&A quality, measured by the change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 23: The effect of accounting similarity on M&A quality (pooled sample).

Panel A: Basic regression					
Change ROA	(1)	(2)	(3)	(4)	(5)
Adjusted R2	0.001	-0.008	0.000	-0.008	0.001
	(0.15)	(-0.81)	(0.05)	(-0.77)	(0.12)
Trust	-0.010			0.127	
	(-0.29)			(0.76)	
Adjusted R2 # Trust	-0.084			-0.064	
	(-1.04)			(-0.28)	
Hierarchy		0.118**		-0.262	
		(2.06)		(-1.46)	
Adjusted R2 # Hierarchy		-0.077		0.370	
		(-0.37)		(0.79)	
Individuality			0.044	0.105	
			(0.60)	(0.26)	
Adjusted R2 # Individuality			-0.110	-1.055*	
			(-0.56)	(-1.85)	
Crossborder transaction					0.015
					(1.22)
Crossborder transaction # Adjusted R2					-0.010
					(-0.70)
Observations	4129	1798	4129	1798	4129
Adjusted R-squared	0.283	0.297	0.283	0.281	0.283
Panel B: Private/public target					
Adjusted R2	-0.005	-0.037	-0.023	-0.036	-0.014
	(-0.11)	(-0.39)	(-0.49)	(-0.39)	(-0.28)
Private	-0.019	-0.066	-0.034	-0.065	-0.027
	(-0.68)	(-1.12)	(-1.14)	(-1.11)	(-0.86)
Private # Adjusted R2	0.005	0.027	0.024	0.027	0.015
	(0.11)	(0.28)	(0.49)	(0.29)	(0.29)
Trust	0.062			-0.453	
	(0.32)			(-0.17)	
Adjusted R2 # Trust	-0.117			-0.156	
	(-0.16)			(-0.02)	
Private # Trust	-0.078			0.570	
	(-0.39)			(0.22)	
Private # Adjusted R2 # Trust	0.043			0.084	
	(0.06)			(0.01)	
Hierarchy		-1.131		-0.253	
		(-0.25)		(-1.40)	
Adjusted R2 # Hierarchy		0.064		0.383	
		(0.01)		(0.81)	
Private # Hierarchy		0.995		0	
		(0.22)		(.)	
Private # Adjusted R2 # Hierarchy		-0.221		0	
		(-0.02)		(.)	
Individuality			-0.333	0.116	
			(-1.22)	(0.29)	
Adjusted R2 # Individuality			0.442	-1.048*	
			(0.86)	(-1.82)	
Private # Individuality			0.414	0	
			(1.52)	(.)	
Private # Adjusted R2 # Individuality			-0.638	0	
			(-1.17)	(.)	
Crossborder transaction					0.004
					(0.08)
Crossborder transaction # Adjusted R2					0.023
					(0.30)
Crossborder transaction # Private					0.017
					(0.39)
Crossborder transaction # Private # Adjusted R2					-0.036
					(-0.47)
Observations	4053	1797	4053	1797	4053
Adjusted R-squared	0.284	0.282	0.284	0.282	0.284

Notes: In this table the results are shown for the multivariate regressions of one of the firm-based measure of accounting similarity (the adjusted R^2) on M&A quality, measured by the change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 24: The effect of accounting similarity on M&A quality (pooled sample).

Panel A: Basic regression					
Change ROA	(1)	(2)	(3)	(4)	(5)
Difference Accruals	-0.008	-0.061	-0.008	-0.072	-0.015
	(-0.24)	(-1.26)	(-0.22)	(-1.41)	(-0.43)
Trust	-0.011			0.244	
	(-0.28)			(1.37)	
Difference Accruals # Trust	-0.457			-6.553***	
	(-1.10)			(-3.03)	
Hierarchy		0.158**		-0.106	
		(2.30)		(-0.47)	
Difference Accruals # Hierarchy		0.215		-3.331	
		(0.30)		(-1.20)	
Individuality			0.141*	0.014	
			(1.66)	(0.04)	
Difference Accruals # Individuality			-1.261	10.94**	
			(-1.24)	(2.21)	
Crossborder transaction					0.013
					(0.94)
Crossborder transaction # Difference Accruals					-0.018
					(-0.23)
Observations	3596	1588	3596	1588	3596
Adjusted R-squared	0.275	0.289	0.275	0.271	0.275
Panel B: Private/public target					
Difference Accruals	0.090	-3.028**	0.166	-2.978**	0.124
	(0.08)	(-2.17)	(0.15)	(-2.14)	(0.11)
Private	-0.031	-0.070**	-0.035	-0.071**	-0.034
	(-1.35)	(-2.16)	(-1.51)	(-2.18)	(-1.45)
Private # Difference Accruals	-0.096	2.959**	-0.170	2.909**	-0.136
	(-0.09)	(2.12)	(-0.16)	(2.09)	(-0.12)
Trust	-0.098			0.614	
	(-0.54)			(0.68)	
Difference Accruals # Trust	2.756			-6.606***	
	(0.48)			(-3.04)	
Private # Trust	0.085			-0.383	
	(0.47)			(-0.44)	
Private # Difference Accruals # Trust	-3.275			0	
	(-0.56)			(.)	
Hierarchy		0.426		-0.094	
		(0.52)		(-0.42)	
Difference Accruals # Hierarchy		-0.772		-3.337	
		(-0.69)		(-1.20)	
Private # Hierarchy		-0.468		0	
		(-0.58)		(.)	
Individuality			-0.507	0.037	
			(-0.90)	(0.11)	
Difference Accruals # Individuality			9.386	11.06**	
			(0.37)	(2.21)	
Private # Individuality			0.698	0	
			(1.24)	(.)	
Private # Difference Accruals # Individuality			-10.95	0	
			(-0.42)	(.)	
Crossborder transaction					-0.026
					(-0.54)
Crossborder transaction # Difference Accruals					0.996
					(0.54)
Crossborder transaction # Private					0.044
					(0.96)
Crossborder transaction # Private # Difference Accruals					-1.028
					(-0.56)
Observations	3525	1587	3525	1587	3525
Adjusted R-squared	0.277	0.272	0.277	0.273	0.277

Notes: In this table the results are shown for the multivariate regressions of one of the firm-based measure of accounting similarity (difference in total accruals) on M&A quality, measured by the change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 25: The effect of target accounting quality on M&A quality (pooled sample).

Panel A: Basic regression					
Change ROA	(1)	(2)	(3)	(4)	(5)
Discr. accruals	-0.005	-0.009	-0.004	-0.007	-0.006
	(-0.34)	(-0.47)	(-0.28)	(-0.36)	(-0.38)
Trust	0.029			0.044	
	(0.98)			(0.79)	
Discr. accruals # Trust	0.060			0.043	
	(0.47)			(0.13)	
Hierarchy		0.029		0.054	
		(0.68)		(0.74)	
Discr. accruals # Hierarchy		0.180		0.425	
		(0.75)		(1.60)	
Individuality			0.112*	-0.055	
			(1.86)	(-0.55)	
Discr. accruals # Individuality			0.024	-0.830	
			(0.09)	(-1.38)	
Crossborder transaction					0.031**
					(2.22)
Crossborder transaction # Discr. accruals					0.015
					(0.58)
Observations	3761	2314	3761	2314	3761
Adjusted R-squared	0.225	0.264	0.225	0.243	0.225
Panel B: Private/public target					
Discr. accruals	-0.477**	-0.480	-0.454**	-1.233**	-0.631***
	(-2.12)	(-1.46)	(-2.02)	(-2.41)	(-3.18)
Private	-0.006	-0.022	-0.010	-0.045**	-0.016
	(-0.37)	(-0.97)	(-0.57)	(-2.09)	(-0.92)
Private # Discr. accruals	0.472**	0.473	0.452**	1.228**	0.625***
	(2.09)	(1.44)	(2.00)	(2.40)	(3.13)
Trust	0.038			-4.251***	
	(0.33)			(-4.95)	
Discr. accruals # Trust	2.038			28.32***	
	(1.40)			(5.48)	
Private # Trust	-0.011			4.286***	
	(-0.09)			(5.01)	
Private # Discr. accruals # Trust	-1.896			-28.19***	
	(-1.29)			(-5.40)	
Hierarchy		0.265		4.687***	
		(0.49)		(5.80)	
Discr. accruals # Hierarchy		-5.800		-73.12***	
		(-0.39)		(-7.10)	
Private # Hierarchy		-0.197		-4.620***	
		(-0.37)		(-5.73)	
Private # Discr. accruals # Hierarchy		5.808		73.29***	
		(0.39)		(7.16)	
Individuality			-0.032	-0.107	
			(-0.13)	(-1.09)	
Discr. accruals # Individuality			4.193*	-0.561	
			(1.72)	(-0.90)	
Private # Individuality			0.145	0	
			(0.60)	(.)	
Private # Discr. accruals # Individuality			-4.150*	0	
			(-1.69)	(.)	
Crossborder transaction					0.008
					(0.27)
Crossborder transaction # Discr. accruals					0.609**
					(2.41)
Crossborder transaction # Private					0.022
					(0.86)
Crossborder transaction # Private # Discr. accruals					-0.582**
					(-2.29)
Observations	3470	2237	3470	2237	3470
Adjusted R-squared	0.223	0.236	0.223	0.236	0.224

Notes: In this table the results are shown for the multivariate regressions of target accounting quality on M&A quality, measured by the change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 26: The effect of a common auditor on M&A quality (pooled sample).

Panel A: Basic regression					
Change ROA	(1)	(2)	(3)	(4)	(5)
Common auditor	0.008**	0.016**	0.009**	0.015**	0.009**
	(2.20)	(2.31)	(2.51)	(2.10)	(2.25)
Trust	-0.009			-0.018	
	(-0.49)			(-0.41)	
Common auditor # Trust	-0.004			-0.052	
	(-0.13)			(-0.61)	
Hierarchy		0.069**		0.057	
		(2.26)		(1.09)	
Common auditor # Hierarchy		-0.085		-0.047	
		(-0.93)		(-0.31)	
Individuality			0.046	-0.155*	
			(1.12)	(-1.75)	
Common auditor # Individuality			-0.072	-0.035	
			(-1.03)	(-0.13)	
Crossborder transaction					0.012
					(1.57)
Common auditor # Crossborder transaction					-0.004
					(-0.61)
Observations	11552	5304	11552	5304	11552
Adjusted R-squared	0.273	0.303	0.274	0.291	0.274
Panel B: Private/public target					
Common auditor	0.020	0.085	0.031	0.082	0.023
	(0.78)	(1.61)	(1.26)	(1.46)	(0.87)
Private	0.015	0.006	0.012	0.005	0.012
	(1.49)	(0.46)	(1.10)	(0.40)	(1.05)
Common auditor # Private	-0.012	-0.072	-0.022	-0.068	-0.015
	(-0.46)	(-1.35)	(-0.89)	(-1.21)	(-0.54)
Trust	0.075			-0.229	
	(1.15)			(-1.18)	
Common auditor # Trust	0.074			1.072	
	(0.19)			(0.56)	
Private # Trust	-0.088			0.198	
	(-1.36)			(1.02)	
Common auditor # Private # Trust	-0.079			-1.119	
	(-0.20)			(-0.58)	
Hierarchy		-0.241		0.270	
		(-1.58)		(0.87)	
Common auditor # Hierarchy		-0.702		-1.133	
		(-0.96)		(-0.65)	
Private # Hierarchy		0.256*		-0.205	
		(1.69)		(-0.66)	
Common auditor # Private # Hierarchy		0.614		1.080	
		(0.84)		(0.62)	
Individuality			0.035	-1.170**	
			(0.24)	(-2.02)	
Common auditor # Individuality			-0.220	-0.012	
			(-0.90)	(-0.04)	
Private # Individuality			0.010	0.994*	
			(0.07)	(1.75)	
Common auditor # Private # Individuality			0.156	0	
			(0.62)	(.)	
Crossborder transaction					0.013
					(0.72)
Common auditor # Crossborder transaction					-0.007
					(-0.20)
Crossborder transaction # Private					-0.000
					(-0.03)
Common auditor # Crossborder transaction # Private					0.003
					(0.08)
Observations	11335	5287	11335	5287	11335
Adjusted R-squared	0.275	0.292	0.275	0.291	0.275

Notes: In this table the results are shown for the multivariate regressions of common auditors on M&A quality, measured by the change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.

Table 27: The effect of Big N auditor on M&A quality (pooled sample).

Panel A: Basic regression					
Change ROA	(1)	(2)	(3)	(4)	(5)
Big N	0.004*	0.000	0.004	0.001	0.004
	(1.83)	(0.01)	(1.54)	(0.28)	(1.63)
Trust	-0.010			0.009	
	(-0.51)			(0.18)	
Big # Trust	0.006			-0.115*	
	(0.25)			(-1.77)	
Hierarchy		0.043		0.011	
		(1.28)		(0.20)	
Big # Hierarchy		0.070*		0.171**	
		(1.67)		(2.56)	
Individuality			0.019	-0.161*	
			(0.43)	(-1.68)	
Big # Individuality			0.061	-0.053	
			(1.28)	(-0.46)	
Crossborder transaction					0.011
					(1.41)
Big N=1 # Crossborder transaction					0.002
					(0.44)
Observations	11552	5304	11552	5304	11552
Adjusted R-squared	0.273	0.303	0.274	0.291	0.274
Panel B: Private/public target					
Big N	-0.007	0.008	-0.001	0.016	-0.007
	(-0.36)	(0.26)	(-0.07)	(0.48)	(-0.31)
Private	0.009	0.001	0.006	0.005	0.006
	(0.87)	(0.08)	(0.58)	(0.34)	(0.53)
Big N # Private	0.012	-0.008	0.005	-0.015	0.012
	(0.58)	(-0.24)	(0.25)	(-0.44)	(0.49)
Trust	-0.013			0.043	
	(-0.18)			(0.17)	
Big N # Trust	0.249**			-0.191	
	(2.09)			(-0.62)	
Private # Trust	0.000			-0.041	
	(0.01)			(-0.17)	
Big N # Private # Trust	-0.250**			0.081	
	(-2.05)			(0.26)	
Hierarchy		-0.230		-0.409	
		(-1.54)		(-1.30)	
Big N # Hierarchy		-0.777*		2.258***	
		(-1.71)		(3.87)	
Private # Hierarchy		0.214		0.424	
		(1.44)		(1.35)	
Big N # Private # Hierarchy		0.849*		-2.103***	
		(1.85)		(-3.58)	
Individuality			-0.135	0.305	
			(-0.90)	(0.54)	
Big N # Individuality			0.228	-3.682***	
			(0.99)	(-4.63)	
Private # Individuality			0.153	-0.483	
			(1.05)	(-0.87)	
Big N # Private # Individuality			-0.171	3.652***	
			(-0.73)	(4.56)	
Crossborder transaction					-0.000
					(-0.01)
Big N # Crossborder transaction					0.034
					(1.13)
Crossborder transaction # Private					0.011
					(0.64)
Big N # Crossborder transaction # Private					-0.033
					(-1.08)
Observations	11335	5287	11335	5287	11335
Adjusted R-squared	0.275	0.291	0.274	0.291	0.275

Notes: In this table the results are shown for the multivariate regressions the target having a Big N auditor on M&A quality, measured by the change in ROA. The cultural difference measures included in (1), (2) and (3) are difference in trust, hierarchy and individuality respectively. In (4) all these measures are run in a regression simultaneously. In all regressions control variables as described in the research design are included and also target and acquirer country year fixed effects are included. The t-stats are reported in parentheses. The *, ** and *** indicate a 10%, 5% and 1% significance level respectively.