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Cross-border Mergers and Acquisitions, Regional Cultural Diversity and Acquirers' Corporate Social Responsibility: Evidence from China listed companies

Abstract

Despite the abundant research on the effect of cross-border mergers and acquisitions (M&As), very few studies examined the effect of M&As on acquirers' corporate social responsibility (CSR), especially in the context of emerging economies. We used data of Chinese listed enterprises and the difference-in-differences (DID) approach to examine the effect of cross-border M&As on the CSR of Chinese acquirers. The results show that cross-border M&As have a positive and significant impact on Chinese acquirers' CSR as well as *four detailed dimensions of CSR (Corporate Governance, Employee Relations, Environment Protection, and Product)*. In addition, we use two indicators, the number of dialects and the proportion of the population using dialects in a particular region, to measure the regional cultural diversity. The results show that the positive relationship between overseas M&As and CSR is strengthened by higher cultural diversity in the region. Moreover, the positive effect of the aforementioned four dimensions of CSR is also stronger when the cultural diversity is more substantial.

KEYWORDS

Cross-border mergers and acquisitions, corporate social responsibility, regional cultural diversity, dialect diversity, China

1 Introduction

In recent years, companies from emerging economies have increasingly resorted to

cross-border mergers and acquisitions (M&As) as an internationalization strategy (Tao, Liu, Lan, & Xia, 2017; Lian, Sun, Xie, & Zheng, 2019; Zhang, Lyles, & Wu, 2020). According to the *World Investment Report 2018*, the overall scale of China's cross-border M&As continued to grow between 2010 and 2017. With the rapid growth and increasing importance of cross-border M&As for companies' internationalization, research has primarily focused on how to improve the success rate of cross-border M&As (e.g., Björkman, Stahl, & Vaara, 2007; Du & Boateng, 2015; Humphery-Jenner, Sautner, & Suchard, 2017). Cross-border M&As performance has also been widely examined by addressing, for instance, the effect of cross-border M&As on acquirers' productivity (e.g., Schiffbauer, Siedschlag, & Ruance, 2017), performance (e.g., Zhang, Wang, Li, Chen, & Wang, 2018; Li, Lu, & Lo, 2019), value (e.g., Li, Li, & Wang, 2016), and knowledge transfer (e.g., Sarala, Junni, Cooper, & Tarba, 2016; Nair, Demirbag, Mellahi, & Pillai, 2018). However, few studies have focused on the effect of cross-border M&As on corporate social responsibility (CSR) of acquirers.

CSR is a corporate social behavior that exceeds the legal or regulatory requirements faced by companies (Kitzmueller & Shimshack, 2012). **According to stakeholder theory, enterprises need to consider the expectations of various stakeholders (Detomasi, 2007). The demands and requirements of stakeholders especially become more complicated after cross-border M&As because cross-border M&As expose firms to an expanded set of new stakeholders from diverse countries (Attig, Boubakri, Ghoul, & Guedhami, 2016). Firms usually tend to adjust their CSR level to respond to the requirements or demands of a wide range of stakeholders from culturally, institutionally,**

and economically diverse environments (Brammer, Pavelin, & Porter, 2009; Attig, Boubakri, Ghoul, & Guedhami, 2016). On the other hand, shareholder theory states that CSR is not an obligation that companies must perform. CSR behavior may occupy scarce resources of the firm (Bhandari and Javakhadze 2017), which may damage its performance and competitiveness and thus hurt the interests of shareholders (Barnea and Rubin 2010). The post-cross-border M&As integration requires lots of resources and excessive investment in CSR and hence may lead to the failure of the expected improvement in corporate performance after cross-border M&As. According to the above discussion, it is not clear whether companies invest and improve CSR after cross-border M&As according to stakeholder theory and shareholder theory respectively and thus further research is needed.

From the above discussion, it can be seen that firms' integration ability after overseas M&As plays a key role in deciding whether CSR can enhance their performance or occupy their resources and therefore harm their competitiveness. The transfer or integration of strategic assets from target firms and the management of knowledge and innovation after cross-border M&As may be challenging (Cheng & Yang, 2017). Merging firms often faces differences in terms of corporate governance and also different levels and requirements of CSR. When a firm has been operating in a culturally diverse or complex environment for a long time, its ability to respond to the complex stakeholder needs and integrate operations after cross-border M&As is stronger, which enables the firm to integrate with less resources to improve its CSR. Therefore, we consider that the relationship between cross-border M&As and CSR may

be affected by the cultural diversity of the region where an acquirer firm is located.

China is a multi-ethnic country, where diverse cultures blend (Dovi, 2019) and one of its manifestations is the co-existence of Mandarin and dialects, which reflects the regional cultural differences due to differences in pronunciation, intonation, vocabulary, and grammar (Licht, Goldschmidt, & Schwartz, 2007). According to the *"Chinese Dialect Dictionary"* (1999) and *"Chinese Language Atlas"* (1987), dialects in China are divided into nine dialect regions and every region can be further divided into two sub-levels. According to the *"Survey on the Use of Chinese Language and Characters (2016)"*, the proportion of people who can use dialects to communicate in the country is about 86.38%, and about 82.15% people use dialects when communicating with their families. Therefore, based on China's multi-ethnic and multi-cultural characteristics, this article takes China's listed companies as an example to explore the relationship between Chinese companies' cross-border M&As and CSR, and explore the moderating role of cultural diversity within the home country. In our research, we employ dialect diversity to measure China's regional cultural diversity. On the one hand, diverse dialects may bring obstacles to language communication (Licht, Goldschmidt, & Schwartz, 2007), which increases communication costs (Hong & Stein, 2007). On the other hand, diverse dialects bring diverse ideas and ability of dealing with diversity and differences. For example, Chang et al. (2015) found that the higher the degree of regional dialect diversity, the more diversified the decision-making viewpoints of the investors in their localities and the greater the enthusiasm for trading stocks. Therefore, it is necessary to examine the moderating role of dialect diversity in the relationship

between cross-border M&As and CSR. However, the existing literature has not succeeded in capturing a country's regional cultural institutions (Ding, Ferreira, and Wongchoti, 2019).

This study contributes to the emerging literature on CSR in several ways. First, the impact of cross-border M&As on various dimensions of CSR is examined. Existing research about cross-border M&As mainly focused on their effect on enterprises' short-term or long-term business performance (e.g., Schiffbauer, Siedschlag, & Ruance, 2017; Wang, Li, Chen, & Wang, 2018; Li, Lu, & Lo, 2019). However, the impact of cross-border M&As on CSR has not been widely examined. The relationship between cross-border M&As and the improvement of CSR is still unclear because of different mechanisms emphasized by two competing theories, stakeholder theory and shareholder theory, respectively (e.g. Baron, 2008; Bénabou & Tirole, 2010; Barnea and Rubin, 2010; Brammer, Brooks, & Pavelin, 2006) and thus further research is needed. Second, this study contends that CSR is a multi-dimensional concept and examines the heterogeneous effect of cross-border M&As on each dimension of CSR. Examining multiple dimensions of CSR could help us to understand different implications for different CSR facets (Marano and Kostova, 2016). CSR is a multiple-dimensional concept that involves ethics, economics, law, and corporate governance. However, few studies about Chinese enterprise CSR distinguish between detailed dimensions probably due to data limitation. Using multiple dimensional CSR data in this paper can not only help us to understand strategic responses to cross-border M&As, but also enable enterprises' managers, stakeholder and shareholders to know directions

for future improvement. Third, the study considers the moderating effect of regional cultural diversity. Previous studies examine the effect of host country institutions or national cultural distance on the effect of cross-border M&As (Li, Li, & Wang, 2016; Dikova and Sahib, 2013), but the role of home-country institutions, especially regional cultural diversity, is largely ignored. China has a vast territory and diverse customs and culture. Therefore, using national cultural indicators, such as Hofstede's cultural index, to measure a cultural environment in which companies operate may have limited values, as this approach cannot distinguish the cultural differences among regions. In contrast, this study considers the influence of cultural diversity in a home country and examines the moderating effect of the regional cultural diversity measured by the dialect diversity in the region, thus contributing to research on international business and institutional theories.

The remainder of this paper is organized as follows. In Section 2, we outline the previous literature, and develop our research hypotheses. In Section 3, we describe the research methods, variables employed, and empirical models, and in Section 4, we discuss the empirical results. Section 5 summarizes the main findings and discusses the study's contributions.

2 Literature Review and Hypothesis Development

In recent years, CSR has received growing attention in the academic literature (Hoi, Wu, & Zhang, 2018). Previous studies mostly focused on the impact of firm-level characteristics on CSR performance, such as ownership (e.g., Cordeiro, Galeazzo, Shaw, Veliyath, & Nandakumar, 2018; Baik & Park, 2019; Pan, Chen, Sinha, & Dong, 2020),

top management team (e.g., Joseph, Orlitzky, Gurd, Borland, & Lindgreen, 2019), social networks (Zou, Xie, Qi, & Yang, 2019), and corporate culture (e.g., Liao, 2018). Recent research has begun to analyze mechanisms of CSR fulfillment. For instance, Shahzad, Rehman, Nawaz, and Nawab (2018) state that family ownership positively moderates the relationship between CSR and investment efficiency. Anser, Zhang, and Kanwal (2018) argue that the innovation ability plays a moderating role in the relationship between CSR and performance.

With the deepening of globalization, in recent years, the attention on CSR has shifted to international companies. CSR in international business has become a central topic of discussion (Enderwick, 2018). For international companies, the implementation of CSR involves a complex process of negotiation with both domestic and foreign stakeholders (Subramaniam, Kansal, & Babu, 2017). Firms operate across a variety of institutional environments (Cantwell & Lundan, 2010). Hence, they need to not only consider the institutional pressure from their home country but also deal with various demands and expectations from new stakeholders after internationalization. However, little is known about the effect of internationalization on the CSR of companies from emerging economies. Even though some studies have begun focusing on this area (e.g., Attig, Boubakri, Ghoul, & Guedhami, 2016; Boubakri, Ghoul, Wang, Guedhami, & Kwok, 2016), the effect of one of the key internationalization modes, cross-border M&As, on CSR has not been clarified yet. Cross-border M&A is a favorite top-level managerial strategy of multinational enterprises (MNEs) (Tao, Liu, Gao, & Xia, 2017) and provides firms with opportunities to acquire resources that would not be

available otherwise (Haapanen, Hurmelinna-Laukkanen, Nikkilä, & Paakkolanvaara, 2019). One primary motive behind cross-border M&As is to seek strategic assets (Buckley et al., 2007; Cheng & Yang, 2017). Companies do not necessarily aim to set up operations in foreign markets and obtain legitimization in host countries by improving CSR through M&As. However, new foreign stakeholders are involved in the acquires' operations after cross-border M&As, and new CSR knowledge and management routines are introduced in daily operation, which generates a CSR spillover effect from the target firms to the acquirers.

Hypothesis development

As mentioned above, shareholder theory and stakeholder theory tend to have different attitudes towards CSR. Based on the stakeholder theory (Freeman, Wicks, and Parmar, 2004), enterprises need to engage in CSR investments to satisfy the demands of stakeholders (such as employees, suppliers and customers) and then get legitimacy (Wang and Qian 2011). Especially for enterprises conducting cross-border M&As, the implementation of CSR is a complex process of negotiation with both domestic and foreign stakeholders after cross-border M&As (Attig et al., 2016; Subramaniam et al., 2017). However, shareholder theory holds different opinions about CSR. For example, Friedman (2007) suggests that the only goal for an enterprise is to generate profits and maximize shareholder wealth with limited resources. CSR is considered to occupy scarce resources and should be avoided (Shi, Yu, & Li, 2020).

Though there are different views about enterprises' CSR investment, we argue that actually improving CSR after cross-border M&As can benefit both shareholders and

stakeholders. Stakeholder theory contends that the acquiring firms need to effectively adjust and improve their CSR strategy in line with the expectations or requirements of new stakeholders, such as new customers, employees, suppliers and investors, to survive and improve their performance (Detomasi, 2007). **At the same time, CSR behaviors have a beneficial effect on shareholders' wealth because supporting the interests of other stakeholders is often in the best interests of shareholders (Baron, 2008; Bénabou & Tirole, 2010).** When firms act in the best interest of stakeholders, their corporate value and long-term performance increase (Tampakoudis & Anagnostopoulou, 2020; Kacperczyk, 200; Bettinazzi & Zollo, 2017). **Especially for the integration after the cross-border M&As, satisfying the CSR demands of new stakeholders can make the culture and values of all parties involved in the M&As closer, increase mutual recognition and understanding, thus reducing the cost of communication and friction in enterprises' daily operation and post-M&As integration. For example, Mithani (2017) points out that corporate philanthropy plays an important role in minimizing the perceived distance between local and non-local firms (Crilly et al., 2016) and hence mitigates liability of foreignness.**

The increase of mutual understanding and reduction of communication friction among old and new stakeholders further promote the post-M&As integration process, reduce operational costs, and finally enhance the performance and competitiveness of the firms, which is consist with the interest pf shareholders. Therefore, after cross-border M&As, the improvement of CSR has a beneficial effect on the interests of both shareholders and stakeholders at the same time.

In addition, cross-border M&As provide firms with opportunities to obtain resources and capabilities that would otherwise be unavailable to them (Makadok, 2001; King, Slotegraaf, & Kesner, 2008). The heterogeneous knowledge and practices accessible by cross-border M&As and the presence of foreign stakeholders offer potential learning opportunities. From the perspective of the learning theory, previous studies suggested that firms' higher performance and ability to innovate largely depend on exploitation and exploration activities (Andriopoulos & Lewis, 2009; Messersmith & Chang, 2017). By exploring new CSR knowledge and practices, the ability to fulfill the CSR expectations is further improved.

According to the above statement, cross-border M&As can significantly improve the CSR practice and performance.

Hypothesis 1a: Cross-border M&As significantly improve the acquirers' CSR.

Institutions are key external factors that affect corporate governance and strategy. Many studies focused on the relationship between institutions and corporate governance from the perspective of formal institutions (e.g., Xu, Pan, Beamish, 2004; Ang, Benischke, & Doh, 2015) and informal institutions (e.g., Tihanyi, Griffith, & Russell, 2005; Zeng, Shenkar, Lee, & Song, 2013). Most studies resorted to the indicators of national institutions, such as the six national cultural dimensions proposed by Hofstede (1980; 2010). However, the effect of regional cultural diversity within a country is essentially ignored by this approach. China is a multi-ethnic country with various co-existing cultures. For instance, various dialects may be spoken in one city in China. The Chinese government began to promote Mandarin in 1956 and included the promotion of

Mandarin in the Constitution in 1982. However, dialects are still widely used in people's daily life, and Mandarin and dialects co-exist. According to "*Survey on the Use of Chinese Language and Characters (2016)*", the proportion of people who can use dialects to communicate in the country is about 86.38%.

On the one hand, higher cultural diversity in the region where a company is located implies that more time and energy is needed to deal with the additional cost generated by language and cultural diversity (Melitz, 2008; Lohmann, 2011; Melitz & Toubal, 2014; Egger & Lassmann, 2015; Fidrmuc & Fidrmuc, 2016), which hurts business operations and foreign investment and trade (Lameli et al., 2015). On the other hand, companies operating in a highly diverse cultural environment tend to be more inclusive and respect differences. Chang et al. (2015) find that the higher the diversity of regional dialects, the more diversified the decision-making views of local investors. In addition, Sanders and Carpenter (1998) state that firms' survival largely depends on their ability to deal with the high levels of complexity resulting from different environments. The experience of operating in a diverse and complex cultural environment may enhance the ability to cope with different cultural environments and deal with cultural conflicts. This ability enables the acquirers of cross-border M&As to better understand, respond to, and meet the needs of foreign stakeholders at a lower cost. Therefore, we argue that regional dialect diversity will moderate the relationship between cross-border M&As and CSR. Specifically, the more dialects in the region where the acquirers are located, the higher the positive effect of cross-border M&As on CSR.

Hypothesis 2: The positive relationship between cross-border M&As and CSR is strengthened with higher level of cultural diversity.

3 Data and Methodology

3.1 Data sources and sample selection

Our sample includes Chinese listed companies conducting cross-border M&As during the period 2009–2016. To control for endogeneity, the study uses the Difference-in-differences (DID) approach. Hence, other listed companies that have never conducted cross-border M&As are also included in our sample as the control group. The data for Chinese cross-border M&As and other indicators of listed companies, such as companies' financial data, are obtained from the *China Stock Market and Accounting Research Database (CSMAR)*. CSR data are obtained from the *China Research Data Service Platform (CNRDS)*.

The data of cross-border M&As of Chinese enterprises used in this paper are obtained from CSMAR. A total of 1448 overseas M&As events of Chinese enterprises as buyers occurred from 2007 to 2018 among which only 478 were regarded as being "successful". The remaining M&A events were either unsuccessful or their current status was unknown. If one firm conducted multiple overseas M&As in the same year or in consecutive years, we considered them as one single cross-border shock (we consider the period of the M&A shock ranging from the first to the final consecutive year of cross-border M&As). The final sample includes 369 successful cross-border M&As events. In order to satisfy the requirement of the difference-in-differences (DID) method that will be used later, 369 cross-border M&As were converted into panel data, and this panel data was merged with the CSR data from the CNRDS database (2006-2019) and finally a total of 2702 observations were matched, which is considered as the

treatment group in the application of the DID method. In addition, companies that have never made any overseas M&As during the sample period should be included in the sample as the control group of the DID method to compare to the treatment group to examine the impact of cross-border M&As on CSR. Accordingly, 3174 observations of China's listed companies with CSR data that never conducted cross-border M&As are kept in the sample as the control group. All the treatment and control group observations are combined with control variables and dialect data, and observations with missing values are deleted. As a result, our final sample (treatment group and control group) includes 5389 observations of 810 groups from 2006 to 2019. The treatment group contains 2481 observations of 344 cross-border M&A events and the control group contains 2908 observations from 466 companies.

3.2 Construction of key variables

Dependent Variable

The dependent variable in this study is the CSR score. We obtained CSR data from the Chinese Corporate Social Responsibilities Database (CCSR) provided by the CNRDS. This database comprises China's listed firms' CSR scores since 2006 and is based on the framework of *Kinder, Lydenberg, and Domini Database (KLD)*, which is widely used in CSR studies but does not include Chinese companies. Specifically, the CSR indicator provided by the CCSR is divided into six dimensions: “*Charity and Voluntary activities*,” “*Corporate Governance*,” “*Diversification*,” “*Employee Relations*,” “*Environment*,” and “*Products*.” Each dimension contains two perspectives: “*Strengths*” and “*Concerns*.”

We constructed three levels of CSR scores in line with the existing research and CCSR database. First, we constructed CSR scores from the perspective of strengths and concerns. We built *total CSR strengths score* (*CSR_STR*) by summing up the six dimensions of strengths and *total concerns score* (*CSR_CON*) by summing up the six dimensions of concerns (Attig, Boubakri, El Ghouli, & Guedhami, 2016). Second, the second CSR level include the six dimensions of the CSR score, including *Charity and Voluntary Activities* (*CSR_COM*), *Corporate Governance* (*CSR_GOV*), *Diversification* (*CSR_DIV*), *Employee Relations* (*CSR_EMP*), *Environment* (*CSR_ENV*), and *Products* (*CSR_PRO*). The score of each dimension was calculated by deducting the concern score from the strength score. Third, we constructed the total CSR score to evaluate an enterprise's overall CSR performance. Based on Newman and Steven (2018) and Attig, Boubakri, El Ghouli, and Guedhami (2016), the total CSR score was built as the difference between the total CSR strength score (*CSR_STR*) and total concern score (*CSR_CON*).

Moderating Variable

Home-country regional cultural diversity: Dialect diversity. This study also examined the interaction effect between cross-border M&As and the regional cultural diversity on CSR. We used dialect diversity to represent the cultural diversity of different regions in China. The data were obtained from CSMAR, which contains information on the language areas of all districts and counties in China. The language areas are divided into three categories: Mandarin, dialects, and ethnic dialects. Two indicators were used to measure the dialect diversity in the study. We used the total number of dialects spoken

in the city where listed firm is located as the first indicator. The second indicator we employed in the paper is the proportion of the population using dialects in the city to measure regional cultural diversity. **In order to meet the requirements of the methods of DID (difference-in-differences) and DDD (difference-in-difference-in-differences), we use dummy variables (*Proportion*) to construct the variable. When the dialect population ratio is 0-0.25, the value of the dummy variable *Proportion* is 1. When the ratio is 0.25-0.5, the value is 2 and when the ratio ranges from 0.5-0.75, the value is 3.**

Control Variables. In our analysis, we control for a set of firm- and country-level characteristics that may affect a firm's social engagement. Firm Age (*Age*) is the time between the establishment year and the current year. Firm size (*Size*) is measured by the natural logarithm of fixed assets. We control for firm age and size because larger and older firms are more visible and typically face more CSR pressure from their stakeholders (Brammer, Pavelin, & Porter, 2009). We also control for profitability, measured by return on assets (*ROA*) and financial leverage (*Leverage*), measured as the ratio of total debt to total assets. Higher profitability means that firms have more resources and are willing to engage more in CSR (Dong, Gao, Sun, & Ye, 2019), while financial leverage implies that firms with more slack resources invest more substantially in CSR (Waddock & Graves, 1997). The state ownership (*SOE*), which is measured as the ratio of state ownership to the total ownership (Pan et al., 2020), is also included in the analysis. The firm-level data were obtained from the CSMAR. **We also include foreign ownership ratio (*Foreign share*) which is measured as the ratio of foreign ownership to the total ownership (Pan et al., 2020). The firm-level data were**

obtained from the CSMAR. Table 1 shows the descriptive statistics of the variables and the sample composition.

Table 1. Descriptive statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
CSR	5,389	16.9269	5.6819	2	39
CSR strengths	5,389	17.3505	5.6906	3	39
CSR concerns	5,389	0.4236	0.6419	0	4
Age	5,389	16.9818	5.7978	1	40
Size	5,389	20.8561	1.8486	9.1245	27.2477
ROA	5,389	0.0672	1.4805	-1.3002	108.3657
Leverage	5,389	0.4943	0.2213	-0.1947	3.3618
SOE share	5,389	0.1010	0.1934	0	0.9148
Foreign share	5,389	0.0075	0.0518	0	0.7993
Dialect Number	5,389	10.3238	6.2490	1	36
Dialect Proportion	2,580	1.0306	0.1853	1	3

Table 2 presents the correlation matrix for these variables. The values of the correlation between the variables are low, and the variance inflation factors (VIFs) are below 2, suggesting no substantial multicollinearity problems.

Table 2. Correlation matrix

	1	2	3	4	5	6	7	8			
1. CSR	1										
2. CSR Strength	0.9928	1									
3. CSR Concern	-0.0475	0.0723	1								
4. Age	0.1432	0.1482	0.0436	1							
5. Size	0.3421	0.3647	0.1932	-0.0082	1						
6. ROA	-0.0192	-0.0219	-0.0225	-0.0522	-0.0889	1					
7. leverage	0.0081	0.0227	0.1220	0.1020	0.2315	-0.1596	1				
8. SOE	-0.0356	-0.0334	0.0184	-0.2380	0.1549	-0.0021	0.0497	1			
9. Foreign	0.0026	0.0058	0.0270	0.0030	0.0038	0.0078	0.0095	0.0015	1		
10. Dialect Number	0.0444	0.0354	-0.0746	-0.0839	-0.0534	0.0063	0.0305	0.0751	-0.0223	1	
11. Dialect Proportion	-0.0413	-0.0299	0.0946	0.0157	-0.0253	-0.0095	0.0194	-0.0164	-0.0209	-0.1984	1

Table 3 presents the results of the mean-difference tests for the treatment group before and after the cross-border M&As. The results show that the values of CSR before

and after the cross-border M&As are statistically significant at the 1% level.

Table 3. Dynamic change in CSR before and after cross-border M&As (Treatment Group,Treat=1)

Variables	Before (Time=0)		After(Time=1)		Differences	
	Obs.	Mean	Obs.	Mean	Differences	t-test
CSR	1,476	15.5657	1,005	19.9254	4.3597	-18.5349***
CSR_Strengths	1,476	16.0345	1,005	20.4507	4.4162	-18.7707***
CSR_Concerns	1,476	0.4688	1,005	0.5254	0.0565	-2.0226**
Size	1,476	20.6214	1,005	21.1107	0.4892	-6.8923***
ROA	1,476	0.0571	1,005	0.1446	0.0875	-0.9832
Leverage	1,476	0.4934	1,005	0.5190	0.0256	-2.8451***
SOE share	1,476	0.1126	1,005	0.0542	0.0584	8.2784***
Foreign share	1,476	0.0119	1,005	0.0048	0.0071	3.1088***

Note: *, **, *** represents significance at the 10%, 5% and 1% levels respectively.

3.3 Model Specification

The DID approach, the most common policy evaluation method, has been widely used in the literature (e.g., Hu et al., 2019; Wang, Yin, & Chen, 2019). By exploiting a treatment group (affected by the policy) and a control group (not affected by the policy), the DID method compares the performance differences between the treatment and the control groups before and after the policy to evaluate the causal effect of the policy. However, in some cases, the policy of interest is carried out gradually. For example, in this study, overseas M&As can be carried out at different times. Therefore, the panel DID approach is used to examine the effect of cross-border M&As on CSR. We considered the event of cross-border M&As as a natural experiment and divided the sample into two groups. The treatment group include the Chinese listed companies that engaged in overseas M&As during the period 2009–2016, and the control group comprised the Chinese listed enterprises that never conducted cross-border M&As. The DID model reads as follows (1):

$$CSR_{it} = \alpha_0 + \beta_1 M \& A_{it} \times Time_{it} + \lambda X_{it-1} + \gamma_i + \gamma_t + \gamma_{ind} + \gamma_{pro} + \varepsilon_{it}, (1)$$

where subscripts i , t , ind , and pro denote year, firm, industry, and province, respectively. CSR refers to the CSR performance. Two dummy variables, $M \& A$ and $Time$, are introduced in the model. We used whether a firm conducted cross-border M&As as the criterion to divide the sample into the treatment and control groups. Firms having conducted any cross-border M&A during the sample period belong to the treatment group and the value of the dummy variable ($M\&A$) is 1. In contrast, firms having never conducted any cross-border M&A belong to the control group and the value of the dummy variable ($M\&A$) is 0. Dummy variable $Time$ divides the sample into two groups based on before or after cross-border M&A events. The dummy variable $Time$ equals 0 for any observation before the firm's cross-border M&A, and the value is 1 for any observations after the firm's cross-border M&A event. In particular, as mentioned above, if a firm has multiple M&As events in the same year, we merged these M&As and treated these events as one shock. Similarly, if a firm conducted cross-border M&As in consecutive years, we treated these multiple cross-border M&As as one group and considered them as one merger shock. We assign a value of 1 to the dummy variable $Time$ for any observation after the last (consecutive) merger event in the group, and 0 for any observation before the first (consecutive) merge event in the merge group. X is a vector of control variables, including the firm's Age , $Size$, SOE share, ROA , and financial $Leverage$. We also include the year (γ_t), firm (γ_i), industry (γ_{ind}), and province (γ_{pro}) fixed effects in the model in line with Chen (2017) and Lu et al. (2013). ε_{it} indicates random disturbances.

4 Empirical Results

4.1 Main results

Table 4 reports the main estimation results. In columns (1) and (2), the dependent variable is the total CSR score. The estimation results reported in column (1) only control for the individual, time, industry, and province fixed effects, while the other control variables are not included. The coefficient on the interaction term ($M \& A \times Time$) is significant and positive ($\beta=1.9534, p<.01$). The estimation results reported in column (2) include the other control variables, and the coefficient on the interaction term is 1.9658 ($p<.01$) and significant at the 1% level, which means that cross-border M&As significantly improve Chinese companies' overall CSR performance. Hence, hypothesis 1 is supported.

Furthermore, we divide the CSR into strengths and concerns. The dependent variables used in the specifications reported in columns (3) and (4) are the strengths score and concerns score of CSR, respectively. The coefficient on the interaction term reported in column (3) of Table 4 is positive and significant ($\beta=1.9751, p<.01$), while the coefficient in column (4) ($\beta=0.0093, i.s.$) is not significant. The results imply that the positive effect of cross-border M&As on CSR performance is mainly caused by CSR strengths, such as increasing environmental protection, the protection of employees' rights, and donations. However, the issues affecting CSR are not resolved by cross-border M&As (for instance, the violation of accounting standards and environmental penalties).

Table 4. The effect of cross-border M&A on CSR

Variables	CSR	CSR	CSR
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			Strengths	Concerns
	(1)	(2)	(3)	(4)
<i>M & A</i> × <i>Time</i>	1.9534*** (0.2742)	1.9658*** (0.2714)	1.9751*** (0.2711)	0.0093 (0.0357)
Age		0.7164*** (0.0921)	0.7412*** (0.0931)	0.0248*** (0.0094)
Size		0.4172*** (0.1416)	0.4145*** (0.1388)	-0.0026 (0.0171)
ROA		0.0240 (0.0209)	0.0223 (0.0204)	-0.0017 (0.0029)
Leverage		-0.9600 (0.6389)	-0.8317 (0.6188)	0.1283 (0.0904)
Foreign share		2.4575 (1.8178)	2.1773 (1.7973)	-0.2802 (0.1760)
SOE share		-0.3262 (0.4420)	-0.3250 (0.4337)	0.0013 (0.0593)
Constant	7.9401*** (1.2104)	-6.1827* (3.5467)	-6.2610* (3.5226)	-0.0783 (0.3652)
Individual Fixed Effect	Y	Y	Y	Y
Time Fixed Effect	Y	Y	Y	Y
Industry Fixed Effect	Y	Y	Y	Y
Province Fixed Effect	Y	Y	Y	Y
Observations	5,389	5,389	5,389	5,389
R-squared	0.3766	0.3807	0.3992	0.0472
Number of enterprises	810	810	810	810

Notes: *, **, *** represents significance at the 10%, 5% and 1% levels respectively; Y denotes yes.

Table 5 shows the results of cross-border M&As on various dimensions of CSR. The above-mentioned six CSR dimensions were used as the dependent variables, respectively. The coefficients on the interaction terms of four detailed dimensions, corporate governance, employee relations, environment protection and products, are positive and significant. The results show that cross-border M&As significantly promote these four CSR dimensions. The coefficients in Model 1 (*Charity and voluntary activities*) ($\beta=0.0977$) and Model 3 ($\beta=-0.0277$) are insignificant, which means the cross-border M&As cannot improve enterprises' behaviors of charity and

voluntary activities and diversification significantly.

Table 5. The effect of cross-border M&As on detailed dimensions of CSR

Variables	Charity and Voluntary Activities (1)	Corporate Governance (2)	Diversification (3)	Employee Relations (4)	Environment Protection (5)	Products (6)
<i>M & A</i> ×Time	0.0153 (0.0906)	0.2703*** (0.0647)	-0.0277 (0.0610)	0.3401*** (0.0858)	0.4504*** (0.0923)	0.9174*** (0.0994)
Constant	-1.0235 (0.8994)	-1.4288** (0.6960)	0.9841 (0.6917)	-1.4110 (0.8863)	-3.1157** (1.4890)	-0.1878 (1.1514)
Control Variables	Y	Y	Y	Y	Y	Y
Individual Fixed Effect	Y	Y	Y	Y	Y	Y
Time Fixed Effect	Y	Y	Y	Y	Y	Y
Industry Fixed Effect	Y	Y	Y	Y	Y	Y
Province Fixed Effect	Y	Y	Y	Y	Y	Y
Observations	5,389	5,389	5,389	5,389	5,389	5,389
R-squared	0.2221	0.3040	0.2279	0.2735	0.0737	0.0914
Number of enterprises	810	810	810	810	810	810

Notes: *, **, *** represents significance at the 10%, 5% and 1% levels respectively; Y denotes yes.

4.2 Robustness test

PSM-DID

To address potential self-selection and endogeneity, we adopted the propensity score matching (PSM) method proposed by Rosenbaum and Rubin (1983) and then combined the PSM with DID to examine the effect of the cross-border M&As on Chinese MNEs' CSR. Columns 2-8 in Table 6 report the PSM-DID regression results. **The coefficients are positive and significant in columns 2, 4, 6, and 8**, in line with the results in Tables 4 and 5, thus proving that our results are robust after adopting the PSM-DID.

Table 6. The effect of cross-border M&As on detailed dimensions of CSR

Variables		PSM-DID
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	Parallel trend	CSR	Charity and Voluntary Activities	Corporate Governance	Diversification	Employee Relations	Environment Protection	Products
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>M & A × Time</i>		1.7158*** (0.3485)	-0.0257 (0.1123)	0.2143** (0.0860)	-0.1045 (0.0766)	0.2894*** (0.1119)	0.4766*** (0.1187)	0.8657*** (0.1311)
M&A×d(-4)	-0.5887** (0.2940)							
M&A×d(-3)	-0.3557 (0.2923)							
M&A×d(-2)	-0.1671 (0.3202)							
M&A×d(-1)	0.0876 (0.3517)							
M&A×d(0)	0.6155 (0.3874)							
M&A×d(1)	1.2007*** (0.3639)							
M&A×d(2)	1.5591*** (0.3692)							
M&A×d(3)	1.0476*** (0.3498)							
M&A×d(4)	1.3407*** (0.3910)							
M&A×d(5)	1.2776*** (0.4276)							
Constant	-6.9995* (3.5681)	-6.8156* (3.4836)	-2.0345** (0.9878)	-1.3333 (0.8477)	1.2030 (0.8415)	-0.9281 (1.1165)	-4.0087*** (1.5453)	0.2859 (1.5472)
Control Variables	Y	Y	Y	Y	Y	Y	Y	Y
Individual Fixed Effect	Y	Y	Y	Y	Y	Y	Y	Y
Time Fixed Effect	Y	Y	Y	Y	Y	Y	Y	Y
Industry Fixed Effect	Y	Y	Y	Y	Y	Y	Y	Y
Province Fixed Effect	Y	Y	Y	Y	Y	Y	Y	Y
Observations	5,389	2,840	2,840	2,840	2,840	2,840	2,840	2,840
R-squared	0.3761	0.3988	0.2462	0.3100	0.2164	0.2814	0.0959	0.1204
Number of enterprises	810	717	717	717	717	717	717	717

Notes: *, **, *** represents significance at the 10%, 5% and 1% levels respectively; Y denotes yes.

Parallel trend test

The parallel trend, which requires that the treatment and control groups have the same

trend before cross-border M&As, is an essential prerequisite for applying DID. As shown in column 1 in Table 6, the coefficients on the interactive terms of each year before cross-border M&As ($M\&A \times d(-3)$, $M\&A \times d(-2)$, $M\&A \times d(-1)$ and $M\&A \times d(0)$) are not significantly different from 0, indicating that the parallel trend hypothesis is supported. After cross-border M&As, the coefficients of the interactive terms in each year ($M\&A \times d(1)$, $M\&A \times d(2)$, $M\&A \times d(3)$, $M\&A \times d(4)$ and $M\&A \times d(5)$) are significant at the 1% level, indicating that cross-border M&As have a significant and positive effect on the acquirers' CSR. The results are also showed in Figure 1.

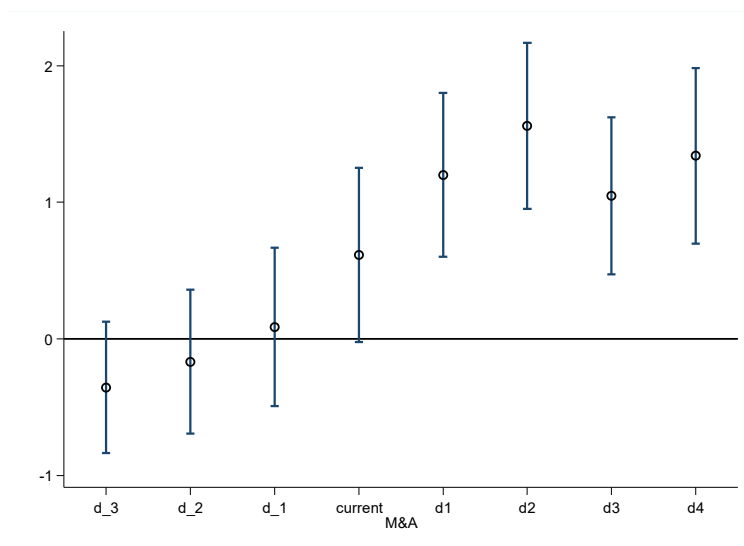


Figure 1. Parallel trend test

4.3 Moderating effect of regional cultural diversity

As mentioned above, we employed two indicators to measure the regional cultural diversity, the number of regional dialects, and the proportion of the population speaking dialects in the region. Then, we employed the Difference-in-Difference-in-Differences (DDD) method to examine the moderating role of cultural diversity in the relationship

between cross-border M&A and CSR performance, which is an improvement of the DID method (Min, 2018). The estimates by DID may be biased if there is any other trend which systematically affects the outcome variable (Gruber 1994). For instance, in our study, the DID estimates may be biased with various levels of dialect diversity according to hypothesis 2. As shown in Model 1 in Table 7, the coefficient on the DDD estimator ($M\&A \times Time \times Number$) is positive and significant ($\beta=0.1520, p<.01$). The coefficients of the DDD estimator in columns 3, 5, 6 and 7 of the CSR dimensions (Table 9) are positive and significant, confirming that the presence of more dialects increases the positive impact of cross-border M&As on the total CSR and certain detailed CSR dimensions' performance (including corporate governance, employee relations, environment protection and products).

Table 7. The moderating effect of regional cultural diversity (Dialect number)

Variables	CSR	Charity & Voluntary Activities	Corporate Governance	Diversification	Employee Relations	Environment Protection	Products
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
$M\&A \times Time \times Number$	0.1520*** (0.0240)	-0.0104 (0.0078)	0.0214*** (0.0059)	0.0016 (0.0053)	0.0274*** (0.0082)	0.0396*** (0.0084)	0.0723*** (0.0086)
Constant	-11.5259*** (4.0312)	-3.4932* (1.8627)	-1.5661 (2.1918)	1.2276* (0.6597)	-2.2639 (1.7024)	-4.6208*** (1.7778)	-0.8095 (1.2567)
Control Variable	Y	Y	Y	Y	Y	Y	Y
Interactive terms	Y	Y	Y	Y	Y	Y	Y
Observations	5,389	5,389	5,389	5,389	5,389	5,389	5,389
R-squared	0.4628	0.3147	0.3856	0.3134	0.3588	0.1777	0.1862
Number of enterprises	810	810	810	810	810	810	810

Notes: *, **, *** represents significance at the 10%, 5% and 1% levels respectively; Y denotes yes.

We also used the proportion of the population speaking dialects in the city where listed enterprises are located as robustness test. Table 8 reports the estimation results.

The coefficient on the *DDD* estimator ($M\&A \times Time \times Proportion$) in Model 1 is positive and significant ($\beta=1.5802, p<.01$). Regarding the CSR dimensions, only the *DDD* estimator's coefficients of Model 3, 5, 6, and 7 in Table 8 ($\beta=0.2728, p<.01$; $\beta=0.2414, p<.05$; $\beta=0.3099, p<.05$; $\beta=0.7326, p<.01$) are positive and significant, which implies that the proportion of dialect positively moderates the relationship between M&As and the CSR dimensions of *Corporate Governance, Employee Relations, Environment Protection* and *Products*. However, the moderating effect in the *Charity and Voluntary Activities* and *Diversification* is not significant.

Table 8. The moderating effect of regional cultural diversity
(proportion of population using dialect)

Variables	CSR	Charity & Voluntary Activities	Corporate Governance	Diversification	Employee Relations	Environment Protection	Products
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>M&A</i> × <i>Time</i> × <i>Proportion</i>	1.5802*** (0.3427)	0.0510 (0.1114)	0.2728*** (0.0798)	-0.0276 (0.0792)	0.2414** (0.1112)	0.3099** (0.1331)	0.7326*** (0.1417)
Constant	-7.2822 (4.5922)	-2.3412* (1.3989)	-1.0715 (1.2670)	0.5856 (1.2511)	0.2654 (1.9234)	-2.5223 (1.6478)	-2.1981 (1.8890)
Control variables	Y	Y	Y	Y	Y	Y	Y
Interactive terms	Y	Y	Y	Y	Y	Y	Y
Observations	2,580	2,580	2,580	2,580	2,580	2,580	2,580
R-squared	0.4794	0.3626	0.4315	0.3272	0.3521	0.2204	0.2228
Number of enterprises	519	519	519	519	519	519	519

Notes: *, **, *** represents significance at the 10%, 5% and 1% levels respectively; Y denotes yes.

5 Discussion and Conclusion

This study focused on the effect of cross-border M&As on CSR performance using data of Chinese listed enterprises conducting cross-border M&As between 2009 and 2016.

We find that cross-border M&As significantly improve the CSR performance of Chinese acquirers. Furthermore, when we divided CSR into “strengths” and “concerns,”

the empirical results show that cross-border M&As significantly promote firms' CSR "strengths" but do not reduce CSR "concerns." The acquirers of cross-border M&As are more likely to respond to the demands and expectations of diverse stakeholders by increasing their responsible behaviors. Hence, responsible behaviors are more likely to be observed and have a direct impact on firms' operation (Zyglidopoulos, Georgiadis, Carroll, & Siegel, 2012). 这一结论基本上与现有关于企业国际化与社会责任的研究相一致，企业国际化行为，包括海外并购、海外直接投资等，对企业整体社会责任提升有着显著的促进作用。

进一步的，在本文中，我们充分考虑到了 CSR is a multi-dimensional concept (Attig, Boubakri, El Ghouli, & Guedhami, 2016). The empirical results show that cross-border M&As play a significant role in promoting four dimensions of CSR, including corporate governance, employee relations, environment protection and products. Other two dimensions, "Charity and voluntary activities" and "Diversification", are not significantly improved after cross-border M&As. 虽然目前也有研究关注了企业国际化与不同 CSR 维度之间的关系，但是结论并不一致，这可能是由于关注的企业国际化方式不同，以及企业来源国不同。例如，。。。。。而不同的是，对于中国企业而言，海外并购对其社会责任的提升在"Charity and Voluntary activities" and "Diversification" 这两方面并不显著，这可能是由于中国并购企业本身在这两个层面并购前已经做的比较优异，因此跨国并购并未对其产生"冲击"影响，也可能是由于诸如 diversification 这类社会责任更偏向于企业内部且是更易被中国企业实践所忽略的内容，比如女性高管、女性董事等，因此在跨国并购后企业并没有将有限的资源投资于这些方面的改善上。这一结论也为现有的关注新兴经

济体企业国际化与社会责任的研究进行了更为细节和深入的补充，

This study extends the literature on CSR and international business by addressing their relationship through the DID method and explicitly addressing the moderating effect of regional cultural diversity. 这是与以往研究不同的地方，现有研究更多的是关注了东道国制度或者企业内部公司治理对于企业国际化与企业社会责任之间的影响。而本文则重点关注了企业在母国所在地的文化多样性对于企业并购后社会责任的影响。现有文献大多直接探究了文化多样性对于经济发展或公司治理的作用，而且大多将其视作一种“阻碍”因素，却忽视了文化多样性的促进作用。

This study confirms that internationalization has a positive effect on CSR. Although the targets of cross-border M&As are usually strategic assets or equities, the acquirers are less likely to be involved in local operations in the host country, but they are affected by the spillover effect of CSR. At the same time, the effect of cross-border M&As on CSR is stronger when the home-country's level of regional cultural diversity is higher. The acquirers that operate in a culturally diverse environment are keener to respecting and valuing differences. More importantly, in their daily operations, they need to constantly respond to the frictions and conflicts caused by cultural differences, and therefore, their ability to deal with differences and promote integration increases. In response to the heterogeneous CSR expectations of diverse stakeholders, the acquirers that operate in a highly diverse cultural environment tend to actively adjust and enhance their CSR to achieve integration after cross-border M&As, which boosts long-term corporate value.

Practical implications

This paper finds that Chinese companies' cross-border M&As have significantly positive impact on their CSR, and this positive effect of cross-border M&As on CSR has been strengthened by a high level of cultural diversity in the city in which the companies are located. The above conclusions have practical implications for Chinese enterprises' managers, stakeholders, shareholders and policy makers:

Firstly, the integration after cross-border M&As is challenging for enterprises. In addition to the integration of assets, resources and equity, corporate culture and values, such as CSR, should be involved the integration process. Due to the diverse and different CSR needs and requirements of stakeholders from domestic and foreign countries, companies need to further adjust and improve their CSR performance, because the improvement in CSR then is conducive to promoting the mutual recognition, understanding, and reducing communication friction and costs in the process of post-M&A integration and finally improving the performance of cross-border M&A, which is beneficial to enhance both the interests of shareholders and stakeholders. Therefore, companies conducting cross-border M&As should pay more attention to the integration of CSR.

Secondly, CSR is a multi-dimension concept, but enterprises are inclined to just improve some dimensions of CSR after cross-border M&As. According to our study, Chinese enterprises do not improve the dimensions of "Charity and voluntary activities" and "Diversification" significantly after cross-border M&As. CSR is directly related to corporate reputation. No matter how well a company performs in all other CSR dimensions, if it fails to fulfill just one dimension of CSR, the reputation of the entire company

will be harmed because of the negative spillover effect of irresponsible behavior (Marano & Kostova, 2016). Therefore, managers, stakeholders and shareholders should carefully explore whether and why some dimensions of CSR have not been improved after cross-border M&As and then formulate corresponding strategies to improve them.

Finally, the main concern about whether to improve CSR after cross-border M&As is that the post-M&As integration process require a large amount of corporate scarce resources and energy. If companies diversify their efforts to improve CSR after cross-border M&As, it may harm the integration process and corporate performance. The key to avoiding this problem lies in the company's ability to deal with complex issues. For example, cultural diversity is considered in our paper as a moderator and we believe that if a company comes from a region with a high level cultural diversity, it can accumulate sufficient ability and knowledge to deal with differences in the daily operation and thus can solve problems which have occurred during the integration with less resource and energy. It means that they can have enough resources to adjust and improve the CSR performance to satisfy the diverse needs and requirement of both domestic and foreign new stakeholders after cross-border M&As, which finally in turn further promote the integration efficiency of M&As. This conclusion provides suggestions for managers and the government. From the perspective of managers, they must be fully prepared during the pre-merger stage, and consciously improve related departments' ability of dealing with diversity and complexity, to make sure that the company can complete post-merger integration with less resource. In addition, from the perspective

of government and other policy makers, we suggest that when companies conduct overseas M&As, they should give them as much policy or resource support as possible to ensure that they have sufficient resources and capabilities to complete the cross-border M&As integration and promote their CSR performance. The promotion of CSR is also of great benefit to the lives and welfare of local residents.

Limitation and future Research

Firstly, this study shows that cross-border M&As can significantly improve the performance of Chinese acquirers' CSR. However, due to the data limitation and the main topic of the paper, we did not explore the effect of heterogeneity of cross-border M&As, such as the heterogeneity of host countries of the acquirees, M&As' targets, M&As' purposes and methods, and such heterogeneity may have different impact on CSR improvement after cross-border M&As. In future, we suggest that we can conduct in-depth research on the relationship between heterogeneous characteristics of cross-border M&As and CSR performance.

Secondly, we consider the moderating role of a home country's regional cultural diversity. We use dialect diversity as the measurement of cultural diversity. Considering that some dialects are actually very similar, we suggest that the distance between dialects should be considered in the index to measure dialect diversity in future. We also suggest that we can use other indicators, such as religion diversity or ethnicity diversity, to measure cultural diversity in future research.

Finally, further research is needed to find out why the two dimensions of "Charity and voluntary activities" and "Diversification" are not significantly improved after

cross-border M&As. Is it because the new stakeholders after M&As not have more demands for these two dimensions of CSR, or an improvement in these two dimensions can be achieved cost-effectively than other dimensions? Is an improvement in some CSR dimensions more influential than others for corporate reputation enhancement and financial performance improvement after cross-border M&As?

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