



The Zone of Conformity: A Comparison of Private and State-Controlled Enterprises in M&As

Sunny Li Sun¹ · Young Jin Ko²

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Abstract

Drawing from the literature on institutional pressure, we argue that firms with different ownership types have different strategic options in domestic and overseas markets, namely the zone of conformity. State-controlled enterprises (SCEs) have a broader range of acceptable actions than do private-controlled enterprises (PCEs) in a domestic market but face more sanctions and stricter conformity requests in an overseas market. The concept of the zone of conformity predicts SCEs have a higher probability of deal failure overseas than in domestic markets and strategically seek less equity ownership of target firms in cross-border deals. The autocracy level of target country moderates the M&A behaviors difference between SCEs and PCEs. Our analysis of 12,497 Chinese mergers and acquisitions supports the study hypotheses.

Keywords State-controlled enterprises · Institutional legitimacy · M&A deal abandonment · Equity ownership sought

1 Introduction

Cross-border merger and acquisition (M&A) bids offered by state-controlled enterprises (SCEs) have increasingly failed around the world. For example, China National Offshore Oil withdrew its offer for Unocal because of U.S. government

✉ Young Jin Ko
youngjinko@skku.edu

Sunny Li Sun
li_sun@uml.edu

¹ Robert J. Manning School of Business, University of Massachusetts Lowell, 72 University Ave, 01854 Lowell, MA, USA

² Sungkyunkwan University, 25-2, Seonggyungwan-ro, Seoul, South Korea

opposition in 2005. The Canadian government blocked a proposed takeover of Aecon by China Communications Construction in 2018, and Germany vetoed the nuclear equipment maker Yantai Taihai's proposed acquisition of Leifeld Metal Spinning in 2018. A commonly believed reason for these deal failures or withdrawals is the lack of legitimacy of SCEs in the host country (Li et al., 2017; Zhang et al., 2011). This observation stands in sharp contrast with the favorable environment for SCEs in their home countries (Ren et al., 2019).

The purposes of SCEs differ significantly from those of private-controlled enterprises (PCEs) and so do their potential actions. However, to our knowledge, international business scholars have rarely discussed firms' different actions and responses in the overseas and domestic markets. In particular, there has been no previous empirical testing of whether there are significant differences in deal abandonment and ownership strategy in cross-border and domestic M&As. The studies on M&A completion have adopted institutional theory or a regulatory perspective (Dikova et al., 2010; García-García et al., 2019; Muehlfeld et al., 2007). They have documented that mainly in overseas markets and argued that SCE acquirers have lower favorability than PCE acquirers and face more significant legitimacy problems (Zhou et al., 2016) due to liability of emergingness (Madhok & Keyhani, 2012) and SCEs' opaqueness (Li et al., 2019).

However, the different purposes and strategic behaviors of SCEs and PCEs in both domestic and overseas markets have received less theorization and conceptual support. Although institutional theory (García-García et al., 2019; Peng et al., 2008) mostly explains the negative effect of SCEs, it cannot *consistently* explain why SCEs become active in some fields but face bleak odds in other fields; SCEs are facing two kinds of legitimacy issues in home and host countries. For example, in the previous studies in international business, researchers focused on institutional pressures in the host country and SCEs' disadvantages (Li et al., 2017, 2019; Voinea & van Kranenburg, 2018; White et al., 2018) but less discussed legitimacy and potential actions in the home country. Hence, international business literature has less explained SCE's advantages such as more support and fewer sanctions from home state agencies (Xie et al., 2021; Zhou et al., 2017). In this paper, we propose a new concept of zone of conformity to explain SCEs' acceptable actions and compare their behaviors with those of PCEs.

SCE acquirers have social and political agendas in M&A, which leads to different responses and acceptance from multiple stakeholders in both their home countries and target countries, and then enlarge or narrow their "comfort zones" in the acquisition process. Connecting the literature on institutional pressure (Voinea & van Kranenburg, 2018; White et al., 2018) and the concept of acceptance (Simon, 1947), we advance the zone of conformity – the range of a firm's acceptable actions on seeking equity ownership or abandoning deals (cf., zone of acceptance, Simon 1947; range of acceptability, Deephouse 1999) – to better understand the heterogeneity of institutional acceptance. When a firm's behavior does not fall into the zone, it acts "at its own peril, and it is subject to questions and actions challenging its legitimacy, reliability, and rationality" (Deephouse, 1999, p. 152). Accordingly, we predict that firms with different types of ownership adopt different M&A strategies that are contingent on the institutional acceptance of home and host countries.

We test our predictions in the context of Chinese firms conducting domestic and cross-border M&As. Researchers have also widely studied China to analyze the behaviors of SCEs (Cuervo-Cazurra et al., 2014; Bruton et al., 2015) and advance institutional perspective in a transition economy (Mondejar & Zhao, 2013). Even though state-owned enterprises (SOEs) have reformed to pursue market-oriented goals through privatization, the Chinese government retains the social and political agendas of SCEs. SOEs are often classified as state ownership of greater than 20% of outstanding company shares (Krom, 2018) or 15% of state ownership (Li et al., 2019), while a state as a firm's actual controller can influence SCEs even when the state is not the main shareholder. For example, China's signature foreign policy project, the Belt and Road Initiative (BRI), encourages SCEs to take on considerable governance, social, and fiscal risks in pursuing large infrastructure projects (World Bank 2019). In addition, Chinese firms still abandon M&A deals at high rates (Kim & Song, 2017).

By analyzing a large sample of 12,497 announced M&A deals over the period of 1986–2016, with data archived from Thomson Financial Securities Data's Worldwide M&A Database (SDC) and the China Stock Market & Accounting Research (CSMAR) database, we find several interesting results that support our hypotheses. First, SCEs are less likely to abandon M&A deals than are PCEs. Second, SCEs usually seek less equity ownership than PCEs. Third, SCEs are more likely to abandon cross-border M&As deals than domestic deals. Fourth, SCE acquirers seek less equity ownership in cross-border M&As than in domestic M&As. Final, the autocracy level of target country moderates the M&A behavior difference between SCEs and PCEs.

This study has several contributions to the literature. First, we advance the concept of the zone of conformity in the M&A literature to predict multiple stakeholders' requests and focal firms' responses (Voinea & van Kranenburg, 2018). Whereas the liability of foreignness focuses on the question of why foreign firms have low performance in foreign markets (García-García et al., 2019; Zaheer, 1995), and the legitimacy theory investigates the question of how to gain external legitimacy but to keep internal consistency (Kostova & Zaheer, 1999; Kostova et al., 2008), the zone of conformity rather predicts the potential sanctions and actions in both foreign and domestic markets. In particular, we examine how SCEs and PCEs behave differently in domestic and overseas markets.

Second, this study enriches the literature on state capitalism through our investigation of the strategic behaviors of SCEs. In particular, we introduce the percentage of equity ownership sought by acquiring firms as a key dependent variable that represents the acquiring firm's behavior. The previous researchers argued that the state could be either a majority or a minority investor (Cuervo-Cazurra et al., 2014; Musacchio et al., 2015). Our study shows that SCE acquirers intend to seek lower equity ownership of target firms, and that PCE acquirers are more likely to abandon M&A deals than SCEs in domestic M&A deals because of high state control. Our data shows these differences are further contingently moderated by target countries' diverse autocracy level. In other words, the global expansion of Chinese state capitalism through M&A activities in democratic countries is highly constrained, however, this expansion is welcomed in high autocratic countries.

Finally, this study contributes to the international business literature by comparing domestic and cross-border M&As. Previous researchers have mainly discussed SCEs'

disadvantages in overseas markets such as the host country's legitimacy (Li et al., 2017) and the liability of opaqueness (Li et al., 2019) but less discussed legitimacy requests in the home countries. With the concept of the zone of conformity, we might better predict how SCEs and PCEs M&A strategies differently under a bifurcated world order (Petricevic & Teece, 2019).

2 State-Controlled Enterprises and the Zone of Conformity

2.1 State-Controlled Enterprises Under State Capitalism

SCE refers to a firm whose ultimate controller is either a state or a governmental authority that has influence on the firm's decisions, although it is not the main shareholder of the firm (Meyer et al., 2014). The term SCE might provide a nuanced perspective from traditional SOE¹ that is owned by the state and mainly focus on the domestic market. In addition, the largest shareholder is not necessarily the same as the actual controller in China, where firms often have multiple hierarchies in the control system (Inoue et al., 2013; Wang et al., 2022); even after SOEs are privatized, the government as a minority shareholder can retain and exercise control over them by various means such as pyramidal ownership structures (Musacchio & Lazzarini, 2014), golden shares held by state-owned holding companies, and appointing the board members (Naughton & Tsai, 2015). In this situation, state ownership does not necessarily mean state control and SOEs might not fully capture the public and private dimensions of businesses, especially in a country characterized by state capitalism.

State capitalism refers to the situation when a powerful state exercises an extensive controlling influence over the economy and promotes strong growth under a capitalist system (Krom, 2018). State capitalism significantly reshapes the global corporate landscape and is most prevalent in China (Musacchio & Lazzarini, 2014). The concept emerged in the 1990s with the government as a minority shareholder and lender indirectly influencing firm behaviors. As a hybrid form, state capitalism mixes state logic with market logic (Bruton et al., 2015; Rodrigues & Dieleman, 2018). In this study, we view SCEs as typical actors that follow state capitalism in that they combine profit-seeking market mechanisms and state social mechanisms (Liang et al., 2015a, b; Zhou, 2018). On the one hand, SCEs need to conform to the state ideology and interest in economic growth and to expand state-desired social outcomes (such as employment and social stability). On the other hand, SCEs also embrace the market logic of shareholder interest such as profit maximization.

Although state capitalism does not entail that the state is a majority shareholder, the state can influence firms indirectly via state power or cascading chains of ownership, for instance, by possessing the common controlling shares of the large business groups that the firms are subsidiaries of (Inoue et al., 2013). The move of

¹ In our final sample, the total number of SCEs was 2,430, among which 1,222 firms were SOEs. For example, TCL Corp. is a city municipal company whose largest shareholder is Huizhou City Investment Holding Co. TCL was coded as an SCE although it is not an SOE because its shares owned by state was about 10% as of 2017. Although we test the same model using SOE classification, our main effects remain the same.

listing SCEs on stock exchanges also facilitates the state's tendency to seek minority equity positions. Although the government limits its equity ownership in businesses, it remains influential through unconventional methods such as "veto rights embedded in golden shares, use of sovereign wealth funds, and development banks to acquire minority positions in private firms" (Musacchio & Lazzarini, 2014, p. 282). In this situation, the "state, as a powerful actor, may have a distinctive capacity to influence decisions, even in the position of minority shareholder" (Inoue et al., 2013, p. 1779).

2.2 The Zone of Conformity

The zone of conformity comprises a range of acceptable actions in which a firm's behavior adheres to institutional acceptance (Aguilera et al., 2018); it is similar to Simon's (1947, p. 10) zone of acceptance and Deephouse's (1999, p. 152) range of acceptability. These concepts have been applied to analyses of impression management (Rindova et al., 2006), strategic similarity (Deephouse, 1999), social approval (Bundy & Pfarrer, 2015), and corporate governance deviance (Aguilera et al., 2018). Similarly, in the context of multinational enterprises, Kostova & Zaheer (1999, p. 69) find that "organizations have to conform to or be consistent with established cognitive structures in the society to be legitimate." In particular, firms need to adapt to various institutional constraints and rules to survive (Zhou et al., 2017) and because conformity to the rules and the institutional environment earns legitimacy (DiMaggio & Powell, 1983; Cui & Jiang, 2012).

Simon (1947, p. 10) argues that "the magnitude of the zone of acceptance depends on the *sanctions* of the authority to enforce its commands. The term 'sanctions' must be interpreted broadly in this context, for positive and neutral stimuli... are at least as important in securing acceptance of authority as the threat of physical or economic punishment." Following this argument, we further advance his seminal notion in a comparative institution analysis and treat multiple stakeholder requests as a broad form of sanctions. These broad sanctions beyond the zone of conformity could be generated when firms operate in an environment that lacks institutional acceptance. They will induce regulatory sanctions from government agencies and/or social sanctions from the public if firms do not comply with various legal, political, and social requests (Scott, 2013; Xie et al., 2021). In line with these arguments, we suggest that a broader zone of conformity indicates more acceptable actions, whereas a narrower zone of conformity involves more sanctions and stricter conformity requests.

Firms with different ownership types have different levels of institutional acceptance and face different requests of conformity to the institutions. SCEs have more institutional acceptance than do PCEs in a domestic market in which SCEs share more similar social goals with their stakeholders including the state than PCEs. For example, amid the COVID-19 pandemic, the Chinese Communist Party ordered SCEs to step up "unconditionally, and at any cost" to fight the virus and crack down on private high-tech firms in the area of data privacy, hastening a retreat from

market-oriented capitalism.² Similarly, Xie et al., (2021, p. 11) state that “the listed firms controlled by the government and state agencies in China were generally less concerned with regulatory sanctions than those controlled by private owners.”

We identified several cases of legitimacy conflicts related to Chinese firms that were mainly published in Harvard Business Publishing and the Ivey Case Center. We found that Chinese firms face severe challenges from multiple stakeholders in overseas and domestic markets: customers in the case of Sany in Germany (Fan et al., 2016); partners in the case of ChemChina with Blackstone (Zhang, 2012); employees and labor unions in the cases of Lenovo (Ran et al., 2016) and Qianjiang Motor in Italy (Spigarelli et al., 2009); media in the case of Huayi in Spain (Zhang & Alvaro-Moya, 2017) and Shuanggong in Germany (Meyer et al., 2015); communities in the case of Yili in New Zealand (Kirby & Dai, 2016); government agencies in the cases of Huawei in the United States and Canada (Celly et al., 2015; Ofek & Masko, 2019; Li & Sun, 2020); local regulators in the cases of Geely in the U.K. (Robinson & McGinnis, 2016), Dalian Wanda in Spain (Meyer et al., 2017), Chinese regulators’ cybersecurity review of Didi³ and crackdown on Alibaba.

The main source of such legitimacy conflicts could result from and divide into home country legitimacy in the domestic market and host country legitimacy in overseas markets. In the domestic market, SCEs are likely to have higher home country legitimacy among multiple stakeholders than are PCEs. Especially when a powerful state dominates social and economic governance, SCEs have broader zones of conformity than do PCEs in domestic markets. For example, Chinese private giants Alibaba and Tencent are more requested to conform to domestic anti-monopoly regulations tightly and reduced their M&A activities recently than SCEs⁴. However, in overseas markets, SCEs, which have a narrower zone of conformity, face much stricter host country legitimacy requests and scrutiny by multiple stakeholders (Cui & Jiang, 2012), such as in the cases of Huayi (Zhang & Alvaro-Moya, 2017) and Shangong (Meyer et al., 2015). The majority of foreign stakeholders might suspect that the ultimate goal of SCEs is to promote the home country’s developmental agendas through venturing abroad, such as CITIC Pacific’s Sino Iron project in Australia (Sun et al., 2013). The overseas stakeholders are also concerned about SCE acquirers’ inefficient management and operations. In comparison, PCE acquirers do not have such social disapproval challenges in that they mainly pursue profitability with reduced costs and risks, such as Geely’s acquisition of Volvo (Sun & Liang, 2014). In other words, PCEs’ goals are not necessarily aligned with such state goals

² Wei L. (2020), China’s Coronavirus Response Toughens State Control and Weakens the Private Market, *The Wall Street Journal*, March 18. <https://www.wsj.com/articles/chinas-coronavirus-response-toughens-state-control-and-weakens-the-private-market-11584540534>. He L.(2021) China is cracking down on data privacy, *CNN*, July 7. <https://www.cnn.com/2021/07/07/tech/china-didi-data-tech-crackdown-intl-hnk/index.html>.

³ Wei, L. and Zhai, K. (2021) Chinese regulators suggested Didi delay its U.S. IPO, *Wall Street Journal*, July 5. <https://www.wsj.com/articles/chinese-regulators-suggested-didi-delay-its-u-s-ipo-11625510600>.

⁴ China’s state applied anti-monopoly law to constrain PCE’s M&As. Liu C. and Chen S. (2020); China Fines Alibaba, Tencent Unit Under Anti-Monopoly Laws, *Bloomberg*, Dec. 14. Can Chinese big tech learn to love Big Brother? *The Economist*, May 7th 2022, <https://www.economist.com/business/can-chinese-big-tech-learn-to-love-big-brother/21809084>.

Table 1 Summary of purposes and behaviors of Chinese SCEs and PCEs in domestic and overseas markets

	Domestic markets	Overseas markets
SCE acquirer's zone	Large	Small
PCE acquirer's zone	Small	Large
Home country acceptance	High for SCEs	Low for SCEs
Host country acceptance	Low for PCEs	High for PCEs
Example of acceptance	Xiao Yaqing, chairman of SASAC, said, "The fact that state-owned sector remains the core of our economy was a result of four decades of economic reform and competition, there is no doubt that SCEs must remain core of the economy and they need to become bigger and stronger, as long as their growth is subject to market-based competition."	Pascal Lamy, the former director general of the World Trade Organization (WTO), said, "Where it makes a difference, is whether you have subsidized companies (SCEs) ... this is a problem which will need to be tackled ... the interpretation of WTO rules will probably be put to test at some stage."
SCE acquirer's motivation	Hybrid in social mission and profit maximization	Access foreign strategic assets
PCE acquirer's motivation	Profit maximization and seeking home state's support	Access foreign market or acquire specific capability

as employment and strategic resource allocation (De Beule et al., 2018), which grants them relatively higher host country legitimacy in overseas markets.

When a firm's action is located inside the conformity zone, the firm can benefit from institutional support and acceptance (Aguilera et al., 2018; Bundy & Pfarrer, 2015; Peng et al., 2008). That is, the narrower the zone, the more likely that the focal firms could be located outside the zone and thus miss the support from multiple stakeholders, including peer firms and state investors, who expect the focal firms to rigorously meet the legitimacy requests, especially under the clash of two capitalisms (Petricevic & Teece, 2019). For example, SCEs that have narrower conformity zone in overseas markets and lower host country legitimacy could face higher M&A abandonment rates, as shown in the case of China National Offshore Oil on Unocal headquartered in the United States (Zhang & He, 2014). Thus, firms with different ownership and control structures need different strategies to be located inside the different zones of conformity. SCEs with narrower zones and more significant institutional challenges in overseas markets need to build more trust from stakeholders to avoid possible failure of cross-border M&A deals; for example, when the SCE ShuangGong acquired Dürkopp Adler, a premium German brand, it had to earn trust from suspicious German stakeholders including trade unions and the media (Meyer et al., 2015). On the contrary, the broader the zone, the more likely that the focal firms could be located inside the zone and receive acceptance from multiple stakeholders. For example, Geely, a PCE, gained foreign private equity's support to acquire Volvo and achieved better performance than SCE automakers in overseas markets (Sun & Liang, 2014). We summarize the different purposes and behaviors of SCEs and PCEs in domestic and overseas markets in Table 1 and accordingly suggest the status of cross-border M&As as a critical contingency.

3 Hypotheses Development

The acquisition process consists of two phases: the initial private takeover process during which multiple bidding firms investigate a target and the subsequent public-takeover process where a bidder is selected and makes an initial merger agreement with the target (Dikova et al., 2010). Our study investigates the public takeover process of announced deals that end with completion or withdrawal (Kim & Song, 2017).

3.1 SCEs vs. PCEs on the Failure of Announced M&A Deals

M&A deal failures (or abandonments) are detrimental because of various and substantial costs: contract breaks that can be as high as 6% of the deal value; advisory fees; resources and time invested in the public takeover stage; proprietary costs resulting from transferring the bidder's strategic information to competitors; and potential damage to the bidder's reputation and credibility (Luo, 2005; Lim & Lee, 2016; Zhou et al., 2016). M&A deal failures result from a lack of information, failure to secure financing, or regulatory or judicial obstacles (Jacobsen, 2014; Kim & Song, 2017). Specifically, in addition to the financial reasons (e.g., outbidding or disagreement on the offer price), M&A abandonments often result from regulatory compliance or judicial obstacles – the key rule of law in capitalism (Jacobsen, 2014; Kim & Song, 2017). For example, the U.S. Committee on Foreign Investment (CFIUS) strategically intervenes in cross-border M&A deals, and the regulatory causes involve new economic policies in public-takeover periods (e.g., BRI policy) and administrative activities related to regulatory compliance (Muehlfeld et al., 2007; Zhu & Zhu, 2016; White et al., 2018).

In particular, regarding the zone of acceptance (Simon, 1947) and studies on M&A abandonment (Jacobsen, 2014; Kim & Song, 2017), we assume that multiple stakeholders in M&As could take three sanctions: financing or price issues; relationship gaps between targets and acquirers; and institutional differences between the home and host countries. The first reason, price-related issues, includes outbids by another bidder, discontinued negotiations from a lack of agreement on the offer price, and reduced deal value as a result of poor stock market conditions. The second reason, the relationship gap between target and acquirer, involves integration concerns owing to the inability to agree on unspecified terms of deal and targets' defense mechanisms aimed at remaining independent (Jacobsen, 2014). The third reason, institutional clashes, relates to regulatory or judicial obstacles in home and host countries (e.g., federal or regulatory investigations, unfavorable taxes, or accounting treatment).

When firms face the three sanctions, SCEs are more accommodative than PCEs, which lowers the likelihood of deal abandonment. First, with regard to price issues, SCEs can secure more funding and gain more bargaining power than PCEs (De Beule et al., 2018; Zhou, 2018). The relatively stable business model and larger size of SCEs reduce their difficulty in gaining access to financial sources, which reduces the deal closing risk. In addition, SCEs have an advantage over PCEs in price negotiations because of their higher social status. Specifically, SCEs value social goals and have more discretion to meet the goals over the longer term, and thus they can be patient

and more committed to deals than PCEs seeking short-term gains and exit (Inoue et al., 2013); one case of the latter was the M&A case of Huayi discussed by Zhang & Alvaro-Moya (2017).

Second, in terms of the relationship gap between target and acquirer, target firms are willing to sell their equity to acquiring firms that have more resources (Zeng et al., 2013). In this sense, SCE buyers might be more attractive to the selling firms because state-owned banks control most of the lending capital in China and state ownership helps SCEs to access the capital and to govern subsidiaries (Zhou et al., 2017). Foreign firms that perceive higher political pressures are more willing to intensify political ties (White et al., 2018) with SCEs and engage in government-relationship building (Mondejar & Zhao, 2013). In addition, SCEs behavior is more predictable than that of PCEs in that SCEs have a pyramid ownership structure, in which state control and monitor SCEs through pyramidal layers with many chains of firms (Wang et al., 2022). Under such hierarchical structure, SCE acquirers in the top layer usually are less willing to go outside of the zone of conformity, but give the autonomy to target firms in the low layer. Therefore, SCEs are more likely than PCEs to tolerate targets' remaining independent after acquisition, which mitigates post-acquisition conflicts and insulates state's intervention in the low layer.

Third, SCEs might have more strategic options to better deal with regulatory or judicial obstacles than do PCEs. In general, domestic and foreign targets are less concerned about the financial stability of SCEs because the SCEs can expect direct and indirect support from their home states (Sharma et al., 2020). In home country, SCEs have a broader zone of conformity than do PCEs; "organizations with stronger governmental connections are likely to view themselves as less susceptible to regulatory sanctions... makes them less likely to comply with governmental regulations" (Xie et al., 2021, p. 20). In host country, SCEs can also exploit home state's policy support such as China going abroad policy; the home government, as a major SCE shareholder, allocates resources to facilitate post-M&A integration and encourage SCEs to be national champions by achieving economies of scale and acquiring foreign business (Li et al., 2018; Zhang & He, 2014). Therefore, we predict:

Hypothesis 1 *For M&A deals in general, SCE acquirers have a lower probability of deal abandonment (a broader zone of conformity) than do PCE acquirers.*

When we consider the heterogeneity of target countries, the autocracy level of target countries could positively moderate H1, in other words, modify both SCEs and PCEs' zone of conformity. In particular, the SCEs in autocratic regimes have "the autocratic advantage" (Clegg et al., 2018) to more accommodate or bridge the demands from multiple stakeholders in M&As than PCEs, especially from the regulators of host countries. Therefore, SCE acquirers are better able to make compliance in the host countries than PCE acquires (Li et al., 2022). SCE acquirers are also more attractive to the selling firms when the host country has a good political relationship with the Chinese state in that SCEs can better use the Chinese state's political agenda in investment than PCEs. In contrast, in the host countries with a low autocracy level, the regulators of democratic countries highly concern with the Chinese SCEs' non-transparent corporate governance and decision-making processes (Li et al., 2019).

In addition, under national security priorities at home (Li et al., 2022), Chinese state-owned banks could follow China state's political agenda to provide loans to SCE's subsidiaries (i.e., acquired companies) in host countries characterized by high autocracy levels. Therefore, SCEs could have a broad zone of conformity and leverage institutional acceptance whereas PCEs have not such advantages in the country with a high autocracy level. Therefore, we predict:

Hypothesis 2 *The autocracy level of the target country positively moderates H1. In other words, SCE acquirers have a **higher** probability of deal abandonment than do PCE acquirers in target counties with **low** autocracy levels, while SCE acquirers have a **lower** probability of deal abandonment than do PCE acquirers in target counties with **high** autocracy levels.*

3.2 Domestic vs. Cross-border M&As on SCEs' Deal Failure

Our framework considers overseas markets (e.g., cross-border M&As) as a critical contingency that differentiates the zone of conformity and thus changes the effect of SCE status on M&A abandonment. In overseas markets, foreign firms are expected to conform to rules and belief systems in the host country (Meyer et al., 2017; He & Zhang, 2018). However, the possible sanctions that result from being located out of the zone of conformity could vary depending on SCE status. On the one hand, regulatory sanctions from the home government could be low for SCEs (Xie et al., 2021). On the other hand, SCEs have a narrower zone of conformity and thus need to adapt to the local community in host countries. That is, SCEs are likely to face substantial conflicts between the inherent home country legitimacy and the given host country legitimacy, which increases the probability that SCEs will abandon cross-border deals.

In particular, these three sanctions discussed in Hypothesis 1 further explain the higher probability that SCEs will abandon cross-border M&As. First, in the price-related issue, financing difficulties are detrimental to M&A deal success because of the uncertainty especially in cross-border M&As (Kim & Song, 2017). SCEs have the advantage of financial support from domestic banks at home, while they might not have such advantages as accessing international banks or collaborating with private equity investors in foreign countries (Zhang et al., 2011; Li et al., 2017). Domestic banks are less willing to involve debt financing for cross-border M&As due to higher risks in foreign market than domestic market.

Regarding the relationship gap, SCEs might not be able to take advantage of relationships with their home countries in overseas markets. A foreign target has more trust asymmetries (Graebner, 2009) with SCE acquirers than does a domestic target does. The foreign target also has more concern about post-M&A integration with SCE acquirers that pursue goals favored by the home state. Although SCEs' government ownership or political advantages are positively related to performance in domestic M&As (Zhu & Zhu, 2016), these factors negatively affect the performance in cross-border M&As.

In the regulatory or judicial issue, SCEs are motivated to integrate their resources globally to strengthen their intra-industry positions for national competitiveness (Lin & Milhaupt, 2013; Zhang & He, 2014). Such mercantilist motivation to pursue national objectives of becoming champions in a particular industry is stronger for SCEs than firms merely pursuing profit (Zhang et al., 2011; Clegg et al., 2018). Such motivation and propensity of SCEs targeting the same industry can make the host government worry: “If national security concerns arise, developed-market governments can block the deal if the emerging-market acquirers are partly or wholly government-owned” (Zhou et al., 2016, p. 1085). In sum, SCEs have a narrower zone of conformity in overseas markets than in domestic markets and thus encounter a higher probability of cross-border deal collapse, which we hypothesize as follows:

Hypothesis 3 *SCE acquirers have a higher probability of deal abandonment (a narrower zone of conformity) in cross-border M&A deals than in domestic M&A deals.*

3.3 SCEs vs. PCEs on Seeking Equity Ownership of Target Firms

The share of equity ownership as an acquirer’s strategic behavior has significant implications for market entry, resource exploitation, and post-acquisition returns (Chari & Chang, 2009). Equity ownership sought refers to the percentage of ownership stake that an acquiring firm seeks in a target, and it relates to post-acquisition management, the effectiveness of transferring the target’s tacit assets, and the corresponding foreign market risk (Walkling, 1985). Higher equity ownership allows the acquirer and its shareholders (including the SCE’s home-country government) more influence over the target.

As firms seek equity ownership in M&As, SCEs follow different procedures from those of PCEs because the two are located in different zones of conformity. Specifically, unlike PCEs, SCEs’ actions are guided by home state, such as industrial policies to pursue societal benefit and domestic political issues (Cui & Jiang, 2010; Li et al., 2018; Ren et al., 2019). Also, unlike PCEs, SCEs are not necessarily aimed at maximizing profit but might instead seek overall economic growth such as increasing market share and employment (Bruton et al., 2015). Such socialistic goals might be accomplished by not only equity ownership but also by institutional influence (Peng et al., 2008).

Especially in the China context of state capitalism, even though the government is not the major shareholder, it as an actual controller can substantially influence SCE acquirers and the targets (Chen et al., 2019). Although SCEs have enough money to invest, they might strategically pursue minority ownership to invite more private shareholders in investment and to avoid conflicts with the host government in overseas markets. SCEs can take this action because they can influence the acquired firms through state mandates and resource allocation rather than only by majority ownership (Ren et al., 2019). Even in overseas markets, the targets might consider the potential support of the SCE acquirer’s actual controller: the state.

In addition, from a seller's perspective, targets are willing to sell more equity ownership to SCE acquirers, while they expect to utilize the SCE acquirer's political connections with the local government and home's commercial banks (Peng & Heath, 1996). In particular, minority state ownership generates the highest benefits by allowing firms to access scarce resources and supports from state-owned banks and other state-controlled funds while avoiding inefficiency problems resulting from majority state ownership. In addition, the foreign targets might choose a defensive strategy of selling less equity ownership to SCEs to maintain their control in the business.

However, targets might not have similar interests in selling minority equity to PCEs because PCEs do not have such political assets. In particular, Chinese PCEs have relatively lower home country legitimacy and thus have to rely on seeking more equity ownership to achieve their goals of greater profitability, as in the cases of Sany and Geely, both of which acquired high levels of ownership (Sun & Liang, 2014; Fan et al., 2016; Robinson & McGinnis, 2016). In addition, PCE acquirers might want to lay off redundant workers after the acquisition and fully integrate the targeted assets by acquiring more ownership. Such post-M&A economic goals of PCEs are difficult to achieve without majority ownership. In sum, as Tihanyi et al., (2019, p. 2300) argue, "SOEs will generally pursue less risky strategies than privately owned firms." Thus, we predict:

Hypothesis 4 *For M&A deals in general, SCE acquirers seek less equity ownership from targets than PCE acquirers.*

We further consider the contingency effect of target countries. The autocracy level of target countries could negatively moderate H4. In other words, the autocracy level alters both SCE and PCE's zone of conformity in seeking equity ownership. In the target countries with a high autocracy level, from a buyer's perspective, SCEs can increase equity ownership to leverage "the autocratic advantage" (Clegg et al., 2018) either through bridging with the nonmarket environment by conforming with the local regulator or through buffering to insulate subsidiaries from external interference with home state's supports (Li et al., 2022). In addition, SCEs have political leverage from their home state and are more motivated to seek higher equity ownership from targets than PCE acquirers in countries with a high autocracy level. In a comparison, PCEs lack such political leverage and have a narrow zone of conformity to adopt similar bridging and buffering strategies and then seek low equity ownership for control and govern.

From a seller's perspective, target firms in the countries with a high autocracy level are also more likely to make a political alliance with Chinese SCEs. The autocratic targets might more value the political assets held by SCE acquirers and agree to have a minority equity ownership to access to SCEs' abundant financial resources, government diplomatic supports (Ren et al., 2019; Meyer et al., 2018), material suppliers, distribution networks, and subsidiaries in global value chain (Hu et al., 2019). In contrast, sellers in the host countries with a low autocracy level may not have similar motivations because of rule-based democracy. For example, sellers might not have similar motivation to sell more equity to PCE acquires that lack

political assets. Sellers are more likely to leverage bargaining power in negotiating with PCEs and to choose a defensive strategy by selling less equity ownership to PCE acquirers to maintain their control in the business. Overall, we have:

Hypothesis 5 *The autocracy level of the target country negatively moderates H4. In other words, SCE acquirers seek **less** equity ownership than PCE acquirers in target counties with **low** autocracy levels, while SCE acquirers seek **more** equity ownership than PCE acquirers in target counties with **high** autocracy levels.*

3.4 Domestic vs. Cross-border M&As on SCE's Equity Ownership Sought

SCEs' M&A strategy in overseas markets should differ from that in domestic markets because they have a narrower zone of conformity overseas. Although state ownership of SCE acquirers is attractive to targets, it involves the costs of convincing the foreign target stakeholders. The foreign stakeholders (including host nations) would worry about the SCE acquirer's strategic motivation and be concerned about post-merger control issues (He & Zhang, 2018). Such worries and concerns will be especially intense when acquirers are under the influence of state logic. Thus, state-affiliated firms will face stronger demand for conformity from a host government (Meyer et al., 2014).

Accordingly, SCE acquirers are willing to conduct a more defensive strategy by seeking less equity ownership in overseas market. Shirodkar & Konara (2017) argued that the negative effect of institutional distance on multi-national firms is reduced by partial subsidiary ownership. For example, if SCE acquirers possess the majority equity ownership of foreign targets, host governments could become suspicious regarding the links between the SCEs and their home governments. Increasing state-related equity ownership of a target induces more inefficiency problems (Zhou et al., 2017) and the host government is less likely to approve the M&A deal. In addition, seeking more equity ownership is more likely to attract public debates.⁵ By accommodatively seeking less equity ownership of foreign targets, SCEs could gain more social approval from multiple stakeholders of the host country such as shareholders, labor unions, consumers, environment activists, and the media (Voinea & van Kranenburg, 2018; Hofman et al. 2019).

SCEs targeting foreign firms are willing to "pursue low profile strategies that avoid the attention of critical stakeholders" (Meyer et al. 2018, p. 214) and thus seek lower equity ownership; firms that receive more public attention are likely to induce a greater threat of social sanctions (Xie et al., 2021). In particular, such a strategy is more relevant to cross-border M&A deals because SCEs face more hurdles and have a narrower zone of conformity in overseas market than domestic market. The chairman of Boston Consulting Group Hans Burkner said that SCEs should globalize their operations "in a sensible way" and take a "step by step" approach in foreign

⁵ Meyer et al., (2014, p. 220) provide an example: "Stock market regulation may require investors to go public with a formal bid for all outstanding shares when increasing their equity stake beyond certain threshold levels" (e.g., 30% in the Euronext market).

market expansion by building “familiarity and relationships” to avoid prejudiced views (Ng, 2018).

In sum, in overseas markets, SCE acquirers are located in a narrower zone of conformity and take more accommodative behavior to avoid possible social disapproval, which leads them to seek lower equity ownership of targets. Lowering the amount of equity ownership sought provides the sell-side stakeholders with the signal that the foreign acquirers are willing to abide by the host country’s institutions (Cui & Jiang, 2012). It also mitigates potential valuation problems as well as associated adverse-selection hazards (Chari & Chang, 2009). Thus, SCEs could strategically seek less equity ownership in overseas markets, as hypothesized:

Hypothesis 6 *SCE acquirers seek less equity ownership of targets in cross-border M&A deals than in domestic M&A deals.*

4 Data and Methods

4.1 Data Collection Process and Sample Characteristics

To analyze the effects of SCEs on M&A abandonment and equity ownership, we collect data from the public takeover that starts with an announcement of a public offer and ends with completion or withdrawal. We construct our data set from the announced M&A transactions of publicly traded Chinese firms⁶ from the SDC Database from 1986 (i.e., the first year of Chinese M&As reported in SDC) to 2016. The context of Chinese M&As provides an appropriate test lab for analyzing SCEs’ behaviors because Chinese firms in which the government has a controlling power account for over 60% of stock market capitalization (Musacchio & Lazzarini, 2014). To gather M&A transactions by Chinese bidders, we select companies listed on the SDC whose nationality flags indicate that both the bidding firm and its ultimate parent are located in China.

We further draw the shareholder and stake controller information from the CSMAR database to classify SCEs. CSMAR provides information on ownership status, board of directors, and financial data for all listed firms in China, and it has been widely used in finance and management research (Liang et al., 2015a). To match the CSMAR data with the SDC, we hand collected the stock I.D. code of each firm from the SDC and matched it with the stock I.D. from CSMAR. In addition, we verified the matching process by comparing each firm’s English name. When CSMAR did not cover firms listed in the SDC sample, we identified the ultimate owner of the firms from the firms’ annual reports. If the total percentage of state ownership is larger than each ownership percentage of another entity, the firm is classified as an SCE (Li et al., 2019).

⁶ We included subsidiary firms that were privately held if their ultimate parents were publicly traded. We coded the subsidiary as SCE if its ultimate parent was an SCE. Although we dropped deals by subsidiaries, our results remained the same.

We exclude rumored deals, repurchase deals, and deals that were conducted by individual investors and financial holding companies (Krishnan & Masulis, 2013; Kim & Song, 2017). We also exclude deals announced between 2017 and 2019 in accordance with the approach taken by prior studies (Li et al., 2017). This approach mitigates potential bias from censoring because 95% of M&A deals were abandoned within 679 days (median=270; mean=189), and it excludes deals within the most recent two years. In particular, we updated the status of the deals in early 2020 and built the original sample of 22,720 deals. Adopting a series of criteria from previous studies, we derive the final sample of 12,497 deals⁷ and conducted an analysis based on the M&A transactions. We verify potential inclusion biases and find no meaningful differences in the deal and firm characteristics (e.g., deal attitudes, stake purchases, and acquirer experiences) between the included and excluded samples. Table 2 shows the industry distributions and M&A deal abandonment rates based on the target industry and acquirer industry. The abandonment rate by the target industry is similar to that of the acquirer industry.⁸

4.2 Measures

M&A abandonment. Adopting measures from a previous study (Kim & Song, 2017), we measure M&A abandonment as a dummy variable that is equal to one if the deal is withdrawn after the public announcement and zero otherwise. In particular, the SDC database includes the announcement date, the effective date, and the withdrawal date of each deal. We consider “deals with effective dates as completed deals and those with withdrawal dates to be abandoned deals” (Kim & Song, 2017, p. 315). Most previous researchers on deal completion view M&A deals without the effective date (including abandoned, pending, rumored, or unknown status) as uncompleted deals (Zhou et al., 2016). However, deal abandonment substantially differs from deal completion (see Table 3).

Equity ownership sought. Equity ownership represents the ownership stake sought by acquiring firms from targets. The SDC database provides the percentage of the stake that acquiring firm seeks in each M&A deal. When there is a greater percentage of equity ownership sought, the M&A deal becomes more important to the acquirer with involving a greater stake (Dikova et al., 2010).

SCE acquirer. Adopting the measure of state control in a previous study (Liang et al., 2015a), we measure SCE acquirer as a dummy variable that equals zero if the acquiring firm is under control of the state or governmental authorities and one otherwise (i.e., PCE). Note that we treat SCE=0 (PCE=1) to directly test the difference between domestic and cross-border deals among SCEs. In particular, we

⁷ We first excluded 4,200 transactions with no disclosed deal value. Second, we dropped deals in which the ratio of the transaction value to the bidder's equity value was less than 5% (Jacobsen, 2014). Third, we excluded deals by foreign-invested acquirers to mitigate the possible confounding effect for them to conform to different institutional legitimacies. Fourth, we eliminated deals for which the SDC did not report equity ownership sought. Finally, we excluded deals with missing values.

⁸ The industries with the high abandonment rates are Business Services and Prepackaged Software, while the low abandonment rates are in Stone, Clay, Glass, and Concrete Products and Transportation and Shipping.

identify SCE acquirers as SCEs whose actual controller is a government entity that includes state-holding enterprises owned or controlled by SOEs and government agencies. We collect the stock I.D. (or name) of each acquirer in the SDC and match it with the controller status from CSMAR that provides each firm's actual controller (i.e., state, individual, or foreign) which refers to the largest shareholder, one whose voting rights exceed those of the largest shareholder, or one who can determine the nomination of more than half of the directors (Liang et al., 2015a). To validate the SCE classification, we collected the main shareholder's information from each firm's investor relations website and annual reports and checked whether the shareholder included a state-related organization (e.g., the State-owned Assets Supervision and Administration Commission, SASAC, the State Council, the CPC Central Committee, or SOEs).

Cross-border M&As. Adopted from a previous study (Li et al., 2019), the status of overseas markets is measured by a dummy variable that is equal to zero if the target firm's nation is China and to one otherwise (including a target in Hong Kong and Macau). In robustness tests (result tables upon request), when we excluded or included targets in Hong Kong and Macau as domestic M&As, our main results remain the same, which is in line with the recent study results (Li et al., 2019). Our final sample includes 72 overseas countries (for example, the United States, 118 deals; Australia, 74; Canada, 44; Singapore, 23; Mongolia, 11; and Thailand, 9 deals).

POLCON. We consider the institutional environment and political system of target countries. To operationalize the host country's autocracy level, we include the *Political Constraint Index (POLCON)* (Henisz, 2000, 2002, 2006) which captures the underlying political structures in a country. POLCON ranges from 0 to 1, where 0 represents a complete concentration of policy-making authority (i.e., a politically underdeveloped environment) (Henisz, 2006). This index has been widely adopted as rigorous and reliable source capturing the autocracy level of country (Clegg et al., 2018) use POLCON to validate the autocracy level proxied by Combined Polity Score. Following this study, we reverse the value of POLCON as POLCON_R with the range from 0 (strongly democratic) to 1 (strongly autocratic).

Deal-related characteristics. We include M&A *deal size*, measured as the natural logarithm of the transaction value. We also include *Deal attitude*, a dummy variable that equals one if the deal is friendly as defined in the database and zero otherwise because hostile transactions make advisers spend more effort gaining knowledge about the target and induce stronger disagreement with the target (Sun et al., 2012). We measure *horizontal M&As* by industry differences between acquirer and target; we create a dummy variable that equals one if the acquirer and target are in the same industries (at the two-digit, SIC-code level) and zero otherwise (Zhou et al., 2016). We also include *legal advisors' presence in sell- and buy-side* because legal advisors are often used in M&A deals to prevent deal abandonment (that is one if the target or acquirer hires legal advisors and zero otherwise, respectively).

Firm-related attributes. We control for various characteristics of firms involved in M&A deals: (1) *hi-tech dummy* indicates that the target is in the high-tech sector; (2) *state deal engagement* in sell-side refers to the target government's direct involvement in each M&A transaction and indicates whether the government is the target, the investor, or the ultimate parent of the target involved in the M&A deal

Table 2 Distribution of industries Industry

Industry	Target		Acquirer			
	Attempted deals	Abandoned deals	%Abandonments	Attempted deals	Abandoned deals	%Abandonments
Business Services	1,166	99	8.49%	730	46	6.30%
Electronic and Electrical Equipment	957	62	6.48%	1,146	80	6.98%
Real Estate; Mortgage Bankers and Brokers	790	46	5.82%	698	50	7.16%
Investment & Commodity Firms, Dealers, Exchanges	741	48	6.48%	213	19	8.92%
Drugs	659	27	4.10%	868	32	3.69%
Chemicals and Allied Products	606	38	6.27%	881	69	7.83%
Prepackaged Software	595	55	9.24%	267	23	8.61%
Machinery	590	24	4.07%	860	49	5.70%
Electric, Gas, and Water Distribution	570	38	6.67%	568	31	5.46%
Metal and Metal Products	509	21	4.13%	782	51	6.52%
Mining	508	43	8.46%	399	24	6.02%
Wholesale Trade-Durable Goods	410	35	8.54%	152	9	5.92%
Transportation and Shipping	350	13	3.71%	368	20	5.43%
Transportation Equipment	335	23	6.87%	414	19	4.59%
Measuring, Medical, Photo Equipment; Clocks	273	15	5.49%	381	21	5.51%
Stone, Clay, Glass, and Concrete Products	268	8	2.99%	388	27	6.96%
Food and Kindred Products	265	16	6.04%	383	21	5.48%
Construction Firms	230	12	5.22%	193	12	6.22%
Wholesale Trade-Non-durable	190	6	3.16%	119	20	16.81%
Agriculture, Forestry, and Fishing	176	13	7.39%	216	19	8.80%
Oil and Gas; Refining	158	13	8.23%	167	11	6.59%
Textile and Apparel Products	148	7	4.73%	313	21	6.71%
Communications Equipment	145	5	3.45%	281	16	5.69%
Advertising Services	124	15	12.10%	71	5	7.04%
Sanitary Services	120	3	2.50%	72	5	6.94%
Motion Picture Production	108	21	19.44%	102	8	7.84%

Table 2 (continued)

	Target	Acquirer		
Credit Institutions	106	3	7.55%	0
Rubber and Miscellaneous Plastic Products	98	136	3.06%	9
Commercial Banks, Bank Holding Companies	97	34	10.31%	4
Retail Trade-General Merchandise and Apparel	89	237	4.49%	7
Telecommunications	84	103	4.76%	6
Hotels and Casinos	82	50	4.88%	5
Others	950	902	4.95%	47
Total	12,497	12,497	6.29%	786

Table 3 M&A deal completion and abandonment ratio (1986–2016)

Year	Deal completion rate (%)			Deal abandonment rate (%)		
	Domestic	Cross-border	Total	Domestic	Cross-border	Total
1986–2001	80%	77%	79%	0%	7%	3%
2002	47%	100%	51%	3%	0%	3%
2003	44%	67%	44%	10%	17%	10%
2004	33%	67%	34%	9%	0%	9%
2005	37%	50%	37%	2%	0%	2%
2006	37%	81%	39%	8%	15%	8%
2007	39%	55%	40%	10%	5%	9%
2008	42%	58%	42%	15%	9%	14%
2009	37%	54%	38%	11%	32%	12%
2010	40%	63%	41%	8%	4%	8%
2011	40%	63%	41%	10%	3%	10%
2012	46%	55%	47%	6%	29%	8%
2013	52%	49%	52%	8%	12%	8%
2014	55%	69%	55%	10%	6%	10%
2015	61%	65%	61%	12%	14%	12%
2016	47%	54%	48%	22%	22%	22%
Average	48%	60%	48%	11%	14%	11%

Note. The number of deals between 1986 and 2001 was 230 out of 12,497. Deal completion rate was calculated by the number of completed deals divided by the total number of deals announced (including delayed and unspecified deals). Deal abandonment rate was measured by the ratio of the number of abandoned deals to the number of deals that were closed (either abandoned or completed) excluding deals of unspecified status (Kim & Song, 2017). According to Kim & Song (2017), the U.S. deal abandonment rate from 2000 to 2014 was 2.8% (1.9% for the U.K.). Meanwhile, China's deal abandonment rate at the same period was 7.8% based on our final sample but increased to 12% in 2015 and 22% in 2016

Data source: SDC M&A Database

(coded as one) or not (zero); (3) *target private status* is a dummy variable coded as zero if the target is publicly traded and one if it is privately held. This is motivated by the argument that bidders usually face difficulty accessing information about targets that are privately held (Li et al., 2017); (4) *acquirer experience* is measured by a cumulative count of previous acquisitions completed by an acquiring firm within the same industry (at the two-digit, SIC-code level) three years prior to the focal transaction (Muehlfeld et al., 2007; Dikova et al., 2010); (5) *divestiture* is a dummy variable coded as one if the larger partner engaged in a divestiture during the deal and zero otherwise, “which may also signal (preemptive) compliance with regulatory requirements” (Muehlfeld et al., 2007, p. 952); and (6) *leverage ratio* is computed by acquirer's all debts divided by its equity value as of the date of the most current financial information prior to the announcement of the transaction in SDC.

In addition, we include two China-related institutional variables as controls, namely, *BRI industry* and *BRI period*, because the national-level BRI policy might influence Chinese SCEs' cross-border M&A strategies. *BRI industry* is a dummy variable that equals one if the target industry is related to BRI-related infrastructures such as mining, oil and gas, petroleum refining, transportation, and shipping (at the two-digit, SIC-code level) and zero otherwise. We also include *BRI period*, coded as one if the deal was announced after 2013 when Chinese President Xi proposed

Table 4 Descriptive statistics and correlations

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. POLCON	0.27	0.04																	
2. BRI industry	0.37	0.48	0.03																
3. BRI period	0.50	0.50	0.04	-0.06															
4. Deal size	16.37	2.06	0.07	0.02	0.22														
5. Deal attitude	0.87	0.33	0.04	0.00	0.31	0.15													
6. Horizontal M&As	0.76	0.43	-0.02	0.02	0.13	-0.01	0.06												
7. Sell-side legal advisor's presence	0.03	0.16	0.26	0.02	0.03	0.22	0.03	-0.04											
8. Buy-side legal advisor's presence	0.18	0.39	0.13	0.01	0.22	0.52	0.12	0.03	0.24										
9. Sell-side high-tech dummy	0.24	0.43	-0.01	-0.16	0.13	-0.04	0.06	-0.02	0.00	0.05									
10. Sell-side state deal engagement	0.19	0.39	-0.05	0.10	-0.11	0.11	-0.07	-0.06	-0.01	0.04	-0.12								
11. Target private status	0.97	0.17	-0.15	-0.02	0.05	-0.14	0.09	0.02	-0.26	-0.10	-0.01	0.01							
12. Acquirer experience	0.34	0.90	0.04	-0.01	0.08	0.05	0.02	-0.13	0.05	0.02	0.11	-0.03	-0.03						
13. Divestiture	0.36	0.48	0.00	0.08	-0.06	0.16	0.23	-0.03	0.04	0.07	-0.11	0.21	0.10	-0.06					
14. Leverage ratio	0.23	0.60	-0.02	0.06	-0.07	0.04	-0.02	-0.04	0.01	-0.01	-0.09	0.06	-0.11	0.00	0.04				
15. Cross-border M&As	0.04	0.20	0.74	0.05	0.04	0.08	0.05	-0.03	0.30	0.13	0.00	-0.06	-0.24	0.04	-0.01	0.02			
16. SCE acquirer (PCE=1)	0.57	0.50	0.02	-0.12	0.28	-0.04	0.12	0.11	-0.04	0.04	0.19	-0.40	0.08	0.02	-0.15	-0.13	0.03		
17. Equity ownership sought	0.59	0.34	0.02	0.05	0.06	0.36	0.26	-0.01	0.07	0.33	-0.02	0.09	0.12	-0.07	0.55	0.00	0.01	0.00	
18. M&A abandonment	0.06	0.24	0.02	-0.01	0.09	0.20	0.04	0.04	0.01	0.15	-0.01	0.00	-0.03	-0.02	0.02	-0.01	0.02	0.04	0.13

Note: $N=12,497$. Correlations greater than $|0.02|$ are statistically significant at an alpha level of 0.05

to build a Silk Road Economic Belt, a trans-Eurasian infrastructure building project spanning from the Pacific Ocean to the Baltic Sea, and zero otherwise.

Finally, we include *year dummies* to control for policy changes over time and *industry dummies* as 45 indicators to distinguish second-level SIC codes to control for industry effects. For example, the target industries include business Services (1,440 deals), Real Estate (1,215 deals), and Electronic and Electrical Equipment (1,127 deals).

5 Data Analysis and Findings

5.1 Results

Table 4 reports descriptive statistics and a bivariate correlation matrix. M&A abandonment is positively correlated with PCE acquirer and Deal size, while it is negatively correlated with Acquirer experience. To validate our model, we conduct a variance inflation factor (VIF) test for each of the variables (all VIF < 5.0) and do not find any multicollinearity. Following Kim & Song (2017), we use a binary logistic regression model to examine the influence of SCEs on the probability of M&A abandonments. In addition, following previous research (Chari & Chang, 2009), we use a Tobit regression rather than ordinary least squares regression to predict equity ownership sought because the dependent variable is censored and bounded between zero and one (Min = 0.03; Max = 1). When we use alternative estimation methods, our results remain the same, as we discuss in the supplementary analyses.

Table 5 reports the results of predicting M&A deal abandonments (Models 1–3) and equity ownership sought (Models 4–6). Models 1 and 4 are the baseline models with only control variables that include deal characteristics and target- and acquirer-related attributes. The effects of several control variables are significant. For example, the odds of M&A abandonment decrease with acquirer experience and increase with deal size. BRI industry has not significant impacts on both M&A abandonment and Equity ownership sought. However, BRI period has a significantly positive effect on both M&A abandonment and a significantly negative effect on Equity ownership sought.

We first examine H1, H3, H4, and H6 in Table 5. Hypothesis 1 predicts that SCEs are less likely than PCEs to abandon M&A deals in general. Model 2 of Table 5 shows the coefficient estimate for an SCE acquirer (dummy = 0 if the acquirer is SCE) as positive and significant ($b = 0.26, p < .01$). The coefficient (0.26) can be transformed into the odds ratio (1.30), which is the odds that a PCE deal will be abandoned over the odds that SCE deals will be abandoned, *ceteris paribus*. In terms of percentage change, M&A deals by SCEs have a 30% lower likelihood of abandonment than deals by PCEs. Thus, Hypothesis 1 is supported.

Hypothesis 3 predicts that SCE acquirers are more likely to abandon cross-border M&A deals than domestic deals. The coefficient of cross-border M&As is positive and significant ($b = 0.88, p < .001$) in Model 3 of Table 5, and its interaction with SCEs is negative and significant ($b = -1.40, p < .001$). To further interpret these

results, we show the four types of interactions between the two dummy variables SCE acquirer and Cross-border M&As in Table 6. Table 6 shows the difference between SCE M&A abandonment in cross-border deals (Quadrant I: -8.62) and SCE M&A abandonment in domestic deals (Quadrant II: -9.50), which is equal to β_2 (0.88). In terms of percentage change, SCEs have 88% higher likelihood of M&A abandonment in overseas markets than in domestic markets. Thus, Hypothesis 3 is supported. Note that we treat SCE=0 because this operation makes it easier to directly examine the difference using the coefficient of Cross-border M&As (β_2). In addition, a comparison plot, as shown in Panel A of Fig. 1, shows that SCEs are less likely than PCEs to abandon domestic M&A deals, but are more likely than PCEs to abandon cross-border M&A deals. These findings suggest that SCEs and PCEs have different conformity zones in domestic and overseas markets.

Hypothesis 4 conjectures that SCE acquirers are less likely to seek equity ownership from the targets. Model 5 of Table 5 shows that the coefficient estimate of SCE acquirer (PCE=1) is positive and significant ($b=0.05$, $p<.001$), which indicates that the SCE acquirer seeks less equity ownership than do PCE acquirers. Thus, Hypothesis 4 is supported.

Hypothesis 6 predicts that SCE acquirers are likely to seek lower equity ownership in cross-border M&As than in domestic M&As. The coefficient of Cross-border M&As is negative ($b = -0.06$, $p<.10$), and its interaction with SCE acquirer is positive and significant ($b=0.08$, $p<.05$) in Model 6. Table 6 further shows the difference in equity ownership between cross-border deals (Quadrant I: -0.77) and domestic deals by SCE acquirers (Quadrant II: -0.71), which is equal to β_2 (-0.06). That is, SCEs are likely to seek 6% less equity ownership in cross-border M&As than in domestic M&As. Thus, H6 is supported. In addition, comparisons by the mean value of equity ownership sought in Panel B of Fig. 1 show that SCEs are likely to seek lower equity ownership in cross-border M&As than in domestic M&As.

We then examine H2 and H5 in Table 7. Hypothesis 2 proposes that autocracy level (POLCON_R) decreases the SCEs' deal abandonment probability compared to the PCE acquires. To better interpret the result, we reverse-coded the SCE variable (dummy=0 if the acquirer is PCE). As shown in Model 2 of Table 7, the coefficient estimate for an SCE buyer (SCE = 1) on M&A abandonment is negative and significant ($b = -0.26$, $p<.01$), which is in line with H1. The coefficient of the interaction effect of SCE buyer and POLCON_R is negative and significant in Model 3 ($b = -4.84$, $p<.01$). The result indicates that SCE buyers are less likely to abandon M&A deals than do PCE buyers when the target countries are in a high autocratic level. We further draw Fig. 2 to help the reader to interpret this moderating effect. Panel A shows that the probability of deal abandonment of PCE acquirers (green line) compared to SCE acquirers (red line) becomes high, when target counties are characterized by a high autocratic level at the right side of X-axis. Thus, the results support H2.

Hypothesis 5 predicts that autocracy level (POLCON_R) increases the SCE acquirers' equity ownership sought. We reverse-coded the SCE variable (dummy=0

Table 5 Logit (Tobit) regressions predicting M&A abandonment (equity ownership sought) (H1, H3, H4, and H6)

	M&A abandonment ^a			Equity ownership sought ^b		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
POLCON_R	-0.60 (1.30)	-0.64 (1.30)	-0.60 (1.29)	0.06 (0.12)	0.05 (0.12)	0.05 (0.12)
BRI industry	-0.69 (0.76)	-0.69 (0.76)	-0.69 (0.76)	0.00 (0.06)	0.00 (0.06)	-0.00 (0.06)
BRI period	0.88*** (0.19)	0.85*** (0.19)	0.86*** (0.19)	-0.05*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)
Deal size	0.39*** (0.03)	0.39*** (0.03)	0.39*** (0.03)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)
Deal attitude	0.01 (0.16)	0.01 (0.16)	-0.01 (0.16)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)
Horizontal M&As	0.20+ (0.11)	0.19+ (0.11)	0.20+ (0.11)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)
Sell-side legal advisor's presence	-1.16*** (0.24)	-1.14*** (0.24)	-1.20*** (0.25)	-0.03 (0.02)	-0.03 (0.02)	-0.02 (0.02)
Buy-side legal advisor's presence	0.20* (0.10)	0.19+ (0.10)	0.18+ (0.10)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)
Sell-side high-tech dummy	-0.40*** (0.12)	-0.41*** (0.12)	-0.40*** (0.12)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)
Sell-side state deal engagement	-0.13 (0.11)	-0.02 (0.12)	-0.00 (0.12)	-0.04*** (0.01)	-0.02+ (0.01)	-0.02+ (0.01)
Target private status	-0.28 (0.21)	-0.33 (0.21)	-0.26 (0.21)	0.28*** (0.02)	0.28*** (0.02)	0.27*** (0.02)
Acquirer experience	-0.17** (0.05)	-0.17** (0.05)	-0.18*** (0.05)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)
Divestiture	-0.01 (0.09)	0.01 (0.09)	0.01 (0.09)	0.46*** (0.01)	0.46*** (0.01)	0.46*** (0.01)
Leverage ratio	-0.10 (0.10)	-0.07 (0.10)	-0.06 (0.10)	-0.00 (0.01)	0.00 (0.01)	-0.00 (0.01)
Cross-border M&As	0.07 (0.28)	0.05 (0.28)	0.88** (0.33)	-0.00 (0.03)	-0.01 (0.03)	-0.06+ (0.03)
SCE buyer (PCE = 1)		0.26** (0.10)	0.34*** (0.10)		0.05*** (0.01)	0.05*** (0.01)
SCE buyer (PCE = 1) x Cross-border M&As			-1.40*** (0.36)			0.08* (0.03)

Table 5 (continued)

	M&A abandonment ^a			Equity ownership sought ^b		
Constant	-9.20*** (0.90)	-9.36*** (0.90)	-9.50*** (0.91)	-0.69*** (0.08)	-0.72*** (0.08)	-0.71*** (0.08)
Log-likelihood	-2546.43	-2542.81	-2535.30	-5839.14	-5816.77	-5814.03
Chi-sq.(d.f.)		3.62***(1)	11.14***(2)		22.37***(1)	25.11***(2)

Note. *p* values in parentheses. $N^a = 12,139$. $N^b = 12,497$. Industry and year dummies included
 + $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$

Table 6 Interpretation of two dummies: SCE status and cross-border M&As (H3 and H6)

Note: Model estimation:
 Equity ownership
 (M&A abandonment) =
 $\beta_0 + \beta_1 \text{PCEs} + \beta_2 \text{Cross-border M\&As} + \beta_3 (\text{PCEs} \times \text{Cross-border M\&As}) + \text{Control variables} + \varepsilon$

Quadrant I vs. Quadrant II indicates the difference (β_2) of the coefficients between cross-border and domestic M&As among SCEs: M&A abandonment: 0.88; Equity ownership: -0.06

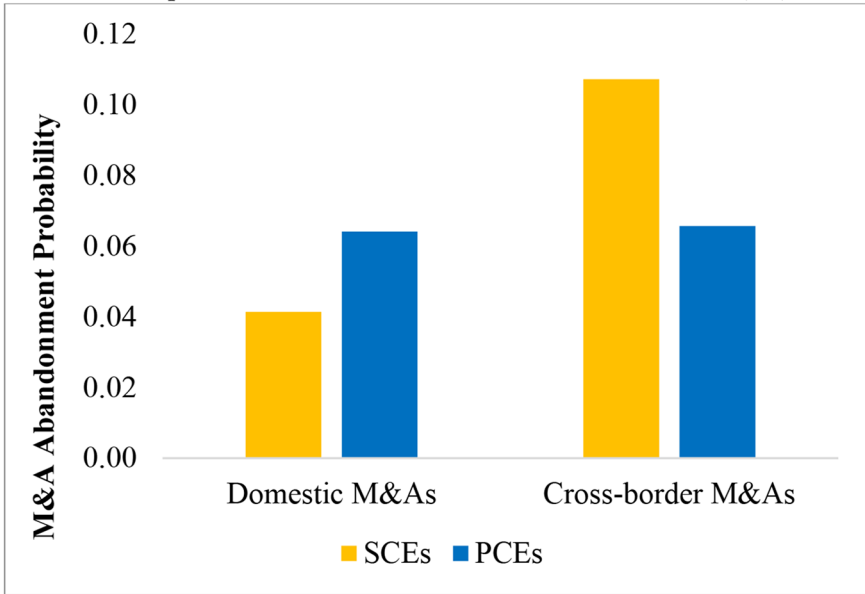
	Domestic (0)	Cross-border (1)
SCEs (0)	<i>Quadrant II</i> (β_0)	<i>Quadrant I</i> ($\beta_0 + \beta_2$)
	M&A abandonment: -9.50	M&A abandonment: -9.50 + 0.88 = -8.62
	Equity ownership: -0.71	Equity ownership: -0.71 - 0.06 = -0.77
PCEs (1)	<i>Quadrant III</i> ($\beta_0 + \beta_1$)	<i>Quadrant IV</i> ($\beta_0 + \beta_1 + \beta_2 + \beta_3$)
	M&A abandonment: -9.50 + 0.34 = -9.16	M&A abandonment: -9.50 + 0.34 + 0.88 - 1.40 = -9.68
	Equity ownership: -0.71 + 0.05 = -0.66	Equity ownership: -0.71 + 0.05 - 0.06 + 0.08 = -0.64

if the acquirer is PCE). As shown in Model 5 of Table 7, the coefficient estimate for an SCE buyer (SCE = 1) on M&A abandonment is negative and significant ($b = -0.05$, $p < .001$), which is in line with H4. The coefficient of interaction effect of SCEs buyer and POLCON_R is positive and significant in Model 6 ($b = 0.39$, $p < .05$). Panel B of Fig. 2 shows that PCE buyers (green line) seek less equity ownership than SCE buyers (red line) when the target countries are characterized by high autocratic level. In other words, the equity ownership sought by SCE acquirers increases when target countries are more autocratic. Thus, the results support H5.

5.2 Supplementary Analyses

To provide insights and test the robustness of the results, we further conduct several tests (all result tables are available upon request). First, we test the relationship between equity ownership sought and M&A deal abandonment. Seeking higher equity ownership could negatively affect deal completion by making the deal more complicated owing to the possible trust-related issues and legal requirements for the higher stakes. In such cases, the acquirer must devote extra time to minimize potential misjudgments and legal negligence (Zhou et al., 2016). We find that the effect of

Panel A A comparison of SCEs and PCEs on M&A abandonment (H3)



Panel B A comparison of SCEs and PCEs on equity ownership sought (H6)

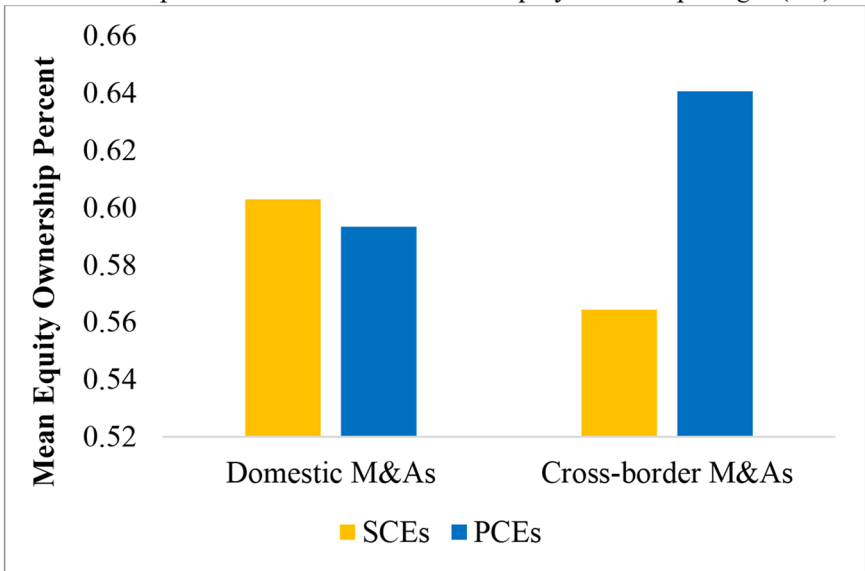


Fig. 1 Comparison plots of M&A abandonment and equity ownership sought
 Panel A The autocracy level of the target country moderates SCE/PCE effects on M&A abandonment

Table 7 POLCON as a contingency in predicting M&A abandonment and equity ownership sought (H2 and H5)

	M&A abandonment ^a			Equity ownership sought ^b		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
POLCON_R	-0.60 (1.30)	-0.64 (1.30)	1.53 (1.58)	0.06 (0.12)	0.05 (0.12)	-0.12 (0.16)
BRI industry	-0.69 (0.76)	-0.69 (0.76)	-0.66 (0.76)	0.00 (0.06)	0.00 (0.06)	-0.00 (0.06)
BRI period	0.88*** (0.19)	0.85*** (0.19)	0.86*** (0.19)	-0.05*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)
Deal size	0.39*** (0.03)	0.39*** (0.03)	0.39*** (0.03)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)
Deal attitude	0.01 (0.16)	0.01 (0.16)	0.00 (0.16)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)
Horizontal M&As	0.20+ (0.11)	0.19+ (0.11)	0.19+ (0.11)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)
Sell-side legal advisor's presence	-1.16*** (0.24)	-1.14*** (0.24)	-1.16*** (0.25)	-0.03 (0.02)	-0.03 (0.02)	-0.02 (0.02)
Buy-side legal advisor's presence	0.20* (0.10)	0.19+ (0.10)	0.18+ (0.10)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)
Sell-side high-tech dummy	-0.40*** (0.12)	-0.41*** (0.12)	-0.41*** (0.12)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)
Sell-side state deal engagement	-0.13 (0.11)	-0.02 (0.12)	-0.01 (0.12)	-0.04*** (0.01)	-0.02+ (0.01)	-0.02+ (0.01)
Target private status	-0.28 (0.21)	-0.33 (0.21)	-0.29 (0.21)	0.28*** (0.02)	0.28*** (0.02)	0.27*** (0.02)
Acquirer experience	-0.17** (0.05)	-0.17** (0.05)	-0.17*** (0.05)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)
Divestiture	-0.01 (0.09)	0.01 (0.09)	0.00 (0.09)	0.46*** (0.01)	0.46*** (0.01)	0.46*** (0.01)
Leverage ratio	-0.10 (0.10)	-0.07 (0.10)	-0.06 (0.09)	-0.00 (0.01)	0.00 (0.01)	-0.00 (0.01)
Cross-border M&As	0.07 (0.28)	0.05 (0.28)	0.08 (0.28)	-0.00 (0.03)	-0.01 (0.03)	-0.01 (0.03)
SCE buyer (SCE = 1)		-0.26** (0.10)	-3.24** (0.49)		-0.05*** (0.01)	-0.33** (0.05)
SCE buyer (SCE = 1) x POLCON_R			-4.84** (1.73)			0.39* (0.17)
Constant	-8.60***	-8.46***	-10.11***	-0.75***	-0.72***	-0.59***

Table 7 (continued)

	M&A abandonment ^a			Equity ownership sought ^b		
	(1.25)	(1.26)	(1.42)	(0.11)	(0.11)	(0.13)
Log-likelihood	-2546.43	-2542.81	-2538.86	-5839.14	-5816.77	-5814.17
Chi-sq.(d.f.)		3.62***(1)	7.58***(2)		22.37***(1)	24.97***(2)

Note. *p* values in parentheses. $N^a = 12,139$. $N^b = 12,497$. Industry and year dummies included
 + $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$

equity ownership sought on M&A abandonment ($b = 0.01$, $p < .001$) is significant and positive. Managers in acquiring firms need to consider the potential consequences of abandoning M&A deals when making a decision on seeking more equity ownership in the target. In other words, acquiring firms might seek less equity ownership to facilitate M&A deal completion.

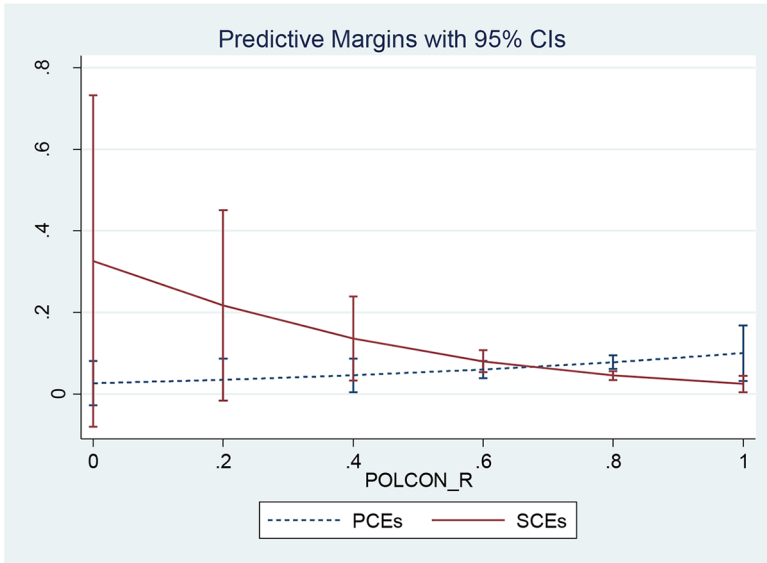
Second, we conduct a coarsened exact matching (CEM) test because our main predictor of SCEs is likely to have a systematically different acquisition strategy (Li et al., 2017). CEM improves the estimation of causal effects by reducing imbalanced samples in the covariates between treated and control groups while reducing sample size (Li et al., 2017). We coarsen variables following the automatic coarsening procedure in STATA 16. After the matching process, our sample is reduced to 8,141 observations. From the estimation using coarsened data, we again find SCEs are less likely than PCEs to abandon an M&A deal ($b = 0.21$, $p < .05$) and to seek equity ownership from the targets ($b = 0.01$, $p < .05$).

Third, we alternatively estimate M&A abandonment and equity ownership sought under the multilevel approach with a random effect of an acquiring firm since the unit of our analysis is at the transaction level and the same acquiring firm could be involved in several deals. For example, in our sample, the average number of transactions per acquiring firm is 5.5 (Median = 3.0). In particular, to adjust standard errors for clustering and account for individual effects, we used Melogit in STATA 16 to predict M&A abandonment and Metobit to predict equity ownership sought. Even with the alternative estimation, all results predicting M&A abandonment and equity ownership sought remain the same.

Fourth, we split the sample into domestic and cross-border deals. As shown in Table 8, SCEs are less likely than PCEs to abandon M&A deals in domestic M&A deals (Model 1: $b = 0.33$, $p < .01$), while the relationship is not significant in cross-border deals (Model 2: $b = -0.73$, *ns*). In addition, SCE acquirers seek less equity ownership from the targets in cross-border M&A deals (Model 3: $b = 0.14$, $p < .01$) and in domestic M&A deals (Model 4: $b = 0.05$, $p < .001$). Overall, the results are in line with our main hypotheses.

Finally, we test the results' sensitivity to the definition of SCEs because not all companies in which the state has an equity stake can be considered as SCEs. Li et al., (2019) used the dummy variable of SOE status and classified the companies in which the state has greater than 15% of equity stake as SOEs and tested the robustness using other cutoffs of 25% and 50%. By using the cutoffs, we conducted several robust tests, respectively. In particular, adopting from the 15% cutoff (Li et al., 2019), we recategorized the companies of which state ownerships are greater than 15% as

Panel A The autocracy level of the target country moderates SCE/PCE effects on M&A abandonment



Panel B The autocracy level of the target country moderates SCE/PCE effects on equity ownership sought

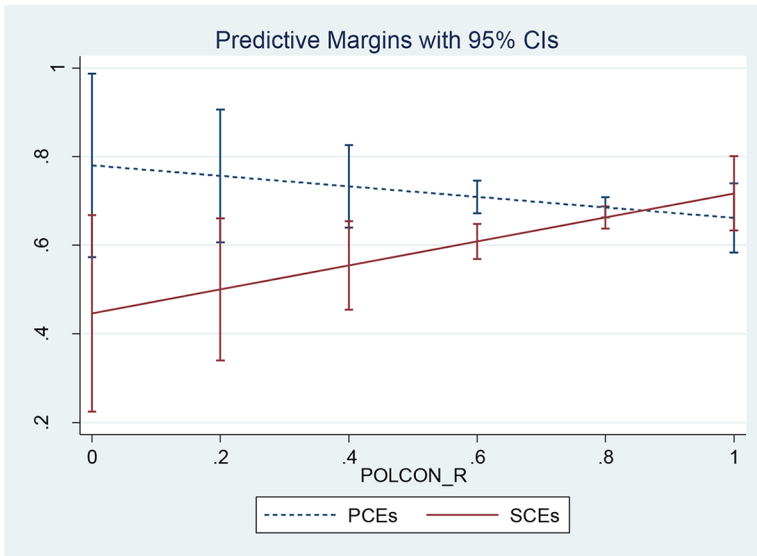


Fig. 2 The heterogeneity of target countries (POLCON) as a contingency (POLCON_R range from 0 (strongly democratic) to 1 (strongly autocratic))

Table 8 Sub-sample estimations for domestic and international deals

	M&A abandonment		Equity ownership sought	
	Domestic Model 1	International Model 2	Domestic Model 3	International Model 4
POLCON_R		-2.40 (1.88)		-0.10 (0.15)
BRI industry	-0.91 (0.78)	1.33 (1.67)	-0.01 (0.06)	0.12 (0.36)
BRI period	0.97*** (0.21)	-0.31 (0.78)	-0.06*** (0.02)	-0.11 (0.08)
Deal size	0.40*** (0.03)	0.35** (0.12)	0.05*** (0.00)	0.05*** (0.01)
Deal attitude	-0.02 (0.16)	-0.52 (0.84)	0.11*** (0.01)	-0.06 (0.09)
Horizontal M&As	0.23* (0.11)	-0.08 (0.53)	-0.00 (0.01)	-0.09* (0.04)
Sell-side legal advisor's presence	-1.22*** (0.32)	-1.10* (0.54)	-0.00 (0.03)	0.03 (0.05)
Buy-side legal advisor's presence	0.15 (0.10)	0.10 (0.51)	0.32*** (0.01)	0.04 (0.05)
Sell-side high-tech dummy	-0.42*** (0.13)	-0.09 (0.65)	0.01 (0.01)	-0.08 (0.06)
Sell-side state deal engagement	0.02 (0.12)	-1.10 (0.93)	-0.02* (0.01)	0.09 (0.07)
Target private status	0.50 (0.31)	-2.20*** (0.57)	0.30*** (0.02)	0.12* (0.05)
Acquirer experience	-0.19*** (0.06)	-0.26 (0.21)	-0.03*** (0.00)	-0.03 (0.02)
Divestiture	0.01 (0.09)	-0.36 (0.58)	0.46*** (0.01)	0.48*** (0.05)
Leverage ratio	-0.06 (0.10)	-0.23 (0.36)	-0.00 (0.01)	0.00 (0.02)
SCE buyer (PCE=1)	0.33** (0.10)	-0.73 (0.60)	0.05*** (0.01)	0.14** (0.05)
No. observations	11,643	397	11,991	506

Note. *p*-Values in parentheses. Industry and year dummies included

+ $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$

SCEs. That is, the SCEs of which state ownerships are less than 15% were reclassified as PCEs. This manipulation does not change but strengthen the significance of our results as shown in Model 1, 2, 7 and 8 in Table 9. We further replicated our models by using 25% and 50% cutoff, respectively. Although significance levels of 50% cutoff is low, the overall results remain the same and shows the robustness of our results.

Table 9 Logit (tobit) regressions predicting M&A abandonment (equity ownership sought)

	M&A abandonment												Equity ownership sought														
	15%			25%			50%			15%			25%			50%											
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12			
POLCON_R	-0.63 (1.30)	-0.60 (1.29)	-0.58 (1.30)	-0.84 (1.29)	-0.60 (1.30)	-0.80 (1.32)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)	0.06 (0.12)		
BRI industry	-0.67 (0.76)	-0.70 (0.76)	-0.66 (0.76)	-0.70 (0.76)	-0.69 (0.76)	-0.74 (0.76)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)	
BRI period	0.85*** (0.19)	0.86*** (0.19)	0.84*** (0.19)	0.85*** (0.19)	0.86*** (0.19)	0.87*** (0.19)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	-0.06*** (0.01)	
Deal size	0.39*** (0.03)	0.39*** (0.03)	0.39*** (0.03)	0.39*** (0.03)	0.39*** (0.03)	0.39*** (0.03)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)	0.05*** (0.00)		
Deal attitude	0.02 (0.16)	-0.00 (0.16)	0.01 (0.16)	-0.01 (0.16)	0.01 (0.16)	-0.00 (0.16)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	0.10*** (0.01)	
Horizontal M&As	0.19+ (0.11)	0.20+ (0.11)	0.18+ (0.11)	0.19+ (0.11)	0.19+ (0.11)	0.20+ (0.11)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)
Sell-side legal advisor's presence	-1.14*** (0.24)	-1.19*** (0.25)	-1.13*** (0.24)	-1.21*** (0.25)	-1.15*** (0.24)	-1.20*** (0.25)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)
Buy-side legal advisor's presence	0.19+ (0.10)	0.18+ (0.10)	0.18+ (0.10)	0.17+ (0.10)	0.19+ (0.10)	0.18+ (0.10)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)	0.30*** (0.01)
Sell-side high-tech dummy	-0.41*** (0.12)	-0.40** (0.12)	-0.41*** (0.12)	-0.40** (0.12)	-0.40*** (0.12)	-0.39** (0.12)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)
Sell-side state deal engagement	-0.03 (0.11)	-0.01 (0.12)	0.01 (0.11)	0.03 (0.11)	-0.09 (0.11)	-0.07 (0.11)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)
Target private status	-0.33 (0.21)	-0.27 (0.21)	-0.36+ (0.21)	-0.27 (0.22)	-0.31 (0.21)	-0.29 (0.21)	0.28*** (0.02)	0.27*** (0.02)	0.28*** (0.02)	0.28*** (0.02)	0.27*** (0.02)	0.28*** (0.02)	0.28*** (0.02)	0.28*** (0.02)	0.28*** (0.02)	0.28*** (0.02)	0.28*** (0.02)	0.28*** (0.02)	0.28*** (0.02)	0.28*** (0.02)	0.28*** (0.02)	0.28*** (0.02)	0.28*** (0.02)	0.28*** (0.02)	0.28*** (0.02)	0.28*** (0.02)	0.28*** (0.02)
Acquirer experience	-0.17** (0.05)	-0.18*** (0.05)	-0.17** (0.05)	-0.19*** (0.05)	-0.17** (0.05)	-0.18*** (0.05)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)	-0.03*** (0.00)
Divestiture	0.00 (0.01)	0.01 (0.02)	0.01 (0.02)	0.02 (0.05)	-0.01 (0.05)	-0.00 (0.05)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)	0.46*** (0.00)

Table 9 (continued)

	M&A abandonment				Equity ownership sought							
Leverage ratio	(0.09)	(0.09)	(0.09)	(0.09)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
	-0.07	-0.06	-0.06	-0.09	-0.10	-0.10	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00
	(0.10)	(0.10)	(0.09)	(0.10)	(0.10)	(0.10)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Cross-border M&As	0.06	0.83*	0.06	1.06**	0.07	1.11**	-0.01	-0.06+	-0.00	-0.05	-0.00	-0.06
	(0.28)	(0.34)	(0.28)	(0.34)	(0.28)	(0.36)	(0.03)	(0.03)	(0.03)	(0.04)	(0.03)	(0.04)
SCE buyer (PCE=1)	0.24*	0.31**	0.36***	0.45***	0.14	0.24*	0.05***	0.04***	0.04***	0.03***	0.01+	0.01
	(0.10)	(0.10)	(0.10)	(0.10)	(0.11)	(0.11)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
SCE buyer (PCE=1)	-1.28***			-1.65***				0.08*				0.07+
	(0.36)			(0.37)				(0.03)				(0.04)
x Cross-border M&As	-9.36***	-9.46***	-9.47***	-9.69***	-9.31***	-9.44***	-0.72***	-0.72***	-0.72***	-0.71***	-0.70***	-0.70***
Constant	(0.90)	(0.90)	(0.90)	(0.91)	(0.90)	(0.91)	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)

Note. *p* values in parentheses. $N^a = 12,139$, $N^b = 12,497$. Industry and year dummies included
 + $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$

6 Discussion

6.1 Theoretical Contributions

This study makes various contributions to different streams of literature. First, we develop the concept of acceptance (Simon, 1947; Deephouse, 1999) and enrich the literature of institutional pressure (Cui & Jiang, 2012; Voinea & van Kranenburg, 2018; White et al., 2018). The previous literature in international business mostly focuses on the legitimacy in a host country (Li et al., 2017); what remains unclear is how a firm could pursue host country legitimacy under liberal capitalism but achieve home country legitimacy under state capitalism simultaneously. To solve this dilemma in both theory and practice, we introduce the concept of the zone of conformity. Primarily, we find that SCEs have broader zones of conformity and achieve higher home country acceptance from their powerful stakeholder of the state in domestic markets than do PCEs. In contrast, PCEs have more flexibility to adapt to the uncertainty in overseas markets. Our framework also helps to explain why Chinese PCEs are recently facing more regulatory sanctions from domestic government agencies.

Second, we enrich the literature on state capitalism in which a state is an ultimate controller in or of SCEs (Cuervo-Cazurra et al., 2014; Musacchio et al., 2015), a burgeoning international phenomenon whereby various countries have recently pursued minority state ownership to address institutional voids (Inoue et al., 2013). We introduced and tested equity ownership sought as a key dependent variable representing the acquiring firm's strategic behavior. SCEs are likely to strategically seek lower equity ownership in overseas markets to pursue acceptance from the multiple stakeholders in the host countries, especially in democratic regimes. As shown in the inductive case studies, ChemChina, an SCE, allied with the private equity firm Blackstone (Zhang, 2012) and built mixed governance of ownership in acquiring Syngenta. Our findings, thus, are different from the findings of SCEs' opaqueness (Li et al., 2019) and answer the research call by Tihanyi and his colleagues (2019, p. 2312): "In many countries with state capitalism, governments have also found ways to control firms without owning majority stakes in them." We further found that the autocracy level of target countries alters both SCE and PCE's zones of conformity. Both SCE and PCE need to cope with the heterogeneity of institutional acceptance in different host countries for M&A activities. The global extension of Chinese state capitalism is highly constrained into a restricted zone of conformity in democratic countries. Our theory could predict that Chinese SCEs will face more regulatory sanctions in democratic regimes.

Third, this study contributes to international business literature by comparing multiple stakeholders' behaviors between domestic and cross-border M&A deals. Whereas Li et al., (2017) adopt an acquirer's perspective and test M&A transactions targeting U.S. companies by foreign SCEs, they mainly consider the acquirer's *host country legitimacy* as a major hurdle for M&A completion. In contrast, we not only adopt the seller' or blockholder's (principals-principals) perspectives (Chen et al., 2019) but also analyze the price-related issue, the relationship gap between target and acquirer, and the regulatory or judicial obstacles. In particular, we emphasize the

multiple stakeholders' requests that involve *home country legitimacy*. Although Li et al., (2019) argued for the influence of opacity on SOEs' low completion rates in cross-border M&A samples, the liability of opacity might not explain M&A failures in domestic markets. However, our findings based on comparing domestic and cross-border deals show the importance of home country legitimacy in domestic M&As, which might have the future research implication of "liability of privateness" (e.g., Didi's IPO in the United States [host country legitimacy] while the Chinese regulator reviewed Didi's cybersecurity issue [home country legitimacy]).

6.2 Practical Implications

We believe our findings carry significant policy and managerial implications. SCEs are facing the challenge of institutional acceptance under the trends of bifurcated world orders (Petricevic & Teece, 2019), especially in democratic regimes. For example, CFIUS extended its scrutiny power in M&A deals in 2018: "Under the new law, the range of deals the committee can review for national security concerns grew to include transactions in which a foreign investment was merely a minority interest, instead of a controlling share."⁹ In the playbook of international business, both SCE and PCE managers could apply the zone of conformity in analyzing the deal closing risk and political vulnerability. This study also provides guidelines to help managers reduce failure rates in M&As; managers could apply our framework in practice and adopt low-profile strategies when facing more hurdles in overseas markets. Even an insurance company could design an insurance policy for breakup fee based on our theory of the zone of conformity and data of M&A abandonment risk. In addition, managers should avoid heuristics from their experiences in domestic market when doing business in overseas markets and weigh different risk variables, especially on seeking equity ownership of foreign firms, because of the significantly different conformity zones in these two markets. Third, we found that Chinese SCEs could have a high level of institutional acceptance in a country with a high autocracy level. The POLCON index could be a good tool for both SCE and PCE's M&A strategy under a bifurcated world order (Petricevic & Teece, 2019). Finally, we recommend finding ways to negotiate with multiple stakeholders to enlarge the conformity zones, for example, building trust and pursuing minority ownership with a step-by-step approach that helps to change negative attitudes and treatments from targets.

6.3 Limitations and Future Research

There are several limitations that we should note. First, future researchers could study the inconsistency or challenge of home country and host country legitimacies in greater depth. The conflicts of dual legitimacy requests regarding SCE acquirers might vary depending on the institutional distance between home and host countries

⁹ The National Security Foreign Investment Reform and Strengthened Transparency Act "strengthened the review process, adding foreign-government-controlled transactions as factors for consideration." See Klein (2018): It's not just the US: around the world, doors are shutting on Chinese investment. *South China Morning Post*, September 15.

with similar versus different governance systems (Berry et al., 2010). Similarly, the impact of SCE status might vary across foreign countries. Not all host countries worry about foreign SCEs' investments; indeed, it might depend on bilateral relations or institutional distances between the two countries (White et al., 2018; García-García et al., 2019).

Second, it is essential to consider whether the focus on China limits the generalizability of our findings. China's economy is characterized by state involvement in business affairs. In particular, the Chinese government has specified policy goals such as "grasp the large" and "the state advances as the private sector retreats," which increases SCE's acceptance at home (Naughton & Tsai, 2015) but draws more political pressure in host countries. It is worthwhile to examine and generalize our findings in other contexts, for example, how do Chinese SCEs have different behaviors from Spanish SCEs (García-Canal & Guillén, 2008).

Third, post-M&A performance differences between SCEs and PCEs are worth further investigation. For example, could an SCE's acquisition with minority equity improve post-M&A performance? Does the dilution of state ownership increase agency costs when SCEs, unlike PCEs, lack strong incentives to maximize efficiency? In addition, different levels of SCEs' marketization may lead to heterogeneous behaviors among them, which might influence post-acquisition integration and performance.

6.4 Conclusion

How do SCEs and PCEs differently manage M&A deal failure and seek equity ownership of target firms? What are their differing strategic behaviors in domestic and overseas markets? We argue that SCEs and PCEs face different zones of conformity in domestic and overseas markets, and accordingly, SCEs likely have higher probability of abandoning M&A deals and seeking less equity ownership in overseas markets. In conclusion, in the M&A playbook, SCE and PCE managers must develop different strategies to address multiple stakeholders' concerns and various sanctions across different zones of conformity.

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Declarations

Conflicts of Interest none

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