A Principals-Principals Perspective of Hybrid Leviathans: Cross-Border Acquisitions by State-Owned MNEs

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We propose a private-government principals-principals approach to understand corporate governance of state-owned multinationals. We explain how the conflicts between large government and private blockholders may affect managerial decisions in the propensity of completing a cross-border acquisition and its dollar value. We argue that conflicts among different blockholders make it difficult to pursue large-scale, cross-border deals because such conflicts may lead to a less coherent objective function and to a rejection of deals that do not satisfy these groups’ conflicting objectives. Finally, we show that such blockholder conflicts are moderated by the salience of the government’s “dual influence” on the firm in question, related to a state’s soft budget constraint and/or diplomatic advantages in countries where the host and the home markets do not enjoy a bilateral investment treaty. Empirically, we found highly supportive evidence based on a global sample of 7,564 cross-border acquisitions between 2004 and 2013.

Keywords: agency theory; state-owned enterprise; multinational enterprise; cross-border acquisitions

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Recent work on corporate governance highlights new avenues of research, expanding modern agency theory by examining the differing and often conflicting goals of powerful blockholders in corporations (e.g., Attig, El Ghoul, Guedhami, & Rizeanu, 2013; Edmans & Manso, 2011; Seth, Song, & Pettit, 2000, 2002). This is a special type of agency conflict in which powerful blockholders compete to be the controlling shareholder, having more say in managerial decisions. Yet, there is still scarce theoretical and empirical work to understand the consequences of those conflicts when it comes to major strategic decisions, such as cross-border mergers and acquisitions (M&As), and even less work understanding what happens when one of those blockholders is the government. Therefore, in this article, we propose a unique private-government principals-principals (PP; plural) conflict perspective.

Let us use an example to illustrate how private-government PP conflict differs from the traditional principal-agent (PA) and PP conflict. Consider two U.S. firms (both from our database): Quicklogic Corporation and 4Licensing Corp. In 2007, Dimensional Fund Advisors LP, a private mutual fund, owned 48% of Quicklogic’s voting rights, whereas the state of Wisconsin owned 52%. In 2016, 4Licensing Corp was 50% owned by two private mutual funds: Prescott Group Aggressive Small Cap Master Fund and Prescott Group Capital Management—both of which belonged to the same business group. The two firms had a similar ownership concentration ratio: a proxy for traditional PA and PP conflicts but very different private-government PP conflicts. Consequently, Quicklogic may have encountered more severe conflicts due to the economic-versus-political objectives of its rival blockholders than what we would observe in 4Licensing. In that context, these two groups of blockholders could fight each other for control and would end up monitoring management more closely to make sure that they were not yielding to the opposing group. Private-government PP conflicts are therefore based on multiple blockholder groups, and their implications in terms of agency costs are different from, and not necessarily correlated with, the traditional PA or PP conflicts as measured by ownership concentration (Chen & Young, 2010; J. Li & Qian, 2013; Renders & Gaeremynck, 2012; Su, Xu, & Phan, 2008; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008).

We study the government-private blockholder conflicts in the context of modern state-owned enterprises (SOEs). While private shareholders care primarily about financial returns (albeit with different time horizons), government blockholders have a variety of political and diplomatic objectives in mind that may be orthogonal to financial returns (Bruton, Peng, Ahlstrom, Stan, & Xu, 2015). In light of their remaining strong influence in the global economy (Sauvant, Sachs, & Jongbloed, 2012), recent years have seen a renaissance in the study of SOEs, especially state-owned multinational enterprises (SOMNEs; Bruton et al., 2015; Inoue, Lazzarini, & Musacchio, 2013; Jeong & Weiner, 2012; Lazzarini, 2015; J. Li & Qian, 2013; Musacchio & Lazzarini, 2014; Ramaswamy, Li, & Veliyath, 2002; Xia & Walker, 2015). Grounded in the agency theory tradition (Berle & Means, 1991; Jensen & Meckling, 1976; Shleifer & Vishny, 1997), the current literature depicts two unique characteristics of corporate governance in SOMNEs as compared with private multinational enterprises (MNEs). First, the management of SOMNEs in their international activities represents socio-political and diplomatic goals of the home government, which are often in conflict with economic efficiency and financial performance (Bass & Chakrabarty, 2014; Boardman & Vining, 1989; Inoue et al., 2013; Musacchio & Lazzarini, 2014; Vining & Weimer, 2016). Second, as a shareholder, the home government has “dual influence” on the managerial
decision of SOMNEs (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014: 934), including a soft budget constraint to bail out of international risks and diplomatic ties to buffer relations with host governments (Buckley et al., 2007; Cuervo-Cazurra et al., 2014; Kornai, 1979).

The private-government PP perspective challenges this view of SOMNEs in three ways. First, sociopolitical goals of the home government are only a partial representation of most SOMNEs’ objective functions. A hybrid ownership structure involving government and private shareholders is prevalent among today’s SOEs (Bruton et al., 2015; He, Eden, & Hitt, 2016). In these hybrid SOEs, the corporate governance problem lies in the contests and compromises between the sociopolitical and economic goals of these two shareholder groups (government principals–private principals; He et al., 2016).

Second, existing studies of SOEs tend to focus on traditional PA conflicts between the state and the manager, which we argue do not fully capture the problem of conflict and compromise between government and private blockholders and how those conflicts influence managerial decisions. The key corporate governance issue for SOEs is not only the information asymmetry between the principal and the agent but also the contests for control between large private and state-backed blockholder groups through their relative influence over the agent (i.e., managers; Crespi & Renneboog, 2010; Sauerwald & Peng, 2013).

Last, private-government PP conflicts may result in different managerial decisions under multiple degrees of a state’s “dual influence.” SOMNEs have (a) a soft budget constraint that can serve to reduce the downside of international risks and (b) diplomatic ties that can buffer the relationship with the host government (Bass & Chakrabarty, 2014; Cuervo-Cazurra et al., 2014; Duanmu, 2014; Pan et al., 2014). We suggest that the value of such dual influence may vary under different environments at home and abroad.

Using a sample primarily from the databases of Orbis and Thomson SDC, we analyzed a global sample of 7,564 cross-border acquisitions conducted by 4,003 MNEs from 21 home markets into 32 host markets between 2004 and 2013. Controlling for the traditional PA and PP conflicts via blockholder ownership concentration, we found that the propensity of completing a deal and the deal value (after completion) had a U-shaped relationship with government blockholder ownership of voting rights. We also found evidence that the government blockholder group appeared to have a stronger relative influence in a transaction but a higher degree of conflict with its private counterparts when (a) the home government faced a lower budget deficit risk and/or (b) there was no bilateral investment treaty (BIT) in force between the home and host markets.

**Theory**

*State-Private PP Conflicts in Cross-Border Acquisitions*

Cross-border acquisitions represent risky strategies to pursue asset growth and/or corporate diversification. It is widely accepted that CEOs often favor large cross-border acquisitions as a way to advance personal status, privilege, and new job opportunities or simply due to managerial hubris—all at the expense of shareholder value (Denis, Denis, & Sarin, 1999; Miller, Breton-Miller, & Lester, 2010; Seth et al., 2000, 2002). In hybrid firms, monitoring of managers to prevent overexpansion through cross-border acquisitions will depend on whether government and private blockholders have incentives to do so given their conflicting objectives.
As empirically evidenced by the multiple-blockholder conflict literature (Attig et al., 2013; Edmans & Manso, 2011; Seth et al., 2000, 2002), blockholder PP contests for control induce rival blockholders to strengthen their monitoring in managerial decisions if they think that such acquisitions will disproportionally benefit the opposing blockholding group. Government blockholders may be coordinated through politically imposed objectives and procedures (e.g., through the Minister of Finance, another government agency, or directly as a country’s budget planning; Musacchio & Lazzarini, 2014), whereas private blockholders may be more dispersed—for instance, by expressing individual concerns to the manager to avoid diverting firm resources for the government’s diplomatic and political purposes.

Private shareholders generally see cross-border acquisitions as a strategy to ultimately increase profits and economic value for their overall portfolio (Seth et al., 2000). They may seek different intermediate benefits in acquisitions, such as financial returns over a certain period, control of new strategic resources for pricing power, or long-term wealth preservation for the family, but the interests of private blockholders should be relatively more aligned because the ultimate common interests underlying these concerns are generally economic. In contrast, government shareholders may seek large cross-border acquisitions for diplomatic or political reasons as well—say, to support a foreign economy, to show might, to secure natural resources, to secure a position in a strategic geography, to benefit national champions or political allies in the home country, and for other political or public interests. In fact, the state-backed blockholders may pursue these objectives enabled by the fact that state-owned firms have a soft budget constraint (Buckley et al., 2007; Cuervo-Cazurra et al., 2014; Kornai, 1979) and/or diplomatic ties abroad (Duanmu, 2014; Pan et al., 2014). Additionally, the goal conflicts between the private and government blockholders are caused by their preferred agency arrangements. Private blockholders prefer professional managers, objectively defined corporate objective functions, as well as financial performance-based incentives, whereas government owners may favor appointments from political relations (Boubakri, Cosset, & Saffar, 2008), adaptation of corporate objective functions to their constituencies’ societal interests (Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014), and managerial performance measures in subjective, nonmarket-based terms (O’Connor, Deng, & Luo, 2006).

In theory, government and private blockholders can support a transaction because of its economic value. In practice, however, the fundamental agency problem of information asymmetry and incomplete contracts may cause the inevitable conflict or distrust of each other (Eisenhardt, 1989). The conflict lies in both groups’ incomplete perception or misperception of the other one’s goals behind a deal (Osborne, 2010). Rival blockholders may not be able to find an effective way to access information about each other’s objectives, because there is no direct contract between them. Thus, they may have to rely on their effective communications with the shared agency (e.g., board of directors or the CEO). Such communications with the agency also bear problems and costs of information asymmetry and incomplete contracts, causing information misrepresentation and perhaps further distrust and conflicts. For instance, even if a deal looks attractive economically, when the government has more voting power, private blockholders tend to discount the returns differently, given the possibility that government blockholders may extract political benefits in the future. Similarly, if private blockholders have more influence over the management, then government blockholders have to monitor the managers more closely, in case they are taking actions that are creating shareholder value but have low or negative sociopolitical spillovers (e.g.,
downsizing). It is the distrust between the two groups that induces them to strengthen the monitoring of management to prevent it from pursuing risky projects, such as large cross-border acquisitions, which may benefit one group at the expense of the other one (Osborne, 2010).

When there is an even balance of power between the two groups of blockholders (private vs. government), it is difficult for the manager to pursue a large-scale acquisition, unless it benefits the two groups of actors jointly (and managers as well). First, the manager has to find acquisitions that economically benefit both blockholder groups and satisfy the sociopolitical objectives of the government. This is something that may be difficult to achieve, because multiple conflicting goals make the sociopolitical performance difficult to measure and, thus, the optimization of decisions complicated (Eisenhardt, 1989; Jensen, 2002). Second, as discussed, when blockholders are in conflict, both groups tend to strengthen their monitoring of managers to prevent them from siding with the other shareholders. With increases in this type of monitoring, managers would see their ability to make large investments abroad for self-interest or hubris also constrained (Denis et al., 1999; Seth et al., 2002). This is an offsetting effect of the traditional kind of agency cost (Attig et al., 2013; Edmans & Manso, 2011; Seth et al., 2000, 2002). The difference between these two types of monitoring is that the traditional kind of monitoring is only over managerial self-interest or hubris, whereas the offsetting type is over a manager’s potential siding with other shareholders. As a result, when private and government blockholders contest for control, managers have to either find investment plans that satisfy all blockholding groups or look for small cross-border deals that can fall below the blockholders’ monitoring threshold (Miller et al., 2010).

Grounded on empirical evidence from existing literature (Boubakri et al., 2008), our theory was developed on the assumption that the agent (CEO and board of directors) proportionally represents the interests of large shareholders. For instance, Boubakri et al. (2008) studied a sample of 245 firms in 27 developing and 14 developed countries from 1980 to 2002 and found that politically connected board membership was strongly positively related to state ownership. When private-government PP conflict is low, there is also more likelihood that agents have their objectives aligned with those of the largest blockholding group (following the logic of concentrated ownership). Yet, the contest between the private and government blockholders for control may lead to less agency cost because both blockholding groups intensify their monitoring of management to prevent it from catering to the interests of the other coalition of shareholders.

Similarly, when the government blockholding group has low voting power (and thus can only weakly impose its sociopolitical goals over managerial decisions), dominant blockholders are private and therefore may have more aligned logics toward economic interests. Therefore, private blockholders as a group would fear less that the CEO is siding with the government for sociopolitical goals. The fact that blockholder interests are aligned leads to clearer objective functions for managers and, in turn, makes selecting a large acquisition project easier. In this scenario, the power of private blockholders can focus the firm on pursuing acquisitions that generate economic outcomes. Therefore, we propose the following:

Hypothesis 1: The higher the concentration of voting rights into either type of blockholder group (government or private), the higher the propensity of completing and the larger the size of a cross-border acquisition.
Institutional Contexts of the Home State’s Dual Influence

The existing literature differentiates SOMNEs from the private MNEs for their conflicts as the home government’s “dual influence” arises (i.e., a soft budget constraint and diplomatic services)—a unique ability of the government that helps scale a foreign investment for sociopolitical rather than economic goals (Cuervo-Cazurra et al., 2014: 934). We argue that such influence depends on the home and host country institutions and so do the related conflicts.

On the home front, SOMNEs’ soft budget constraint allows their managers to pursue non-economic interests, which increase private blockholders’ mistrust in the management. The soft budget constraint is, to a large extent, contingent on the state of the home government’s fiscal deficit or fiscal fragility (Leeper, Walker, & Yang, 2010). The reason is that large investments of SOEs, more often than not, require approval by the government or are included in the government’s fiscal budget (Musacchio & Lazzarini, 2014). Government investments (including cross-border acquisitions) focus on long-term benefits rather than immediate needs and are therefore especially sensitive to the budget balance risks and to potential budget cuts (Musacchio & Lazzarini, 2014: 173-177; Roubini, Sachs, Honkapohja, & Cohen, 1989: 108-109). An increase in home budget risk would tighten the budget constraint of the home government and limit its financial slack to support an SOMNE’s large acquisition. Thus, it would weaken the government blockholders’ overall influence over managerial decisions and subsequently require a higher percentage of formal voting rights to control a deal.

At the same time, in the face of an increased risk of a budget deficit, it becomes the SOMNEs’ financial responsibility to generate profits and financial returns to close the gap between government spending and revenue. Consequently, when the budget has less slack, the government blockholder group has converging interests with its private counterparts in terms of wanting SOMNEs to generate profits, and both groups become more aligned to discipline managers to pursue profitability. This ends up reducing the degree of government-private blockholder conflicts.

Hypothesis 2: Increased (decreased) risk in the home budget balance would weaken (strengthen) the relative influence of the government blockholder group in a cross-border acquisition and reduce (increase) the degree of government-private blockholder conflicts.

On the host front, every cross-border acquisition is a boundary spanning into an institutionally different market, where the MNE may be competing not only with local private firms but also with host SOEs, as well as interacting with the host governments. Foreign investors thus bear innate liabilities of foreignness due to their unfamiliarity with local institutions, causing potential uncertainty and transaction cost to overcome such liabilities. To compensate for such liabilities of foreignness, many countries have signed BITs, which establish terms and conditions for private investments from foreign nations (Elkins, Guzman, & Simmons, 2006). BITs typically offer a formal regulatory framework to protect foreign private investors in foreign direct investment (FDI) admission, treatment, expropriation, and the settlement of disputes (Elkins et al., 2006). Ex ante, BITs introduce transparency regarding the regulatory and policy procedures for investments in the signing countries; ex post, they ensure that private investors are protected for their property rights and preserved from
expropriation (Egger & Pfaffermayr, 2004). In some sense, BITs extend a foreign investor’s property rights and regulate how host states must arbitrate disputes, reducing arbitrary power of the host governments in state-foreign investor relations (Egger & Pfaffermayr, 2004).

Despite these benefits for foreign private investors, many countries—including some large FDI host countries, such as Brazil—are resistant toward some of the international investment principles and thus reluctant to sign BITs (Elkins et al., 2006). The absence of a BIT may allow host governments to discriminate among different investors abroad. It requires foreign investors to negotiate with the host state on a case-by-case basis for terms and conditions, increasing the power of the host government and, therefore, the risk of adverse political actions. In this case, ties with the home governments through, for instance, ownership would offer a foreign investor unique diplomatic networks to facilitate investments between countries (J. Li, Meyer, Zhang, & Ding, in press) and increase the negotiation power against the host state (J. Li, Newenham-Kahindi, Shapiro, & Chen, 2013).

Holding all else equal, diplomatic resources of the home government then become a highly valuable instrument in the absence of BITs. Government blockholders can facilitate direct dialogue between the two states and soften the relationship between the MNEs and the host government (Duanmu, 2014; Pan et al., 2014). Without a BIT, access to diplomatic channels through home governments as blockholders may help MNEs to receive earlier and better information, develop business relations, and protect MNEs from adverse host government interference (J. Li et al., in press). Increasing (decreasing) salience of diplomatic advantages in the absence (presence) of a BIT would strengthen (weaken) the government blockholders’ relative influence in managerial decisions and thus require a lower (higher) share of formal voting rights to control managerial decisions in a large acquisition. Such political advantages of state ownership may, however, empower the home state to pursue its own sociopolitical agenda by working directly with the host state behind themes and therefore cause increased skepticism and distrust between the state and private blockholders, thereby increasing the PP conflicts between them.

**Hypothesis 3:** The presence (absence) of a BIT in force between the home and host markets would weaken (strengthen) the relative power of the state blockholder group versus the private blockholder group and reduce (increase) the degree of state-private blockholder conflicts.

**Methods**

**Data Collection**

We compiled a global sample of firm and deal information from multiple sources, including Thomson Reuters SDC Platinum (SDC), Bureau van Dijk (BvD) Zephyr, BvD Orbis, Compustat, Mergent Online, and Mergent Reports. These data sources have been widely used in business studies (Abdi & Aulakh, 2012; Arora, Belenzon, & Rios, 2014; Bruno & Shin, 2014). Specifically, we retrieved the deal-level information of cross-border acquisitions from a merged sample of SDC and BvD Zephyr. We consolidated overlapping deals using firm ID, firm name, and other key deal characteristics. Then we collected the firm- and shareholder-level information from BvD Orbis data, complemented by Compustat and Mergent, and merged them with the deal-level information. We downloaded country- and bilateral-level measures from a variety of sources, such as the World Bank DataBank, Centre de Recherche

Following Miller et al. (2010), we kept only deals that were more than US$1 million and that took >5% of blockholding in the targets, below which large blockholders may find them too trivial to intervene. We then took further steps to ensure comparability of our sample deals and firms (see details in online Supplement 1). After removal of further missing values, the final sample included 7,564 complete cross-border acquisitions conducted by 4,003 acquirers (including 4,271 deals by 2,092 listed acquirers and 3,293 by 1,911 unlisted acquirers) from 21 home markets into 32 host markets between 2004 and 2013.

We also downloaded a matching sample of withdrawn cross-border acquisitions during the same period (2004–2013) that fell in the same cells as the completed deals by home market, host market, acquirer industry (two-digit Standard Industrial Classification [SIC]), and target industry (two-digit SIC). We removed withdrawn deals whose projected deal size was below US$1 million and whose projected share percentage to acquire from the target was <5%. After removal of missing observations, we eventually arrived at 682 transactions. This suggests that 8.3% of all announced deals in our sample were eventually withdrawn, which is similar to the findings of recent studies (e.g., 8% in Jacobsen, 2014).

Sample Characteristics

Our sample represents the properties of the overall global landscape of cross-border acquisitions in several ways. First, our sample covers developed and emerging markets but has a very high concentration in the former, which is consistent with the overall pattern of large-scale global M&As. We compared the country distributions between our final sample and the initial overall sample, as merged between Orbis and SDC, and found very similar patterns. Specifically, in our final sample, 91.4% of transactions were conducted by MNEs from developed markets, primarily North America (44.2%) and Europe (42.5%). Among the developing countries are China (1.3%), Israel (2.1%), and Singapore (1.1%). Second, our sample represents the time variation of global M&As. In particular, the number of deals in our sample is consistent from year to year: on average, 756 deals per annum and 168 deals involving government blockholders in the acquirers. Naturally, we had higher numbers of transactions during the financial crisis. Third, our final sample has a good representation of nonfinancial industries. The target industries (in which acquisitions took place) are widely distributed: 8.9%, primary sectors (agriculture, forestry, fishing, and mining); 38.6%, manufacturing; 7.4%, construction, transport/infrastructures, and utility; 4.9%, trade; and 40.2%, services.

Variables and Measures

Dependent Variables

**Propensity of completion.** This binary variable is 1 if a cross-border acquisition was completed after public announcement and 0 if eventually withdrawn.

**Acquisition size.** Shareholders are sensitive to the relative size of an acquisition as a portion of the size of the acquirer: that is, what percentage of the firm’s assets has been utilized
for the acquisition project (Hayward, 2002; Moeller, Schlingemann, & Stulz, 2005). We measure the acquisition size as the deal value as a percentage of the acquirer’s preacquisition total assets. Since most deals are relatively small as compared with the acquirer size, we scaled the measure using the unit of percentage points (p.p.; e.g., 1% is translated into 100 p.p.).

Independent and Moderating Variables

Government blockholding. We measured government blockholding as the total percentage of voting shares of all government blockholders based in the acquirer’s home nation (i.e., shareholders that possessed at least 5% of a focal firm’s voting shares). Following BvD data, we used total voting shares, including direct and indirect voting shares. We take a broad definition of who the state actors are that can be part of the government blockholding group. We include direct ownership stakes by the treasury, by state-owned holding companies, provincial and municipal governments, provincial or state equity investment funds, local sovereign wealth fund investments, state-linked pension funds, state-owned banks, and indirect ownership stakes (i.e., of companies that are in turn controlled by the government), following Orbis’s coding. We included only blockholders because smaller shareholders are usually not willing or able to monitor and challenge the management, for which the cutoff points are set ≥5% (Connelly, Hoskisson, Tihanyi, & Certo, 2010; Daily, Dalton, & Cannella, 2003; for an international study, see D. Li, Moshirian, Pham, & Zein, 2006).

Home budget balance risks. This measure is based on the yearly increase of the ICRG’s risk for budget balance index, which rates the risk points of a government’s budget balance from 0 to 10, with higher points suggesting lower risk. We reserved this index so that the higher the points of our measure, the higher the increase in the risk of balancing a home state’s budget.

BIT with host. This dummy is measured as 1 if the home market has a BIT in force with the host market during the year of acquisition. This information is available from United Nations Conference on Trade and Development.

Control Variables

First, we controlled for both moderating variables mentioned earlier. Second, we controlled for five acquirer-level characteristics that are likely to affect the acquisition size. Specifically, to control for the traditional PA and PP costs, we followed Su et al. (2008) and included the acquirer’s Herfindahl 10, measured as the total sum of squares of each of the top 10 shareholders’ percentage of voting rights. To control for the impact of public status of the acquirer, we included acquirer public status dummy (1 for yes, 0 for no). Next, we followed Ang, Benischke, and Doh (2015: 1545) and controlled for acquirer cross-border M&A experience, measured as the logarithm of total number count of cross-border acquisitions by the same acquirer in the last 5 years. Finally, we controlled for acquirer size and acquirer profitability, respectively measured as the natural logarithm of predeal net sales (in US$1 million) and predeal earnings before interests, taxes, depreciation, and amortization (EBITDA): total assets ratio. We use EBITDA rather than net income, which is more often used in single-country studies, because EBITDA is not affected by country-specific regimes in taxes, interest rates, and accounting rules (e.g., amortization rules), which are not a result of firm-specific performance.
Second, we controlled for three home market economic and institutional characteristics, which may affect cross-border acquisitions. The first is *home minority investor protection*, which is a potential legal means for the minority shareholders to ensure accountable directors and managers for value creation in acquisitions. We used a newly developed index by Guillén and Capron (2016) that, when compared with alternative measures, has a broader coverage of composites (considered *subnational laws*) and, more important, is the only data that cover our sample’s entire time span. We normalized this measure by dividing the original value by the global mean value of the year. The other two, following the literature on FDI determinants (Globerman & Chen, 2010), are *home GDP*, measured as the natural logarithm of GDP in US$ billion, and *home government stability*, a measure retrieved from ICRG.

Third, we controlled for two target-level characteristics. They are *target size* (not to be confused with our dependent variable *deal size*) and *target profitability*, respectively measured as the natural logarithm of predeal net sales (in US$1 million) and predeal EBITDA:total assets ratio. Fourth, we controlled for three host market economic and institutional characteristics, following the recent literature on FDI (Globerman & Chen, 2010). They include *host GDP*, measured as the natural logarithm of GDP in US$ billion from the World Bank data, *host rule of law*, and *host unemployment*. *Host rule of law* is the rate of law and order from ICRG; *host unemployment* is the reverse of the risk rate for unemployment from ICRG. We normalized both measures from ICRG by dividing the original values by the global means of each year. Fifth, at the deal level, we controlled for *shares acquired in target* and *industry relatedness*. The prior is the percentage of equity ownership that the acquirer acquired in total from the target. Following recent studies on M&As (Patel & King, 2015), industry relatedness is measured as 1 if two firms share the same four-digit SIC codes, 0.75 if three- but not four-digit SIC codes, 0.5 if two- but not three-digit SIC codes, 0.25 if one- but not two-digit SIC codes, and 0 if different one-digit SIC codes. We also controlled for three dummies of the method of payment: *cash payment dummy*, *debt payment dummy*, and *stock payment dummy*. Each dummy takes the value of 1 if the method was involved in the payment and 0 otherwise. The sum of these three dummies is >1 because some deals involved multiple methods of payment.

Sixth, we controlled for a series of distance measures between the home and host markets, including *geographic distance*, *economic distance*, *demographic distance*, and *cultural distance*. Geographic distance is the distance between major metropolitan cities of home and host markets weighted by each city’s population. These data are directly available from the Centre de Recherche Français Dans Le Domaine de L’économie Internationale. The other three distance measures all followed Berry, Guillén, and Zhou (2010) and were calculated with the Mahalanobis method, which is scale free and takes into consideration the variance-covariance matrix. Specifically, economic distance is the Mahalanobis distance between the home and host markets in income (GDP per capital in 2000 U.S. dollars), inflation (GDP deflator as percentage of GDP), exports (exports of goods and services as percentage of GDP), and imports (imports of goods and services as percentage of GDP). Demographic distance is the Mahalanobis distance in life expectancy at birth (years), birth rate (crude per 1,000 people), population aged <14 years as a percentage of total, and population aged ≥65 years as a percentage of total. Cultural distance is the Mahalanobis distance in Hofstede’s dimensions of power distance, individualism, masculinity, and uncertainty avoidance.

Finally, we included a series of context-related dummies—including *home dummies*, *host dummies*, *industry dummies* (based on two-digit SIC codes at the target level), and *year*
dummies—to control for potential fixed effects related to home and host markets, industries in which the acquisition took place, and time.

Estimation Strategy

We conducted our analysis at the transaction level for two key advantages over an otherwise firm-level study. First, the characteristics of each deal (e.g., propensity of completion, size) are affected not only by the acquirer and home market factors but also largely by the target, target industry, host market, and bilateral factors, as well as other deal characteristics, such as method of payment, industry relatedness, and shares acquired. A transaction-level analysis enables us to control for all these factors and thus make sure that our findings on the relationship between government ownership and acquisition size is not confounded by any target, host market, and bilateral factors or other deal characteristics. Second, using deal-level data allows us to do a more realistic simulation of how large blockholders respond to a cross-border deal, as opposed to using firm-level variables, such as total deals and dollar amount spent on these deals by acquirers in a given year. Large blockholders do not respond to the aggregated measures of cross-border deals of a firm at the end of each year but to every attempted deal so that they can consider each deal’s idiosyncrasies.

To control for potential selection hazard due to exclusion of withdrawn deals as well as to test for the propensity outlined in H1, we adopted a two-step Heckman-style selection model in which the first step is a probit regression on the propensity of completion (Heckman, 1979). Here we model the (conditional) probability of completion, that is, $Y_i = 1$, as

$$P(Y_i = 1) = \Phi(\beta_0 + \sum_{k=1}^{K} \beta_k X_{ki})$$

where $\Phi(\cdot)$ is a cumulative distribution function of the standard normal distribution.

For the first step test, we added three new control variables to control for any fixed effects of the overall environment in the host market that may cause withdrawals. The first is withdrawn deals, home-host-year, measured as the logarithm of the total number count of withdrawn deals between the home-host country pair in each year. The other two are withdrawn deals by foreign SOEs in host and withdrawn deals by home SOEs in host—measured as the logarithm of the count of withdrawn deals by all foreign SOEs and home SOEs, respectively, in the last 5 years. We used a different time horizon for the latter two control variables because they are highly correlated with the first if the same time horizon is used. In the second step, we included the inverse Mills ratio from the first step as an additional control variable (Heckman, 1979).

Before selecting the estimation specification in the second step, we examined the distribution of acquisition size. It was highly positively skewed and overly peaked: the skewness was 20.25, as opposed to the normal distribution range between –1 and 1; the kurtosis was 594.53, as compared with the normal distribution score of 3. An appropriate technique is to adopt the generalized linear model (GLM), which fits our needs for three reasons (Hardin & Hilbe, 2007). First, as compared with ordinary linear regressions, GLM does not require a normal distribution of the dependent variable (Hardin & Hilbe, 2007). As explained, our dependent variable is always positive and continuous. For such a distribution, a gamma family is appropriate (Hardin & Hilbe, 2007). Second, GLM offers a relatively high flexibility for choosing
the link function between the dependent and right-hand-side variables. Given the high skewness and kurtosis of the dependent variables, we used natural logarithm as the link function to normalize the distribution. After logarithm, the distribution is approximately normal, with a skewness of 0.88 and a kurtosis of 2.72. Third, compared with a tobit model, which is typically used for nonnegative dependent variables, GLM does not require a corner solution, such as zero values at the lower bound (Hardin & Hilbe, 2007). Therefore, GLM fits our dependent variable, which is always positive.

Before we started our regression analysis, we further examined the blockholder characteristics for two potential endogeneity concerns. The first was reverse causality—that is, government blockholding changes prior to an acquisition to reflect PP conflicts. We examined the changing patterns of government blockholding prior to the acquisition announcement to ensure no endogeneity due to reverse causation. The minimal changes in government ownership suggest that a cross-border acquisition has little impact on the change in government ownership prior to the deal. We also concluded a weak correlation (\( p > .1 \)) between the government ownership change prior to a deal and the acquisition size, implying that there is unlikely any unobserved factor that causes both to correlate. The second was potential reverse selection—that is, PP conflicts may prevent a firm from taking on an acquisition abroad to begin with. While we do not have sufficient ownership data to create a matching sample of nonacquiring firms, we reason that, if this were the case, our sample reflects only a conservative estimation of PP conflicts. Therefore, we tested a relatively weaker form of PP conflicts (i.e., not enough tensions to stop entirely the acquisition announcement), whereas the actual PP conflicts would be even more strongly supported than what our statistical findings show.

Following Haans, Pieters, and He (2016), we tested the two moderating effects (H2 and H3) based on the two graphic features of the baseline U-shaped relationship between acquisition size and government blockholding. These two features are the turning point and the curvature of the U curve, each of which follows a distinct mechanism. Specifically, the turning point suggests the minimum percentage of formal voting rights that the government shareholders should hold to control the managerial decision in an international acquisition, reflecting the de facto overall influence that the government blockholders have over managerial decisions. A left (right) shift in the turning point suggests their need for a lower (higher) percentage of voting rights for control and thus a stronger informal influence.

The second feature—curvature of the U shape—suggests the degree of government-private shareholder conflicts in terms of its sensitivity to the scale of an acquisition. When the government and private blockholders contest for control, there is the possibility of having conflicting goals, something that would pressure the manager to reduce the size threshold of deals to avoid shareholder intervention and to lower the risk level of such investments. Thus, the curvature strengthens (flattens) when government and private goals become more conflicting (aligned).

Results

In Table 1, we report summary statistics of government ownership by home market. Based on chi-square tests, the distributions are similar to the overall sample of large cross-border acquisitions in BvD and SDC. SOMNEs (defined as having at least one government blockholder) represent a small minority of all MNEs in cross-border acquisitions. Among all the 7,564 complete deals, 1,676 (or about 22.16%) deals involved at least one government
blockholder (i.e., ≥5% total voting shares). In fact, in each of the 21 home markets in our sample, at least 10 deals involved government shareholders in acquirer firms. Among all the acquirers, Chinese firms on average had the highest government blockholding (19%), while American and Japanese firms had the lowest (4%).

Table 2 reports descriptive statistics and the correlation matrix of all the variables (in both steps). First, under the rule of thumb with ±.60 correlation and a variance inflation factor of 5 (Anderson, Sweeney, Williams, Camm, & Cochran, 2013; Griffiths, Hill, & Judge, 1993) as the cutoff points, the results suggest that our sample presents no severe multicollinearity problems among independent and control variables. Because a significant proportion of acquirers (about 30%) conducted multiple acquisitions in our sample, we report standard errors clustered by firm identity, controlling within-cluster covariance.

Table 3 shows the main tests of our H1. It reports the first-step probit regressions on propensity and the second-step GLM regressions on acquisition size. In Model 1, government blockholding slightly decreases (−0.07) the propensity to complete a deal, but the coefficient
### Table 2
Summary Statistics and Correlation Matrix

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Note: \( N = 7,564 \). Correlations \( > |0.03| \) are statistically significant at \( p < 0.05 \). VIF = variance inflation factor; BIT = bilateral investment treat; M&A = merger and acquisition; GDP = gross domestic product; SOE = state-owned enterprise.

\( a_n = 8,246 \) for Heckman stage 1 probit model.
## Table 3
### Main Results

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<th>Probit on completion</th>
<th>GLM on acquisition size</th>
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</table>
| Gov blockholding     | −0.07 | −3.82*** | −0.52*** | −2.67*** | −2.79*** | −3.02*** | −3.13*** |\
| (Gov)²               | 5.03*** | (1.20) | 2.58*** | 2.79*** | 3.02*** | 3.21*** |\
| Gov × Home Budget Balance Risk | 0.62* | (0.24) | 0.62* | (0.24) |\
| (Gov)² × Home Budget Balance Risk | −0.86** | (0.30) | −0.85** | (0.30) |\
| Gov × BIT With Host  | 1.85* | 1.79* | 1.85* | 1.79* |\
| (Gov)² × BIT With Host | −2.37* | −2.29* | −2.37* | −2.29* |\
| Home budget balance risk | −0.03 | −0.07 | −0.02 | −0.03 | −0.02 | −0.03 | −0.02 | −0.03 |
| (Herfindahl 10 index)² | −6.87*** | −6.92*** | −2.32*** | −2.10*** | −2.02*** | −2.01*** |\
| Acquirer public status dummy | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| Acquirer cross-border M&A experience | 0.26* | 0.29** | 0.24*** | 0.23*** | 0.22*** | 0.22*** | 0.22*** | 0.22*** |
| Acquirer size        | −0.04** | −0.04** | −0.32*** | −0.32*** | −0.32*** | −0.32*** | −0.32*** | −0.32*** |

*Significance levels: *p < 0.10, **p < 0.05, ***p < 0.01.
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<td>(0.00)</td>
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<td>Home minority shareholder</td>
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<td>Home government stability</td>
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<td>(0.01)</td>
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(continued)
### Table 3 (continued)

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<td>Withdrawn deals by foreign SOEs in host</td>
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<tr>
<td>Withdrawn deals by home SOEs in host</td>
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<td>(11.21)</td>
<td>(11.54)</td>
</tr>
<tr>
<td>n</td>
<td>8,246</td>
<td>8,246</td>
</tr>
<tr>
<td>Pseudo $R^2$</td>
<td>0.86</td>
<td>0.87</td>
</tr>
<tr>
<td>$\Delta$Pseudo $R^2$</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>Chi-square</td>
<td>13,140.45***</td>
<td>13,231.50***</td>
</tr>
<tr>
<td>$\Delta$Chi-square</td>
<td>91.05***</td>
<td>61.02***</td>
</tr>
</tbody>
</table>

**Note:** Standard errors are clustered by firm identity and reported in parentheses. Every model includes year dummies, target industry dummies, home market dummies, and host market dummies. GLM = generalized linear model; Gov = government; BIT = bilateral investment treat; M&A = merger and acquisition; GDP = gross domestic product; SOE = state-owned enterprise.

*aHeckman selection model.

+ $p < .1$.

* $p < .05$.

** $p < .01$.

*** $p < .001$. 

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is statistically insignificant ($p > .1$). This suggests that the linear function is only a weak explanation for the relationship between government blockholding and the propensity to complete a deal. In Model 2, which is our Heckman selection model, we included the squared term of government blockholding and found a U-shaped relationship ($p < .001$) between government blockholding and acquisition size. The pseudo $R^2$ of the model increased by 1% from Model 1, suggesting an increase in explanatory power. The coefficients for the number of withdrawn deals by home, host, and year and that of withdrawn deals by foreign SOEs in host are negative, consistent, and statistically significant ($p < .001$ and $p < .05$, respectively), suggesting that the exclusion restrictions of the Heckman model were met (Heckman, 1977). The overall model is effective, yielding an 87% pseudo $R^2$. These findings are consistent with our H1. We calculated the inverted Mills ratio based on Model 2 and included it in all main GLM regressions in the second step.

The marginal effect of Model 2 (nonlinear probit regression) is calculated as the first-order derivative of the probit model:

$$\frac{\delta P(Y_i = 1)}{\delta G} = \delta \left[ \Phi \left( \beta_0 + \beta_1 G + \beta_2 G^2 + \sum_{k=3}^{K} \beta_k X_{ki} \right) \right]$$

$$= \phi \left( \beta_0 + \beta_1 G + \beta_2 G^2 + \sum_{k=3}^{K} \beta_k X_{ki} \right) \cdot \delta \left( \beta_1 G + \beta_2 G^2 \right)$$

where $G$ is government blockholding, $X_{ki}$ are control variables, and $\phi(\cdot)$ is a probability mass function.

Inserting the estimates of coefficients of Model 2 and holding all control variables on their means and context dummies on zeros into the presented function, we get

$$\phi \left( -0.41 - 3.82G + 5.03G^2 \right) \cdot (10.06G - 3.82).$$

This calculation suggests that the marginal effect of government blockholding (based on Model 2) is a nonlinear function of government blockholding. Since the value inside $\phi(\cdot)$ is never infinite, $\phi(\cdot)$ is always positive. This suggests that the sign of the marginal effect is fully determined by $(10.06G - 3.82)$. Within the range of $G$ (0 to 1), the marginal effect is always negative when government blockholder is smaller than approximately $3.82/10.06 \approx 38\%$, after which the marginal effect is always positive. Given the findings in Models 1 and 2, we simulated the probabilities of completion while holding all control variables on their means and context dummies on zeros (Figure 1A).

Figure 1A confirms clearly our H1. In this figure, we simulated the relationships between probability of completing a deal and government blockholding based on the marginal effects of Models 1 and 2. The U shape (Model 2) shows that the probability of completing a deal declines from 34.09% to 12.81% when government blockholding increases from none to approximately 38%. After this point, the probability of completing a deal goes up to 78.81% when government blockholding is 100%. The rightmost point (fully state owned) is much
higher than the leftmost point (fully private owned). This may be due to two reasons. First, SOMNEs tend to be more visible and thus more cautious when they announce a large transaction in public. Second, announced deals of SOMNEs have done more careful screening of economic and regulatory situations by the host regulators to ensure their success.

In the right-hand side of Table 3, Specifications 3 to 6, we show the results of our GLM estimates to study the curvature of the relationship between government blockholding voting power and acquisition size. In these GLM regressions, we took several steps to report results by including independent and control variables sequentially. In Model 3, we included all the
control variables. Results report a significant chi-square of 13,140.45 \((p < .001)\), where chi-square is based on deviance residuals, as an appropriate measure of the model’s goodness of fit (Hardin & Hilbe, 2007). In Model 4, we further included the independent variable government blockholding. The government blockholding coefficient is negative \((\beta = -0.52, p < .001)\), suggesting that in general a higher percentage of government blockholding leads to lower acquisition size (if we impose a linear assumption). Chi-square increased by 91.05 \((p < .001)\) from Model 1, suggesting a statistically significant increase in goodness of fit. In Model 5, we added the squared term of government blockholding. Results suggest a U-shaped and statistically highly significant relationship between government blockholding and acquisition size \((\beta = -2.67\) and 2.58 for government blockholding and its squared term, respectively; \(p < .001\) for both), which supports our H1. Adding a squared term shows an increase in the explanatory power of the model, with a chi-square increase of 61.02 \((p < .001)\) from Model 4.

In Figure 1B, we simulated the relationships between government blockholding and acquisition size based on Models 4 and 5. We calculated the predicted acquisition size as the exponential (inverse of the natural logarithm) of the predicted value of right-hand-side variables while holding all control variables on the mean values and context dummies on zeros. The turning point of this baseline U relationship (Model 5) is slightly over 50% government blockholding. Economically, the leftmost value (when the government ownership is 0%) is 5.32 p.p. The size declines to 2.49 p.p. when the government blockholding is 51.7%; then, it rises up to 5.76 p.p., when there is full government ownership. This suggests a maximum gap of 3.28 p.p. on the U curve, translated to a difference of US$0.3 million for an acquirer of US$1 billion total assets. The leftmost point of the curve (fully private) is slightly lower than the rightmost point (fully state owned), suggesting that fully private MNEs in general in our sample tend to take on smaller deals than fully SOMNEs. This is consistent with the existing studies (Buckley et al., 2007; Cui & Jiang, 2009, 2012).

Starting in Model 6, we introduced moderators one by one. We interacted each moderator with government blockholding and its squared term. We included only home budget balance risk in Model 6, then only BIT with host in Model 7, and both moderators in Model 8. The results are highly consistent. Since H2 and H3 concern the moderating effects on the baseline U relationship, we followed Haans et al. (2016) to convert the regressions results in Model 8 into moderating effects, respectively, on the turning point of the U, as a proxy for relatively influence, and the curvature of the U, as a proxy for the degrees of conflicts (see online Supplement 2).

Our results lend support to H2 and H3. The marginal effect of home budget balance risk is always positive on the turning point (see A7 in Supplement 2) and always negative on the curvature (see A8 in Supplement 2). Economically, when home budget balance risk increases (decreases) from the sample’s mean value (0.42) by a standard deviation (1.49), the government blockholders would need approximately 6.14% more (less) formal voting rights to balance out the overall influence of the private blockholders (see A9 in Supplement 2). This is evidence that soft budget (at a low budget balance risk) is an informal strength for government blockholders. Second, the marginal effect of the same increase in home budget balance risk on the curvature of the U relationship is constant at –2.53 (see A10 in Supplement 2). In economic terms, this means, for instance, that with a standard deviation increase (decrease) in home budget balance risk, the manager has to reduce the acquisition size by 2.53 times less
(more) when government-private blockholder conflicts are reaching their peak. This is evidence of more (less) costs for designing more complex governance and incentive mechanisms under a lower (higher) budget balance risk to alleviate the government-private blockholder conflicts when they are at peak.

The marginal effect of BIT with host is always positive on the turning point (see A11 in Supplement 2) and always negative on the curvature (see A12 in Supplement 2). Economically, this means, as compared with those without BITs, to control an acquisition into a host market with which the home market has a BIT in force, the government blockholders would need approximately 6.9% more formal voting rights to balance out the overall influence of the private blockholders (see A13 in Supplement 2). This suggests a weaker government blockholder when there is a BIT in force, protecting private blockholders with a transparent and formal legal framework. Second, the marginal effect of BIT with host on the curvature of the U relationship is constant, –4.58 (see A14 in Supplement 2). In economic terms, this means, as compared with those without BITs, to proceed with an acquisition into a host market with which the home market has a BIT in force, the manager has to reduce the acquisition size by 4.58 times less when government-private blockholder conflicts are reaching their peak. This suggests a lower degree of government-private blockholder conflicts at their peak if two markets enjoy a BIT in force.

We simulated the overall moderating effects of home budget balance risk and BIT with host (Figures 1C and 1D, respectively), assuming that all the other control variables take their mean values and the context-specific dummies take zeros (Greene, 2012). The simulations show very similar patterns. The combined effects depend on whether the government blockholders have a dominant position (about 75% of voting rights). The overall U curve shifts upward if the government blockholders do not have a control position, caused by an increase in home budget balance risk or the presence of a BIT, both of which may align motives and build trust among shareholders in supporting a manager to pursue a large-scale transaction. However, when the government blockholders are in a controlling position, an increase in the budget balance risk or the presence of a BIT causes a downward shift of the curve. When the government is in control (with less contests by the private blockholders), a low budget balance risk would encourage a state-controlled firm to take on large acquisitions abroad. Similarly, in the absence of a BIT, a state-controlled acquirer would enjoy unique diplomatic access that is not available to its private competitors for the same target, leading to advantages in taking on large bids.

Finally, an inverted Mills ratio is generally statistically significant ($p < .1$), suggesting that the use of the Heckman selection model was justified as expected (Heckman, 1977).

**Robustness Checks**

An alternative indicator of PP conflicts underlying a cross-border acquisition is the shareholder value effect on the acquiring firm, because the stock market performance reflects how public investors view the quality of corporate governance within a firm and take into account the costs incurred to address any PP or PA conflicts (Chen & Young, 2010; Renders & Gaeremynck, 2012). We replicated our main GLM regressions with ordinary least square regressions using cumulative abnormal returns (CARs) to the acquirer around the date of announcement as the dependent variable. These estimates use a smaller sample because only
listed acquirers have stock market information for us to calculate CARs information, together representing 56.46% of our total sample of complete deals. We calculated CARs for all of our listed acquirers based on a merge between BvD and Compustat datasets. Following prior studies on cross-border acquisitions (e.g., Aybar & Ficici, 2009), we used the range of 265 to 21 days before the announcement and S&P market return as the baseline and a window of 10 days before to 10 days after the announcement to calculate CAR. The correlation between CARs and acquisition size is only –0.0107 (p > .1), suggesting that CARs are not a substituting dependent variable of our main regressions. A low correlation between these two is consistent with prior studies on cross-border acquisitions (Aybar & Ficici, 2009; Moeller et al., 2005), which suggests that value creation and loss can be attributed to a large deal size. Reported in Table S1 (online), results are consistent for the main U-shaped relationships, with different event and baseline windows with our main findings with two exceptions. However, neither of the moderators had any statistically significant effects on the U shape. These findings suggest that public investors are sensitive to the private-government blockholder structure, whereas, unlike managers, they are not affected by home budget balance risks or BIT presence.

In an additional robustness check, we recognized that national budget risks may not be uniform across all industries. As a robustness test, we separated the sample of strategic industries (energy, utilities, defense) from nonstrategic industries. We included such industries as oil and gas extraction (SIC code 13); electric, gas, and sanitary services (SIC code 49); and guided missiles and space vehicles/parts (SIC code 376), which represent about 3.86% of our total sample. As reported in Table S2 (online), while the main results and budget moderators still hold in the nonstrategic industries, the results show that strategic industries are less responsive to national budget risk (statistically). This is expected because national budget risk is more likely to lead to budget cuts in nonstrategic industries than strategic industries. We suggest that future research examine disaggregated budget measures to figure out the causes of these results.

Next, we replicated our model using two alternative measures for the voting power balance between the two groups of blockholders. The first is on the bargaining power of the government blockholder relative to the private counterparts. We created a new measure for relative power of either blockholder group, calculated as follows: | (government % – private %) / total voting rights by all blockholders |.

This measures the relative power of either blockholder group in comparison to the other. Here we have to drop observations whose total voting rights by all blockholders were zeros, meaning that there was no blockholder (>5%) in these acquirers. In total, we dropped 2,089 transactions. As presented in Table S3 (online), findings remain consistent with our main U-shaped hypothesis. That is, the larger the gap between the two blockholder groups, the more likely an acquirer is scaling a deal. However, neither moderating effect was supported. We reason that the moderating effects are nonlinear and asymmetric, as found in the main results.

The second is on the potential alliance (or the lack of it) among private blockholders. To control for whether private blockholders are concentrated (or aligned) into a small number of powerful blockholders or a large number of small blockholders, we went back to the original data on shareholder structures. From there, we calculated the relative power of the largest private blockholder as a percentage among all private blockholders. This new variable is
denoted concentration of private blockholders. For instance, if the total percentage of voting rights of all private blockholders is 50% and the largest private blockholder has 25%, then the concentration of private blockholders is 50% (i.e., 25% / 50%), suggesting that half of the private blockholders are aligned into a single largest shareholder. We used this as a moderator on our main tests. As reported in Table S4 (online), the U-shaped relationship between deal size and government blockholding is more salient when the private blockholder group is more concentrated. These findings suggest that government-private blockholder PP conflicts are more salient when private blockholders are more aligned into a single holder. This is consistent with our arguments and with agency theory in general.

Also, due to data limitation, we did not directly examine any managerial and governance arrangements reflecting the intervention of the government as a blockholder. Instead, we tested three more proxies of national institutions that suggest a government’s ability in intervening in business: employee protection of the home market from the Organisation for Economic Co-operation and Development database, business regulations score from the Fraser Institute, and home market state capitalism score (calculated in the same way as the host market measure) from the Fraser Institute. These three proxies correspond to a government’s intervention in labor/employment practices, business policies, and markets. We tested whether and how these three proxies moderate our findings regarding the inverted U-shaped relationship between government blockholding and acquisition size. Results show statistically significant effects for the first two proxies (see Table S5 online). First, employee protection flattens the U-shaped curve, suggesting less salient PP conflicts in general. This is likely a result of employees acting as internal monitors of acquisition behaviors and ensuring that the blockholder motivations for each decision are transparent. Second, business regulation aggravates the U shape, suggesting that the government-private PP conflicts may be more salient in highly regulated countries. This lends some support to the idea that a government’s ability in regulating (a particular form of intervening in) the markets is a source of PP conflicts.

**Discussion**

The existing PA or PP literature would suggest that MNEs pursue risks in cross-border acquisitions to advance their controlling shareholder’s private benefits of control or, under diffused ownership, the manager’s own self-interests or hubris. We argue that this literature overlooked the diversity of shareholder interests when there are multiple large private and government shareholders. While the extant PA and PP perspectives have suggested the heterogeneity of shareholder interests, they focus their attention on the conflict between the controlling shareholder’s private benefits of control, on one side, and the minority shareholders’ interest in shareholder value, on the other. Their arguments are implicitly grounded in a strong assumption that different shareholders conflict with one another individually and thus do not depict a complete view in the case of government-private blockholder conflicts underlying hybrid SOMNEs as an influential and underexplored force in global investments.

Such blockholder conflicts are caused by the fundamental goal conflicts between large blockholder groups (government vs. private) rather than by the conflicts of interests between controlling and minority shareholders, which we empirically controlled for via ownership concentration but found a smaller explanatory power. Such conflicts affect not only the
shareholder interests the manager represents but also the traditional PA problem through the changing degrees of shareholder monitoring and intervention.

Our theory and findings provide a new perspective within the agency theory of MNEs. First, we suggest that the agency problem lies in the relationship, not only between the principals and the agent or between the controlling and the minority principals, but also among controlling principals (i.e., blockholders). Essentially, powerful blockholders actively monitor the agent to ensure their own interests against other blockholders, creating a problem of some powerful blockholders misrepresenting the others in their PA relationship. Second, while the current literature has well documented the heterogeneity of preferences and behaviors of different blockholder identities, our study revealed the consequences when two types of conflicting blockholders coexist, as well as how such consequences vary when their relative voting power against each other changes. Last, we suggest that the consequences of PP conflicts may depend on the institutional contexts, which may moderate the informal influence either type can exercise. In our study, a government blockholder’s dual influence can be strengthened under a stronger home budget balance and the absence of a BIT between the home and the host markets.

Our study also contributes to the international business studies on MNE strategies. We broaden this literature that is solely firm based to a diverse conceptualization of interests among influential blockholders. For instance, Buckley and Strange (2011: 466) suggested that the MNEs’ risk preference should reflect “the various stakeholders’ risk preferences.” Filatotchev and Wright (2011) also called for an agency perspective to understand the conflicts between principals of MNEs. In a recent special issue entitled “Government as Owners: Globalizing State-Owned Enterprises” by the Journal of International Business Studies, all articles tended to assume a firm-specific behavior while overlooking the internal conflicts among owners. Our theory and findings suggest a deeper examination of a nonlinear relationship between government ownership (or involvement in general) and international acquisitions, based on the involvement of the private owners.

Our study also sheds light on the institution-based view of strategy (Peng, Sun, Pinkham, & Chen, 2009; Peng, Wang, & Jiang, 2008). Our theory and findings reveal a mechanism through which home and host institutional environments affect MNE strategies. Specifically, home and host institutions may moderate the salience of blockholder PP conflicts. When they align shareholder conflicts, it is more likely for the MNE manager to pursue risky expansion projects. When they aggravate shareholder conflicts, the MNE manager may have to forgo investment opportunities. We thus suggest that future studies on strategy take into account this interaction between institutional environments and the internal conflicts (or alignment) among key decision makers such as the influential blockholders.

Limitations and Future Directions

Altogether, we seek to open a new scholarly conversation on three issues concerning the governance of MNEs and their strategic behaviors. First, the literature should integrate extant discussions on the traditional PA and PP problems into potential blockholder contests because of diverse goals among the large owners (i.e., a large blockholder PP perspective). Second, studies should take into account the potential coalitions among these large owners because of their shared identities and objectives (i.e., PP rather than principal-principal). Third, the
influence of such private-government PP problems depends on the institutional contexts in the home and host countries through two mechanisms: their effects on the relative influence between large shareholder groups and their effects on the degree of goal conflicts (or alignment).

Our article is not without limitations, which deserve attention in future studies. First, our divide between the government and private blockholders needs to be further developed. Although it is widely accepted that private and government interests have fundamental distinctions of themselves, recent studies suggested the diversity within private interests and with government owners. We tested the potential heterogeneity between family/individual and institutional shareholders in our sample and found consistent results. A further investigation may be to distinguish foreign institutional investors from domestic institutions, since a few studies found that foreign ownership is associated with stronger financial and market logic, especially given that foreign investors come from a strong shareholder value-oriented regime (Desender, Aguilera, Lópezpuertas-Lamy, & Crespi, 2016; Geng, Yoshikawa, & Colpan, 2016). Our data, however, do not provide sufficient information to identify whether an institutional investor is foreign or domestic. Similarly, there is a variety of government interests. For instance, M. H. Li, Cui, and Lu (2014) argue that investors affiliated with local governments are less pressured to serve national public and political interests and enjoy greater managerial autonomy and market orientation, as compared with those affiliated with the central government. We suggest future extensions of our efforts to offer a more nuanced examination into the potential alignment and coalition between some private and government shareholders.

Second, due to data limitation, we did not directly test the governance mechanisms at the firm level that might moderate the blockholder PP conflicts. Therefore, a possible extension is to directly examine the role of agents and corporate governance arrangements within this framework. As argued, an important source of the goal conflicts between private and government blockholders is their different preferences in corporate governance arrangements, such as board of director structures, the market intervention behaviors of the government, and public policies regarding debt versus equity in foreign transactions, agency-monitoring mechanisms (behavior vs. performance-based monitoring), and incentives. In this article, we follow the prior literature suggesting that the state identity of blockholding is positively correlated with the control influence in the top management team, including the executives and the board of the directors (Boubakri et al., 2008). However, we suggest that it is valuable to have a more fine-grained investigation into the principals-agent relationship by showing different ties between principals and the agent (e.g., political/social groups such as labor union representatives on board, board independence, CEO/board ties with the shareholders, and CEO/board compensation and incentive packages). We suggest that future studies examine the potential conflicts in setting up these arrangements, as a more direct cause for a firm’s strategic decisions.

Last, while our study is cross-national, many country-specific institutions that might affect government activities are not controlled for. We suggest that government activities are highly related to a home nation’s political institutional contexts. Therefore, we suggest that it is valuable to explore a more comprehensive set of institutional dimensions as potential moderators of the government-private PP conflicts. In terms of soft budget advantages, we suggest as relevant measures such institutions as public policies regarding finance through debt
or equity, approval processes for outward FDI, information provision by government agencies, and ties to key state-owned financing agencies on the board of directors. Related to diplomatic channels, future studies can also examine diplomatic visits among MNEs and governments and diplomatic experiences of directors on board.

**Conclusion**

With these ideas we see growing opportunities to focus on the conflicts of large shareholders and potential alignments of these shareholders by similar preferences and interests and to investigate how such conflicts and alignments are shaping a firm’s overall preferences and behaviors. With a more nuanced understanding of the ownership structures of SOMNEs, we also call for a rhetoric shift from Leviathans to hybrid Leviathans in the strategy studies.

**References**


