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RESEARCH ARTICLE

The liability of opaqueness: State ownership and the likelihood of deal completion in international acquisitions by Chinese firms

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***Research Summary*:** State-owned enterprises (SOEs) are often more opaque than other types of firms. This opaqueness tends to generate resistance when SOEs undertake cross-border acquisitions. Opaqueness can also aggravate concerns about an SOE's semipolitical nature and its susceptibility to agency problems, making gaining legitimacy harder. Data on attempted foreign acquisitions by Chinese firms were analyzed to compare the likelihood of deal completion between SOEs and firms with other forms of ownership. The SOEs' completion rate was 14% lower than that of other firms. Their disadvantage was shown to be alleviated when they could provide credible signals by being publicly listed (though only on an exchange in a well-developed economy or by hiring reputable auditors). We also find that the disadvantage of SOEs was partially mediated by their opaqueness.

***Managerial Summary*:** Opaqueness, or lack of transparency, is critical in many business transactions. In this article, we argue that the concept of opaqueness can help us understand why SOEs tend to have a lower likelihood of deal completion in cross-border acquisitions. Our evidence suggests that opaqueness influences the relationship between state ownership and deal completion, and firms can improve their chance of success in cross-border acquisitions by providing credible information, such as by listing on an exchange in a developed market or hiring a reputable auditor. These help mitigate the hazard of opaqueness.

KEYWORDS
acquisitions, China, emerging economies, opaqueness, state-owned enterprises

1 | INTRODUCTION

There has been a recent surge of outward foreign direct investment from the emerging economies (Karolyi & Liao, 2017; OECD, 2006). Many state-owned enterprises (SOEs) have participated in this process (Luo, Xue, & Han, 2010; Peng, Wang, & Jiang, 2008). Prior research has primarily focused on privately owned enterprises, with much less attention paid to the internationalization of SOEs. State ownership affects the resources a company can access and consequently its internationalization strategy and outcomes. The differences between SOEs and non-SOEs make any findings based on privately owned firms less than fully applicable to SOEs, so the findings of prior research may not adequately explain the emerging phenomenon of SOE globalization, particularly for new state-owned multinationals from emerging and transition economies. This study was designed to fill this gap from a new perspective—the difference in opaqueness between SOEs and other firms. Specifically, it investigated whether and how the opaqueness of an SOE affects its likelihood of completing a cross-border acquisition (CBA).

Opaqueness, or lack of transparency, is defined as the unavailability of credible firm-level information to stakeholders (Bushman, Piotroski, & Smith, 2004). Opaqueness can occur when a firm does not disclose or when the disclosed information cannot be validated or certified, for example, by reputable financial auditors. In a CBA, an opaque acquirer may not disclose its long-term corporate policy or financial strength, making outsiders unable to judge the implications of the deal. In a CBA, the government and competing firms in the host country will usually have relatively little information about the acquirer, especially when the acquirer is an SOE, because SOEs tend to be more opaque (Bushman et al., 2004; Q. Wang, Wong, & Xia, 2008) and the information they do divulge might be less than fully credible (Rogers & Ruppersberger, 2012). Non-SOEs are typically relatively straightforward profit maximizers. An SOE may have more vague purposes as well as a relatively complex structure. SOEs have an image of being semipolitical organizations with noneconomic aims (Bai, Li, Tao, & Wang, 2000) and of performing poorly because of severe agency problems (La Porta, Lopez-de-Silanes, & Shleifer, 2002; Shleifer & Vishny, 1994). Indeed, opaqueness may be a deliberate tactic of an SOE or the government, which controls it, either because the government wants to prevent the leakage of secrets, or to maintain political flexibility. The managers too may want to minimize public scrutiny simply to enjoy an easier life. SOEs may have business practices unfamiliar to host country stakeholders and which those stakeholders may mistakenly treat as illegitimate (Cogman, Gao, & Leung, 2017). Such opaqueness makes it difficult to assess clearly an SOE acquirer's motivations and any potential benefits an acquisition might bring to the host country.

People are generally more averse to taking less familiar, more ambiguous, or unknown risks (Bornstein & D'Agostino, 1992; Moreland & Beach, 1992; Zajonc, 1968), and agency problems tend to be more severe when there is a lack of information (Holmstrom, 1979; Jensen & Meckling, 1976). State ownership can stimulate political concerns, national security concerns, economic concerns and suspicions, and provoke negative reactions in the host country. Opaqueness can aggravate such concerns and suspicions and increase the hurdles an SOE acquirer must overcome to establish legitimacy in the host country. This study was designed to seek evidence for such a liability of opaqueness based on SOE status. Specifically, it aimed to address two research questions: Do SOEs suffer more from the liability of opaqueness in CBAs; and can opaqueness explain, at least partially, the difference between the CBA completion rates of SOEs and other firms?

These questions were studied using a sample of CBAs attempted by Chinese firms. China was an ideal focus for such a study because of its very different political institutions and the general opaqueness of its SOEs. Chinese acquirers have very often been observed to terminate their CBA attempts

because of adverse political sentiment in the host country (China National Offshore Oil Company's aborted acquisition of Unocal) or because of adverse rulings by regulatory agencies (Fujian Grand Chip Investment Fund's aborted bid for Aixtron). China's communist history has led the government to rely on SOEs, even today, to fulfill many governmental roles (Bai et al., 2000; Cui & Jiang, 2012). That makes Chinese SOEs even more opaque than other Chinese firms (Q. Wang et al., 2008). Differences in political ideology also tend to arouse suspicion. However, China today has become important globally because of its large population, the size of its economy, and its growing international influence.

The importance of opaqueness for Chinese CBAs has been discussed extensively by practicing managers. Almost all of the world's major newspapers have published related articles, as have McKinsey and *The Economist.* For example, *The Economist* wrote that "… China's state-owned firms are on a shopping spree. Chinese buyers—mostly opaque, often run by the Communist Party and sometimes driven by politics as well as profit…" (The Economist, 2010). McKinsey also criticized the opaqueness in decision-making of Chinese acquirers, including limited visibility into their funding, priorities, or intention to actually complete a transaction (Cogman et al., 2017).

This study contributes to several streams of research. SOEs are important components of many economies. Previous studies have focused on how they differ from other firms in terms of corporate governance and operating performance (e.g., Boardman & Vining, 1989; Shleifer & Vishny, 1994). Such studies have primarily adopted an organizational economics view and treated SOEs as firms that face some severe problems in terms of conflicts of interests between managers and shareholders (the principal-agent problem) and between the controlling shareholder and minority shareholders (the principal-principal problem). The principal-agent problem arises because the ultimate owners of an SOE (the taxpayers) are diverse and they cannot effectively monitor the firm's managers (Olson, 1965; Stigler, 1971). The principal-principal problem arises because the government may want to pursue aims that may not be in the best interests of the minority shareholders (Y. Chen & Young, 2010; J. T. Li & Qian, 2013; Zou & Adams, 2008). Being connected to the government can give a firm an advantage in doing business, particularly in the domestic market of an emerging economy, and prior studies have documented that SOEs receive more support from governments than other types of firms in terms of access to external capital (Brandt & Li, 2003; Luo et al., 2010; Song, Storesletten, & Zilibotti, 2011), protection of property rights (Che & Qian, 1998), and even through direct subsidies (Eckaus, 2006). The results of this study also suggest that opaqueness—an important but largely ignored difference between SOEs and other firms—may also be very important in understanding the strategy and performance of SOEs' globalization efforts.

This study also contributes to the CBA literature, especially to the study of CBAs by emerging economy firms. Multinationals from emerging economies may have different internationalization motivations. They are interested in acquiring strategic assets such as natural resources and high technology, and try to overcome the disadvantages of being latecomers and to escape some of the institutional and market constraints they endure at home (Deng, 2009; Luo & Tung, 2007; Morck, Yeung, & Zhao, 2008; Rui & Yip, 2008). Most of the previous studies of CBAs have focused on postmerger integration and performance (Krug & Hegarty, 2001; Seth, Song, & Pettit, 2002). Very few have studied the likelihood of CBA completion (with Dikova, Sahib, & Witteloostuijn, 2010 as a notable exception). Dikova's group examined how institutional differences and organizational learning matter for deal completion (Dikova et al., 2010), but this study examined deal completion from the perspective of the liability of opaqueness.

2 | THEORETICAL BACKGROUND

2.1 | Opaqueness and the completion of CBAs

Gaining legitimacy in a host country is an important factor affecting multinationals' success. "Legitimacy is a generalized perception that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). Because people are generally more concerned about unknown, unfamiliar, and more ambiguous risks, an opaque acquirer's reception will tend to be less favorable than that of a more transparent one (Akerlof, 1970; Bornstein & D'Agostino, 1992; Moreland & Beach, 1992; Scott, 1995, 2005; Zajonc, 1968).

These observations accord with the predictions of signaling theory (Spence, 1973) and of transaction cost economics (Williamson, 1975, 1981, 1985). Signaling theory predicts that signaling can be an effective way to mitigate the liability of opaqueness. Target company shareholders, employees, managers, and also the general public and government in the host country feel their information disadvantages when evaluating a potential SOE acquirer. Such stakeholders always feel they have too little information about the acquiring company to make fully rational evaluations, but the information opaqueness of an SOE exacerbates their anxieties. They may feel unable to distinguish a "bad" firm from a "good" one. As a result, even good firms may face resistance. Signaling theory suggests that both types might profit by enhancing information flow and sending credible signals to the market.

Information opaqueness is an important determinant of transaction costs. Information asymmetry leads to two major problems: adverse selection and moral hazard. Adverse selection can occur when the party with better private information about the quality of a product will selectively participate in transactions, which benefit them most, at the expense of their trading partner (Akerlof, 1970). Moral hazard can occur when the party with more information has an incentive to behave inappropriately from the perspective of the party with less information (Holmstrom, 1979; Jensen & Meckling, 1976). Adverse selection increases the costs of finding the best quality or the lowest price product provider (search and information costs) and the costs of reaching an agreement (bargaining costs). Moral hazard increases the costs of making sure that both parties stick to the agreement and of taking appropriate action (policing and enforcement costs).

Besides adverse selection and moral hazard, opaqueness increases transaction costs because it reduces trust (Schnackenberg & Tomlinson, 2014). Trust reflects a willingness to be vulnerable based on confidence about another's intentions; opaqueness shapes such expectations (Bornstein & D'Agostino, 1992; Feddersen & Gilligan, 2001; Lewicki & Bunker, 1995, 1996; Moreland & Beach, 1992; Zajonc, 1968). Norman, Avolio, and Luthans (2010) found that in corporate downsizing, leadership transparency influences employees' level of trust and their evaluations of the leaders' effectiveness. Jahansoozi (2006) documented that transparency helps repair damaged trust among stakeholders after a breach of trust by an organization.

A certain degree of information opaqueness is inevitable in any cross-border economic activity, but CBAs are a particularly important example. In any acquisition, the target's stakeholders inevitably feel that they lack information about the acquirer's ability and motives. Insiders know their own firm better than outsiders ever can (Cohen & Dean, 2005), so an acquirer has extensive information about its own internal operations, economic efficiency, potential, and of course its motivations, not available to the target. This is the case even in domestic deals (Eckbo, Giammarino, & Heinkel, 1990; Hansen, 1987). However, cultural and institutional differences tend to make the disparity much worse in CBAs.

Most organizations are a complex product of a particular combination of technology, culture, employees, and management style. Each tries to have its own corporate strategy and each displays a different level of economic efficiency. These matter to many sorts of target-side stakeholders. Suppliers, for example, hoping for orders from the merged firm will care about its payment practices. Customers will care about its product and pricing strategy. Employees inevitably worry about layoffs, training, and benefits. And the target country's government needs to worry about economic growth, tax revenue, employment, and perhaps even innovation. All of these depend on whether the acquirer can complete the integration successfully, be profitable and sustainable, and any restructuring strategy it intends to achieve this.

A second consideration is the acquirer's motivation. For most companies, maximizing financial performance is assumed to be the most important purpose of a CBA. For some firms, however, this may not be the only purpose, or it may not be perceived as the only purpose. If the assets being acquired are seen as in some way related to the host country's national security, information about the acquirer's real motives becomes very important (Cui & Jiang, 2012; Globerman & Shapiro, 2009; He & Lyles, 2008). If the host country is uncertain about a potential economic or security threat, even if its fears are actually groundless, the likelihood of completing a CBA is likely to be affected.

There is plenty of anecdotal evidence of this. China National Offshore Oil Company's bid for Unocal generated a lot of political debate and attracted scrutiny from the U.S. government for just these reasons. *Business Week* commented that politics was one of the most important reasons that killed the deal (Business Week, 2005). In 2006, Dubai World Ports, owned by the government of the United Arab Emirates, bid for six ports owned by P&O Steam Navigation Company in the U.S. The deal stirred up a controversy about whether the sale would compromise port security, even though the ports were already owned by a foreign company. Shortly afterward, the U.S. Congress passed the Foreign Investment and National Security Act of 2007, which gave the U.S. Committee on Foreign Investment power to oversee any cross-border merger or acquisition considered likely to affect national security. The governments of China, Germany, and several other countries followed quickly by setting up their own regulatory agencies.

3 | HYPOTHESIS DEVELOPMENT

3.1 | SOE and the completion of CBAs

SOEs are generally more opaque than other types of firms (Q. Wang et al., 2008). SOEs' opaqueness is often an explicit government policy, especially in China (Q. Wang et al., 2008). The government may not want to disclose even to its own public the real purpose of an international acquisition. There could be reasons related to national security, they could anticipate possible opposition from the acquired firm's minority shareholders (Y. Chen & Young, 2010), or they may simply want to avoid being revealed as directly participating in the transaction. An SOE's managers too may favor opaqueness. The agency perspective suggests that they have incentives to seek private benefits from the firms they manage. Opaqueness facilitates such activities (Q. Wang et al., 2008).

The primary advantage of being transparent is to lower a firm's cost of capital by minimizing information asymmetry between the firm and external investors (Kelly & Ljungqvist, 2012). However, China's SOEs already enjoy preferential access to capital (Brandt & Li, 2003), so they feel less pressure for transparency for financing purposes (Q. Wang et al., 2008).

Two other characteristics of SOEs further intensify the problem of opaqueness. First, the fact that SOEs pursue not only economic but also political goals makes them semipolitical organizations and

leads to political risks. Political risk has long been recognized as an important factor in firms' foreign investment decisions (Kobrin, 1979). Nationalistic behavior and powerful special interest groups are two common risk factors (Dinc & Erel, 2013; Rajan & Zingales, 2003). The fact that some SOEs may pursue noneconomic goals in their CBAs aggravates the negative impact of opaqueness. Being political can easily result in economic and security concerns. Or at least it is perceived to be so. Entry of the acquirer into the target country may increase competition for target country firms in the same industry. They may form a special interest group and fight back (Chari & Gupta, 2008) by lobbying the government or manipulating public opinion. An opaque acquirer may not be able to counter such activities effectively.

And then, on average, SOEs tend to have poorer performance than privately run enterprises. SOEs are nominally owned by the public, but that public ownership is so widely dispersed that SOE governance can involve many problems. Not least, politicians feel free to cater to the needs of special interest groups or even to enjoy personal benefits at the company's expense (Boycko, Shleifer, & Vishny, 1993; Dharwadkar, George, & Brandes, 2000; Olson, 1965; Shleifer & Vishny, 1994; Stigler, 1971). With property rights more attenuated in an SOE than in a privately owned firm (Alchian, 1965), SOE managers are tempted to be opportunistic. In any case, they must be motivated in part by political considerations rather than simply pursuing profit maximization. All these characteristics lead to principal-principal problems (J. T. Li & Qian, 2013). Managers chosen at least partly on political grounds are also likely to be less competent (Y. Chen & Young, 2010), making SOEs generally less efficient than similar privately owned enterprises (Boardman & Vining, 1989; Y. Chen & Young, 2010; Ramaswamy, 2001; Shleifer & Vishny, 1994). These generalizations may stimulate resistance from the host country's government and general public, to whatever extent they actually apply to a particular acquirer. If they feel that SOEs in general care less about financial results, they may fear that the financial performance of the target company will deteriorate after it has been acquired, and employment and tax revenues may be constrained. And if the acquisition is only partial, leaving the SOE as a large shareholder, this can lead to tunneling and low payoffs for the minority host country shareholders (Ramaswamy, 2001). Furthermore, the advantages that SOEs enjoy from the Chinese government can also give them an edge in competing with host country competitors. This will increase concerns that an SOE's entry will distort business competition (Globerman & Shapiro, 2009; He & Lyles, 2008). Such difficulties are inherently greater for SOE acquirers than for non-SOEs (Luo & Rui, 2009).

Overall, SOEs are more opaque than non-SOEs, and opaqueness makes gaining legitimacy harder, leads to adverse selection and moral hazard problems, and lower trust. The semipolitical nature of SOEs and their poorer performance intensify the problem of opaqueness.

Hypothesis 1: (H1): *Attempted CBAs by SOE acquirers are less likely to be completed than comparable attempts by non-SOEs.*

3.2 | The moderating role of opaqueness

Signaling theory (Spence, 1973) and transaction cost economics (Williamson, 1975, 1981, 1985) suggest some ways of reducing the liability of opaqueness. That should reduce an SOE's disadvantages relative to non-SOEs, improve its image, help it establish legitimacy, and promote internationalization. First, not all SOEs pursue political agendas, gain support from their home country government, or have the same level of agency problems. However, when an acquirer is opaque and does not provide credible information, host country stakeholders will have difficulty distinguishing “good” SOEs from “bad” ones. Given SOEs' semipolitical nature, they are more likely to be perceived as potential

economic or security threats, even if such fears are actually groundless. For example, Cogman has suggested (Cogman et al., 2017) that Chinese acquirers' opaqueness often masks a genuine desire, even a need, for a CBA. An opaque acquirer may find it more difficult to convince stakeholders in the host countries that its acquisition was driven by a genuine desire.

On the other hand, being transparent can reduce the uncertainty in economic exchanges, and also empower a firm in monitoring its exchange partner, leading to less risk of agency problems (Holmstrom, 1979). SOEs' agency problems often arise from conflicts between small and large shareholders (principal-principal problems) and the conflicts between shareholders and managers (principal-agent problems). Small shareholders may be at a particular disadvantage relative to larger shareholders and relative to managers when an SOE is involved (Y. Chen & Young, 2010; Dharwadkar et al., 2000; Jensen & Meckling, 1976; J. T. Li & Qian, 2013).

Hypothesis 2: (H2): *Opaqueness aggravates the negative relationship between SOE acquirer and the likelihood of deal completion.*

Disclosure can be an effective way to signal a firm's motives and abilities (Spence, 1973). Transparent firms of course run the risk that the information they disclose may be used against them (Derlega & Chaikin, 1977), but disclosing it conveys the firm's willingness to assume that type of risk, which is a signal that the firm intends to adhere to moral and ethical principles related to information sharing (Colquitt, Scott, & LePine, 2007; Mayer, Davis, & Schoorman, 1995; Spence, 1973). It to some extent commits itself to mutual cooperation and maximizing joint (instead of self) gain (Mayer et al., 1995). An SOE's good information disclosure can signal its willingness to maximize joint gain rather than to threaten the host country's national security or to hurt its host country competitors by relying on support from its home country government.

Signaling theory and the transaction cost theory predict that only credible information can reduce opaqueness, improving a firm's image and building legitimacy. To be credible, the signal has to be differentially costly for high-quality versus low-quality firms, and hard to reverse. One such measure is being publicly listed. Being publicly listed is costly and is a commitment to continuously providing a great deal of information (Stulz, 1999). Most stock exchanges require their listed firms to make many regular and irregular filings, including reports that are not misleading about important activities such as mergers and acquisitions. This can be very inconvenient when overseas negotiations are involved. Getting listed is also costly (Certo, 2003; Megginson & Weiss, 1991). And once listed, a firm needs to maintain at least a minimum flow of information required either by law or by the exchange. Listing is a signal that is hard to mimic and also hard to reverse, so it is a credible way for a firm to reduce its opaqueness, improve its image, and gain legitimacy.

The misadventures of Huawei and ZTE, two of the largest telecommunication companies in China, show that the industry did indeed consider opaqueness to be important in international business and that a public listing is a credible signal. ZTE is controlled by the state. Huawei is privately owned, but was founded by a former military officer. Both are perceived, within China and abroad, as having close links with the Chinese government. In the process of doing business in international markets, both firms have faced resistance in many countries.[1] The *Wall Street Journal* has reported that Huawei has contacted investment banks for advice in preparation for an IPO to "…make it more

[1]The British Parliament's Intelligence and Security Committee has investigated Huawei's relationship with British Telecom (Intelligence and Security Committee, 2013) and the European Commission has been building an antidumping or antisubsidy case against Huawei and ZTE (J. Li & Shen, 2013). On October 8, 2012, the House Intelligence Committee of the United States Congress, after completing an 11-month investigation, stated that the two companies are close to the Chinese government, which could use them to spy on U.S. citizens or infiltrate vital American infrastructure (Rogers & Ruppersberger, 2012).

transparent and improve its odds of winning big contracts in markets like the U.S." (Osawa & Ho, 2012). The *Financial Times* has pointed out that listing is one way for the firms to improve their transparency and to minimize misunderstanding and resistance from the U.S. government (Brown, 2011).

Hypothesis 2a: (H2a): *Being publicly listed weakens the negative relationship between SOE acquirer and the likelihood of deal completion.*

The information disclosure requirements differ by countries. It is widely documented that emerging markets tend to have more prevalent institutional voids (Khanna & Palepu, 2010), especially with respect to information disclosure (Karolyi, 2006). By definition, exchanges in better-developed financial markets have stronger requirements and can enforce them more effectively (Karolyi, 2006; Stulz, 1999). However, because an overseas listing requires changes in financial reporting and also internal reorganization, it can be very costly. Lower-quality firms (often those with inefficient operations) face greater disruption, and thus steeper costs when listing overseas (Blass & Yafeh, 2001). That tends to make listing in a developed economy particularly credible. It has the added advantage of helping an acquirer circumvent some of the institutional voids it must deal with at home. China's own institutional environment remains poorly developed. Therefore, firms listed in Shanghai or Shenzhen are subject to institutional voids, and any information they disclose may be treated as of doubtful credibility.

The quality of information disclosure also differs by the quality of the auditors. An auditor's main duty is to guarantee the credibility of the information firms report. Bushman et al. (2004) also emphasize the importance of the quality of financial disclosure auditing. Although better auditors may not require more information disclosure, they can ensure the credibility of what is disclosed. That the quality of auditing firms varies widely is well documented (Beatty, 1989; DeAngelo, 1981; Mansi, Maxwell, & Miller, 2004). Audit quality differences can arise from differences in the skills of the accountants involved. It can also come from their incentives. Accounting firms with better reputations have more to lose from poor auditing, and, therefore, are less likely to collude with their clients and fail to report problems they discover.

This suggests that being listed on an exchange in a developed economy and hiring a reputable auditor can reduce an SOE's disadvantage in CBAs.

Hypothesis 2b: (H2b): *Being listed on an exchange in a developed economy weakens the negative relationship between SOE acquirer and the likelihood of deal completion.*

Hypothesis 2c: (H2c): *Using a more reputable auditor weakens the negative relationship between SOE acquirer and the likelihood of deal completion.*

3.3 | The (partial) mediating role of opaqueness

So more opaque acquirers face higher hurdles in establishing their legitimacy in CBAs (Akerlof, 1970; Bornstein & D'Agostino, 1992; Moreland & Beach, 1992; Scott, 1995, 2005; Zajonc, 1968). Stakeholders may feel they have too little information about an opaque acquirer to make fully rational evaluations. They may worry that they will not be able to monitor the acquirer effectively after the merger. All of this will increase uncertainty and transaction costs, and hinder establishing a trusting relationship and legitimacy.

Opaqueness is often an inherent characteristic of an SOE (Q. Wang et al., 2008), either because the government does not want to disclose information for security reasons, or because the firm or its

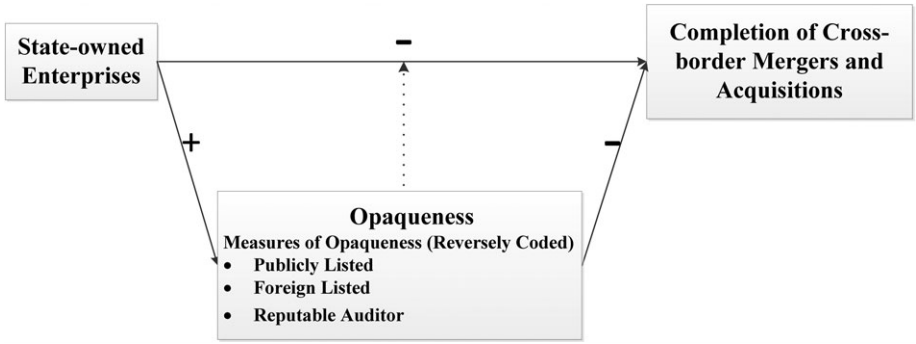

FIGURE 1 Conceptual framework

managers lack incentives to do so. Besides other factors, SOEs' opaqueness may be one reason that why SOE acquirers are less likely to complete CBAs.

> **Hypothesis 3: (H3)**: *Opaqueness (partially) mediates the relationship between state ownership and the likelihood of completion of CBAs.*

Figure 1 summarizes these hypothesized relationships.

4 | METHODS

4.1 | Sample and data

Data on cross-border mergers and acquisitions between 1990 and 2010 were collected from the SDC Platinum Database of Thomson Financial (SDC hereafter), a source that has been widely used in M&A research (Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010; Lin, Peng, Yang, & Sun, 2009; Muehlfeld, Sahib, & Van Witteloostuijn, 2012). The data for each transaction included information on both the target and the acquiring firm—their industries, listing status, listing exchange(s) if listed, and ownership status—and the characteristics of the transaction—deal size, whether the acquirer employed any financial advisor, the attitude of the target, the percentage of ownership sought by the acquirer, and the payment method. Only transactions in which the acquirer was a Chinese firm were considered. Recapitalizations, repurchases, sales of minority interests, spin-offs (as classified in the SDC), and "deals" classified as rumors[2] were ignored. Since the focus was on deal completion, 40 deals with unknown outcomes[3] were also deleted. After deleting the transactions with missing data, a total of 1,170 deals were left for analysis. Figure 2 shows the number of transactions in each year involving a Chinese acquirer. The first was in 1990. The annual total had increased to around 150 by 2010.

Table 1 shows the sample's distribution by target country (Panel A) and by acquirer and target industry (Panel B). The industry classification is based on the 2-digit U.S. SIC codes. Panel A shows only locations with more than 10 CBA deals. The distribution suggests that Chinese acquirers have tended to acquire assets in better-developed economies, in neighboring countries and in countries

[2]The results are similar if the rumored deals are assumed to have been failures.

[3]Searching the LexisNexis Academic system failed to reveal an outcome. All 40 were announced before 2000, so data were hard to find.

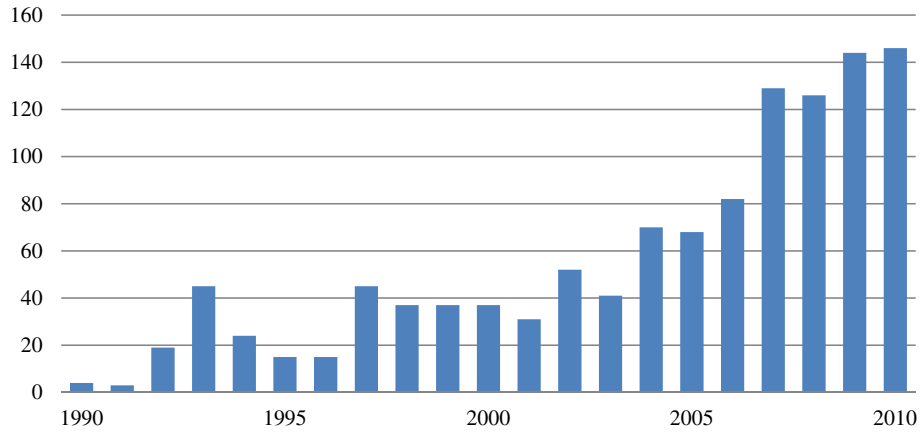

FIGURE 2 Cross-border acquisitions by Chinese acquirers 1990–2010. *Note*: As listed in Thompson Financial's SDC Platinum database

which are China's natural resource suppliers (like Australia, Canada and Mongolia). This is consistent with the findings of Buckley's group (Buckley et al., 2007). The most popular target sector has been manufacturing, with finance, insurance and real estate second, reflecting the recent global expansion of Chinese banks. Mineral industry targets ranked third, suggesting the importance of acquiring natural resources in the Chinese government's "going abroad" policy, but such acquisitions constituted only 17% of the completed deals, perhaps indicating resistance in the target economies. As would be expected, the acquirers are also concentrated in the manufacturing, finance, and minerals sectors.

Table 1 also shows the completion rate based on target country, target industry, and acquirer industry. There is a large variation in the completion rates both by target economy and also by industry. The economies with the highest completion rates were France, Italy, Malaysia, and Mongolia, which all had completion rates above 80%. The lowest were Australia, Canada, Japan, and the U.K. which all have completion rates below 70%. The completion rate by the acquirer industry is similar to the completion rate by the target industry. The industries with the highest completion rates are retailing and other service industries, and the ones with the lowest completion rates are agriculture, mining, and communications. Table 1 shows that industry and location matter for deal completion.

Of the 1,170 deals in the sample, 488 involved Hong Kong. Hong Kong is a special case, because its political and economic policies are affected by mainland China in a way not found in other economies. Even though the completion rate of Hong Kong deals was only slightly higher than the sample average, whether or not the results are sensitive to their inclusion was tested by excluding them from the analysis and by adding a dummy variable representing Hong Kong deals.

4.2 | Measures

Deal completion was represented by a dummy variable set equal to "1" if a deal was completed and "0" otherwise. The SDC reports the status of each attempted transaction. In this sample, 73% of the deals were successfully completed and 27% failed to close. The average duration to close a successful deal was about 129 days.

TABLE 1 Sample descriptive statistics

Panel A. Distribution of target economies			
Country/region	**Attempted acquisitions**	**Completed acquisitions**	**% Completed**
Hong Kong	488	375	76.8
United States	137	110	71.5
Australia	126	81	64.3
Singapore	69	56	81.2
Canada	55	38	69.1
Japan	37	25	67.6
United Kingdom	28	19	67.9
Malaysia	16	13	81.3
France	15	12	80.0
Indonesia	15	11	73.3
Italy	15	13	86.7
South Korea	15	11	73.3
Mongolia	10	8	80.0
Others	144	115	79.9
Total	1,170	857	73.2

Panel B. Distribution of industries						
	Target			**Acquirer**		
Industry	**Attempted acquisitions**	**Completed acquisitions**	**% Completed**	**Attempted acquisitions**	**Completed acquisitions**	**% Completed**
Manufacturing	338	251	74.3	356	260	73.0
Finance, insurance and real estate	268	204	76.1	463	347	74.9
Mineral industries	203	137	67.5	101	64	63.4
Other service industries	152	127	83.6	129	105	81.4
Transportation, communications, and utilities	98	56	57.1	54	33	61.1
Wholesale trade	48	36	75.0	24	17	70.8
Retail trade	31	25	80.6	15	14	93.3
Construction	20	15	75.0	9	5	55.6
Agriculture, forestry, and fisheries	12	6	50.0	16	9	56.3
Public administration	0	0	N/A	3	3	100
Total	1,170	857	73.2	1,170	857	73.2

SOE acquirer was the main independent variable. An acquirer was classified as an SOE if its immediate or ultimate owner was any level of the Chinese government.[4] SDC classifies firms as government-owned, private, publicly listed, or a subsidiary, but many publicly listed SOEs are not classified as government-owned. The ownership information for public companies was, therefore,

[4]Studies have shown that the proportion of state ownership and the level of the government involved (central vs. local government) are related to an SOE's likely internationalization strategy (Vaaler & Schrage, 2009; C. Wang, Hong, Kafouros, & Wright, 2012). The definition of an SOE used here excluded companies in which the government held only a minority interest, but the SDC does not provide detailed information about the level of the government involved. It might be worth exploring whether ownership by different levels of government has any relationship with firms' internationalization.

refined using data collected from the China Stock Market and Accounting Research (CSMAR) database.[5] If the CSMAR database did not cover a firm, data were collected directly from the firm's annual reports. To identify the ultimate owner, it was sometimes necessary to go through the entire ownership structure and count the proportion of ownership both directly held and indirectly held throughout what was often a pyramidal structure.[6] If the total state ownership was greater than the ownership share of any other individual entity, the firm was considered an SOE.[7] For the publicly listed companies thus classified as SOEs, the state ownership was in all cases greater than 15%. Supplementary analysis investigated whether the results are sensitive to the percentage of state ownership to define an SOE or to using state ownership as a continuous variable.

Public acquirer was equal to one if the acquirer was listed on any stock exchange. Transparency may still vary among public acquirers. Two other measures of transparency were *Foreign-listed acquirer* and *Big4*. *Foreign-listed acquirer* was equal to one if the acquirer was listed on a stock exchange outside its home country (in this case rather than on the Shanghai or Shenzhen exchange). The foreign exchanges represented in the sample were all from developed economies and mainly those in the U.S., Hong Kong, Singapore, and the U.K. *Big4* was equal to one if an acquirer's auditing firm was PwC, Deloitte, EY, or KPMG (and before 2002, Arthur Andersen) and zero otherwise. We also created an *Opaqueness* index by conducting a principal component analysis of the above three transparency measures. We use this *Opaqueness* index as our main opaqueness measure.

We made these choices of opaqueness measures based on the accounting and finance literature where much effort has been devoted to quantifying opaqueness. Bushman et al. (2004) had identified five important aspects of transparency (opaqueness): (a) financial disclosure intensity, (b) governance disclosure intensity, (c) the accounting principles used to measure financial disclosures, (d) the timeliness of financial disclosures, and (e) the quality of financial disclosure auditing. Apparently, nonpublic firms tend to score poorly on all five aspects. Indeed, most nonpublic firms do not report at all. Many accounting and finance studies have used being public as a measure of transparency (opaqueness), and documented that being listed in a developed market also improves transparency (Karolyi, 2006; Stulz, 1999), as well as hiring reputable auditors (Beatty, 1989; DeAngelo, 1981; Mansi et al., 2004).

A host country may use an acquirer's past failures in international acquisitions to infer its current motivations and efficiency. An acquirer's *past failure rate* was quantified as the proportion of its attempted deals, which were not completed over the previous 5 years. *Past failure rate* was calculated based on whether the target in a focal deal was from an emerging or a developed economy. If it was from an emerging economy, *past failure rate* was calculated using all emerging market attempted acquisitions. If it was from a developed economy, *past failure rate* was calculated using all developed market attempted acquisitions.

A *financial advisor* variable was created, which was the market share of the acquirer's advisor in the host country. That definition is very similar to the way the prestige of investment banks is

[5]The CSMAR database provides detailed information on the ownership of publicly listed Chinese firms and is widely used in empirical studies of Chinese public companies.

[6]This method is widely used in finance and has been shown superior to accounting only for direct ownership. For details of the method, please refer to Claessens, Djankov, and Lang (2000).

[7]For some companies, information about their ownership structure was not reported or incomplete. Many do not reveal their intermediate and ultimate ownership, which prevented calculating the exact state ownership fraction. It was, however, possible to ascertain whether or not the state was the largest owner for each of the companies in the sample. The assumption was that entities for which their state ownership status could not be ascertained were not state-owned. This had very little effect on the exact state ownership because virtually all large shareholders' identity and state ownership status were reported.

quantified based on their market share in the U.S. It differs because this was an international study and the measure used here was host country-specific.

Institutional quality has many dimensions, and it is important to quantify it in a way that considers only the theoretically relevant aspects. The institutions that matter in shaping public reaction to an acquisition relate to the general information environment affecting people in the host country and whether people can express their opinions and monitor their politicians effectively. Newspaper circulation was used to quantify each host country's general information environment. The United Nations publishes the necessary data. Multiple indexes were used to quantify to what extent a host nation's people were able to monitor their politicians. The corruption index, the rule of law index, and the democratic accountability index published by the International Country Risk Guide (ICRG) were used. These were supplemented by indexes from the United Nations covering government ownership of the press, government ownership of TV, and an index measuring whether a country requires the members of the lower house of parliament to disclose their financial and/or business interests (Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2010).[8] Those dimensions have all been shown to be important for international business (Adsera, Boix, & Payne, 2003; Cuervo-Cazurra, 2006; Cuervo-Cazurra & Genc, 2008; Delios & Henisz, 2003; Duanmu, 2012; Henisz, 2000; Weitzel & Berns, 2006). A composite *institutional quality* variable was computed for each host country as

$$\textit{Institutional quality}_j = \sum \left[\left(I_{ij} - I_{i,}\right) / V_i \right] / 7. \quad (1)$$

here, j indexes the host country, I_{ij} refers to the ith institutional index, I_i is the average value of index i, and V_i is the standard deviation of index i. The numerator measures the difference between economy j's ith institutional index and the average ith institutional index across all countries. The denominator is the standard deviation of the ith institutional index. $(I_{ij} - I_{i,}) / V_i$ is the standardized institutional index value. Our measure is then an average across seven of these measures.

The *Deal size* variable was the natural logarithm of each deal's total value as reported by SDC, measured in millions of U.S. dollars. The log transformation was to ensure that the results were not unduly affected by extreme values.

A *bilateral political relationship* measure was constructed based on members' voting records in the United Nations General Assembly. Nations with more closely aligned voting records in the General Assembly were assumed to have a strong bilateral political relationship. General Assembly voting data have been widely used in political science scholarship to measure bilateral political relationships (e.g. Voeten, 2000, 2004). The degree to which a country's votes were similar to China's was quantified using Gartzke's "S" measure (Gartzke, 1998), and that was applied in the analysis as a proxy for the strength of the bilateral political relationship. Specifically,

$$\textit{Bilateral political relationship}_{i,t} = 1 - (2d_{i,t} / dmax_{i,t}), \quad (2)$$

where $\textit{Bilateral Political Relationship}_{i,t}$ is the strength of the bilateral political relationship between China and country i in year t, $d_{i,t}$ is the sum of the distance between their votes in year t, and $dmax$ is the maximum possible distance between their votes for a given year. The distance was calculated by first classifying a "Yes" vote as equal to one and a "No" vote zero. For each vote, the distance was calculated as the absolute value of the difference in the two vote scores. Therefore, if both nations voted the same way, the distance was zero for that vote. If they voted oppositely the distance was one. That distances were cumulated over the year for each bilateral pair. A larger value of *Bilateral*

[8]All the indexes were aligned such that a higher value means better institutions.

Political Relationship$_{i,t}$ indicates greater similarity in voting in the United Nations General Assembly, which was assumed to indicate better bilateral political relations.

In studies by Herron (Herron, Lavin, Cram, & Silver, 1999) and by Julio and Yook (2012), firms in defence, health care services, petroleum and natural gas, pharmaceuticals, telecommunications, tobacco products, and transportation were considered politically sensitive. Following their lead, a *politically sensitive industry* dummy was set equal to one if a firm operated in at least one of those industries and zero otherwise.[9]

A firm's *total experience* was quantified as its total number of acquisition attempts (both successful and failed) over the 5 years prior to the focal transaction.[10] Similar to the definition of past failure rate, total experience was defined based on the location of a deal's target firm. If it was in an emerging economy, *total experience* was defined as the total number of acquisition attempts in all emerging economies; if it was in a developed economy, *total experience* was defined as the total number of acquisition attempts in all developed economies. It was defined in this way because firms may learn very different things from their experience in developed and in emerging economies.

A *public target* dummy variable was created, which was equal to one if the target company was a public company, and zero otherwise. The more diverse ownership of a public company should increase coordination costs and the difficulty of reaching a deal. The *friendly offer* dummy was defined as equal to "1" if the SDC described the offer as friendly and "0" otherwise. However, friendly deals are still exposed to uncertainty, as the target's other shareholders and regulators could still oppose them.

Same industry was another dummy variable defined as equal to one if the target and the acquirer operated in the same industry, and zero otherwise. There may be less information asymmetry between firms in the same industry, promoting deal completion. Industries were defined at the two-digit SIC code level.

In addition, the following control variables were included in the analysis. *Percentage sought* was the fraction of ownership that the acquirer initially sought to acquire. Seeking a greater stake may generate more resistance from the target company and the host country government. The dummy variable *cash offer* indicated deals in which the acquirer offered to pay entirely in cash. Paying in cash may decrease the resistance of the target firm's shareholders, but it also facilitates corruption. The host economy's Gross Domestic Product (*GDP*), *GDP* per capita, and *GDP growth rate* were other controls. And industry and year fixed effects were also included in the models.

4.3 | Modeling

Logistic regression models were evaluated to test the hypotheses. The models were of the form

$$P(deal\ completion = 1) = \Lambda\left(\alpha + \beta^T X_i + \varepsilon_i\right). \tag{3}$$

Here, $P(deal\ completion = 1)$ indicates the probability of deal completion. $\Lambda(z)$ represents the logistic response function $e^z/(1 + e^z)$. X_i indicates the set of independent variables, and α and β are model parameters. Similar models have been evaluated by Muehlfeld in analyzing acquisitions in the global newspaper industry (Muehlfeld et al., 2012) and by Dikova and his colleagues in analyzing acquisitions in the business services sector (Dikova et al., 2010). The standard errors were calculated by

[9]Herron's group studied U.S. firms. While pharmaceuticals and health care services may be very politically sensitive in the U.S., this may not be true in every country. Herron's list did not, however, include the steel industry, which is usually considered politically important in some countries. In this study's sample there were no firms in the pharmaceuticals or health care sectors, and only 3 in the steel industry. Defining them as politically sensitive had little impact on the results.

[10]In fact, the results were largely similar if only successful deals were considered.

clustering by acquiring firm (Cameron & Trivedi, 2009), similar to the method adopted by Pollock, Rindova, and Maggitti (2008) and by Muehlfeld's group (Muehlfeld et al., 2012). In the absence of interaction terms, the coefficients can be used to draw statistical inferences (Bowen & Wiersema, 2004). However, when an interaction term is included, the signs of the estimated coefficients no longer reliably indicate the direction of the true marginal interaction effects (Ai & Norton, 2003). Thus, for the models with interaction terms evaluated in this study, the true marginal effects are reported separately for different levels of the moderators.

5 | RESULTS

Table 2 presents statistics describing the variables. About 23% of the deals were done by SOEs, and 33% of the acquirers were publicly listed. 37% of the deals were in politically sensitive industries. The correlation between *Deal completion* and *SOE acquirer* is −0.15, and the *p* value is less than 0.001, suggesting a negative correlation between state ownership and CBA deal completion. The three opaqueness (reversely coded) measures are highly correlated, with correlation coefficients ranging from 0.56 to 0.81. The Cronbach's alpha is 0.86. We conducted a principal component analysis and all the three measures load strongly on the first principal component, which explains 78.4% of all the variations. All these findings suggest that the three measures are valid and reliable reflection of the theoretical construct of opaqueness. An overall Opaqueness measure is then created by using the first principal component of the three measures. *Public acquirer*, *Foreign-listed acquirer*, and *Big4* are positively correlated with *deal completion* and negatively correlated with *SOE acquirer. Opaqueness* is negatively correlated with *deal completion* and positively correlated with *SOE acquirer.*

The results of the logistic regressions are shown in Table 3. Model 1 is the baseline model. The results show that a more opaque acquirer had a lower probability of completing a deal, but acquiring a publicly listed target was more difficult to complete than acquiring a private target. Firms with more total experience had higher completion rates. The results also show that deals in which the acquirer sought to acquire a larger fraction of ownership were more likely to proceed.

The *SOE acquirer* variable was added in model 2 to test Hypothesis 1. Comparing the fit of models 1 and 2, the log likelihood ratio is 16.3 with a *p* value less than 0.001, suggesting that model 2 significantly improved on model 1. The estimated coefficient for *SOE acquirer* is −0.68, with a *p* value less than 0.001. The estimated coefficient of −0.68 means that compared with non-SOEs, the logarithm of the odds ratio of deal completion for SOEs was 68% lower. Translating this into a marginal effect, it means a 14% lower deal completion probability for SOEs compared with other firms. Considering that the average completion probability is 73%, a 14% difference is economically significant. These findings support H1.

Model 3 tests for any moderating effect of *Opaqueness* (H2). The coefficient of the *SOE acquirer* and *Opaqueness* interaction term is −0.37, with $p = 0.01$. To facilitate interpretation of the interaction term, the marginal effect of SOE acquirer was computed for acquirers with different opaqueness levels separately, following Ai and Norton (2003). Among the least opaque acquirers (when Opaqueness was one standard deviation below the mean), the marginal effect of SOE was 0.02 ($p = 0.58$), suggesting the difference between SOE acquirers and non-SOE acquirers was minimal. For an acquirer with an average level of Opaqueness, the completion probabiliy of deals was 8.5% lower for SOEs than for non-SOEs. The *p* value is 0.02. Among the most oapque acquriers (when Opaqueness was one standard deviation above the mean), the completion probabiliy of deals was 23.4% lower for SOEs than for non-SOEs. The *p* value is 0.000, suggesting the difference is highly statistically

TABLE 2 Descriptive statistics and correlation coefficients

		MEAN	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1	Deal completion	0.73	0.44	1																				
2	SOE acquirer	0.23	0.42	−0.15	1																			
3	Opaqueness	0.00	1.53	−0.08	0.11	1																		
4	Public acquirer	0.33	0.47	0.06	−0.07	−0.93	1																	
5	Foreign-listed acquirer	0.24	0.43	0.06	−0.15	−0.90	0.81	1																
6	Big4	0.17	0.38	0.10	−0.07	−0.82	0.65	0.56	1															
7	Past failure rate	0.12	0.33	−0.02	−0.05	0.06	−0.07	−0.03	−0.06	1														
8	Total experience	0.24	0.44	0.05	0.07	0.01	−0.04	0.00	0.01	0.50	1													
9	Public target	0.35	0.48	−0.12	0.09	0.13	−0.13	−0.12	−0.13	0.08	0.08	1												
10	Deal size	2.09	1.66	−0.05	−0.01	−0.00	−0.01	−0.01	0.00	0.11	0.09	0.06	1											
11	Politically sensitive industry	0.37	0.48	−0.14	0.15	−0.00	0.01	−0.01	0.00	0.05	0.00	0.07	0.09	1										
12	Financial advisor	0.02	0.01	0.03	0.07	−0.12	0.09	0.11	0.12	0.03	0.06	0.02	0.10	0.11	1									
13	Friendly offer	0.94	0.23	0.01	−0.01	0.01	−0.01	0.01	−0.01	0.01	−0.05	−0.14	0.04	0.03	−0.02	1								
14	Same industry	0.39	0.49	0.05	−0.01	0.00	−0.01	−0.05	0.00	−0.12	−0.07	−0.20	0.05	0.01	0.02	−0.02	1							
15	Percentage sought	0.56	0.39	0.11	−0.09	−0.09	0.11	0.10	0.09	−0.07	−0.08	−0.49	0.07	−0.12	0.00	0.15	0.09	1						
16	Cash offer	0.25	0.43	−0.01	−0.04	0.02	−0.03	−0.02	−0.02	0.01	−0.03	0.15	0.00	0.02	0.05	−0.09	0.05	−0.04	1					
17	Institutional quality	1.33	0.58	−0.02	0.00	0.01	0.00	−0.02	−0.01	0.06	0.01	0.18	0.03	0.12	−0.01	0.09	−0.03	0.03	0.09	1				
18	Log (GDP)	26.64	1.65	0.05	−0.05	0.00	0.07	0.01	0.06	0.02	0.02	0.06	0.02	−0.05	−0.01	0.03	0.01	0.10	−0.02	0.46	1			
19	Log (GDP per capita)	9.86	1.03	0.01	−0.08	−0.07	0.03	0.07	0.00	0.05	0.00	0.17	−0.05	−0.24	−0.07	−0.03	−0.05	0.05	0.10	0.47	0.50	1		
20	GDP growth rate	3.44	3.55	−0.03	0.00	−0.04	0.03	0.03	0.04	−0.04	0.00	−0.08	0.00	−0.02	0.07	0.00	−0.01	0.01	−0.02	−0.20	−0.34	−0.17	1	
21	Bilateral political relationship	0.90	0.26	0.06	−0.05	−0.06	0.05	0.07	0.06	−0.02	0.03	−0.27	−0.01	−0.27	−0.01	−0.07	0.03	0.22	−0.09	−0.41	−0.13	−0.09	0.09	1

Note: $N = 1{,}170$.

TABLE 3 Coefficients of logit regressions predicting deal completion

DV=	(1) Base Completion	(2) Main effect Completion	(3) Moderating Completion	(4) Partial mediating Opaqueness	(5) Completion
(i) Hypothesized effects					
SOE acquirer		−0.677 (0.00)	−0.702 (0.06)	0.472 (0.00)	−0.998 (0.00)
Opaqueness	−0.198 (0.01)	−0.132 (0.02)	−0.062 (0.08)		
SOE acquirer × opaqueness			−0.365 (0.00)		
(ii) Acquirer level					
Total experience	0.473 (0.02)	0.574 (0.01)	0.681 (0.00)	0.031 (0.80)	0.555 (0.01)
Past failure rate	−0.178 (0.50)	−0.309 (0.25)	−0.357 (0.19)	−0.134 (0.40)	−0.314 (0.24)
(iii) Target level					
Public target	−0.373 (0.06)	−0.341 (0.08)	−0.404 (0.04)	0.280 (0.02)	−0.370 (0.06)
Deal size	−0.081 (0.09)	−0.085 (0.07)	−0.066 (0.17)	−0.005 (0.85)	−0.090 (0.06)
(iv) Deal level					
Financial advisor	0.157 (0.23)	0.171 (0.21)	0.178 (0.20)	−0.182 (0.00)	0.197 (0.15)
Politically sensitive industry	0.121 (0.98)	0.119 (0.98)	0.117 (0.98)	0.014 (0.21)	0.117 (0.98)
Friendly offer	−0.032 (0.92)	−0.036 (0.91)	−0.039 (0.91)	0.317 (0.11)	−0.069 (0.83)
Same industry	0.003 (0.98)	0.009 (0.96)	−0.033 (0.84)	0.201 (0.04)	−0.010 (0.95)
Percentage sought	0.524 (0.03)	0.518 (0.03)	0.550 (0.02)	−0.168 (0.23)	0.540 (0.02)
Cash offer	0.022 (0.90)	0.007 (0.97)	−0.011 (0.95)	0.036 (0.74)	0.002 (0.99)
(v) Location level					
Institutional quality	0.138 (0.47)	0.150 (0.43)	0.160 (0.41)	0.113 (0.31)	0.135 (0.48)
Bilateral political relationship	0.301 (0.38)	0.268 (0.44)	0.231 (0.51)	−0.259 (0.24)	0.306 (0.38)
Log (GDP per capita)	−0.083 (0.43)	−0.100 (0.34)	−0.104 (0.32)	0.008 (0.90)	−0.096 (0.36)
Log (GDP)	0.096 (0.15)	0.096 (0.15)	0.105 (0.12)	−0.067 (0.07)	0.101 (0.13)
GDP growth rate	0.046 (0.24)	0.041 (0.30)	0.046 (0.25)	−0.018 (0.42)	0.042 (0.28)
Constant	−0.165 (0.98)	−0.162 (0.98)	−0.164 (0.97)	0.012 (0.51)	−0.163 (0.98)
N	1,170	1,170	1,170	1,170	1,170
Chi squared/*F*	153.66	167.51	177.69	2.24	161.42
Pseudo/adj R^2	0.116	0.127	0.134	0.091	0.122

p-values are in the parentheses. Year and industry dummy variables were included but are not reported in the table. All the standard errors are clustered by acquirer.

significant. These findings support Hypothesis 2 that opaqueness disadvantages an SOE more than other firms.

Table 4 analyzes separately each of the three elements of the Opaqueness index. Panel A reports the results of using *Public Acquirer* as the measure of opaqueness. Results show that public acquirers had a higher deal completion rate, and the negative relationship between SOE acquirer and deal completion was weaker for public acquirers, consistent with findings in Table 3 and supporting H2a.

Panels B1 and B2 analyze firms with foreign and domestic listings. Panels C1 and C2 examined public acquirers with a big four auditor or not. Note that the different panels have different samples. For example, in Panel B1, when comparing foreign listed and unlisted firms, domestically listed acquirers were excluded. The sample for other panels was similarly selected. Of the 386 public acquirers, 251 were foreign-listed and 201 used a big four auditor. Within the public acquirer sample, foreign listing was positively correlated with using a big four auditor, but the correlation is unexpectedly weak: the correlation coefficient was 0.08. The regression specifications are the same as in

TABLE 4 Probability of deal completion by listing location and type of auditor

DV=	(1) Base Completion	(2) Main effect Completion	(3) Moderating Completion	(4) Partial mediating Public acquirer	(5) Completion
Panel A. Listed acquirers and unlisted acquirers					
SOE acquirer		−0.642 (0.00)	−0.985 (0.00)	−0.553 (0.00)	−0.998 (0.00)
Public acquirer	0.324 (0.05)	0.312 (0.07)	0.001 (0.99)		
SOE acquirer × public acquirer			0.976 (0.01)		
N	1,170	1,170	1,170	1,170	1,170
Chi squared	152.10	164.77	171.65	187.21	161.42
Pseudo R^2	0.115	0.125	0.130	0.131	0.122
Panel B1. Foreign-listed public acquirers and unlisted acquirers					
SOE acquirer		−0.672 (0.00)	−0.977 (0.00)	−1.030 (0.00)	−0.994 (0.00)
Public acquirer	0.424 (0.04)	0.370 (0.06)	−0.024 (0.92)		
SOE acquirer × public acquirer			1.020 (0.01)		
N	985	985	985	985	985
Chi squared	144.90	166.16	167.87	125.72	165.71
Pseudo R^2	0.128	0.139	0.144	0.143	0.136
Panel B2. Domestically listed public acquirers and unlisted acquirers					
SOE acquirer		−1.061 (0.00)	−1.132 (0.00)	−0.485 (0.27)	−1.076 (0.00)
Public acquirer	0.237 (0.25)	0.201 (0.50)	0.057 (0.86)		
SOE acquirer × public acquirer			0.709 (0.21)		
N	969	969	969	969	969
Chi squared	155.00	167.50	173.68	170.09	163.90
Pseudo R^2	0.143	0.164	0.165	0.233	0.163
Panel C1. Big 4-audited public acquirers and unlisted acquirers					
SOE acquirer		−0.589 (0.00)	−1.038 (0.00)	−0.665 (0.00)	−0.917 (0.00)
Public acquirer	0.579 (0.02)	0.461 (0.01)	−0.063 (0.82)		
SOE acquirer × public acquirer			2.260 (0.00)		
N	1,035	1,035	1,035	1,035	1,035
Chi squared	150.09	158.39	176.71	143.29	150.54
Pseudo R^2	0.137	0.144	0.161	0.156	0.137
Panel C2. Public acquirers not Big 4-audited and unlisted acquirers					
SOE acquirer		−1.038 (0.00)	−1.064 (0.00)	−0.318 (0.13)	−1.034 (0.00)
Public acquirer	0.060 (0.78)	0.052 (0.82)	0.017 (0.95)		
SOE acquirer × public acquirer			0.113 (0.81)		
N	919	919	919	919	919
Chi squared	153.29	179.02	179.08	135.69	178.97
Pseudo R^2	0.136	0.159	0.159	0.152	0.159

p-values are in the parentheses. Year and industry dummies and all other control variables were included but are not reported in the table. All the standard errors are clustered by acquirer. All of the control variables were included but their coefficients are not reported.

Table 3 except that the control variables's coefficients are not reported. Table 4 shows that being foreign-listed and using a big four auditor both moderate the relationship between being an SOE acquirer and deal completion, but being domestically listed and using an auditor not among the big four did not. These results support H2b and H2c.

Hypothesis 3 about the mediating effect of opaqueness was tested by comparing models 2 and 5 of Table 3. Model 2 included both the SOE acquirer dummy and Opaqueness, while model 5 only included the SOE acquirer dummy. Relative to model 5, the effect of SOE acquirer decreased in model 2; the effect of Opaqueness remained. The results of Baron and Kenny's (1986) test supported Hypothesis 3: being an SOE acquirer was negatively related to the likelihood of deal completion, but it was partially mediated by opaqueness. As a further test of the mediation effect in Hypothesis 3, bootstrapping procedures (Shrout & Bolger, 2002) were used in addition to the Baron and Kenny's (1986) approach, which has been criticized for its limited power to detect significant effects and high Type I error. The 95% confidence intervals were based on 5,000 replications. The total effect of being an SOE acquirer on the completion of CBA deals was −0.14 ($p < 0.001$; CI = −0.20 to −0.08). The indirect effect was −0.04 ($p = 0.01$; CI = −0.01 to −0.07), and the direct effect was −0.10, $p = 0.002$; CI = −0.16 to −0.04). These results suggest that opaqueness partially mediates the relationship between being an SOE acquirer and the likelihood of completing a CBA deal.

The results from Table 4 show that being publicly listed (Panel A), foreign-listed (Panel B1), and using a big four auditor (Panel C1) had partial mediating roles in the relationship between being an SOE and the likelihood of deal completion, but being domestically listed (Panel B2) and using a less-respected auditor (Panel C2) did not. These results provide further support for H3.

These findings that being listed on a stock exchange of a developed economy or hiring a reputable auditor help reduce the burden of opaqueness provide further evidence that it is opaqueness that makes the difference between SOEs and non-SOEs, rather than being listed per se. These findings are also consistent with the argument that there are institutional void problems in emerging markets (Khanna & Palepu, 2010), specifically in China. Being publicly listed on a Chinese exchange or hiring a less respected auditor (typically a small, local auditor) does not help at all to relieve the opaqueness problems faced by SOEs. This is consistent with the widely discussed allegation that Chinese firms routinely "cook the books" (K. Chen & Yuan, 2004).

Table 5 reports the results of some robustness tests. Panels A and B investigate whether the results are driven by the Hong Kong transactions. A dummy variable indicating deals involving a Hong Kong target was included in the models of Panel A. In Panel B, the Hong Kong deals were excluded from the regressions. The results in Panel A show little difference after adding the Hong Kong dummy. In all the regressions, the p-value of the coefficient of the Hong Kong dummy variable is very high, suggesting that on average, after controlling for other deal characteristics, Hong Kong deals did not have significantly different completion likelihood. The results in Panel B show that excluding Hong Kong targets from the sample increased the coefficient of the SOE acquirer term from −0.998 in Table 3 to −1.415. However, the other results are not much affected. Overall, the results of Panels A and B suggest that the results reported in Table 3 were not very sensitive to inclusion of the Hong Kong transactions.

The results' sensitivity to the definition of an SOE was also tested. In Panel C, firms with state ownership of less than 25% were excluded. In Panel D, the cutoff was 50%. The results show that the conclusions are largely unaffected by the definition's cutoff. In Panel E, state ownership was used directly as a continous variable rather being represented by a dummy variable. The mediating effect and the moderating effect were largely unchanged. Overall, Panels C to E confirm that the results of Table 3 were not sensitive to the specific definition of an SOE acquirer.

TABLE 5 Robustness tests

	(1)	(2)	(3)	(4)	(5)
	Base	Main effect	Moderating	Partial mediating	
DV=	Completion	Completion	Completion	Opaqueness	Completion
Panel A. With a HK dummy					
SOE acquirer		−0.673 (0.00)	−0.698 (0.06)	0.471 (0.00)	−0.994 (0.00)
Opaqueness	−0.199 (0.01)	−0.133 (0.01)	−0.062 (0.08)		
SOE acquirer × opaqueness			−0.368 (0.00)		
HK	−0.410 (0.17)	−0.390 (0.20)	−0.409 (0.18)	−0.028 (0.87)	−0.378 (0.21)
N	1,170	1,170	1,170	1,170	1,170
Chi squared/*F*	155.52	169.17	179.49	2.21	162.98
Pseudo/adj R^2	0.118	0.128	0.136	0.097	0.123
Panel B. Excluding HK deals					
SOE acquirer		−1.044 (0.00)	−1.069 (0.06)	0.312 (0.00)	−1.415 (0.00)
Opaqueness	−0.144 (0.01)	−0.180 (0.02)	−0.068 (0.08)		
SOE acquirer × opaqueness			−0.301 (0.06)		
N	682	682	682	682	682
Chi squared/*F*	136.88	154.74	158.26	1.70	153.69
Pseudo/adj R^2	0.189	0.214	0.219	0.089	0.212
Panel C. State ownership ≥ 25%					
SOE acquirer		−0.638 (0.00)	−0.663 (0.00)	0.371 (0.00)	−0.975 (0.00)
Opaqueness	−0.198 (0.01)	−0.132 (0.02)	−0.062 (0.08)		
SOE acquirer × opaqueness			−0.410 (0.00)		
N	1,170	1,170	1,170	1,170	1,170
Chi squared/*F*	153.66	165.99	178.53	2.16	162.04
Pseudo/adj R^2	0.116	0.126	0.135	0.092	0.123
Panel D. State ownership ≥ 50%					
SOE acquirer		−0.630 (0.00)	−0.652 (0.06)	0.310 (0.01)	−0.969 (0.00)
Opaqueness	−0.198 (0.01)	−0.123 (0.02)	0.011 (0.86)		
SOE acquirer × opaqueness			−0.401 (0.00)		
N	1,170	1,170	1,170	1,170	1,170
Chi squared/*F*	153.66	165.69	177.56	2.12	161.99
Pseudo/adj R^2	0.116	0.125	0.134	0.089	0.123
Panel E. State ownership as a continuous variable					
SOE acquirer		−0.820 (0.00)	−0.723 (0.06)	0.363 (0.01)	−1.195 (0.00)
Opaqueness	−0.198 (0.01)	−0.110 (0.04)	−0.015 (0.82)		
SOE acquirer × opaqueness			−0.332 (0.00)		
N	1,170	1,170	1,170	1,170	1,170
Chi squared/*F*	153.66	171.19	176.54	2.04	168.43
Pseudo/adj R^2	0.116	0.129	0.134	0.083	0.127

p-values are in the parentheses. Year and industry dummies and all other control variables were included but are not reported in the table. All the standard errors are clustered by acquirer. All of the control variables were included but their coefficients are not reported.

6 | DISCUSSION AND CONCLUSIONS

Outward foreign direct investment from emerging economies has been growing rapidly (OECD, 2006). As part of this new phenomenon, many SOEs have begun to expand globally (Karolyi & Liao,

2017; Luo et al., 2010; Peng et al., 2008). Previous scholarly work has focused primarily on the globalization of privately owned enterprises, with less attention paid to the internationalization of SOEs. State ownership affects not only the resources a company can access and its motivations, but also its opaqueness. These characteristics influence its internationalization strategy and the reception it gets in host countries. The disparity between SOEs and other types of firms makes any findings based on private firms less than fully applicable to the emerging phenomenon of SOE globalization, particularly for new multinationals from emerging and transition economies. This study has tried to fill this gap by demonstrating how state ownership can affect the internationalization of SOEs from emerging economies, at least in terms of deal completion for Chinese state-owned firms.

Unlike previous studies of state ownership, this study focused on the opaqueness of SOEs, treating it as an inherent characteristic. Either they are less willing to provide information to small shareholders or the public to avoid scrutiny, or they have less incentive to provide information because the benefits of disclosure are less for them than for a privately owned enterprise. For example, they have less need to disclose information to secure external financing.

This study tested the idea that opaqueness can explain many phenomena associated with the CBAs of Chinese acquirers. Specifically, it investigated how opaqueness affects the likelihood of completing a CBA deal. The results show that the completion rate for Chinese SOE acquirers was 14% lower than for non-SOEs during the period studied. They also show that the difference between SOEs and non-SOEs is smaller when an SOE acquirer can send credible signals by being a publicly listed company. This difference was also partially mediated by opaqueness.

However, being publicly listed did not help unless the listing was in a developed financial market or the firm hired a reputable auditor. Being publicly listed in Shanghai or Shenzhen or hiring a little-known auditor did not help reduce the difference in the likelihood of CBA deal completion between SOEs and non-SOEs. These results provide further support for the idea that it is opaqueness that makes the difference, rather than being publicly listed per se. This is consistent with the results documenting an institutional void problem in emerging markets (Khanna & Palepu, 2010).

Although this analysis has been based entirely on the experiences of Chinese firms, its results should be applicable beyond the Chinese context. First, the semipolitical nature of SOEs and their inherent opaqueness apply also in other countries (Shleifer, 1998). There are many government-owned entities making CBAs (e.g. Singapore's Temasek Holdings, the Kuwait Investment Authority and Norway's Government Pension Fund), which are neither apolitical nor particularly transparent (Karolyi & Liao, 2017). However, China's situation may differ because of its communist history, giant economic size, and growing international influence. Whether state ownership matters for other economies, and if so whether it has similar economic impact merit more detailed study.

Scholars have generally acknowledged that corporate ownership may be important in CBAs, but they may not have paid adequate attention to the specific role of state ownership. These results help remedy that deficiency. They demonstrate the importance of information asymmetry and possible political resistance in CBAs. They show that opaqueness is costly in internationalization, and that considering the liability of opaqueness is important in trying to understand the behavior of Chinese firms and its outcomes. The results have clear practical implications for governments and for firms intending to expand abroad.

It is important to anticipate and try to manage potential resistance from the host country. The results suggest that the problems caused by opaqueness are at least partially manageable. There are ways to reduce its negative impacts. Firms can provide credible signals by being publicly listed, especially by listing in a foreign, developed market where the information disclosure requirements are more stringent. Hiring reputable auditors is also effective. Getting publicly listed is probably too time-consuming to relate to a particular cross-border merger or acquisition opportunity, therefore, it

should be considered as part of a firm's long-term strategy. However, if a firm has long-term ambitions to go global and be successful, such advance preparation seems likely to pay off.

These findings suggest at least three future research directions. First, the study's empirical findings suggest that incorporating opaqueness into analyses of the effects of state ownership may help explain many phenomena related to SOEs' internationalization, or at least their cross-border mergers and acquisitions. Questions about how opaqueness affects other aspects of SOEs' activities seem to merit future study. Second, this study's empirical analyses focused on Chinese acquirers. One reason is that Chinese SOEs have been criticized for their opaqueness, especially given China's communist history and its economic importance. Both stimulate security concerns. However, the opaqueness perspective should also apply to other settings. Future studies might fruitfully extend these findings by studying samples of firms in different countries.

It must be acknowledged, however, that the opaqueness measures used here have their limitations. Even with a much longer history of studying opaqueness, accounting and finance scholars still face similar difficulties. One direction of improvement is to create measures on different dimensions of opaqueness, such as on financial information and on corporate governance. A study that can propose a significantly better measure of opaqueness will be helpful.

Online supplement: An online supplement is provided to contain tables with the results for all the variables included in the regressions for each of the panels in Tables 4 and 5 in this article.

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SUPPORTING INFORMATION

Additional supporting information may be found online in the Supporting Information section at the end of the article.

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