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The Influence of Political Factors on International M&As and Joint Ventures

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Abstract

Globally operating firms face an increasing politicization of international markets, with strong governmental influence and growing nationalist tendencies. To cope with these challenging environments, firms need to develop and execute appropriate political strategies. Therefore, in my dissertation, I analyze how political factors impact firms' internationalization activities. In particular, I focus on the role of politically connected firms, such as state-owned enterprises, and of nationalism, represented by societal level nationalist sentiment, and I examine how they impact firms' strategic decisions and their outcomes regarding the formation of international joint ventures and acquisitions of firms in foreign markets.

Building upon foundational theories of strategic management and related disciplines, I develop hypotheses and empirically test them using datasets on international joint venture formations and cross-border acquisitions. My findings suggest that the politicization of international business creates both opportunities as well as external and internal challenges for firms. Opportunities emerge from non-market advantages that enable firms to gain competitive edge, such as exclusive access to resources and markets under government control. External challenges arise when political factors introduce uncertainty, for instance due to the relative lack of transparency associated with state-owned entities. Internal challenges arise when political factors induce bias, for example through a strong nationalist sentiment.

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List of abbreviations

CAR	cumulative abnormal return
CBA	cross-border acquisition
CEPII	Centre for Prospective Studies and International Information
CIIM	common ingroup identity model
e.g.	exempli gratia (for example)
Est.	coefficient estimate
et al.	et alia (and others)
FTSE	Financial Times Stock Exchange
GDP	gross domestic product
IB	international business
i.e.	id est (that is)
IJV	international joint venture
ISSP	International Social Survey Programme
M&A	merger & acquisition
p.	page
R&D	research and development
ROA	return on assets
ROT	real options theory
RQ	research question
SD	standard deviation
SDC	Security Data Company
SIC	standard industrial classification
SIT	social identity theory
SOE	state-owned enterprise
UIS	UNESCO Institute for Statistics

UNESCO	United Nations Educational, Scientific and Cultural Organization
UNGA	United Nations General Assembly
U.S.	United States
USD	U.S. dollar
VIF	variance inflation factor
WEF	World Economic Forum

1. Introduction

1.1. Research motivation

Markets have witnessed increasing politicization, with a rapidly growing relevance of political factors for doing business both domestically and internationally (Beugelsdijk & Luo, 2024; Sacerdoti & Borlini, 2023). Globally operating firms need to select appropriate non-market strategies to navigate the challenging environments (Mellahi et al., 2015).

Nationalism is on the rise in many countries (e.g., Alvarez & Rangan, 2019; Coenders et al., 2021; Meyer, 2017), and increasingly protectionist policies hamper market entries of multinationals (Serdar Dinc & Erel, 2013; Zhang & He, 2014), while geopolitical tensions and political animosity in a multipolar world are growing (Luo & Van Assche, 2023; Sacerdoti & Borlini, 2023). At the same time, governments continue to have a major influence on economic activities. As an example, state ownership of firms is still a dominant ownership form in many countries (Bruton et al., 2015). At the beginning of the last decade, roughly a tenth of the world's largest firms were government-owned, and total sales by state-owned enterprises (SOEs) amounted to about six percent of global GDP (Kowalski et al., 2013). Unsurprisingly, the significance of the topic has garnered increased scholarly attention. For instance, Edman and colleagues find that "scholars have become increasingly interested in the organizational and managerial implications of nationalism" (Edman et al., 2024, p. 1). Similarly, Tihanyi and colleagues identify an "impressive rise in the academic attention to the involvement of states in firms" (Tihanyi et al., 2019, p. 2297). Figure 1.1 demonstrates the upward trend regarding the number of research papers on the topic based on a literature review by Tihanyi et al. (2019).

Strategic management research has a long history of discussing the influence of political environments on firms and their development of non-market strategies to adjust to these influences (Baron, 1995; Boddewyn & Brewer, 1994), such as introducing bureaucrats as board members (Haveman et al., 2017; Hillman, 2005) or lobbying (Hersch et al., 2008).

Extant research, however, is typically rather one-sided when explaining the influence political factors, referring either to challenges that need to be overcome (Henisz, 2000; Jory & Ngo, 2014) or to opportunities that can be leveraged (Li & Zhang, 2007; Sun et al., 2010). Similarly, extant studies mostly focus on a single political factor, such as state ownership (e.g., Mohr et al., 2016a; Okhmatovskiy, 2010; Wang et al., 2023) or political relations between countries (e.g., Bertrand et al., 2016; Fieberg et al., 2021; Hasija et al., 2020), without accounting for potential interdependencies. By contrast, I aim to provide a more comprehensive analysis of both opportunities and challenges of different political factors.

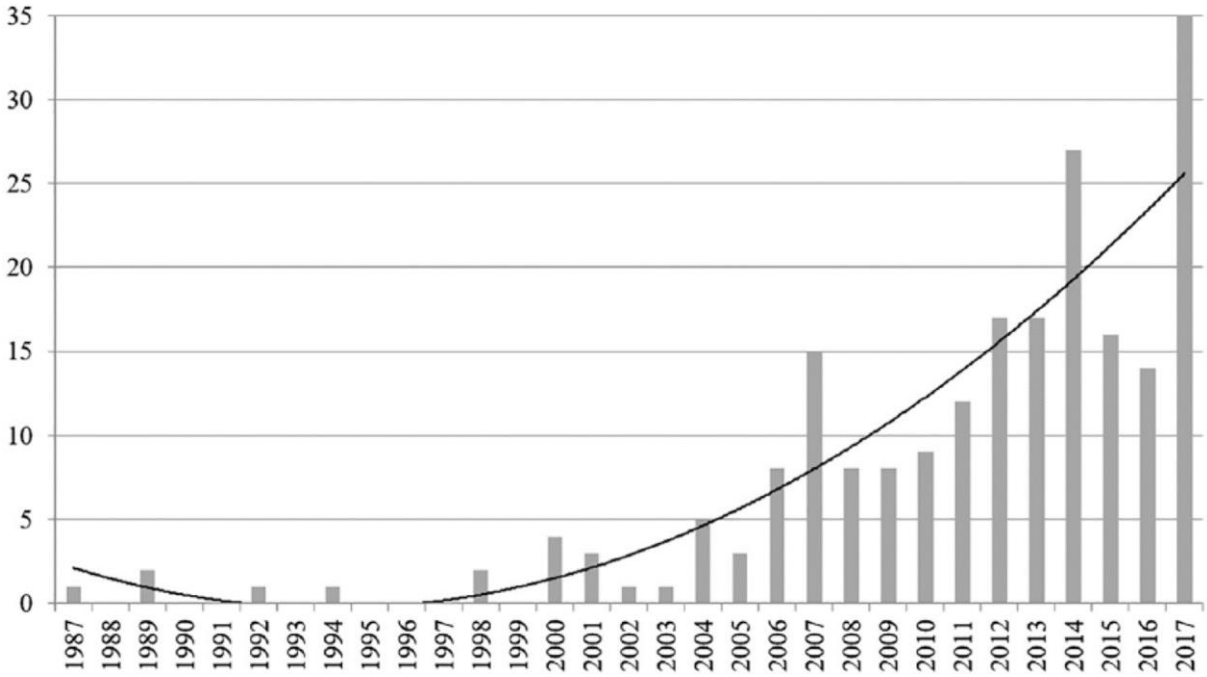


Figure 1.1. Number of research papers on the involvement of states in firms by years

Source: Tihanyi et al. (2019), p. 2297

The central goal of my dissertation is to examine how politicization impacts strategic decisions regarding firms' internationalization activities and the success of these strategies. In particular, I turn my attention to two political factors that are salient in many countries, namely, politically connected firms, which I consider in the form of state-owned enterprises, and nationalism, which I consider in the form of societal level nationalist sentiment. I analyze their impact on strategic decisions and their outcomes regarding international joint ventures

(IJVs) and cross-border acquisitions (CBAs) as two major modes of foreign market entry and expansion. I exclude from my considerations the market entry modes of greenfield investments, i.e., setting up a wholly owned local plant without participation of a local player, and of exports (Raff et al., 2009), because my focus is on the implications of political factors for the interaction between a focal and a domestic firm. These interactions are prominent in IJVs, where the domestic firm is the IJV partner, and in CBAs, where the domestic firm is the acquisition target. By contrast, interactions with a local counterpart are less prevalent in greenfield and export-based internationalization processes.

1.2. Research questions and thesis structure

Building upon the central goal of my dissertation, I formulate the following main research question (RQ):

Main RQ: *How does the growing politicization impact strategic decisions of international businesses and their outcomes?*

I focus on SOEs and nationalism as two facets of politicization that have great practical (e.g., Alvarez & Rangan, 2019; Bruton et al., 2015; Coenders et al., 2021; Kowalski et al., 2013; Meyer, 2017) and academic relevance (Edman et al., 2024; Tihanyi et al., 2019). To this end, I break down the main research question into three more specific research questions. First, I turn my attention to politicization through political connections of firms and I address the role of SOEs as joint venture partners and as potential acquisition targets of multinational enterprises. Second, I turn my attention to politicization through increasing nationalism and I address the role of the nationalist sentiment of the acquiring firm's country in international acquisitions.

1.2.1. Partnering with state-owned enterprises

SOEs, i.e., firms of which government owns the majority (Zhou et al., 2017) and in which the government typically appoints board members and thus is able to exercise control (Li & Zhang, 2007; Tihanyi et al., 2019), are regarded as a double-edged sword and have been

attributed benefits such as exclusive access to resources and markets under governmental control (Luo, 1997), policy support (Li & Zhang, 2007), and low capital cost (Zhou et al., 2017), but also disadvantages such as lack of efficiency and reduced financial performance (e.g., Li et al., 2020; Tihanyi et al., 2019), orientation towards political instead of financial objectives (Li et al., 2017; Ramachandran et al., 2011), and opacity (e.g., Cannizzaro & Weiner, 2018; Jory & Ngo, 2014; Li et al., 2019). Consequently, it is unclear if a state-owned partner is related to an overall benefit or an overall detriment for an IJV (Merchant, 2002; Mohr et al., 2016a). However, IJV success may be contingent on cultural and political factors that influence whether a state-owned partner is advantageous or not. To investigate the relationships, I formulate the following research question:

RQ 1: *How do inter-country differences impact the success of partnering with SOEs?*

1.2.2. Target firm state ownership

Extant research regarding the implications of state-owned firms compared to non-state-owned firms as potential acquisition targets is generally rare, let alone research regarding the implications of state-owned target firms for the strategic decisions of an acquiring firm. Multiple studies have examined the privatization of SOEs by means of acquisition of shares by private or public firms (e.g., Cooke, 2006; Glambosky et al., 2010; Lopez-de-Silanes, 1997; Uhlenbruck & De Castro, 2000; Uhlenbruck & De Castro, 1998), however, these studies mostly lack a juxtaposition with comparable acquisitions of non-state-owned targets. Yet, state-owned targets are fundamentally different from public and private targets, such that it is conceivable that it may make a major difference from an acquirer perspective and hence may significantly alter the acquirer's strategic decisions regarding the acquisition deal. Furthermore, the topic is highly relevant given the high prevalence of SOEs as acquisition targets (Uhlenbruck & De Castro, 2000). Therefore, I aim to elucidate this relationship with the following research question:

RQ 2: *How does the state ownership of a potential target firm impact the acquirer's equity share decision in CBAs?*

1.2.3. Acquirer firm nationalism

The implications of nationalism on the target side are well-described, and typically emerge in the form of protectionist policies that hamper market entry of foreign firms (e.g., Alcalde & Powell, 2022; Balabanis et al., 2001; Fischer et al., 2022; Liou et al., 2023; Rawwas et al., 1996; Serdar Dinc & Erel, 2013; Zhang & He, 2014) or in the form of consumer ethnocentrism, i.e., a consumer preference for domestically produced products (Balabanis et al., 2001; Fischer et al., 2022; Rawwas et al., 1996). By contrast, there is little research on how nationalism on the acquirer side impacts CBAs. Nationalism, i.e., the "perception of a national superiority and an orientation toward national dominance" (Kosterman & Feshbach, 1989, p. 271), entails favoritism of the own nation and a derogation of other nations (Adorno et al., 1950; Schatz et al., 1999). Therefore, it is conceivable that nationalism on the acquirer side significantly impacts strategic decisions in the context of firm internationalization. For instance, studies have pointed out that acquirer nationalism generally alters expansion trajectories of multinational firms (Dow & Cuypers, 2024; Wu & Fan, 2023). Beyond this, to better understand strategic decisions with regard to individual acquisitions deals, I formulate the following research question:

RQ 3: *How does nationalism in the acquirer country bias the acquirer's equity share decision in CBAs?*

Extant studies commonly differentiate two manifestations of nationalism: Economic nationalism and nationalist sentiment. Economic nationalism refers to government interventions and protectionist policies against foreign firms (Bertrand et al., 2016). In contrast, nationalist sentiment is expressed in "individual-level attitudes and behaviors" (Ertug et al., 2023, p. 5), and hence refers to a sociological manifestation of nationalism (Bonikowski, 2016). My main interest lies in nationalist sentiment, as I am most interested in

observing how managerial decisions are affected by an individual-level nationalist worldview, rather than by externally set regulatory barriers. In particular, nationalist sentiment, rather than economic nationalism, is a key driver of a hesitancy to work with actors from foreign nations and a general distrust in foreign countries (Ertug et al., 2023; Zou et al., 2023)

Both RQ 2 and RQ 3 address the acquirer's equity share decision in international acquisitions. The choice of this particular strategic decision as a primary research focus is deliberate, because choosing an appropriate level of equity share in the target firm is an important strategic decision in international acquisitions, as it directly relates to the trade-off between resource commitment and control over the target, and is thus immediately linked to the success or failure of the deal (Anderson & Gatignon, 1986; Chari & Chang, 2009). Prior research has uncovered a plethora of determinants of the equity share decision, ranging, among others, from institutional factors to cultural factors and inter-country distances (e.g., Cuypers et al., 2015; Falaster et al., 2021; Malhotra et al., 2018; Malhotra & Gaur, 2014), but it has so far disregarded political factors, such as the target firm's state ownership and the acquirer firm's nationalist sentiment.

1.3. Thesis structure

To each of the research questions RQ 1 - RQ 3, I dedicate one chapter of my dissertation. Table 1.1 provides an overview of the chapter structure including a short summary of the key insights and contributions. The individual chapters are based on earlier versions of three research papers. Note that in Chapters 2 - 4, I use the term "we" instead of "I", as the papers, on which the chapters are based, were elaborated together with co-authors.

In Chapter 2, which focuses on RQ 1, I examine the effect of political and cultural distance on the relationship between the establishment of an IJV with a local state-owned firm vis-à-vis with a local non-state-owned firm and the foreign firm's stock market reaction. Establishing IJVs with local SOEs may offer both advantages and disadvantages to the foreign firm, because SOEs can offer valuable market and resource access in the host country

but may also be linked to political dependence and unsolicited political influence. However, I add depth to the argument by examining the moderating role of the political and cultural distance between the home and host country. Specifically, I propose that the political and cultural distances positively moderate the relationship between the local partner's state ownership and the foreign partner's stock market reaction, because the value of partnering with a politically well-connected SOE increases in the face of political disagreements between the home and host countries and the foreign firm's lack of cultural familiarity, respectively. More specifically, I propose that if political distance is high, the foreign partner will lack prior political connections to the local government, and hence will benefit more from establishing political embeddedness via the political network of a state-owned IJV partner. Furthermore, if cultural distance is high, the foreign partner will have difficulties navigating the foreign market environment, and hence will benefit more from receiving non-market advantages, such as exclusive resource access and policy support, from its state-owned IJV partner. I find support for these ideas in a sample of 657 IJVs between foreign firms and their local partners in China.

In Chapter 3, which addresses RQ 2, I apply real options theory to examine how equity share decisions differ by the target's ownership type. I hypothesize that acquirers seek to acquire lower equity stakes in state-owned than in non-state-owned target firms due to higher uncertainty arising from lower transparency about the target firm's assets and capabilities and less predictable post-acquisition integration processes. In addition, I argue that objective and perceived uncertainties moderate the main effect. More specifically, I propose that perceived uncertainty will increase if the acquirer is characterized by a strong uncertainty avoidance, and that uncertainty avoidance of the acquirer therefore strengthens the main effect. Furthermore, I postulate that objective uncertainty will decrease if the target country has more sophisticated reporting standards which reduce the transparency gap between state-owned and non-state-owned firms, and that lower objective uncertainty

weakens the main effect. I construct a sample of over 27,000 CBAs to test my hypotheses, and I find empirical support for the impact of the target's ownership and for the moderating effect of perceived uncertainty, while I do not find support for the moderating effect of objective uncertainty.

In Chapter 4, which is aimed at answering RQ 3, I build upon social identity theory to theorize that acquirers with a stronger nationalist sentiment perceive a higher uncertainty regarding CBAs and will hence seek to acquire a lower equity share to limit their potential loss, with the option to expand later. Using the common ingroup identity model, I hypothesize that contact between the acquirer and target countries promotes decategorization, and that a shared superordinate identity promotes recategorization. Both processes are expected to weaken the primary effect of acquirer nationalism on equity share, because decategorization implies that actors from the foreign country are perceived rather on an individual than a group level, and because recategorization shifts perceived group boundaries from the nation to the superordinate identity level. Using a sample of 12,277 CBAs, I find empirical support for the main effect and the moderating effect of a shared superordinate identity, operationalized by shared cultural clusters, but not for the moderating effect of contact, operationalized by the number of exchange students from the acquirer country in the target country.

In Chapter 5, I summarize my findings and I discuss the key insights as well as the general contributions and managerial implications of my dissertation. Finally, I highlight potential avenues for future research.

Table 1.1. Overview of the chapter structure

Chapter	2) The effect of political and cultural distance on the benefits of international joint ventures with Chinese state-owned firms	3) Equity shares in the acquisition of state-owned enterprises	4) National identities in international acquisitions: The impact of acquirer nationalism on equity share decisions
Research question	How do inter-country differences impact the success of partnering with SOEs?	How does the state ownership of a potential target firm impact the acquirer's equity share decision in CBAs?	How does nationalism in the acquirer country bias the acquirer's equity share decision in CBAs?
Theoretical framework	Political embeddedness concept (e.g., Haveman et al., 2017; Sun et al., 2010; Uzzi, 1996)	Real options theory (ROT) (Chi et al., 2019; Kogut, 1991)	Social identity theory (SIT) (Tajfel, 1982; Tajfel & Turner, 2004; Turner et al., 1994)
Sample	Archival data: 657 sino-foreign IJVs from 2000-2020	Archival data: 27,857 CBAs from 2000-2020	Archival data: 12,277 CBAs from 2000-2020
Key findings	Political and cultural distance increase the importance of partnering with an SOE and lead to a more positive effect of an SOE partner on market reaction. The SOE partner allows the focal firm to become politically embedded, which entails non-market advantages, which substitute for relative disadvantages from political and cultural distance.	A target firm's state ownership increases uncertainty for the acquiring firm, which leads to a preference for lower equity shares. Besides, perceived uncertainty strengthens the effect.	Nationalism in the acquirer country creates bias, such that the acquirer has greater distrust in the target country and its members. The perceived uncertainty surrounding the deal increases and the acquirer favors lower equity shares. Besides, a shared superordinate identity weakens the effect.
Key contributions	Contribution to the literature on the political embeddedness concept by introducing a contingency perspective on the benefits of partnering with SOEs based on country-dyadic contextual factors Contribution to the literature stream that analyzes different mechanisms of building and maintaining political ties by introducing partnerships with SOEs as a means of establishing political ties	Contribution to ROT in M&A research by juxtaposing the effects of objective and perceived uncertainty on the equity share decision in CBAs Contribution to SOE research by offering insights on the implications of state ownership of target firms in M&As Contribution to the CBA literature by introducing a novel determinant of equity share decisions, i.e., the target's state ownership	Contribution to the literature that analyzes politically motivated strategic decisions in international M&As by introducing nationalism as a novel determinant of the equity share sought Contribution to the literature that applies SIT to strategic management by applying SIT beyond the traditional field of post-merger integration and by demonstrating how strategic decisions may be biased by outgroup distrust

1.4. Data and methods used

For my empirical assessment, I compiled multiple datasets on internationalization activities of firms between 2000 and 2020. The datasets were generally constructed starting from the information on IJV formations, or acquisition announcements, respectively, available in Refinitiv's Security Data Company (SDC) Platinum database, which I enriched with information gathered from numerous other databases, such as World Bank data, data from the UNESCO Institute for Statistics, Datastream, and others. My analyses generally focus on joint venture formations and acquisitions in cross-border constellations, i.e., where the focal firm and the partner firm, or the acquisition target, respectively, are from different countries. In Chapter 2, I restrict the home country of the partner firms and I specifically employ a dataset that is focused exclusively on IJVs established in China with local Chinese partner firms, as I argue that the relationships that I aim to observe are particularly salient under the specific conditions of the Chinese market environment. I discuss further details regarding this analysis choice in Chapter 2.

To test the hypotheses that I develop in the three chapters, I apply regression analyses using Stata 17.0. I apply different regression model types depending on the specific data and depending on the key dependent and independent variables in question. I perform several robustness tests at the end of each chapter to assess the reliability of the outcomes. Detailed descriptions of the databases and methodologies used are included in each chapter.

2. The effect of political and cultural distance on the benefits of international joint ventures with Chinese state-owned firms[1]

2.1. Introduction

SOEs are major players in the global economy and especially prominent in emerging countries such as China (Cuervo-Cazurra et al., 2014; Kowalski et al., 2013). Since SOEs are well-connected to their home country governments and often pursue political goals in addition to pure profit maximization (Tihanyi et al., 2019), they have gained relevance in times of increased geopolitical tensions, which the world has been witnessing more recently (Luo & Van Assche, 2023). Previous international business research shows that SOEs tend to exhibit lower operational performance (Li et al., 2014), but also benefit from governmental protection and are granted exclusive rights such as resource and market access (Luo, 1997; Zhou et al., 2017), among others. Interestingly, IJV work traditionally has focused on non-state-owned firms, which is the dominant ownership form in most advanced economies, though IJVs involving SOEs have begun to draw increased scholarly attention more recently (e.g., Choi, 2014; Merchant, 2002; Mohr et al., 2016a; Ramachandran et al., 2011; Wang et al., 2023). Studying the value of establishing IJVs with SOEs can provide opportunities for new theorization, however, since the type of partner firm is a critical determinant of IJV success (Geringer, 1991; Li et al., 2008; Roy & Oliver, 2009), and because state ownership carries important performance implications (Tihanyi et al., 2019; Wright et al., 2021).

Therefore, this study examines the impact of partnering with local Chinese state-owned firms on the foreign partner firms' stock market reactions, contingent upon the political and cultural distances between the foreign firms' home country and China. Drawing on the

[1] Chapters 2.1.-2.5. are based on a paper that was co-authored with Chengguang Li and Alvaro Cuervo-Cazurra. An earlier version of the paper was presented at the EIBA conference in Lisbon, 2023. The paper is currently in the re-submission process of the Journal of International Business Studies (JIBS).

political embeddedness concept and the political strategy literature (e.g., Mellahi et al., 2015; Okhmatovskiy, 2010; Sun et al., 2010), we first establish that partnering with local state-owned firms can have both positive and negative performance implications for the foreign partner firm, which may lead to better or worse market reactions to IJV announcements, because state-owned partners provide political embeddedness to the foreign firms and the IJVs in the host country, which is related to a number of both advantages and disadvantages. We argue that in emerging markets such as China, the advantages outweigh the disadvantages, in order to derive a baseline hypothesis. Based on this, we then postulate that the value of these partnerships increases with growing political and cultural distances between the home and host country. Specifically, we propose that the political distance between the foreign firm's home country and China strengthens the relationship, because there is an even greater need to navigate the difficult political environment by means of the state-owned partner's political connections. We also argue that cultural distance amplifies the benefits of partnering with a local Chinese SOE, because the IJV benefits from the advantages of the state-owned IJV partner, such as its beneficial resource and market access, thus compensating for the foreign firms' increased difficulties of interacting and working in a culturally unfamiliar environment.

To test our hypotheses, we draw on a sample of 657 IJVs in China established between foreign firms from 25 countries and local Chinese firms between 2000 and 2020. We find that political distance and cultural distance positively moderate the relationship between the state ownership of a Chinese IJV partner and the foreign firms' stock market reactions to the IJV announcements.

These ideas enrich the literature on IJVs and contribute to a better understanding of political strategy in international business (IB). We contribute to the literature on the political embeddedness concept by introducing a contingency perspective on the benefits of partnering with SOEs based on country-dyadic contextual factors, i.e., the political relations and the

cultural differences between the home and host countries. In doing so, we extend previous research that has studied the influence of different firm-level and unilateral country-level predictors of the value of political embeddedness (e.g., Baum & Oliver, 1991; Ge et al., 2018; Hillman, 2005). Furthermore, our study adds a novel angle to the literature stream that analyzes different mechanisms of building and maintaining political ties. Prior research has predominantly focused on individual-level ties (Haveman et al., 2017; Hersch et al., 2008; Hillman, 2005), but has not studied political ties established through partnerships with politically well-connected firms, such as SOEs. Our work provides new insights by showing that the value of political ties established through IJVs with SOEs increases with environmental factors.

2.2. Theory and hypotheses development

2.2.1. Establishing IJVs with Chinese SOEs

SOEs are firms that are partially or wholly owned by the government (Cuervo-Cazurra et al., 2014; Zhou et al., 2017) and for whom the government typically appoints senior leadership (Dharwadkar et al., 2000), enabling it to exert control (Tihanyi et al., 2019). SOEs are the remnants of former and contemporary state capitalism (Musacchio et al., 2015), and continue to play an important role in addressing market failures and governing critical resources, especially in emerging markets such as China (e.g., Cuervo-Cazurra et al., 2014; Li et al., 2019; Shleifer & Vishny, 1994; Yun et al., 2024).

IB research has examined state ownership from different angles. Research on overall firm performance typically reveals detrimental performance and profitability effects of state ownership, in particular for wholly state-owned firms without any public or private involvement (e.g., Aguilera et al., 2021; Dewenter & Malatesta, 2001; Megginson & Netter, 2001; Tihanyi et al., 2019), typically attributed to inexperienced bureaucrats as managers (Dharwadkar et al., 2000), abundant capital which conditions soft budget constraints (Lin & Tan, 1999), and non-financial political and social objectives (Musacchio et al., 2015). On the

other hand, scholars have described advantages of SOEs in terms of better access to state-controlled resources, capital, governmental policy makers (Okhmatovskiy, 2010), government R&D funding (Sun & Liu, 2014), and state-controlled sales channels (Luo, 1998). Given both, disadvantages and advantages of stateness, some research has yielded inconclusive results regarding overall SOE performance (Inoue et al., 2013; Tian & Estrin, 2008). For example, Sun, Tong, and Tong (2002) find an inverted U-shaped relationship between government ownership and firm performance, where partial ownership is most beneficial. Musacchio and colleagues (2015) elaborate on the contingent effects of the institutional environment. However, while SOEs have been extensively studied in IB research, they have only recently gained such attention in the context of IJVs.

IJVs are businesses jointly established and owned by two or more partner firms from different countries that pool selected resources in the venture (Geringer, 1991; Wang et al., 2023). They are created for diverse strategic purposes such as market access, risk sharing, knowledge creation, and joint R&D (e.g., Koh & Venkatraman, 1991; Nippa & Reuer, 2019; Ramachandran et al., 2011), and have been of particular importance for foreign firms in China, as firms initially were required to partner with a local Chinese firm in many industries to enter and operate in the country, though these requirements have gradually been loosened or even removed in many industries (He, 2003; Xia et al., 2008). Ultimately, firms enter joint ventures to gain long-term strategic advantages that create value, which, for public firms, is captured through positive stock market reactions (e.g., Das et al., 1998; Gulati et al., 2009; Merchant, 2002; Reuer & Koza, 2000).

Building upon an SOE's prior connections to the government, we expect IJVs with Chinese SOEs to gain access to the SOEs' governmental network. The focal non-Chinese firm, too, can harness this network and build its own relational ties to the Chinese government. Following the logic of the political embeddedness concept, these ties should increase both the IJV's and the focal firm's political embeddedness in China (Haveman et al.,

2017; P. Sun et al., 2010). As such, partnering with an SOE, and gaining political embeddedness, can have advantages and disadvantages for a foreign firm. The foreign firm may benefit from partnering with an SOE, because gaining political embeddedness may evoke preferential governmental treatment that enables access to state-controlled resources and markets and better governmental policy support (e.g., Li et al., 2022; Siegel, 2007; Welch & Wilkinson, 2004) both for the IJV and for the focal firm itself (e.g., Haveman et al., 2017; Hillman, 2005; Peng & Luo, 2000). However, partner firms may also suffer from disadvantages from establishing IJVs with SOEs when experiencing the downside of political embeddedness. For instance, being strongly embedded has been related to potential detrimental governmental influence (Shen et al., 2023), the risk of over-reliance on government-provided resources (Prechel & Morris, 2010), and nonconformity between firm goals and governmental objectives (Merchant, 2002), among others. As a result, the stock market may react positively or negatively to a foreign firm's IJV announcement with an SOE vis-à-vis a non-state-owned firm, depending on whether their benefits outweigh their drawbacks or vice versa. In the context of IJVs in China, we expect the positive effects of political embeddedness to outweigh the negative ones, because the government is a particularly dominant actor in the Chinese market (Ramamurti & Hillemann, 2018) and has control over resources, market access, and policies. Thus, political embeddedness may be particularly valuable for firms to gain access to state-controlled resources and markets and to receive policy support. This leads us to the following baseline hypothesis:

Baseline Hypothesis: *Partnering with a local state-owned firm in China has a more positive relation with the foreign firm's stock market reaction to the international joint venture announcement than partnering with a local non-state-owned firm in China.*

We aim to contribute to a better understanding of the relationship between partnering with local SOEs in China and market reaction to IJV announcement by studying the influence of political and cultural distance between the foreign firm's home country and China.

2.2.2. The contingent effects of political and cultural distance

Beyond the direct effect of partnering with Chinese SOE IJV partners itself, we argue that there are conditions under which the value of such a partnership should increase, whereby leading to more favorable stock market reactions to the joint venture announcement. In particular, we contend that the value of partnering with an SOE increases in the face of greater political and cultural distance between the foreign firm's home country and China, i.e., the IJV's home country. First, partnering with an SOE becomes more critical to ensure success when there are poor political relations between the countries as the link to the SOE substitutes for a lack of other forms of political ties. Second, partnering with an SOE can be more beneficial in an unfamiliar culture, because the relations to the government can grant the foreign firm non-market advantages, such as exclusive resource and market access, compensating for relative resource and market access disadvantages linked to a foreign firm's unfamiliarity with the cultural environment. Thus, we explore the impact of the political and cultural distance between the foreign firm's home country and China on the value of political ties built through partnering with a local SOE in China.

Political distance

Political distance is the difference between national political preferences of country dyads regarding relevant global questions (building on Gartzke, 1998), encompassing issues such as "national security and human rights" (Hasija et al., 2020, p. 570). Political distance thus increases with growing geopolitical tensions between countries, which we have been witnessing around the world more recently (Luo & Van Assche, 2023). The concept has been applied to the fields of economics and management, showing that political distance influences trade patterns between countries (Dixon & Moon, 1993), cross-border acquisition premiums (Bertrand et al., 2016), and investor responses to premium decisions (Fieberg et al., 2021), among others. Countries that have high political distance tend to have bad relations and low

cooperation (Bertrand et al., 2016), while their governments often discriminate against firms from the other country (Hasija et al., 2020; Luo & Van Assche, 2023).

We propose that political distance positively moderates the relationship between partnering with a Chinese SOE and stock market reaction to the foreign firm's IJV announcement, because the political ties that the foreign firm builds through the SOE's political network may help it overcome its disadvantages that are rooted in the relative lack of prior political connections to China. In particular, the political embeddedness gained through the IJV with an SOE grants the foreign firm better access to resources and markets in China, which may be unavailable to firms from politically distant countries. This has, for instance, been the case recently in the context of increased political tensions between the governments of China and the United States (Luo & Van Assche, 2023). For example, the U.S.-Chinese trade war has negatively impacted operations of U.S. aviation manufacturers in China (Turner, 2021). However, the U.S.-based industrial company Honeywell succeeded in the Chinese market despite these political challenges, due to good personal relations with Chinese authorities, including a joint venture with a Chinese SOE for the local development and production of flight control systems (Gao, 2017; Moss, 2021). Thus, the company was able to capitalize on its IJV with a Chinese SOE to gain valuable market and resource access and maintain a positive relationship with the host country government. By contrast, when foreign firms from countries that are politically close to China establish IJVs with Chinese SOEs, the implications on market reactions should be weaker, since these firms already have access to market and resources in the Chinese market, and hence, the additional benefits of political ties are lower. Therefore, we hypothesize:

Hypothesis 1a (H1a): *Political distance positively moderates the relationship between a foreign firm's partnership with a local state-owned firm in China and the foreign firm's stock market reaction to the international joint venture announcement.*

Cultural distance

Cultural distance is the difference between national cultures, where national culture represents a society's common "preferences, values, and beliefs" (Hofstede, 1984, p. 43). The cultural distance concept has been broadly examined in various IB contexts (for a review, see Beugelsdijk et al., 2018). Cultural distance can have varying performance implications in the context of firm internationalization (Shenkar, 2001). In general, it tends to complicate doing business abroad, due to unfamiliarity with the foreign culture and obstacles in the interaction with local stakeholders (e.g., Beugelsdijk et al., 2018; Hutzschenreuter et al., 2011; Li & Fleury, 2020). As a consequence, firms from culturally distant countries tend to face greater difficulties in accessing resources and customer segments, due to challenges related to collaborating with foreign suppliers or reaching target customer groups (Linders et al., 2005; Zhang et al., 2022).

We argue that cultural distance between the foreign firm's home country and China amplifies the benefits of becoming politically embedded through partnering with a local Chinese SOE, because the foreign firm is even more in need of the non-market advantages associated with a state-owned partner to compensate for relative disadvantages arising from cultural distance. First, foreign firms from culturally distant countries can leverage their political connections by establishing an IJV with a Chinese SOE to help obtain exclusive resource access in China and, in doing so, compensate for the disadvantages in accessing resources, such as access to local suppliers (Linders et al., 2005), brought about by cultural distance. Second, the political network may offer access to state-controlled distribution channels (Luo, 1997). This is particularly relevant if cultural distance is high, as cultural distance may entail a misalignment with the requirements of customers in the foreign country (Zhang et al., 2022). Similarly, culturally distant firms may face greater liability of foreignness (Beugelsdijk et al., 2014), which entails aversive perceptions of local customers. Hence, opportunities for enhanced market access provided through a state-owned partner's

political network become more valuable. Contrary to this, if the firm is from a culturally close country, doing business in China is not much different for the foreign firm compared to doing business in the home market, hence the firm will not face major relative disadvantages in interactions with local stakeholders. This reduces the need to bypass market mechanisms via the political network of a state-owned partner firm, such that the market reaction to IJV announcement will not increase as much in case of a state-owned partner. Hence, we hypothesize that:

Hypothesis 1b (H1b): *Cultural distance positively moderates the relationship between a foreign firm's partnership with a local state-owned firm in China and the foreign firm's stock market reaction to the international joint venture announcement.*

2.3. Method

2.3.1. Dataset

To test our hypotheses, we built a dataset of Sino-foreign IJVs established in China using the SDC Platinum database. We chose China as the setting to analyze the effects of a partner firm's state ownership for two reasons. First, the Chinese government is particularly influential throughout the economy (Lau & Bruton, 2008; Mohr et al., 2016a; Ramamurti & Hillemann, 2018), which should amplify the effect of political embeddedness. Second, SOEs continue to be strongly present in the market (Cui & Jiang, 2012; Li et al., 2019), and many foreign firms have frequently established IJVs with state-owned partners (Sun et al., 2010). As such, we follow a broad range of previous IJV literature that addresses political influencing factors of various kinds and that deliberately chooses the Chinese market environment to test empirical hypotheses (e.g., Chang et al., 2020; Jin & Wang, 2021; Mohr et al., 2016a; Wang et al., 2023).

We assembled data on IJV formations between January 1, 2000, and December 31, 2020, with a Chinese and a non-Chinese partner firm and we limited observations to IJVs with two partners and excluded IJVs with three or more partners, because the country-dyadic

measures only meaningfully apply in these contexts (n = 5,114). Furthermore, we limited observations to IJVs founded in China, as we expect the benefits of political embeddedness to unfold only if the IJV is located in the same country of the partner firm (n = 4,118). After removing the missing values of the dependent, independent, and control variables, our dataset ended up with a total of 657 Sino-foreign IJVs with foreign firms from 25 countries.

2.3.2. Variables and measures

Dependent variable

For our dependent variable, we rely on event study methodology and calculate the foreign firm's cumulative abnormal return (CAR) to capture the stock market reaction associated with IJV announcement. CARs have been frequently applied to analyze stock market reactions to different events (e.g., Das et al., 1998; Li, 2023; Reuer & Koza, 2000) and are common in studies that examine value gains from joint ventures (Liu & Ravichandran, 2015). In particular, previous studies have shown that IJV announcements do frequently elicit measurable stock market reactions by global investors (Das et al., 1998), and that they are a meaningful indicator of the expected value of IJV formations, rationally differentiating between strategic decisions conducive and detrimental to value creation (Woolridge & Snow, 1990). As information on the partner firm's ownership, political relations, and the public opinion on the IJV country is publicly available, and because it has been shown that investors consult publicly available information to evaluate IJV announcements (Gulati et al., 2009), using CAR to assess stock market reaction is very suitable for our study.

To include the influence of any previous information leakage prior to the announcement, while at the same time limiting the influence of confounding events, we gathered daily stock prices for foreign firms during a five-day event window from t-2 to t+2 around the IJV announcement date t = 0, i.e., two days before and after the announcement (Faccio et al., 2006; Liu & Ravichandran, 2015). We calculate abnormal returns during the event window using a standard market model (S. J. Brown & Warner, 1985):

$$AR_{i,t} = R_{i,t} - (\alpha_i + \beta_i R_{m,t}),$$

where $AR_{i,t}$ is the abnormal return of firm i on day t of the event window, $R_{i,t}$ is the firm's observed return on the same day, $R_{m,t}$ is the daily return of a reference index, and α_i and β_i are market model parameters estimated on a baseline estimation window from 100 days to 11 days before the day of IJV announcement. We use the FTSE All World as reference index due to its broad capture of global equity market capitalization (Park, 2004). We sum up the abnormal returns during the event window to calculate CAR (Gulati et al., 2009):

$$CAR_i = \sum_{t=-2}^{2} AR_{i,t}$$

Independent and moderating variables

The key independent variables we use to test the hypotheses are state-owned partner firm, political distance, and cultural distance between the host country and China. Regarding state-owned partners, we follow literature that defines SOEs as firms with partial state ownership (Okhmatovskiy, 2010), as our main interest lies in the presence of ties to the government, for which full ownership is not required. In line with previous work (Guo et al., 2016; Li et al., 2019), we use the categorization in SDC Platinum, which classifies firms as government-owned if at least 50 percent is owned by the government. We derive a dummy variable (state-owned partner firm) that takes the value 1 for firms whose ultimate parent is government-owned, and 0 otherwise. As a result, roughly five percent of IJVs have state-owned partner firms.

Following previous research (Bertrand et al., 2016; Fieberg et al., 2021), we operationalize political distance based on the bilateral distance between countries' voting behaviors in the United Nations General Assembly (UNGA) (Gartzke, 1998). In the UNGA, national political attitudes towards a broad spectrum of topics are expressed through countries' voting behavior, including military, economic and social issues (Bertrand et al., 2016). Countries with similar voting patterns share a similar understanding on global political

issues and are therefore typically characterized by good dyadic relations and cooperative behavior, whereas commonly diverging voting behavior is more likely associated with countries that are in disputes (Bertrand et al., 2016; Gartzke, 1998). To measure voting pattern differences, we employ the ideal point distances of UNGA voting established by Bailey, Strezhnev, and Voeten (2017). We reverse coded the political affinity scores to calculate distance scores.

We measure cultural distance between the foreign firm's home country and China using the original four cultural dimensions developed by Hofstede, i.e., power distance, individualism, masculinity, and uncertainty avoidance (Hofstede, 2001). We aggregate the four dimensions following the widely applied Kogut and Singh index (Kogut & Singh, 1988), which corrects for different variances of the dimensions, as follows:

$$CD_c = \sqrt{\sum_{i=1}^{4} \frac{\left(D_{c,i} - D_{China,i}\right)^2}{\mathrm{var}(D_i)}},$$

where CD_c is the cultural distance between China and country c, $D_{c,i}$ denotes the Hofstede score of country c in dimension i, and var(D_i) is the variance of dimension i.

Control variables

We control for a variety of alternative influences on the dependent variable. First, we include several control variables on the firm level. The variable foreign firm previous IJV experience counts the number of the foreign firm's previous IJVs with any Chinese partner in the last five years prior to the announcement of the foreign IJV (Li & Reuer, 2022), as previous experience can have substantial implications on IJV value gains (Sampson, 2005). Similarly, partner firm previous IJV experience counts the number of the partner firm's previous IJVs with any foreign partner in the last five years prior to foreign IJV announcement. Both variables are determined based on records of previous IJVs in SDC Platinum. Furthermore, we include the foreign firm's logged number of employees as a proxy for firm size (Lin et al., 2009) and return on assets (ROA) as a proxy for past performance (Li, 2023). Both larger and

more performant firms can more easily cope with potential losses, which reduces the risk of involving in an IJV. Data on the variables are gathered from Worldscope and Datastream databases and the variables are lagged by one year.

Second, we include control variables on the IJV level. We measure the ownership share of the foreign firm in the IJV, which can shape how the foreign firm is affected by the opportunistic behavior of the partner (Luo & Park, 2004). We introduce a dummy variable (same industry) that equals 1 if the two partner firms are from the same industry (Mohr et al., 2016b) based on their two-digit Standard Industry Classification (SIC) codes, and 0 otherwise, as industry relatedness likely facilitates knowledge transfer (Lu & Xu, 2006). Third, we include variables on the country level. We include GDP per capita growth (Hui et al., 2020), which indicates that the focal firm originates from a solidly growing economy, and which we assembled using World Bank DataBank data. Economic freedom, which may indicate potential restrictions on firms to become economically active abroad (Mohr et al., 2016b), is quantified using the economic freedom index developed by the Heritage Foundation. To control for an impact on market reactions from concerns over potential unsolicited government involvement in the focal firm's internationalization strategy, we control for rule of law (Del Bosco & Bettinelli, 2020) of the foreign firm's home country. We include a measure of public perception of China in the foreign firm's home country based on Pew Research Center data (Pew Research Center, 2022). The database contains international survey data gathered from the public regarding personal attitudes toward China. A strong negative attitude may bias shareholders' perspectives.

In addition, we control for the geographic distance between countries, a binary variable that is 1 if in China and the country of the foreign firm, a common language is spoken, and 0 otherwise, and a binary variable that equals 1 if the foreign country shares a border with China, and 0 otherwise, because increased cross-nation distances can hamper communication and information flow (Kwon et al., 2016), whereas proximity can enhance

performance (Kim & Wu, 2019). We gather data on all three of the variables from the Centre for Prospective Studies and International Information (CEPII). Finally, we include industry, year, and country fixed effects (Li & Reuer, 2022).

2.3.3. Estimation model

Foreign firms can select a state-owned or private IJV partner. This decision is determined largely by the expected value gains of the IJV, hence there may be potential endogeneity in the relationship between the partner firm's state ownership and IJV value gains. To mitigate the endogenous treatment issue, we apply a two-stage model, where we first adopt an instrument to predict the choice of the IJV partner in a selection model, which is next employed in the second stage to assess the effect on stock market reaction in an outcome model (Clougherty et al., 2015). As an instrument, we utilize the level of state ownership of the foreign firm home economy (home market state ownership). The measure is based on the Varieties of Democracy dataset and takes on the value 0 for an economy in which almost all capital is owned or controlled by the government and gradually increases to 4, representing an economy where nearly no capital is owned or controlled by the government, based on an expert assessment (Coppedge et al., 2022). An appropriate instrument should affect the results of the selection model, while at the same time not directly affecting the results of the primary relationship in the outcome model (Wolfolds & Siegel, 2019). Home market state ownership should adequately fulfill these criteria, as firms from countries with a high level of state-ownership should be prone to choose a state-owned IJV partner as they are accustomed to an environment in which governmental presence is dominant. At the same time, we posit that the domestic level of state ownership will not be a direct determinant of stock market reaction. We use robust standard errors clustered by the foreign firms' home countries. Figure 2.1 visualizes the research model.

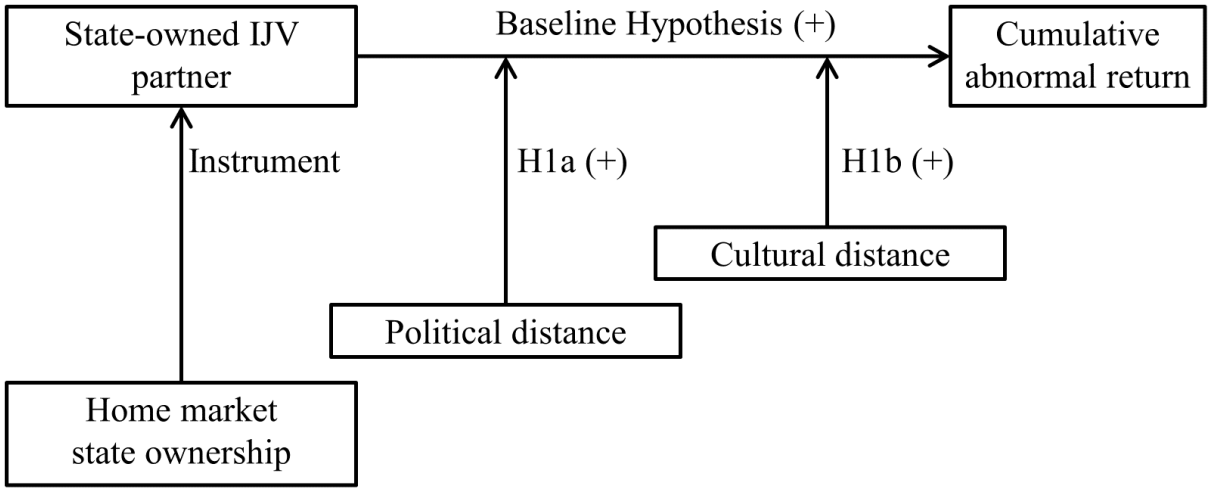


Figure 2.1. Research model

2.4. Results

2.4.1. Descriptive statistics and correlation matrix

Table 2.1 shows the distribution of foreign firms' home countries and industries. Descriptive statistics and the correlation matrix are shown in Table 2.2. All variance inflation factors (VIFs) are below 2, suggesting no severe multicollinearity issues in our regression analysis.

Table 2.1. Distribution of foreign firms' home countries and industries

Country	Frequency	Percent	Industry (one-digit SIC code)	Frequency	Percent
United States	254	38.66	Heavy manufacturing (3)	299	45.51
Japan	119	18.11	Light manufacturing (2)	112	17.05
France	53	8.07	Finance, insurance, real estate (6)	74	11.26
South Korea	51	7.76	Personal and business services (7)	63	9.59
United Kingdom	42	6.39	Transportation and public utilities (4)	45	6.85
Netherlands	22	3.35	Mining and construction (1)	27	4.11
Singapore	20	3.04	Wholesale and retail trade (5)	23	3.50
Australia	14	2.13	Public services (8)	11	1.67
Sweden	14	2.13	Agricultural, forestry, and fishery (0)	2	0.30
Germany	11	1.67	Public administration (9)	1	0.15
Canada	10	1.52			
Italy	10	1.52			
Russia	7	1.07			
Belgium	6	0.91			
India	6	0.91			
Denmark	4	0.61			
Hungary	3	0.46			
Israel	3	0.46			
Spain	2	0.30			
Indonesia	1	0.15			
Malaysia	1	0.15			
Philippines	1	0.15			
Poland	1	0.15			
New Zealand	1	0.15			
Thailand	1	0.15			

Table 2.2. Descriptive statistics and correlation matrix

	Variable	Mean	*SD*	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1	Stock market reaction	0.00	0.07	1																
2	State-owned partner firm	0.05	0.22	0.041	1															
3	Political distance	2.31	0.97	0.049	-0.03	1														
4	Cultural distance	3.49	0.54	-0.043	-0.076	0.443	1													
5	Foreign firm IJV experience	0.74	1.41	-0.045	-0.02	-0.057	0.07	1												
6	Partner IJV experience	1.01	2.32	-0.016	-0.004	-0.043	0.017	0.109	1											
7	Employees (thousand)	9.17	2.27	-0.186	-0.018	0.099	0.203	0.353	0.155	1										
8	ROA	2.07	16.11	-0.175	0.019	-0.087	-0.063	0.054	0.031	0.358	1									
9	Ownership share	50.42	10.96	-0.018	0.06	0.035	0.08	-0.005	-0.017	-0.006	0.078	1								
10	Same industry	0.43	0.49	0.008	-0.076	-0.02	0.038	0.078	-0.037	0.075	0.031	0.045	1							
11	GDP per capita growth	1.47	1.99	-0.013	0.046	-0.23	-0.362	-0.065	-0.006	-0.173	0.101	-0.041	-0.07	1						
12	Economic freedom	73.62	7.08	0.046	0.004	0.475	-0.012	-0.161	-0.111	-0.19	-0.045	-0.008	-0.07	-0.063	1					
13	Rule of law	-0.50	0.11	-0.003	-0.092	-0.161	-0.004	0.033	0.019	-0.002	-0.062	-0.002	-0.013	-0.239	-0.13	1				
14	Public perception	0.04	26.82	0.064	0.07	0.138	-0.178	0.101	0.018	0.021	0.04	-0.01	-0.008	0.209	0.115	-0.315	1			
15	Common border	0.02	0.14	0.004	0.065	-0.27	-0.266	0.003	0.065	0.008	0.047	-0.012	0.032	0.151	-0.419	0.098	0.106	1		
16	Common language	0.03	0.18	0.053	0.075	-0.345	-0.705	-0.076	-0.065	-0.228	0.018	-0.069	-0.087	0.271	0.336	-0.07	0.217	-0.026	1	
17	Geographic distance	7451.93	3824.94	0.065	-0.018	0.847	0.344	-0.097	-0.045	0.073	-0.084	0.039	-0.033	-0.256	0.443	-0.026	0.204	-0.096	-0.141	1
18	Home market state ownership	1.97	0.79	-0.063	-0.105	0.54	0.525	-0.018	-0.018	0.136	-0.108	0.065	0.018	-0.372	0.132	0.002	-0.44	-0.327	-0.629	0.25

2.4.2. Test of hypotheses

Table 2.3 reports the results of the second-stage model corrected for self-selection effects and the first-stage probit selection model. Model 0 contains only the main effect without moderators. Models 1 and 2 analyze separately the moderating effects of political and cultural distance, respectively. The full model is included in Model 3.

The instrument variable is significant ($p = 0.007$) and has a negative coefficient, indicating that the level of state ownership in the market influences the likelihood of a firm selecting a state-owned IJV partner. Furthermore, the p-value of the Wald test of independence is 0.001, hence we can reject the null hypothesis that the two stages are independent, which indicates presence of selection bias.

Our baseline hypothesis, which assumes an overall advantage of selecting a state-owned partner, is confirmed by a positive ($b = 0.139$) and significant ($p = 0.000$) effect of a state-owned IJV partner on CAR.

Hypothesis H1a proposes that political distance positively moderates the relationship between the announcement of an IJV with a state-owned partner firm and the foreign firm's stock market reaction. The empirical results reveal a positive ($b = 0.009$) and significant ($p = 0.031$) coefficient of the moderation effect. If political distance increases by one standard deviation, the effect of partnering with a state-owned firm on CAR increases by 0.9 percentage points, corresponding to a value increase of 240 million USD, when multiplying the coefficient with the average market capitalization of the firms in our sample. Hence, Hypothesis H1a receives support.

Table 2.3. Estimation results

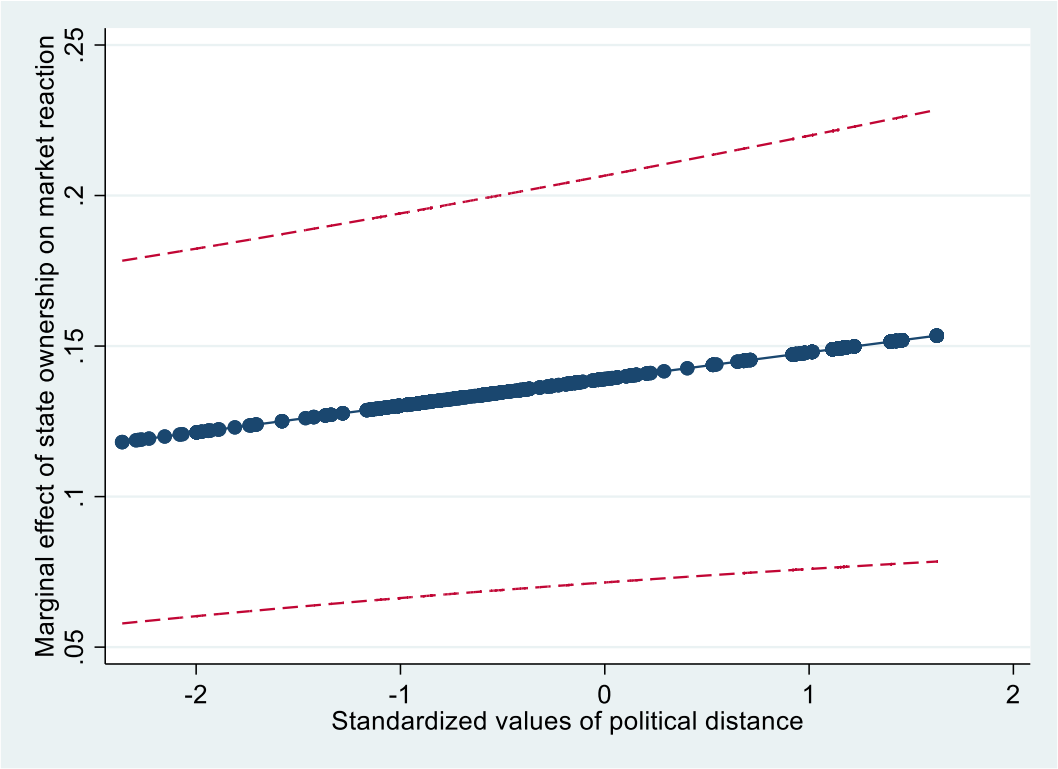
	Model 0		Model 1		Model 2		Model 3	
	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*
Second-stage model								
State-owned partner firm	0.135	0.001	0.138	0.000	0.138	0.000	0.139	0.000
	(0.039)		(0.032)		(0.038)		(0.034)	
State-owned X Political distance			0.017	0.002			0.009	0.031
			(0.005)				(0.004)	
State-owned X Cultural distance					0.015	0.001	0.010	0.027
					(0.004)		(0.005)	
Political distance	-0.001	0.983	-0.003	0.923	-0.005	0.847	-0.005	0.857
	(0.027)		(0.028)		(0.027)		(0.028)	
Cultural distance	-0.100	0.460	-0.101	0.474	-0.121	0.379	-0.115	0.410
	(0.136)		(0.141)		(0.137)		(0.140)	
Foreign firm IJV experience	0.001	0.802	0.000	0.881	0.001	0.805	0.000	0.847
	(0.002)		(0.002)		(0.002)		(0.002)	
Partner IJV experience	-0.001	0.834	-0.001	0.777	-0.001	0.802	-0.001	0.782
	(0.003)		(0.003)		(0.003)		(0.003)	
Employees	-0.012	0.033	-0.012	0.042	-0.012	0.040	-0.012	0.042
	(0.006)		(0.006)		(0.006)		(0.006)	
ROA	-0.007	0.005	-0.007	0.004	-0.008	0.004	-0.008	0.004
	(0.003)		(0.003)		(0.003)		(0.003)	
Ownership share	-0.002	0.375	-0.002	0.395	-0.002	0.425	-0.002	0.419
	(0.003)		(0.003)		(0.003)		(0.003)	
Same industry	0.010	0.005	0.010	0.006	0.010	0.006	0.010	0.006
	(0.003)		(0.004)		(0.004)		(0.004)	
GDP per capita growth	-0.001	0.828	-0.002	0.688	-0.003	0.654	-0.003	0.634
	(0.006)		(0.006)		(0.006)		(0.006)	
Economic freedom	-0.019	0.113	-0.021	0.084	-0.020	0.085	-0.020	0.079
	(0.012)		(0.012)		(0.011)		(0.012)	
Rule of law	0.033	0.008	0.032	0.009	0.030	0.011	0.030	0.011
	(0.012)		(0.012)		(0.012)		(0.012)	
Public perception	0.001	0.893	0.001	0.906	0.000	0.963	0.000	0.948
	(0.005)		(0.005)		(0.004)		(0.004)	
Common border	-0.107	0.029	-0.114	0.040	-0.120	0.021	-0.120	0.029
	(0.049)		(0.055)		(0.052)		(0.055)	
Common language	-0.387	0.516	-0.385	0.533	-0.464	0.439	-0.441	0.470
	(0.595)		(0.617)		(0.600)		(0.610)	
Geographic distance	0.002	0.953	0.003	0.942	0.008	0.843	0.006	0.871
	(0.038)		(0.039)		(0.038)		(0.039)	
Intercept	0.004	0.937	0.006	0.894	0.012	0.784	0.011	0.807
	(0.045)		(0.046)		(0.045)		(0.046)	

	Model 0		Model 1		Model 2		Model 3	
	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*
First-stage model								
Home market	-0.304	0.009	-0.311	0.007	-0.311	0.009	-0.313	0.007
state ownership	(0.117)		(0.115)		(0.118)		(0.117)	
Political distance	-0.008	0.970	-0.042	0.844	-0.004	0.986	-0.024	0.913
	(0.208)		(0.215)		(0.208)		(0.215)	
Cultural distance	-0.063	0.324	-0.071	0.262	-0.097	0.122	-0.091	0.147
	(0.064)		(0.064)		(0.062)		(0.063)	
Foreign firm IJV experience	-0.023	0.726	-0.033	0.608	-0.027	0.684	-0.032	0.633
	(0.065)		(0.065)		(0.067)		(0.067)	
Partner IJV experience	-0.029	0.762	-0.037	0.712	-0.034	0.728	-0.037	0.711
	(0.095)		(0.101)		(0.098)		(0.100)	
Employees	0.213	0.040	0.239	0.040	0.231	0.040	0.240	0.041
	(0.103)		(0.116)		(0.112)		(0.117)	
ROA	0.128	0.421	0.120	0.467	0.105	0.440	0.107	0.465
	(0.159)		(0.165)		(0.136)		(0.146)	
Ownership share	0.151	0.040	0.160	0.025	0.162	0.026	0.164	0.023
	(0.074)		(0.071)		(0.073)		(0.072)	
Same industry	-0.330	0.001	-0.317	0.003	-0.321	0.002	-0.317	0.003
	(0.101)		(0.107)		(0.103)		(0.106)	
GDP per capita growth	-0.046	0.610	-0.051	0.562	-0.045	0.615	-0.048	0.587
	(0.090)		(0.088)		(0.089)		(0.088)	
Economic freedom	0.052	0.571	0.055	0.558	0.054	0.571	0.055	0.564
	(0.092)		(0.095)		(0.096)		(0.096)	
Rule of law	-0.241	0.026	-0.252	0.027	-0.247	0.024	-0.251	0.025
	(0.108)		(0.114)		(0.109)		(0.112)	
Public perception	-0.065	0.584	-0.067	0.575	-0.076	0.533	-0.073	0.542
	(0.119)		(0.119)		(0.121)		(0.120)	
Common border	-0.066	0.874	-0.064	0.883	-0.016	0.968	-0.031	0.943
	(0.417)		(0.434)		(0.412)		(0.426)	
Common language	-0.863	0.101	-0.890	0.095	-0.840	0.123	-0.862	0.111
	(0.527)		(0.532)		(0.545)		(0.542)	
Geographic distance	0.060	0.768	0.054	0.783	0.059	0.763	0.057	0.770
	(0.203)		(0.196)		(0.197)		(0.195)	
Intercept	-1.481	0.000	-1.492	0.000	-1.497	0.000	-1.498	0.000
	(0.109)		(0.123)		(0.108)		(0.116)	
ρ	-0.799		-0.813		-0.804		-0.810	
Wald test ($\rho = 0$): χ^2	11.69		12.36		12.10		12.12	
Prob > χ^2	0.001		0.000		0.001		0.001	
Observations	657		657		657		657	

Robust standard errors in parentheses

Hypothesis H1b suggests that cultural distance positively moderates the relationship between the announcement of an IJV with a state-owned partner firm and the foreign firm's stock market reaction. The empirical results indicate a positive (b = 0.010) and significant (p = 0.027) moderation effect. An increase of cultural distance by one standard deviation is thus linked to an increase of the effect of partnering with an SOE on CAR by 1.0 percentage points, or a value increase of 280 million USD. Thus, Hypothesis H1b receives empirical support.

Figure 2.2 shows the marginal effect plots for political distance and for cultural distance with a 95 percent confidence interval (Meyer et al., 2017). The middle line represents the interaction line, showing the marginal effect of state-owned partner firm on stock market reaction. The two dotted outer lines represent the 95 percent confidence interval for the interaction line. The figure illustrates how the positive effect of state-owned partner firm is strengthened for greater political distance and for greater cultural distance between the countries.



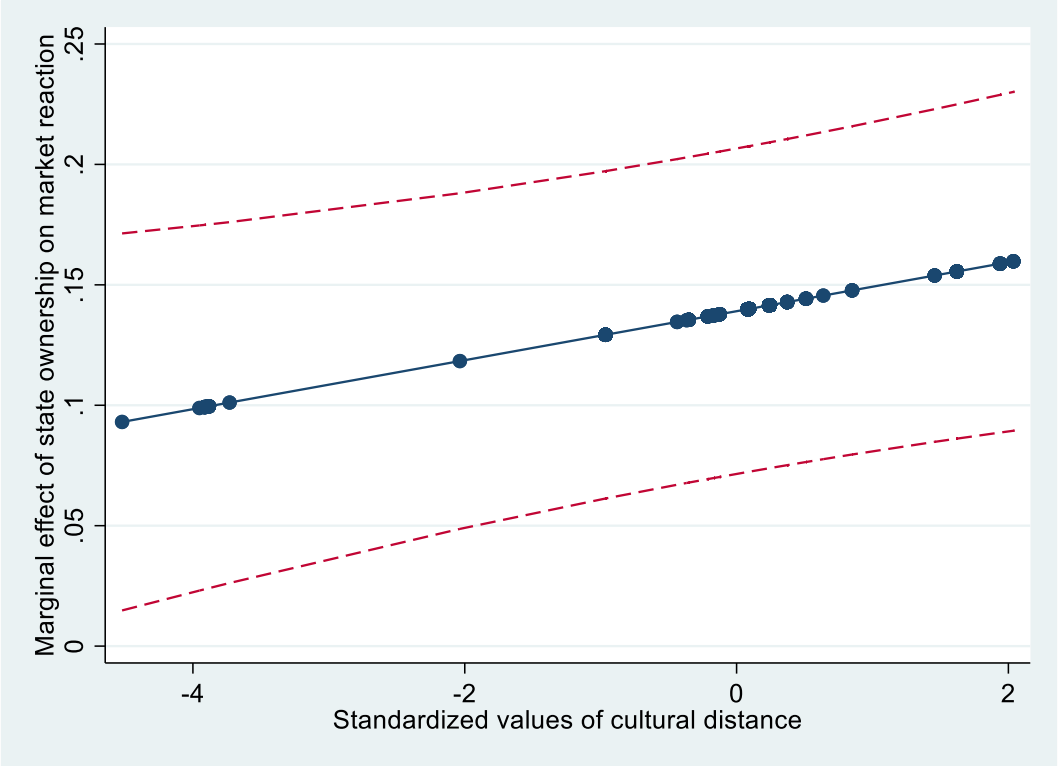


Figure 2.2. Marginal effect plots for political distance and cultural distance

2.4.3. Robustness tests

We evaluate the robustness of our model for different specifications of the dependent variable, sample specification, main independent variable, control variables, and moderating variables. First, we test whether the results hold for different sample specifications. Thus, we exclude banks and credit institutions from our sample due to their different governance mechanisms (Li & Reuer, 2022). The findings remain robust. Second, we construct an alternative specification of the main independent variable, i.e., state-owned partner firm, by assessing the ownership of the partner firm itself instead of its ultimate parent. While the ultimate parent's ownership should be decisive for the partner firm's embeddedness, we test if this narrower definition of state ownership has any implications for the outcomes. The results remain largely robust, except for the moderating effect of political distance, which becomes insignificant ($p = 0.205$), while remaining positive ($b = 0.009$). Due to the classification in SDC platinum, this alternative variable leads to some firms that are no longer classified as state-owned, even though their ultimate owner is state-owned. Third, we employ a different specification for our control variables. We use non-lagged values for employees and ROA to consider the potentially larger influence of more recent firm characteristics, yet the results again remained largely unchanged. Fourth, we ran our model using an event window of five days, but shifted forward by one day compared to our initial model, i.e., reaching from the day before to three days after IJV announcement. This shift forward should capture a market reaction that is less influence by potential information leakage prior to announcement, and more by investor reactions following the dissemination of the announcement. The results remain robust. The results of the robustness tests are summarized in Table 2.4.

Table 2.4. Robustness tests results

	Excluding banks and credit unions		Different definition of SOE		Non-lagged employee and ROA values		CAR -1/+3	
	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*
Second-stage model								
State-owned partner firm	0.141	0.000	0.142	0.000	0.133	0.000	0.134	0.000
	(0.035)		(0.031)		(0.029)		(0.023)	
State-owned X Political distance	0.009	0.036	0.009	0.205	0.008	0.024	0.012	0.056
	(0.004)		(0.007)		(0.003)		(0.006)	
State-owned X Cultural distance	0.010	0.025	0.011	0.095	0.011	0.013	0.009	0.025
	(0.005)		(0.007)		(0.004)		(0.004)	
Political distance	-0.004	0.893	0.004	0.920	-0.017	0.450	0.008	0.750
	(0.028)		(0.036)		(0.022)		(0.027)	
Cultural distance	-0.110	0.438	-0.226	0.280	-0.199	0.068	-0.132	0.387
	(0.142)		(0.210)		(0.109)		(0.152)	
Foreign firm IJV experience	0.001	0.755	0.002	0.576	0.001	0.682	-0.001	0.733
	(0.002)		(0.003)		(0.002)		(0.004)	
Partner IJV experience	-0.001	0.808	-0.001	0.819	-0.000	0.907	0.001	0.583
	(0.003)		(0.003)		(0.004)		(0.003)	
Employees	-0.012	0.042	-0.016	0.109	-0.010	0.012	-0.009	0.099
	(0.006)		(0.010)		(0.004)		(0.005)	
ROA	-0.007	0.005	-0.008	0.009	-0.013	0.000	-0.008	0.000
	(0.003)		(0.003)		(0.002)		(0.002)	
Ownership share	-0.002	0.437	-0.000	0.962	-0.003	0.177	-0.004	0.142
	(0.003)		(0.003)		(0.002)		(0.003)	
Same industry	0.010	0.006	0.014	0.001	0.009	0.062	0.007	0.027
	(0.004)		(0.004)		(0.005)		(0.003)	
GDP per capita growth	-0.003	0.649	-0.002	0.707	0.001	0.899	-0.002	0.761
	(0.006)		(0.006)		(0.006)		(0.005)	
Economic freedom	-0.021	0.071	-0.029	0.042	-0.018	0.080	-0.019	0.111
	(0.012)		(0.014)		(0.010)		(0.012)	
Rule of law	0.031	0.010	0.031	0.043	0.033	0.000	0.032	0.000
	(0.012)		(0.015)		(0.009)		(0.007)	
Public perception	0.001	0.892	-0.003	0.442	0.002	0.706	0.002	0.671
	(0.005)		(0.004)		(0.005)		(0.004)	
Common border	-0.121	0.029	-0.191	0.020	-0.186	0.000	-0.107	0.047
	(0.056)		(0.082)		(0.027)		(0.054)	
Common language	-0.415	0.500	-0.865	0.326	-0.794	0.083	-0.471	0.478
	(0.615)		(0.881)		(0.458)		(0.665)	
Geographic distance	0.005	0.892	-0.008	0.866	0.008	0.787	0.003	0.935
	(0.039)		(0.050)		(0.031)		(0.039)	
Intercept	0.010	0.826	0.049	0.443	0.024	0.456	0.019	0.695
	(0.048)		(0.064)		(0.032)		(0.048)	

	Excluding banks and credit unions		Different definition of SOE		Non-lagged employee and ROA values		CAR -1/+3	
	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*
First-stage model								
Home market state ownership	-0.311	0.008	-0.406	0.001	-0.314	0.001	-0.198	0.097
	(0.118)		(0.118)		(0.093)		(0.120)	
Political distance	-0.037	0.863	-0.079	0.765	0.237	0.214	-0.100	0.517
	(0.213)		(0.266)		(0.190)		(0.155)	
Cultural distance	-0.088	0.175	-0.116	0.165	0.000	0.999	-0.064	0.265
	(0.065)		(0.084)		(0.083)		(0.057)	
Foreign firm IJV experience	-0.037	0.580	-0.043	0.497	-0.035	0.661	-0.051	0.457
	(0.067)		(0.064)		(0.079)		(0.068)	
Partner IJV experience	-0.039	0.696	-0.033	0.769	-0.055	0.644	0.008	0.910
	(0.101)		(0.113)		(0.119)		(0.068)	
Employees	0.250	0.030	0.340	0.018	0.251	0.074	0.254	0.011
	(0.116)		(0.143)		(0.140)		(0.099)	
ROA	0.105	0.481	0.144	0.428	0.309	0.042	0.077	0.318
	(0.149)		(0.181)		(0.152)		(0.077)	
Ownership share	0.158	0.031	0.106	0.086	0.158	0.070	0.166	0.010
	(0.073)		(0.062)		(0.087)		(0.065)	
Same industry	-0.318	0.002	-0.357	0.003	-0.317	0.000	-0.252	0.014
	(0.104)		(0.118)		(0.089)		(0.102)	
GDP per capita growth	-0.047	0.590	-0.078	0.220	-0.007	0.915	0.032	0.744
	(0.087)		(0.064)		(0.064)		(0.099)	
Economic freedom	0.059	0.547	0.077	0.351	0.029	0.802	0.033	0.623
	(0.097)		(0.083)		(0.114)		(0.066)	
Rule of law	-0.252	0.025	-0.230	0.017	-0.199	0.100	-0.175	0.153
	(0.113)		(0.096)		(0.121)		(0.122)	
Public perception	-0.071	0.554	-0.128	0.191	-0.033	0.781	-0.028	0.775
	(0.120)		(0.098)		(0.117)		(0.098)	
Common border	-0.043	0.921	-0.096	0.812	0.384	0.488	-0.121	0.585
	(0.428)		(0.405)		(0.553)		(0.221)	
Common language	-0.867	0.110	-1.163	0.024	-0.111	0.848	-0.347	0.445
	(0.543)		(0.517)		(0.579)		(0.454)	
Geographic distance	0.066	0.733	0.101	0.648	-0.165	0.431	0.054	0.647
	(0.193)		(0.221)		(0.210)		(0.117)	
Intercept	-1.486	0.000	-1.494	0.000	-1.621	0.000	-1.475	0.000
	(0.116)		(0.124)		(0.111)		(0.095)	
ρ	-0.818		-0.828		-0.779		-0.803	
Wald test ($\rho = 0$): χ^2	11.77		16.54		17.50		68.11	
Prob > χ^2	0.001		0.000		0.000		0.000	
Observations	643		534		667		657	

Robust standard errors in parentheses

2.5. Discussion

Drawing upon the political embeddedness concept and political strategy, which highlight the importance of non-market firm-government relations for firm performance, we discuss the implications of partnering with an SOE in China, contingent upon the political distance and cultural distance between the focal firm's home country and China. A state-owned partner allows the IJV, and by extension, the foreign firm, to become politically embedded, which has both upsides, such as access to state-controlled resources and markets, and downsides, such as dependence on and unsolicited influence from political stakeholders. Given the strong dominance of the government in the Chinese economy, we posit that the advantageous effects outweigh the detrimental effects, which is confirmed by our empirical findings. We theorize that the value of partnering with a Chinese SOE in a foreign-Sino IJV is stronger when foreign firms face political and cultural distance. Poor political relations indicate less prior political ties to the host country. Therefore, the value of a state-owned partner increases for the foreign firm, as it can leverage the political network to build bridges to the local government and thus compensate the effect of political distance. Similarly, cultural distance impedes doing business in the foreign country, for instance by causing misunderstanding with market-based actors, such as local suppliers and customers. Political relations gained via a state-owned partner can partially offset these disadvantages, as political embeddedness can help gain access to markets and resources under state control, bypassing the need for interactions with purely market-based actors. We find empirical support for the moderating effects of political distance and cultural distance.

2.5.1. Contributions

Our work advances the literature on IJVs and political strategy in several ways. First, our study contributes to the political embeddedness concept by introducing a contingency perspective to the notion that political embeddedness adds value to firms. Specifically, we demonstrate that political embeddedness does not have an absolute value, but that there are

contextual factors that strongly determine how valuable political connections are. Previous research has uncovered contextual factors, such as industry regulation (Hillman, 2005), local institutional voids (Ge et al., 2018), and firm specific factors (Baum & Oliver, 1991) on the formation and on the value of political embeddedness. However, this picture is incomplete and lacks the inclusion of country-dyadic factors that critically impact a wide range of IB phenomena (Bertrand et al., 2016; Shenkar, 2001). Thus, we examine the implications of political distance, which is particularly relevant for partnerships with SOEs, given the state-owned firms' close connections with political actors and their agendas, and cultural distance, which is a mainstay in IB that crucially impacts a large variety of IB outcomes. By demonstrating the moderating effects of the political and cultural distance between the host and home countries, we not only introduce novel contingency factors on the inter-country level, but we also demonstrate that the value of political embeddedness can offer a "substitution" effect, such that its well-connected IJV partner's political networks can help firms bridge a lack of previous political ties or familiarity with a host country market.

Second, our study contributes to the literature analyzing strategic ways to build or maintain political embeddedness. Previous research has explored different mechanisms of establishing political embeddedness, typically through individuals' personal governmental relations or governmental backgrounds of firm members, such as former politicians that serve on a firm's board (Haveman et al., 2017; Hillman, 2005), or through non-market strategies, such as campaign contributions or lobbying (Hersch et al., 2008). However, prior research has devoted little attention to the possibility of gaining political embeddedness by means of strategic partnerships with state-owned entities, with the exception of very few studies that built on qualitative methods (Sun et al., 2010). Others explore the implications of ties to political actors by drawing upon resource dependence theory (Mohr et al., 2016a) or transaction cost and agency theory (Sun et al., 2021), but without making a connection to the theoretical underpinning of the political embeddedness concept. Thus, our study adds a new

angle to this literature stream by analyzing an underexplored means to build governmental ties, i.e., firms can gain political embeddedness through indirect ties when partnering with an SOE in a joint venture.

2.5.2. Managerial implications

Our study provides insights for practitioners. Considering the continued strong presence of SOEs in many economies, IJVs with local state-owned partner firms continue to be important entry modes into foreign markets. Previous work has left the question unanswered whether partnering with a local state-owned firm benefits a focal firm, or whether doing so is detrimental to value creation. Our study can help foreign firms evoke better stock market reactions in IJVs by making an informed choice between a local state-owned or privately owned partner in due consideration of political relations and cultural differences between countries, or, if the decision is restricted by local laws, by supporting the decision whether to enter a market with a given partner firm or not.

2.5.3. Limitations and future research

Our study has limitations. First, our empirical analysis is limited to China. While it was our goal to specifically address the Chinese market, given the dominant role of the government throughout the markets and the strong presence of SOEs (Cui & Jiang, 2012), making the Chinese market a very suitable setting for research on IJVs involving SOEs (e.g., Chang et al., 2020; Jin & Wang, 2021; Mohr et al., 2016a; Wang et al., 2023), relying on Chinese data may constrain the generalizability of our insights for other emerging markets, especially for countries with different political systems (Inoue et al., 2013). Thus, we encourage future research to examine IJV value creation with local state-owned partner firms in the context of other emerging markets. Scholars may also compare the effects of partnering with SOEs in emerging versus developed markets, since institutional imperfections and strong government involvement are less typical in the latter, and hence the key benefits of political embeddedness may be less pronounced, while disadvantages may even outweigh the benefits.

Second, we apply a rather broad definition of state ownership since we consider majority ownership of the partner firm's ultimate parent as the deciding factor. While this broad definition should capture the effect of partnering with an SOE in the most general way, previous studies have shown that different forms of ties to the government, such as government as shareholder, government officials on the board of directors, or an SOE as a shareholder, may result in different levels of political embeddedness with different performance implications (Okhmatovskiy, 2010). Future research may collect additional data to address this aspect by analyzing different types of SOEs as IJV partners, such as different SOE ownership structures.

Third, we analyze political embeddedness at the organizational level. While we are convinced that the organizational level allows us to gain valuable insights into the general role of a partner firm's state ownership, future studies could analyze the specific governmental personnel and institutions to which the IJV establishes ties. This would allow scholars to draw further conclusions on how ties to varying levels of government, for instance, national and sub-national levels, influence IJV and foreign firm performance.

In general, we encourage researchers to build on our results to examine additional factors on the firm-, IJV-, country-, or inter-country level, that drive the advantageousness or disadvantageousness of partnerships with state-owned actors. This could further enhance our understanding of the role of an IJV partner's state-ownership on firm performance in the light of political and social factors.

3. Equity shares in the acquisition of state-owned enterprises[2]

3.1. Introduction

Cross-border acquisitions have increased in quantity and value in recent decades (Institute for Mergers, Acquisitions & Alliances, 2023) leading to numerous analyses in the international strategy literature (Xie et al., 2017). Choosing the level of equity share in the target firm is a major managerial decision in CBAs, as it has direct implications for financial resource commitments and control over the target, and hence for the trade-off between potential risks and returns of the deal (Anderson & Gatignon, 1986; Chari & Chang, 2009). The extant literature has examined various predictors of equity share decision in CBAs that include the firms' industry relatedness and their countries' cultural and linguistic distance (e.g., Cuypers et al, 2015; Falaster et al., 2021; Malhotra & Gaur, 2014; Malhotra et al., 2018). A factor that extant research has disregarded hitherto is the target firm's ownership type, despite the relevance of SOEs as targets (Cooke, 2006) and their distinct nature compared to non-state-owned firms (He et al., 2016).

We examine the influence of the state-ownership of the target firm, i.e., whether the target firm is an SOE or not, on acquirer firms' equity share decisions. We argue that in an acquisition of a state-owned target firm, acquirers face greater uncertainty about the actual value of the target firm, because, first, they tend to have less information about the target's assets and capabilities. Second, the post-acquisition integration process is subject to unforeseeable, but potentially severe, obstacles due to wider differences in organizational culture, processes, and structures (Meyer, 2002). Building on real options theory (ROT), we suggest that partial acquisitions of SOEs act as real options that help acquirers mitigate investment risk and establish toeholds that enable increases in equity stakes in the future

[2] Chapters 3.1.-3.5. are based on a paper that was co-authored with Chengguang Li and Klaus Meyer. An earlier version of the paper was accepted for presentation at the AOM conference 2024.

while keeping out competitors. Therefore, due to the greater uncertainty involving state-owned target firms, we propose that acquirers prefer to acquire lower equity stakes. We further explore two different facets of uncertainty: objective and perceived uncertainty (Ashill & Jobber, 2010; Buchko, 1994). We argue that lower objective uncertainty in the form of better disclosure standards in the target country improves transparency about target SOEs and, thus, should weaken the effect of state-owned targets on equity share decisions. Further, we argue that greater uncertainty avoidance in the acquirer country increases the acquirer's perceived uncertainty regarding the acquisition of SOEs, and, hence, should strengthen the influence of the target's state ownership.

To test our hypotheses, we assembled a dataset of over 27,000 CBAs between 2000 and 2020 by acquirers from 75 countries. Our results show evidence of a negative relationship between the state ownership of the target firm and the equity share sought in CBAs. We also find evidence for the moderating effect of uncertainty avoidance, but we do not find empirical support for the moderating effect of the target country's disclosure standards.

With our study, we contribute to ROT in M&A research by juxtaposing the effects of objective and perceived uncertainty on the equity share decisions in CBAs. While uncertainty is the basis for ROT, previous work has not distinguished between objective and subjective uncertainty in the context of M&As. Our work shows that perceived uncertainty influences the relationship between the target's state ownership and the equity share sought, while objective uncertainty does not. In doing so, we offer a more nuanced view on the uncertainty concept in ROT within the M&A literature. Moreover, we advance SOE research and offer insights on the implications of state ownership of target firms in M&As. While extant research has studied state-owned acquirers (e.g., Ding et al., 2022; Guo et al., 2016; Li et al., 2019; Li et al., 2017), our work reveals that state ownership of the target increases the uncertainty for acquirers and their tendency to purchase smaller equity shares. Furthermore, we contribute to the cross-border M&A literature by introducing a novel and highly relevant

determinant of equity share decisions, i.e., the target's state ownership, and we show that, all else being equal, acquirers prefer equity stakes in state-owned targets that are roughly 25 percentage points lower than in non-state-owned ones.

3.2. Theory and hypotheses development

3.2.1. Acquisition of SOEs and uncertainty

A key strategic decision in CBAs pertains to the equity share in the target firm, which determines the acquirer's level of control and resource commitment (Liou et al., 2016). A higher equity share is associated with greater level of control over the acquired firm and an improved ability to direct the acquired firm's strategies (Malhotra et al., 2018). Conversely, a higher equity share requires a greater level of resource commitment and hence induces an increased investment risk (Chari & Chang, 2009).

Previous research has built on different theoretical foundations to highlight various factors that influence the equity share decision. For instance, Chari and Chang (2009) draw on valuation costs and adverse selection hazards, cultural factors, the separation of desired and non-desired assets, and the real options perspective to derive a range of factors that affect equity ownership in the target firm. Many authors highlight the role of institutional factors, such as institutional inefficiencies in the target country (Falaster et al., 2021) or host country sentiment towards the acquirer (Yiu et al., 2021). Besides regulative and normative institutional factors, equity ownership levels of previous acquisitions in the target country serve as an anchor for equity decisions in subsequent deals, representing a cognitive institutional determinant (Malhotra et al., 2018). Cuypers and colleagues (2015) and Dow and colleagues (2016) analyze the effects of linguistic distance, linguistic diversity, and foreign language proficiency on equity share decisions. Other factors include, for example, geographic distance and the public status of the acquirer (Malhotra & Gaur, 2014).

While extant research on equity stake decisions in M&As has generated valuable insights, the state ownership of the target has been largely overlooked, despite the high

prevalence of SOEs as acquisition targets (Uhlenbruck & De Castro, 2000) and their very different nature compared to non-state-owned companies (Meyer et al., 2014). SOEs, i.e., firms that are partially or wholly owned by the government (Cuervo-Cazurra et al., 2014; Zhou et al., 2017), are characterized by the strong governmental influence over the firm's goal setting and strategy definition and, in many cases, the appointment of senior leadership by the government (Dharwadkar et al., 2000; Li & Zhang, 2007). As a result, SOEs have better access to state-controlled resources, capital, and policy makers (Li & Zhang, 2007; Okhmatovskiy, 2010). However, SOEs also tend to be less efficient due to the top management's inexperience and the prevalence of agency problems (Dharwadkar et al., 2000), a soft-budget constraint (Lin & Tan, 1999), and, in many instances, non-financial strategic objectives (e.g., Musacchio et al., 2015; Tihanyi et al., 2019; Yang & Meyer, 2019).

We expect two unique traits of SOEs to considerably increase uncertainty surrounding SOEs as acquisition targets. First, SOEs often lack transparency (Bushman et al., 2004; Hung et al., 2023). SOEs are typically surrounded by "opaqueness" (Li et al., 2019, p. 304), i.e., reduced corporate transparency regarding financial aspects, information about their operations, and a clear communication of firm objectives (Cannizzaro & Weiner, 2018). The reason for the lack of transparency of SOEs is lower quality accounting, encompassing limited availability of company information, and a lower reliability of disclosed information (Ding et al., 2020; Guedhami et al., 2009). Information may be held back if it undermines political affairs or potentially even exposes political corruption (Bushman et al., 2004; Li et al., 2017). This is possible because disclosure norms are often lower for SOEs than for non-state-owned companies (OECD, 2020) and because politically connected firms are often under governmental protection (Chaney et al., 2011). In addition, information that SOEs disclose is less often subject to certification by financial auditors (Li et al., 2019). While non-state-owned firms may occasionally also become subjects of disclosure scandals (for instance, see the Wirecard fraud scandal in Germany (Reuters, 2022)), extant literature is both abundant

and unequivocal about the commonly lower transparency of SOEs vis-à-vis their non-state-owned counterparts. The lack of transparency increases information asymmetry between the acquirer and the target firm and, therefore, increases the acquirer's uncertainty regarding the target firm's standalone value and exposes acquirers to greater risks of misvaluation.

Second, SOEs that transition from public to (partial) private ownership can offer considerable post-acquisition integration challenges. The organizational cultural fit between acquirer and target is uncertain and can be particularly low due to potential differences between organizational culture, incentive systems, and management approaches (Uhlenbruck & De Castro, 2000). Many SOEs have local employment creation or protection as secondary objective, such that they employ more people than a private investor may deem necessary to efficiently achieve output targets. Thus, post-acquisition restructuring processes require greater efforts and subsequent investments from the acquirer (Meyer, 2002). Post-acquisition integration is further exacerbated if transformation processes are accompanied by "strikes and civil disobedience" or "unsolicited […] post-acquisition political interference", which are not uncommon for public firms becoming (partially) privatized (Jory & Ngo, 2014, p. 1097). These higher, and often unpredictable, integration barriers raise the acquirer's uncertainty about the compatibility of the target's assets and capabilities (Cuypers & Martin, 2010).

One fundamental means for acquirers to deal with the uncertainty is through partial acquisitions, which can be considered real options. Thus, we build upon ROT to examine the relationship between a target firm's state ownership and the equity shares acquired in CBAs.

3.2.2. Partial acquisitions as real options under uncertainty

Real options are strategic investment opportunities that entail the right to exercise a specific action on tangible or intangible assets in the future, yet without an obligation to do so, and are particularly relevant in situations involving uncertainty (e.g., Chi et al., 2019; Kogut, 1988; Trigeorgis & Reuer, 2017). ROT derives from the analysis of financial options (Trigeorgis, 1993) and asserts that under uncertainty, options that allow for strategic flexibility have

greater value because they allow to flexibly adjust to the resolution of uncertainty: “In the presence of uncertainty about the value of the asset, the option allows the decision maker to gather new information and take the action if and only if it is beneficial to do so” (Chi et al., 2019, p. 526).

The strategic management literature has frequently built on ROT to examine various strategic investment decisions that are inherently mired in uncertainty, such as joint ventures (Kogut, 1991), R&D (e.g., Ross et al., 2018), and acquisitions (e.g., Chari & Chang, 2009; Cuypers & Martin, 2010). In the context of acquisitions, ROT has been used to explain the equity share sought in the target firm. ROT suggests that a low level of equity ownership is beneficial under uncertainty, since a partial acquisition of the target firm offers flexibility to expand at a later stage if the uncertainty resolves favorably (Chari & Chang, 2009), but limits the risk of sunk cost if the uncertainty resolves unfavorably (Trigeorgis, 1993). This option is typically either explicitly negotiated in the beginning, or it exists at least implicitly (Chi et al., 2019). Compared to not investing at all, the toehold investment excludes potential competitors from acquiring the target (Brouthers et al., 2008), and it allows an early market entry ahead of potential competitors with the opportunity to accumulate market knowledge (Brouthers & Dikova, 2010). Furthermore, toehold investments allow the acquirer to gather important information that contributes to resolving uncertainty, especially if there is uncertainty about the characteristics of the target firm itself. For example, by making an initial investment, the acquirer can gain access to information about the target, which cannot be gathered if the acquirer does not acquire a partial equity stake (Chi et al., 2019; Xu et al., 2010). The advantage of strategic real options to both limit downside loss and obtain the option to capture upside potential is described as the “asymmetric value” (Chi et al., 2019, p. 527) of the option. In CBAs, the greater the uncertainty, the greater the incentive to minimize risk through lower equity share investment (Chari & Chang, 2009).

Acquirers face greater uncertainty for state-owned targets than for non-state-owned ones, because acquirers have lower transparency about the targets' assets and capabilities. An SOE could, for example, have a strong sales record on paper, yet this may be not primarily the result of good marketing and sales capabilities. Instead, the SOE might generate a large share of its sales because it sells its products largely to state-controlled customers without the competition of private or public firms (Luo, 1997). Post acquisition, these protected sales channels may become unavailable to the firm, and instead it may need to face increased competition in the free market (Mako & Robinett, 2021). The SOE may not be transparent about this situation prior to the deal, in particular if nepotism or "political favors of questionable legality" (Leuz & Oberholzer-Gee, 2006, p. 416) are at play. Thus, the acquirer faces increased uncertainty about the target's true marketing and sales capabilities. By acquiring a small equity stake, the acquiring firm obtains inside information of the target firm. If that target's marketing and sales capabilities meet the acquiring firm's expectations, the acquirer can draw the option to purchase a higher equity stake or the full remaining stake of the target firm. Otherwise, the acquirer can maintain the small initial share or divest.

In addition, acquirers encounter greater uncertainty about the post-acquisition integration. For example, acquirers may face uncertainty regarding the alignment of the corporate cultures, organizational processes, and strategic goals. As strategic goals of SOEs may be directed towards political or social objectives (Ramachandran et al., 2011), the target firm may have nurtured a culture of low managerial incentives and non-economic thinking (Cooke, 2006; Uhlenbruck & De Castro, 2000). This would aggravate restructuring and nourish cultural conflicts between members of the merged entity. If the acquirer initially purchases only a small equity share, it will have the option to abstain from an acquisition of additional equity shares, when it realizes post-acquisition integration and restructuring prove more complex than anticipated. If, however, the target firm's organizational culture,

processes, and structures turn out compatible with that of the acquiring firm, the acquirer can extend its equity stake.

In sum, we hypothesize that since uncertainty about state-owned target firms is greater, acquirers prefer lower equity shares that limit their downside risks while allowing them to gather crucial inside information about the target firm. We thus propose:

Hypothesis 1 (H1): *If the target firm is a state-owned enterprise, the acquirer will seek to acquire a lower equity share.*

3.2.3. Different types of uncertainty

The central premise of ROT is uncertainty and how actors deal with uncertainty (Chi et al., 2019). Prior research identifies two facets of uncertainty, namely objective and perceived uncertainty (e.g., Ashill & Jobber, 2010; Buchko, 1994; Jauch & Kraft, 1986; Samsami et al., 2015). Objective uncertainty is a trait of the environment (Lueg & Borisov, 2014), while perceived uncertainty is environmental uncertainty as perceived by actors as a result of cognitive processing (Downey et al., 1977). Perceived uncertainty may diverge from objective uncertainty (Tosi et al., 1973), even though they tend to be correlated (Lueg & Borisov, 2014; Snyder & Glueck, 1982). The divergence arises from the fundamental nature of perceived uncertainty, namely, that perceptions depend on individual attributes of the manager (Milliken, 1987). Managers selectively perceive stimuli of their environment and derive subjective interpretations (Hambrick & Mason, 1984). Therefore, while the perceived level of uncertainty builds upon the objective level of uncertainty (Jauch & Kraft, 1986), it may diverge from it based on individual characteristics of a firm's managers (e.g., Lueg & Borisov, 2014; McKelvie et al., 2011; Samsami et al., 2015). With uncertainty as the linchpin of ROT in determining equity share decisions, we will turn our attention to the role of objective and perceived/subjective uncertainty in the equity share decisions of acquiring SOEs.

Objective uncertainty

Objective uncertainty surrounding CBAs is directly associated with the availability of information and quality of available information on the target firm. Information availability and quality is high in target countries with good disclosure standards (McNichols & Stubben, 2012; Ortiz et al., 2023), which legally oblige firms to report their financial and operational information (Goldstein & Yang, 2017) or details about their transactions, contracts, and ownership (La Porta et al., 2006). The role of mandatory disclosure standards is a common theme in studies about financial markets (Goldstein & Yang, 2017). Extant M&A research has also analyzed the effects of disclosure standards. For instance, Li and Haleblian (2022) find that disclosure rules significantly increase takeover premiums, while Marquardt and Zur (2015) show that M&A duration is shorter, and the likelihood of deal completion is higher, due to lower information asymmetries between the acquirer and the target. Likewise, Ortiz and colleagues (2023) document that mandatory disclosure standards increase the number and volume of firms that become M&A targets.

We argue that the target country's disclosure standards influence the relationship between the target's state ownership on the equity stake sought in CBAs. SOEs typically exhibit lower availability and quality of firm information (e.g., Bushman et al., 2004; Cannizzaro & Weiner, 2018; Chaney et al., 2011; Ding et al., 2020; Jory & Ngo, 2014; Li et al., 2019; Hung et al., 2023). However, adequate disclosure standards ensure that "SOEs operate […] transparently and on equal footing with private companies" (OECD, 2020, p. 7) and "should be as accountable to the public as listed companies are expected to be towards their shareholders" (OECD, 2020, p. 7). Thus, acquirers have better information about state-owned targets in target countries with better disclosure standards compared to target countries that lack good disclosure standards.

Better disclosure standards influence equity stake decisions in two main ways. First, the acquirer has improved transparency over a state-owned target's standalone assets and

capabilities. For example, the acquirer of an SOE may face lack of transparency about the marketing and sales capabilities of the SOE, because the SOE may conceal that its sales are largely attributable to government protected distribution channels with government-controlled actors as the firm's main product customers. Under low quality disclosure regimes, the SOE may enjoy governmental protection for this kind of opaqueness. However, implementation of stronger disclosure standards may curtail the opaqueness, which reduces uncertainty for the acquirer. Second, the acquirer can better assess whether post-acquisition integration of the target firm will be successful or not, because it has better insights on the target's organizational culture. For instance, the acquirer may have doubts about the organizational cultural fit of a state-owned target, whose strategic goals may be diverted to non-financial objectives and hence whose culture may be less efficiency and output oriented. Better disclosure standards may compel SOEs to be more transparent about their strategic goals, which remedies the acquirer's doubts about the target's integrability. As a result, acquirers are more willing to acquire a greater equity stake in the target. Therefore, we hypothesize that a country's disclosure standards weaken the effect of the target's state ownership:

Hypothesis 2a (H2a): *The negative relationship between a target firm's state ownership and the equity share sought by the acquirer will be weaker if the target country has sophisticated disclosure standards.*

Perceived uncertainty

Perceived or subjective uncertainty captures the perceptual processing of uncertainty by managers (Buchko, 1994) and is therefore an important factor in understanding managerial decision-making (Samsami et al., 2015). One factor that fundamentally influences the perception of uncertainty is a society's uncertainty avoidance. Uncertainty avoidance expresses a culture's "norm for (in)tolerance of ambiguity" (Hofstede, 1984, p. 112). Cultures with a high level of uncertainty avoidance are less risk-taking and try to avoid uncertain situations or choose strategies that mitigate or reduce risk (House et al., 2004; Luo & Bu,

2018). Previous strategic management research has frequently examined the influence of a society's uncertainty avoidance. For instance, Shane (1993) finds that a national preference for uncertainty avoidance relates to lower national innovation rates, and similarly, Nam, Parboteeah, Cullen, and Johnson (2014) report reduced innovation activity on the firm-level. Li and Haleblian (2022) reveal that uncertainty avoidance in an acquirer country reduces acquisition premiums in M&As. Kogut and Singh (1988) find that acquirers with greater uncertainty avoidance prefer JVs or wholly owned greenfield over full acquisitions, as JVs and greenfield entry modes involve relatively lower uncertainty.

We expect the acquirer country's uncertainty avoidance to influence how acquirers perceive the uncertainty surrounding state-owned targets in two main ways. First, if uncertainty avoidance of the acquirer is strong, it will perceive uncertainty about the target firm's standalone assets and capabilities as more severe. For example, it perceives uncertainty about the target firm's true marketing and sales capabilities as more severe, i.e., whether the SOE's sales are a result of good marketing and sales or merely of exclusive access to government-controlled distribution channels. There is a greater incentive to avoid the increased perceived risk of a sales decline in case of the latter, and hence the acquirer prefers to acquire lower equity share. In contrast, an acquirer from a country with low uncertainty avoidance perceives the uncertainty as less perilous. Second, an acquirer with a high preference for uncertainty avoidance also perceives the uncertainty regarding post-acquisition integration as more severe. For instance, the acquirer may have increased doubts about the organizational cultural alignment with the target. The acquiring firm is more inclined to avoid the risk that organizational differences turn out to be graver than anticipated and that integration cannot be easily accomplished, and hence favors a smaller initial acquisition stake. Hence, we propose that the acquirer country's uncertainty avoidance aggravates the effect of greater uncertainty in the acquisition of state-owned firms on the equity share decision:

Hypothesis 2b (H2b): *The negative relationship between a target firm's state ownership and equity share sought by the acquirer will be stronger if the acquirer's home country has a higher degree of uncertainty avoidance.*

3.3. Method

3.3.1. Dataset

To test our hypotheses, we have collected a sample of CBAs from the SDC Platinum database where the target nation is different from the acquirer nation. We only include deals in which the acquirer holds no equity stake in the target prior to deal announcement to capture the real options logic, and we exclude financial buyers. Furthermore, we collected data on CBAs announced between January 1, 2000, and December 31, 2020. Our final dataset contains 27,857 observations. The mean deal value is USD 300 million.

3.3.2. Variables and measures

Dependent variable

Our dependent variable is the equity share of the target firm that the acquirer seeks to purchase in the transaction as reported in SDC Platinum (Chari & Chang, 2009). We capture the percentage sought instead of the percentage acquired, as the former reflects the acquirer's intention and uncertainty considerations more accurately while the latter is influenced by regulatory or shareholder approval processes, deal negotiation dynamics, and the emergence of competing offers, among others. That said, the variables percentage sought and percentage acquired are very similar (the correlation between them is 0.996). The variable, equity share, ranges from 0.1 percent to 100 percent (Falaster et al., 2021; Malhotra and Gaur, 2014).

Independent and moderating variables

The key independent variables we use in our hypothesis tests are state-owned target firm, disclosure standards in the target firm's country, and uncertainty avoidance of the acquirer's country.

For state-owned target firm, we follow the categorization available in SDC Platinum which defines firms as government owned if the government holds more than 50 percent of the firm. We derive a dummy variable that takes the value 1 if the target firm's ultimate parent is government owned, and 0 otherwise, similar to variables used in prior research (Li & Xie, 2013).

To assess the disclosure standards in the target firm's country, we employ the rating of the World Economic Forum's (WEF) Global Competitiveness Report. The strength of auditing and reporting standards index captures the answer of a WEF-conducted survey of executives to the question: "In your country, how strong are financial auditing and reporting standards?" (Schwab et al., 2020, p. 64). The answers reach from 1 (extremely weak) to 7 (extremely strong). WEF reports the average survey scores for each country and year.

Regarding uncertainty avoidance, we use the measure developed by Hofstede (Hofstede, 1984; Hofstede et al., 2010). Uncertainty avoidance expresses "the extent to which the members of a culture feel threatened by ambiguous or unknown situations" in a society and has been used in numerous international strategy studies (Hofstede et al., 2010, p. 191). The uncertainty avoidance values range from 8 to 112. The mean uncertainty avoidance score of our sample is 51.73, with a standard deviation of 20.78.

Control variables

In our model, we control for various potential alternative factors that may influence the dependent variable. First, we add several control variables on the deal level. We control for the deal value, as larger deals require greater resource commitment, while being more complex, which increases uncertainty and risk for the acquirer and could thus influence the equity ownership decision (Falaster et al., 2021; Malhotra et al., 2016). We also introduce a cash payment dummy variable that is 1 if the acquirer pays fully in cash, and 0 otherwise (Falaster et al., 2021; Malhotra et al., 2016), as the payment type influences the uncertainty surrounding the deal. Furthermore, we introduce a competing bidder dummy that equals 1 if

other firms are bidding for the focal target, and 0 otherwise (Guo et al., 2016). The presence of other bidders influences negotiation dynamics and may animate potential acquirers to aim for higher or lower acquisition shares. We control for the same industry of the acquirer and the target firm. A different industry increases information asymmetry and induces increased valuation costs and adverse selection hazards (Chari & Chang, 2009). We derive all deal level control variables from data contained in the SDC Platinum dataset.

Second, we introduce control variables on the firm level. We measure the acquirer previous experience based on the count of CBAs conducted by the acquirer firm in the last 5 years prior to the announcement date of the focal deal. Controlling for previous experience is very common in extant research, as it enhances the acquirer firm's international acquisition capabilities, which increases the acquirer firm's confidence and hence influences equity share decisions (Cuypers et al., 2015; Malhotra et al., 2016). Since larger firms have greater financial resource availability that allows to purchase larger equity stakes (Chari & Chang, 2009), we control for acquirer firm size, measured using the acquirer revenue. We also control for the acquirer firm profitability, measured using the acquirer ROA. We lag both revenue and ROA by one year. We collect both variables using Datastream. We also introduce a high-tech target dummy variable indicating whether the target firm is from a high-tech industry. If the target is a high-tech firm, the acquirer might adjust the equity share sought in the deal, for example limiting it only to the stake needed to gain technology access (Chen & Hennart, 2004). We derive the dummy variable based on the target firm's four digit SIC code, following the classification of Loughran and Ritter (2004).

Third, at the country level, we control for same cultural cluster of the acquirer and the target firm country, since cultural difference may increase uncertainty about the target firm. We use the country clusters developed by Ronen and Shenkar, which group countries into eleven clusters (Arab, Near East, Latin America, East Europe, Latin Europe, Nordic, Germanic, African, Anglo, Confucian, Far East) plus some independent countries not

assignable to any larger cluster (Ronen & Shenkar, 2013). We create a dummy variable that equals 1 if the acquirer firm country and target firm country belong to the same Ronen and Shenkar cluster, and 0 otherwise. We assign missing countries to the nearest matching cluster to our best knowledge. Similar to previous studies (Cuypers et al., 2015; Slangen & Beugelsdijk, 2010), we control for geographic distance between the capitals of the acquirer firm country and target firm country (Mayer & Zignago, 2011). In addition, we control for the political distance between the acquirer firm country and the target firm country (Bertrand et al., 2016; Fieberg et al., 2021). We measure political distance using the distances between countries' voting patterns in the United Nations General Assembly (UNGA) (Gartzke, 1998). Specifically, we calculate the distances of the ideal points of UNGA voting of the acquirer firm country and the target firm country, as established by Bailey, Strezhnev, and Voeten (2017). Increased CBA activity in the target country may be related to a preference for greater equity share (Chari & Chang, 2009), hence we control for the CBA activity in the target country based on the count of CBAs in the target country in the announcement year. Using the economic freedom index developed by the Heritage Foundation, we control for target country economic freedom. Greater economic freedom in the target country may make state-owned targets less attractive (Jory & Ngo, 2014), hence there may be an influence on the equity share decision. We control for the GDP of the acquirer firm country and of the target firm country (Malhotra & Gaur, 2014) using World Bank data. Finally, we add industry, region, and year fixed effects (Malhotra & Gaur, 2014; Zhang & He, 2014).

3.3.3. Estimation model

Because the dependent variable represents a fraction and ranges from 0.1 percent to 100 percent, we build a fractional regression model to test our hypotheses. Fractional regression is better suited than a conventional Tobit model. Tobit models are suitable for data that are censored if they are below or above a certain threshold. In contrast, equity share is not censored, but rather is defined only over a certain interval (Villadsen & Wulff, 2021, 2018).

Fractional regression "should be the first choice when management researchers encounter a fractional outcome variable" (Villadsen & Wulff, 2018, p. 2).

Acquirer firms can choose to purchase a state-owned versus a non-state-owned target firm. This may introduce endogeneity effects as the self-selection of either type of target firm may be driven by the same set of unobserved factors that also drive the equity share decision. To account for potential endogeneity effects, we construct a two-stage regression model where we adopt an instrument variable to predict the choice of the target firm type in a first-stage probit model, which we employ in the second-stage fractional regression model to assess the effect of the target firm type on the equity share decision (Clougherty et al., 2015).

For our instrument, we use the level of state ownership of the target firm country (acquirer country level of state ownership), which we take from the Varieties of Democracy dataset. The dataset provides country ratings based on the degree to which ownership belongs to the government throughout the country's economy building upon the results of an expert assessment, where lower scores represent an economy in which government largely owns or controls capital (Coppedge et al., 2022). We reverse code the variable, such that higher values indicate countries where government owns or controls a larger portion of the economy. An appropriate instrument should fulfill two criteria: It should affect the results of the fist-stage selection model, while not directly affecting the results of the second-stage outcome model (Wolfolds & Siegel, 2019). We argue that the acquirer country's level of state ownership fulfills these criteria. Firms from countries with a high degree of state ownership are more likely to seek a state-owned acquisition target, as they are accustomed to an economic environment with a strong governmental presence. Simultaneously, acquirer country's level of state ownership should not be a factor that directly influences the equity share in acquisitions. We use robust standard errors. Figure 3.1 summarizes the research model.

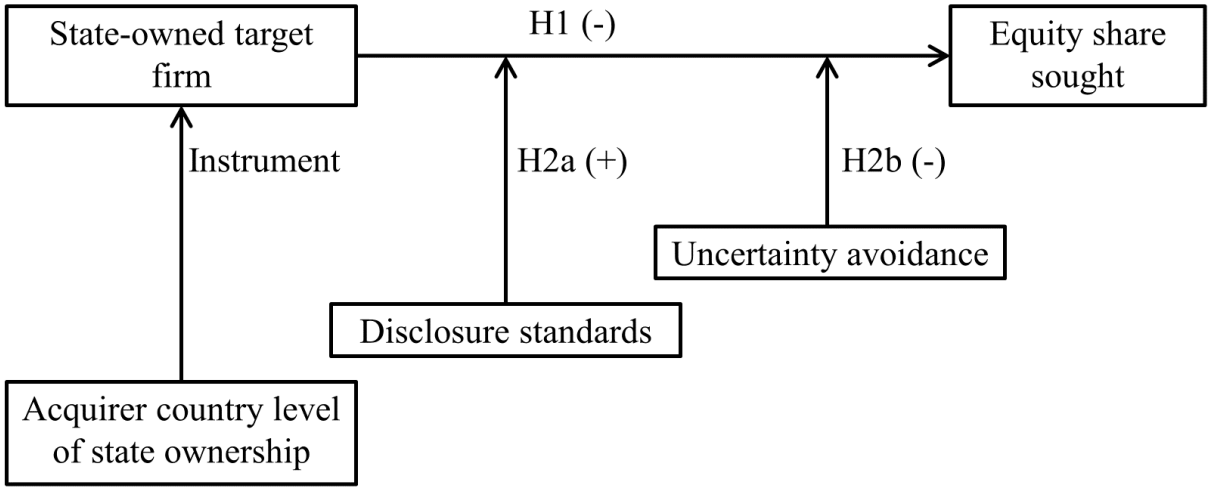


Figure 3.1. Research model

3.4. Results

3.4.1. Descriptive statistics and correlation matrix

Table 3.1 shows the distribution of target firms' regions and industries. Table 3.2 shows the descriptive statistics and the correlation matrix. Variance inflation factors (VIFs) are below 10 indicating no major multicollinearity issues in the regression model (Woolridge, 2012).

Table 3.1. Distribution of target firms' regions and industries

Region	Non-state-owned	State-owned	Percent of total sample	Industry (one-digit SIC code)	Non-state-owned	State-owned	Percent of total sample
Europe	10,215	102	37.0%	Heavy manufacturing (3)	5209	24	18.8%
North America	7,997	9	28.7%	Personal and business services (7)	4990	10	17.9%
Asia	4,187	62	15.3%	Mining and construction (1)	4439	38	16.1%
South America	2,193	24	8.0%	Light manufacturing (2)	3975	24	14.4%
Oceania	1,677	11	6.1%	Finance, insurance, real estate (6)	3086	60	11.3%
Africa	755	21	2.8%	Transportation and public utilities (4)	2136	76	7.9%
Middle East	587	17	2.2%	Wholesale and retail trade (5)	1760	4	6.3%
Total	**27,611**	**246**		Public services (8)	1760	3	6.3%
				Agricultural, forestry, and fishery (0)	232	3	0.8%
				Public administration (9)	24	4	0.1%
				Total	**27,611**	**246**	

Table 3.2. Descriptive statistics and correlation matrix

	Variables	Mean	*SD*	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1	Equity share	0.84	0.30	1																		
2	State-owned target firm	0.01	0.09	-0.0362	1																	
3	Disclosure standards	5.53	0.77	0.1945	-0.0703	1																
4	Uncertainty avoidance	51.73	20.78	-0.1579	0.0242	-0.0929	1															
5	Deal value	299.96	2,116.81	0.046	0.0007	0.0281	0.035	1														
6	Competing bidders	0.01	0.10	0.0406	-0.0053	0.0424	0.0079	0.1645	1													
7	Cash payment	0.27	0.44	-0.0235	0.0121	0.0479	-0.0042	0.017	0.0654	1												
8	Same industry	0.68	0.47	0.0636	0.0223	-0.0457	0.0252	0.0447	0.0241	0.0171	1											
9	Previous CBA experience	4.00	7.31	-0.038	0.0325	-0.0127	0.0993	0.0637	0.0202	0.0386	-0.0267	1										
10	Acquirer revenue (thousand)	6,330.69	20,947.25	-0.1315	0.0445	-0.0575	0.1492	0.1352	0.0326	0.046	-0.0234	0.3542	1									
11	Acquirer ROA	-256.94	27,518.54	0.0004	0.0009	0.0019	0.0021	0.0013	0.0009	0.0041	-0.0022	0.005	0.0029	1								
12	Target high tech firm	0.20	0.40	0.0769	-0.0198	0.1291	-0.0282	-0.0118	-0.0022	0.0363	0.029	-0.0094	-0.0456	0.0041	1							
13	Same cultural cluster	0.39	0.49	0.1399	-0.0244	0.2336	-0.1809	-0.007	0.0184	-0.0189	-0.0051	-0.0864	-0.1123	0.0033	0.045	1						
14	Geographic distance	5,607.51	4,773.06	-0.0649	-0.0171	0.0052	-0.003	-0.0052	0.0167	-0.0045	-0.0119	0.0034	0.033	-0.0116	-0.0045	-0.1528	1					
15	Political distance	1.13	0.80	-0.0347	-0.0012	-0.1531	-0.0714	-0.012	-0.0074	0.0029	0.0111	-0.027	0.0354	-0.0164	0.0039	-0.2733	0.3522	1				
16	Target country CBA activity	551.25	517.81	0.156	-0.0557	0.2849	-0.0264	0.0422	0.0021	-0.0021	-0.0343	0.0263	-0.0367	0.0059	0.0813	0.3197	0.0431	0.1563	1			
17	Target economic freedom	71.14	9.43	0.2035	-0.0629	0.7154	-0.0748	0.0378	0.0451	0.0314	-0.0427	-0.0346	-0.0591	0.0005	0.0857	0.337	0.063	-0.1066	0.4272	1		
18	Acquirer country GDP	4,301.35	5,713.51	0.028	-0.0165	0.0588	-0.1173	0.0258	0.0296	0.0312	-0.0228	-0.0815	0.0607	-0.0149	0.0983	-0.0173	0.1452	0.3317	-0.1017	0.0442	1	
19	Target country GDP	5,090.63	6,523.56	0.0818	-0.0413	0.0368	-0.0028	0.0226	-0.0186	-0.017	-0.0208	0.0224	-0.0226	0.0045	0.0488	0.2411	0.037	0.2326	0.8676	0.2149	-0.1572	1
20	Acquirer country level of state ownership	-1.49	0.90	-0.084	0.0115	-0.1066	-0.3518	-0.0413	-0.0235	-0.0231	-0.0484	-0.1067	-0.1269	0.0072	-0.0789	0.0182	-0.1077	-0.0925	0.0234	-0.0442	-0.3314	0.0806

3.4.2. Test of hypotheses

To test our hypotheses, we build four consecutive models. Model 0 contains only the control variables. In Model 1, we add the main independent variable, target state ownership. Models 2 and 3 separately test the effects of the moderator variables, the target country's disclosure standards and the acquire country's uncertainty avoidance. Model 4 reports the full model. Table 3.3 reports for all models the regression results of the first-stage probit selection regression and the second-stage regression corrected for endogeneity.

The instrument variable is significant ($p = 0.013$), and so is the value of atanh(ρ), which indicates whether unobserved factors affect both stages simultaneously ($p = 0.000$). This suggests that endogeneity is present and that using a two-stage model to correct for endogeneity is appropriate. Furthermore, the coefficient of the instrument variable is positive ($b = 0.083$), indicating that acquirer firms from countries with a higher level of state ownership in the economy have a greater likelihood of selecting a state-owned target firm.

Hypothesis H1 argues that a state-owned target firm relates to a lower equity share sought in CBAs. In Model 4, the main independent variable state-owned target firm is negative and significant ($b = -0.851$, $p = 0.000$). The marginal effect of a state-owned target firm is -24.91 percent, meaning that if an acquirer firm aims to acquire a state-owned target firm, the equity share sought decreases by about 25 percent, ceteris paribus. These findings support Hypothesis H1.

Hypothesis H2a proposes that the target country's disclosure standards weaken the relationship between a state-owned target firm and a lower equity share sought. The coefficient of the interaction effect is not significant in our sample ($p = 0.803$). Therefore, our findings do not support Hypothesis H2a.

Table 3.3. Estimation results

	Model 0		Model 1		Model 2		Model 3		Model 4	
	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*
Second-stage model										
State-owned target firm			-0.991	0.000	-0.978	0.000	-0.885	0.000	-0.851	0.000
			(0.187)		(0.223)		(0.196)		(0.232)	
State-owned target X Disclosure standards					0.006	0.920			0.015	0.803
					(0.060)				(0.061)	
State-owned target X Uncertainty avoidance							-0.096	0.072	-0.098	0.069
							(0.054)		(0.054)	
Disclosure standards	0.042	0.000	0.034	0.003	0.034	0.003	0.034	0.003	0.034	0.003
	(0.011)		(0.011)		(0.011)		(0.011)		(0.011)	
Uncertainty avoidance	-0.158	0.000	-0.157	0.000	-0.157	0.000	-0.156	0.000	-0.156	0.000
	(0.007)		(0.007)		(0.007)		(0.007)		(0.007)	
Deal value	0.406	0.000	0.402	0.000	0.402	0.000	0.402	0.000	0.403	0.000
	(0.050)		(0.050)		(0.050)		(0.050)		(0.050)	
Competing bidders	0.656	0.000	0.649	0.000	0.650	0.000	0.649	0.000	0.650	0.000
	(0.117)		(0.116)		(0.116)		(0.116)		(0.116)	
Cash payment	-0.103	0.000	-0.100	0.000	-0.100	0.000	-0.101	0.000	-0.101	0.000
	(0.017)		(0.017)		(0.017)		(0.017)		(0.017)	
Same industry	0.166	0.000	0.170	0.000	0.170	0.000	0.170	0.000	0.170	0.000
	(0.017)		(0.017)		(0.017)		(0.017)		(0.017)	
Previous CBA experience	0.016	0.036	0.018	0.024	0.018	0.024	0.018	0.024	0.018	0.024
	(0.008)		(0.008)		(0.008)		(0.008)		(0.008)	
Acquirer revenue	-0.106	0.000	-0.103	0.000	-0.103	0.000	-0.103	0.000	-0.103	0.000
	(0.009)		(0.009)		(0.009)		(0.009)		(0.009)	
Acquirer ROA	-0.001	0.206	-0.001	0.208	-0.001	0.207	-0.001	0.206	-0.001	0.206
	(0.001)		(0.001)		(0.001)		(0.001)		(0.001)	
Target high tech firm	0.106	0.000	0.104	0.000	0.104	0.000	0.105	0.000	0.105	0.000
	(0.025)		(0.025)		(0.025)		(0.025)		(0.025)	
Same cultural cluster	0.181	0.000	0.181	0.000	0.181	0.000	0.182	0.000	0.182	0.000
	(0.020)		(0.020)		(0.020)		(0.020)		(0.020)	
Geographic distance	-0.052	0.000	-0.053	0.000	-0.053	0.000	-0.053	0.000	-0.053	0.000
	(0.009)		(0.009)		(0.009)		(0.009)		(0.009)	
Political distance	0.059	0.000	0.060	0.000	0.060	0.000	0.060	0.000	0.060	0.000
	(0.010)		(0.010)		(0.010)		(0.010)		(0.010)	
Target country CBA activity	0.071	0.002	0.068	0.002	0.068	0.002	0.068	0.002	0.068	0.002
	(0.022)		(0.022)		(0.022)		(0.022)		(0.022)	
Target country economic freedom	0.047	0.000	0.051	0.000	0.051	0.000	0.050	0.000	0.050	0.000
	(0.012)		(0.012)		(0.012)		(0.012)		(0.012)	
Acquirer country GDP	-0.020	0.036	-0.020	0.036	-0.020	0.036	-0.020	0.035	-0.020	0.035
	(0.010)		(0.010)		(0.010)		(0.010)		(0.010)	
Target country GDP	-0.034	0.090	-0.032	0.114	-0.032	0.113	-0.032	0.107	-0.033	0.106
	(0.020)		(0.020)		(0.020)		(0.020)		(0.020)	
Intercept	0.578	0.000	0.615	0.000	0.614	0.000	0.611	0.000	0.611	0.000
	(0.090)		(0.090)		(0.090)		(0.090)		(0.090)	

	Model 0		Model 1		Model 2		Model 3		Model 4	
	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*
First-stage model										
Acquirer country level			0.083	0.013	0.083	0.013	0.083	0.013	0.083	0.013
of state ownership			(0.034)		(0.034)		(0.033)		(0.033)	
Disclosure standards			-0.226	0.000	-0.226	0.000	-0.227	0.000	-0.227	0.000
			(0.038)		(0.038)		(0.038)		(0.038)	
Uncertainty avoidance			0.059	0.028	0.059	0.028	0.056	0.037	0.056	0.037
			(0.027)		(0.027)		(0.027)		(0.027)	
Deal value			-0.012	0.464	-0.012	0.463	-0.013	0.460	-0.013	0.458
			(0.017)		(0.017)		(0.017)		(0.017)	
Competing bidders			-0.305	0.432	-0.305	0.432	-0.305	0.432	-0.305	0.432
			(0.388)		(0.388)		(0.388)		(0.388)	
Cash payment			0.162	0.005	0.162	0.005	0.164	0.005	0.164	0.005
			(0.058)		(0.058)		(0.058)		(0.058)	
Same industry			0.215	0.001	0.215	0.001	0.216	0.001	0.216	0.001
			(0.066)		(0.066)		(0.066)		(0.066)	
Previous CBA experience			0.055	0.002	0.055	0.002	0.055	0.002	0.055	0.002
			(0.017)		(0.017)		(0.017)		(0.017)	
Acquirer revenue			0.050	0.000	0.050	0.000	0.051	0.000	0.051	0.000
			(0.013)		(0.013)		(0.013)		(0.013)	
Acquirer ROA			0.214	0.031	0.214	0.031	0.213	0.031	0.213	0.031
			(0.099)		(0.099)		(0.099)		(0.099)	
Target high tech firm			-0.167	0.076	-0.167	0.076	-0.168	0.075	-0.168	0.074
			(0.094)		(0.094)		(0.094)		(0.094)	
Same cultural cluster			-0.026	0.709	-0.026	0.708	-0.027	0.705	-0.027	0.703
			(0.070)		(0.070)		(0.070)		(0.070)	
Geographic distance			-0.074	0.076	-0.074	0.077	-0.073	0.080	-0.073	0.082
			(0.042)		(0.042)		(0.042)		(0.042)	
Political distance			0.054	0.133	0.054	0.133	0.054	0.135	0.054	0.135
			(0.036)		(0.036)		(0.036)		(0.036)	
Target country CBA activity			-0.136	0.074	-0.136	0.074	-0.137	0.074	-0.137	0.074
			(0.076)		(0.076)		(0.076)		(0.076)	
Target country			0.114	0.014	0.114	0.014	0.115	0.013	0.115	0.014
economic freedom			(0.046)		(0.047)		(0.046)		(0.047)	
Acquirer country GDP			0.026	0.524	0.025	0.526	0.025	0.528	0.025	0.531
			(0.040)		(0.040)		(0.040)		(0.040)	
Target country GDP			0.202	0.004	0.202	0.004	0.203	0.004	0.204	0.004
			(0.070)		(0.070)		(0.070)		(0.070)	
Intercept			-1.500	0.000	-1.500	0.000	-1.497	0.000	-1.497	0.000
			(0.295)		(0.295)		(0.295)		(0.295)	
atanh(ρ)			0.423	0.000	0.420	0.000	0.390	0.000	0.381	0.000
			(0.081)		(0.085)		(0.080)		(0.083)	
Log pseudolikelihood	-11,033.03		-12,168.57		-12,168.57		-12,167.76		-12,167.74	
Wald χ^2	4,492.4		5,316.9		5,318.8		5,324.1		5,317.1	
Prob > χ^2	0.000		0.000		0.000		0.000		0.000	
Observations	27,857		27,857		27,857		27,857		27,857	

Robust standard errors in parantheses.

Hypothesis H2b states that the acquirer's preference for uncertainty avoidance strengthens the main effect between a state-owned target firm and a lower equity share sought. The coefficient of the interaction effect is negative (b = -0.098) and significant (p = 0.069). Figure 3.2 shows the margins plot of the expected equity share of deals with state-owned and non-state-owned target firms, contingent upon different levels of uncertainty avoidance, ranging from the minimum to maximum uncertainty avoidance scores in our sample. The graph demonstrates the increasing discrepancy of equity shares between CBAs with state-owned and non-state-owned targets at higher values of uncertainty avoidance, whereas the effect of the target firm ownership type becomes insignificant at very small uncertainty avoidance values. The results support Hypothesis H2b.

All observed effects are present in the partial models, too, yielding further support for the acceptance of Hypotheses H1 and H2b, and the rejection of Hypothesis H2a, respectively.

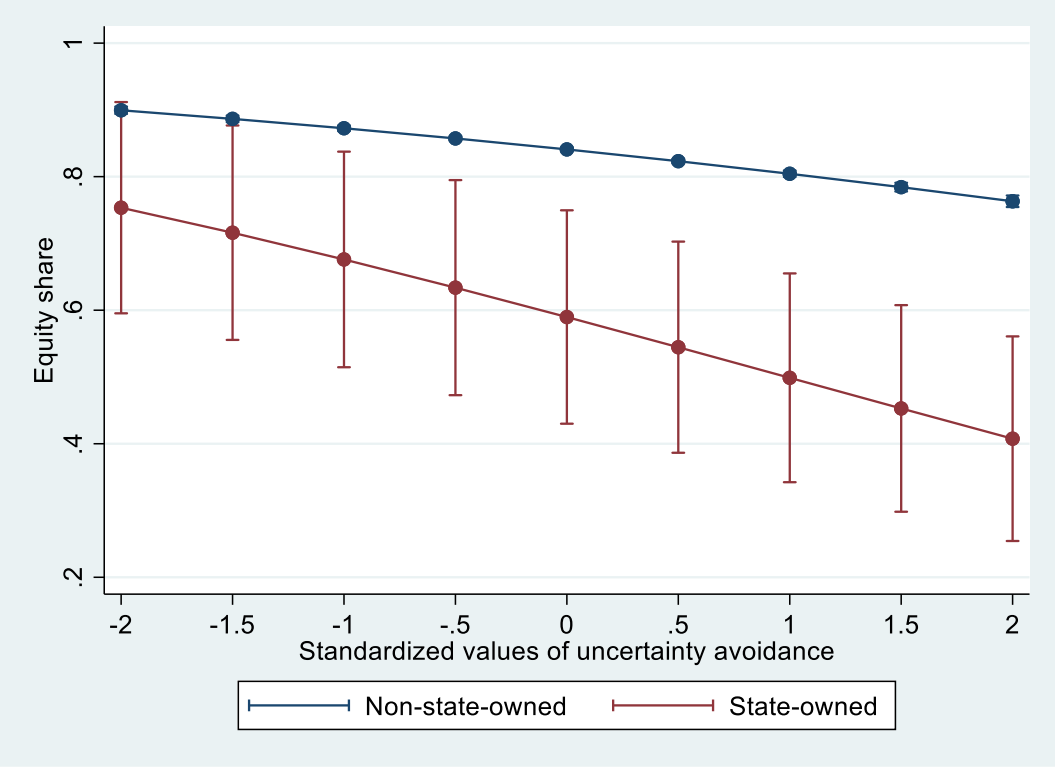


Figure 3.2. Predictive margins of state-owned and non-state-owned target firm

3.4.3. Robustness tests

We tested four additional specifications of our model. First, we replaced the continuous equity share variable with a dichotomous variable that differentiates full and partial acquisitions. Accordingly, we switched to a probit model instead of a fractional regression in the second-stage model. The results are similar to the initial models. Second, we noticed a high share of targets from the business services industry (SIC code 73), representing 4,320 observations, or 15.5 percent of our sample. We therefore ran our models again excluding deals with targets from the business services industry to rule out influential impacts of this target industry. The results did not change substantially. Third, our dataset exhibits a high share of U.S. targets, namely 6,408 observations or 23.0 percent of the sample. Running our models without U.S. targets led to similar results. Fourth and similarly, our sample has a large number of U.S. acquirers, representing 4,747 observations or 17.0 percent of the entire sample. We obtain similar results when excluding U.S. acquirers. Table 3.4 shows the results of the robustness tests.

Table 3.4. Robustness tests results

	Binary dependent variable		Business services excluded		U.S. targets excluded		U.S. acquirers excluded	
	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*
Second-stage model								
State-owned target firm	-1.358	0.000	-0.869	0.000	-0.761	0.002	-0.635	0.014
	(0.265)		(0.227)		(0.247)		(0.257)	
State-owned target X Disclosure standards	0.051	0.549	0.019	0.769	0.011	0.873	0.069	0.319
	(0.084)		(0.063)		(0.068)		(0.069)	
State-owned target X Uncertainty avoidance	-0.126	0.085	-0.096	0.079	-0.114	0.045	-0.113	0.069
	(0.073)		(0.055)		(0.057)		(0.062)	
Disclosure standards	0.097	0.000	0.029	0.019	0.042	0.001	0.020	0.104
	(0.014)		(0.012)		(0.013)		(0.012)	
Uncertainty avoidance	-0.179	0.000	-0.157	0.000	-0.150	0.000	-0.168	0.000
	(0.009)		(0.008)		(0.008)		(0.008)	
Deal value	0.358	0.000	0.403	0.000	0.409	0.000	0.353	0.000
	(0.058)		(0.051)		(0.054)		(0.049)	
Competing bidders	0.589	0.000	0.654	0.000	0.632	0.000	0.678	0.000
	(0.128)		(0.121)		(0.124)		(0.136)	
Cash payment	-0.074	0.000	-0.110	0.000	-0.132	0.000	-0.127	0.000
	(0.020)		(0.018)		(0.019)		(0.018)	
Same industry	0.138	0.000	0.143	0.000	0.166	0.000	0.182	0.000
	(0.019)		(0.018)		(0.018)		(0.018)	
Previous CBA experience	0.047	0.000	0.012	0.144	0.009	0.255	0.023	0.008
	(0.010)		(0.008)		(0.008)		(0.009)	
Acquirer revenue	-0.109	0.000	-0.103	0.000	-0.110	0.000	-0.095	0.000
	(0.012)		(0.010)		(0.010)		(0.009)	
Acquirer ROA	0.013	0.003	-0.001	0.278	0.000	0.632	-0.003	0.428
	(0.004)		(0.001)		(0.001)		(0.004)	
Target high tech firm	0.191	0.000	0.123	0.000	0.116	0.000	0.073	0.007
	(0.028)		(0.032)		(0.027)		(0.027)	
Same cultural cluster	0.208	0.000	0.183	0.000	0.147	0.000	0.084	0.000
	(0.022)		(0.021)		(0.022)		(0.021)	
Geographic distance	-0.060	0.000	-0.054	0.000	-0.028	0.005	-0.063	0.000
	(0.010)		(0.009)		(0.010)		(0.010)	
Political distance	0.057	0.000	0.063	0.000	0.077	0.000	0.026	0.014
	(0.012)		(0.010)		(0.011)		(0.011)	
Target country CBA activity	0.104	0.000	0.081	0.001	0.044	0.001	0.073	0.004
	(0.026)		(0.024)		(0.013)		(0.025)	
Target country economic freedom	0.070	0.000	0.053	0.000	0.035	0.011	0.069	0.000
	(0.015)		(0.013)		(0.014)		(0.013)	
Acquirer country GDP	0.004	0.733	-0.027	0.009	0.002	0.834	-0.150	0.000
	(0.011)		(0.010)		(0.011)		(0.008)	
Target country GDP	-0.032	0.183	-0.040	0.060	-0.032	0.002	-0.015	0.510
	(0.024)		(0.021)		(0.010)		(0.023)	
Constant	-0.045	0.682	0.664	0.000	0.543	0.000	0.592	0.000
	(0.109)		(0.092)		(0.093)		(0.094)	

	Binary dependent variable		Business services excluded		U.S. targets excluded		U.S. acquirers excluded	
	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*
First-stage model								
Acquirer country level of state ownership	0.102 (0.035)	0.003	0.078 (0.035)	0.024	0.062 (0.037)	0.091	0.080 (0.034)	0.018
Disclosure standards	-0.224 (0.037)	0.000	-0.239 (0.039)	0.000	-0.245 (0.042)	0.000	-0.237 (0.041)	0.000
Uncertainty avoidance	0.063 (0.027)	0.020	0.056 (0.028)	0.045	0.051 (0.029)	0.074	0.064 (0.030)	0.029
Deal value	-0.010 (0.017)	0.575	-0.013 (0.018)	0.480	-0.012 (0.018)	0.500	-0.006 (0.014)	0.682
Competing bidders	-0.302 (0.381)	0.429	-0.291 (0.394)	0.460	-0.304 (0.393)	0.439	-0.220 (0.409)	0.592
Cash payment	0.164 (0.058)	0.004	0.154 (0.059)	0.010	0.156 (0.060)	0.009	0.166 (0.063)	0.008
Same industry	0.212 (0.067)	0.001	0.202 (0.068)	0.003	0.225 (0.068)	0.001	0.235 (0.072)	0.001
Previous CBA	0.058 (0.018)	0.001	0.053 (0.018)	0.004	0.052 (0.018)	0.004	0.068 (0.018)	0.000
Acquirer revenue	0.047 (0.014)	0.001	0.052 (0.014)	0.000	0.055 (0.015)	0.000	0.043 (0.015)	0.004
Acquirer ROA	0.177 (0.099)	0.074	2.041 (2.839)	0.472	1.891 (2.672)	0.479	0.044 (0.018)	0.013
Target high tech firm	-0.164 (0.093)	0.078	-0.103 (0.100)	0.306	-0.160 (0.097)	0.097	-0.233 (0.110)	0.033
Same cultural cluster	-0.023 (0.070)	0.745	-0.057 (0.072)	0.431	-0.004 (0.072)	0.961	-0.086 (0.077)	0.259
Geographic distance	-0.082 (0.043)	0.059	-0.083 (0.041)	0.044	-0.075 (0.043)	0.083	-0.055 (0.043)	0.203
Political distance	0.043 (0.036)	0.235	0.061 (0.037)	0.103	0.053 (0.039)	0.167	0.033 (0.039)	0.389
Target country CBA activity	-0.165 (0.079)	0.036	-0.164 (0.078)	0.036	-0.081 (0.043)	0.060	-0.202 (0.088)	0.022
Target country economic freedom	0.107 (0.046)	0.019	0.128 (0.049)	0.008	0.118 (0.049)	0.016	0.138 (0.051)	0.007
Acquirer country GDP	0.042 (0.041)	0.308	0.021 (0.041)	0.615	0.010 (0.046)	0.829	-0.008 (0.040)	0.842
Target country GDP	0.208 (0.069)	0.003	0.242 (0.066)	0.000	0.081 (0.034)	0.016	0.302 (0.074)	0.000
Constant	-1.457 (0.291)	0.000	-1.443 (0.298)	0.000	-1.556 (0.291)	0.000	-1.467 (0.306)	0.000
atanh(ρ)	0.583 (0.121)	0.000	0.389 (0.083)	0.000	0.338 (0.089)	0.000	0.321 (0.091)	0.000
Log pseudolikelihood	-15,090.59		-10,835.44		-10,270.80		-10,516.31	
Wald χ^2	5,264.42		4,525.01		4,276.97		5,007.27	
Prob > χ^2	0.000		0.000		0.000		0.000	
Observations	27,857		23,537		21,449		23,110	

Robust standard errors in parantheses.

3.5. Discussion

Our research draws upon ROT to theorize that acquirers seek to purchase lower equity shares of state-owned target firms, because they face greater uncertainty about the state-owned target firm's assets, capabilities, and the successful post-acquisition integration. By purchasing a lower equity stake, acquirers can limit their downside risks, while giving them the option to expand if the uncertainty regarding the target firm resolves favorably. Additionally, we assume that the uncertainty faced by acquirers depends both on an objective and a perceived component. In particular, we hypothesize that the main effect will be weaker if disclosure standards in the target country are higher, while the main effect will be stronger if the acquirer has a higher preference for uncertainty avoidance. Our empirical analysis supports the moderating effect of uncertainty avoidance, while we do not find support for the effect of disclosure standards.

3.5.1. Contributions

Our study makes several contributions. First, our research advances ROT in the M&A literature by distinguishing between the objective and perceived uncertainty that acquirers face and by juxtaposing their effects on the equity share decisions in CBAs. Uncertainty is the basis for ROT and explains why acquirers prefer lower equity shares, since lower equity shares limit sunk costs and offer greater flexibility in the future (e.g., Chari & Chang, 2009; Cuypers & Martin, 2010; Trigeorgis, 1993). Yet, previous work has not distinguished between objective and subjective uncertainty in the context of M&As. Making this distinction is important, however, because both facets of uncertainty influence decision-makers (e.g., Ashill & Jobber, 2010; Downey et al., 1977; Jauch & Kraft, 1986). Our work examines the influence of objective vis-à-vis perceived uncertainty in CBAs and shows that perceived uncertainty influences the relationship between the target's state ownership and the equity share sought, while objective uncertainty surprisingly does not. There are two possible explanations for the lack of influence of objective uncertainty. Firstly, subjective uncertainty

may simply exert a stronger influence than objective uncertainty in CBAs, because a lot is typically at stake in CBAs for the acquirer. In such high-stake situations, emotions and subjective perceptions of managers tend to dominate the 'objective reality' (Ashton-James & Ashkanasy, 2008). Secondly, improved disclosure requirements may not satisfactorily reduce the objective uncertainty surrounding state-owned targets relative to non-state-owned targets. That is, better disclosure norms might improve the reporting quality of state-owned and non-state-owned firms alike, but not significantly reduce the difference in reporting quality between them.

Second, we seek to contribute to the discussion around the implications of state ownership in M&As. Previous studies predominantly have analyzed the implications of the acquirer's state ownership on M&A phenomena, such as deal duration (Li et al., 2017) and deal completion (Li et al., 2019). In the context of M&A equity shares, Xu and colleagues (2010) build on ROT to show that full acquisitions are more likely when the acquirer is state-owned using a sample of Chinese acquirer firms, because state-owned acquirers have better access to exclusive information about the market and potential target firms, and thus face less uncertainty about the deal. We complement the literature by assessing state ownership on the target firm side. In particular, we demonstrate that the target's state ownership increases uncertainty for potential acquirers due to their lack of transparency and thus reduces equity shares purchased in international M&As, whereby creating the opposite implication of state ownership on the acquirer's side. Hence, while the acquirer's state ownership enables the owners of the target to quickly sell a larger equity share, the target's state ownership hampers the purchasing/selling of large equity stakes. In doing so, we also contribute to the ongoing debate on whether state ownership is advantageous or detrimental to firm internationalization (Cuervo-Cazurra & Li, 2021) by introducing a hitherto unobserved ramification of state ownership, namely, that state ownership of a target firm is detrimental to quick acquisition of large equity shares.

Lastly, we introduce a novel determinant of equity share sought in CBAs, which complements the existing research on equity share decisions. While previous research has documented a broad range of factors that affect equity share decisions (e.g., Chari & Chang, 2009; Dikova & Van Witteloostuijn, 2007; Xie et al., 2017), the target firm's state ownership has not been previously examined, even though state ownership is widespread in many economies and SOEs often are CBA targets (Kowalski et al., 2013). Our research reveals the major importance of the target firm's state ownership status for the acquirer's equity share decision and shows that acquirers on average tend to seek equity shares in non-state-owned targets that are 25 percentage points higher than in their state-owned counterparts, everything else being equal.

3.5.2. Managerial implications

Our study has implications for managers of both acquirer and target firms. Our findings highlight the strong influence of the emotional component in the strategic decision on equity ownership when the target firm is state-owned. Managerial awareness regarding the presence of emotional factors can help overcome bias and derive a more fact-based equity decision. SOE managers, on the other hand, should be aware that bidders try to avert uncertainty. Hence, SOE managers should actively work towards reducing the bidder's information deficit. Given the relevance of perceptual factors that influence the acquirer's decision, the seller side is also well-advised to work towards establishing a high level of trust between the deal parties in order to reduce the acquirer's perceived uncertainty.

3.5.3. Limitations and future research

Our study has limitations that offer avenues for future research. First, we apply a rather broad definition of state ownership, in that we use the ultimate parent's public status to differentiate state-owned and non-state-owned target firms. However, different ownership structures may have varying implications on both the objective uncertainty about the firm and the way a potential acquirer perceives the uncertainty. For example, different ownership structures entail

different levels of political embeddedness and hence may cause different levels of governmental protection to potentially blanket selected firm information. Future research could explore the different facets of governmental ownership of the target firm and its implications for equity ownership decisions of the acquirer.

Second, our analysis is limited to the acquirer side of the deal and does not specifically include factors that might be relevant from the target perspective. However, we found no indications of general patterns of potential general ownership limitations in our data, such as general limitations that governments in some countries might impose on acquirers from foreign firms. It is also worth noting that we focus on acquisitions in 2000 and later, such that our analysis does not represent the major mass privatization waves of Central and Eastern Europe of the 1990s (Megginson & Netter, 2001; Meyer, 2002), during which the equity share sold might have been more strongly restricted by the seller party. Scholars could complement the outcomes of our analysis in the future and address this limitation by turning attention to the target firm perspective.

Third, our work does not include domestic M&As. While the implications of state-owned targets may be partially valid for domestic M&As, we expect uncertainty to be particularly high for international M&As, thus making domestic and cross-border M&As less comparable. Specifically, governments may be less inclined in helping to protect the information of state-owned targets from domestic acquirers than from foreign ones. In addition, language barriers and national differences in reporting standards could make the assessment of the target's value and post-acquisition integration more complex, increasing objective uncertainty. Furthermore, the perceived uncertainty may be increased if trust towards the foreign country, and in particular trust towards the foreign country's government, is low. We encourage scholars to examine the implications of state ownership in M&As for domestic vis-à-vis international acquisitions.

Finally, we do not examine subsequent investments or the divestment following an initial partial acquisition of an SOE. Competitors may interpret bids for additional equity as a signal for high value of the target firm and therefore enter the bidding process. However, this possibility should not significantly affect our main line of argumentation, because partial acquirers typically hold preemption rights, which would restrain potential competitors from entering future bidding processes, and the starting positions of the latter are quite different from that of the focal firm. That is, the focal firm already owns a partial stake in the target and has the opportunity to gain full equity ownership when it acquires the remaining shares. By contrast, potential competitors do not possess previous stakes in the target and would only obtain partial ownership through their purchase. Future research may further examine the interesting implications for state ownership in subsequent M&A bids.

4. National identities in international acquisitions: The impact of acquirer nationalism on equity share decisions[3]

4.1. Introduction

Given the increasing quantity and value of cross-border acquisitions over the last decades (Institute for Mergers, Acquisitions & Alliances, 2023), multiple studies have analyzed the predictors that impact the strategic decision regarding the level of equity share in the target firm, with direct implications for financial resource commitment and control over the target (Anderson & Gatignon, 1986; Chari & Chang, 2009). For instance, previous studies have highlighted the role of firms' industry relatedness, the countries' cultural and linguistic distance, and others (e.g., Cuypers et al., 2015; Falaster et al., 2021; Malhotra et al., 2018; Malhotra & Gaur, 2014). However, prior research has put less emphasis on the role of nationalism, despite its recent rise globally (Meyer, 2017) and despite the recently growing research attention regarding the role of nationalism in firm internationalization (Alvarez & Rangan, 2019; Edman et al., 2024). Prior studies on nationalism in the M&A context have typically focused on the role of the target country's nationalism which is expressed in protective policies and regulations and may hamper foreign market entry (e.g., Aktas et al., 2011; Liou et al., 2023; Serdar Dinc & Erel, 2013; Zhang & He, 2014). Besides, prior research has analyzed the role of the acquirer country's nationalism regarding expansion trajectories (Armagan & Ferreira, 2005; Wu & Fan, 2023). However, previous research on nationalism in the M&A context has disregarded the role of nationalism for the strategic decisions related to individual M&As. Our study aims to close this gap by analyzing the role that acquirer country nationalism plays in terms of the equity share sought in international acquisitions.

[3] Chapters 4.1.-4.5. are based on a working paper that was co-authored with Chengguang Li.

To derive our hypotheses, we draw upon social identity theory (SIT), which asserts that individuals tend to perceive themselves and others as belonging to groups, and that the own group is seen in a more beneficial light, whereas other groups are discriminated against (Tajfel & Turner, 2004; Turner et al., 1994). Likewise, a stronger nationalist sentiment leads to a derogation of other countries, which is connected to lower trust into the foreign countries and their actors (Zou et al., 2023). We posit that this reduced trust translates into a greater uncertainty about the deal, which results in a more cautious acquisition approach and thus a lower equity share. If the uncertainties resolve, additional shares can be acquired at a later point. In addition, we build on the common ingroup identity model and hypothesize that prior contact between the acquirer and the target country, in the form of the amount of exchange students of the acquirer country studying in the target country, as well as a superordinate identity, in the form of affiliation with the same cultural cluster, weakens the main effect.

To test our hypotheses, we assembled a dataset of 12,277 CBAs between 2000 and 2020 with acquirers from 31 countries. Our results provide evidence of the main effect of acquirer country nationalism on equity share decisions as well as of the moderating effect of a shared superordinate identity. We do not find empirical evidence for the moderating effect of prior contact.

Our study contributes to the literature stream that analyzes strategic decisions, such as the share of equity sought, in international acquisitions, and to the literature stream that applies SIT to phenomena of strategic management. Regarding the former, we introduce acquirer country nationalism as a hitherto unobserved determinant of the equity share sought in CBAs and we propose two effects that may mitigate the main effect. Regarding the latter, we extend the application of SIT beyond the more traditional application to post-merger integration in which integration processes may be hampered by group thinking towards the pre-merger strategic decision making in which decisions may be biased by outgroup distrust.

In doing so, we stress the relevance of non-economic factors and bias in strategic decision making.

4.2. Theory and hypotheses development

4.2.1. Nationalism

Together with patriotism, nationalism is a manifestation of national identity, where national identity refers to the emotional attachment to a nation (Blank & Schmidt, 2003). In contrast to patriotism, which is typically understood as a more differentiated positive evaluation of the nation to which one feels attached (Schatz et al., 1999) and which does not necessarily entail a negative evaluation of other nations (Feshbach, 1987), nationalism is defined as the "perception of a national superiority and an orientation toward national dominance" (Kosterman & Feshbach, 1989, p. 271), i.e., favoritism of the own nation that goes hand in hand with a derogation of other nations (Adorno et al., 1950; Schatz et al., 1999).

With nationalism recently on the rise across many countries (Meyer, 2017; Coenders et al., 2021), researchers have increasingly turned attention to the topic in the context of firm internationalization. Studies have typically focused either on internationalization processes outside the context of international acquisitions, or, when discussing international acquisitions, they have focused specifically on the nationalism of the target country. Regarding the former, for instance, (Ertug et al., 2023) discuss home and host country nationalism as a driver of the strategic decision between equity and non-equity entry modes. Others analyze the impact of nationalism on global expansion trajectories (Wu and Fan, 2023), customer ethnocentricity, that is, consumer preference for domestically developed and manufactured products (Rawwas et al., 1996; Balabanis et al., 2001), trade flows between countries (Dow & Cuypers, 2024), or the collaboration in diverse teams (Ayub & Jehn, 2006).

In the context of international acquisitions, more specifically, researchers have discussed predominantly the effects of nationalism of the target country, which is reflected in national policies and political interventions and aggravates market entry of foreign firms

(Serdar Dinc & Erel, 2013; Zhang & He, 2014) while providing protection to local players (Aktas et al., 2011). In contrast, little attention has been paid to nationalism on the acquirer side, although it is conceivable that the acquirer may be significantly influenced by nationalist attitudes prevailing in the home country. This may be particularly the case for what is sometimes specifically referred to as the nationalist sentiment, that is, the collective individual-level nationalist attitudes in a country (Ertug et al., 2023), which could pose an important socio-political factor that impacts strategic decisions.

In particular, extant research has not yielded insights into how the acquirer country nationalism influences equity stake decisions. This is surprising, given that the equity stake is a key strategic decision for firms engaging in CBAs (Liou et al., 2016). A greater equity share increases the control over the acquired firm (Malhotra et al., 2018), while it simultaneously demands greater financial commitment and thus is linked to higher investment risk (Chari & Chang, 2009). Previous studies have revealed a broad range of factors relevant to the decision, including, for example, various industry level factors (Chari & Chang, 2009), institutional inefficiencies in the target country (Falaster et al., 2021), host country sentiment (Yiu et al., 2021), previous equity decisions (Malhotra et al., 2018), and linguistic distance (Cuypers et al., 2015; Dow et al., 2016). Nationalism of the acquirer country, however, has not been studied as a factor of the equity stake decision. In the following, we explain why we believe that with the acquirer country nationalism, an important factor is missing from the picture, and we build upon SIT to explicate our line of reasoning.

4.2.2. Social identity theory approach to acquirer country nationalism and international acquisitions

Originally developed in the field of social psychology, SIT, in essence, states that individuals tend to perceive themselves and others as members of groups, enhancing their self-esteem and providing to them a social identity (Tajfel & Turner, 2004; Yzerbyt & Demoulin, 2010). Furthermore, group members tend to view their own group, referred to as the ingroup, in a

positive light, while derogating other groups, termed the outgroups (Tajfel, 1982). If group thinking prevails, people tend to categorize and appraise others primarily as members of their respective groups in relation to their own groups, instead of as individuals, in a process termed de-personalization (Hogg & Terry, 2000). Consequently, SIT explains people's attitudes and behavior on basis of group affiliation, such as the emergence of prejudice (Allport, 1954) and discriminatory behavior towards individuals of the outgroup (Tajfel & Turner, 2004). Strategic management researchers have resorted to SIT to explain phenomena such as barriers to post-merger integration due to irreconcilable organizational identities (e.g., Giessner et al., 2012; Terry et al., 2001; van Knippenberg et al., 2002) or interactions between partners in IJVs from the perspective of nationality based social identities (Salk & Shenkar, 2001). The theoretical foundations of SIT are well suited to explain the implications of nationalism (Druckman, 1994), given that national identity can be considered a specific case of the broader field of social identities (Gustavsson & Stendahl, 2020), namely when nations serve as a key defining criterion for the differentiation of ingroup versus outgroup (Mummendey et al., 2001).

We build upon SIT's proposition of nationalism as a perception of the own nation and its members as a positively attributed ingroup and other nations, and their members, as rather negatively attributed outgroups (Mummendey et al., 2001). Social psychology literature, in general, has widely established that one major outcome of group differentiation is reduced trust towards the outgroup (Brewer & Silver, 1978; Yzerbyt & Demoulin, 2010), which is also highlighted, more specifically, by the international business literature on the effects of nationalism (Zou et al., 2023): Nationalism enhances distrust towards foreign nations and their members, such as their organizations and individuals (Davidov, 2009). For instance, Ertug and colleagues (2023) consider trust as one of the major manifestations of nationalism that drives the entry mode decisions in international alliances. Therefore, nationalism of the acquirer needs to be considered a key factor in international acquisitions, given the significant

role that trust plays for the strategic decision making in internationalization decisions (Zou et al., 2023).

We hypothesize that a stronger acquirer country nationalism increases the acquirer's distrust towards other nations. Greater distrust manifests in different dimensions and spans attributes such as a reduced perceived ability, benevolence, and integrity (Zou et al., 2023), and it can extend to any actor that is perceived to be part of the outgroup, or the foreign country, respectively. Therefore, it may relate to lower trust not only in the target firm itself, but also in other relevant actors, such as the foreign nation's government, local business partners, and so on. Furthermore, we hypothesize that greater distrust towards the target nation and the target firm will lead to a greater perceived uncertainty (Das & Teng, 1998) regarding the deal. Given the multiple dimensions of distrust, the greater uncertainty, too, relates to multiple aspects, ranging, for example, from a greater uncertainty regarding the success of post-merger integration, to increased policy uncertainty and heightened perceived expropriation risks. Greater uncertainty, in turn, leads to a preference of the acquirer for lower equity shares (Trigeorgis & Reuer, 2017; Chi et al., 2019), because a lower equity share allows for a wait-and-see approach until the acquirer has gathered additional insights and experiences regarding the foreign market and the foreign firm (Xu et al., 2010; Chi et al., 2019) that reduce the perceived uncertainty. Financial commitment for the acquirer is lower (Trigeorgis, 1993), yet the toehold investment entails the option to acquire additional shares once the uncertainties are resolved (Chari & Chang, 2009), while at the same time, competitors are kept out (Brouthers et al., 2008). In contrast, an acquirer from a country with a less pronounced national sentiment will have a less strong group-based perception of its own nation and the foreign nation of the target firm. Hence, the acquirer's trust towards the target country and the target firm is relatively higher, and thus, the acquirer perceives less deal uncertainty. Consequently, there is no reason for the acquirer to pursue a lower equity share.

Therefore, we hypothesize:

Hypothesis 1 (H1): *An acquirer from a country with a strong nationalist sentiment will seek to acquire a lower equity share.*

4.2.3. Common ingroup identities

Beyond providing explanatory power to the causes, manifestations, and consequences of group thinking, social identity research has put significant effort into elucidating factors that can alleviate group behavior, or group formation and salience, in the first place (e.g., Brewer & Miller, 1984; Brown & Hewstone, 2005; Gaertner et al., 1989). Introduced by Gaertner and colleagues in 1993, the common ingroup identity model (CIIM) is a framework that comprehensively demonstrates approaches to abate intergroup bias (Gaertner et al., 1993). CIIM proposes different ways to reduce the salience of the original group boundaries, with consequences such as perceiving members of the former outgroup as more similar to oneself, extending positive ingroup attributions to members of the former outgroup and enhancing cooperation (Gaertner et al., 1993). Thus, individuals will perceive less attachment and less relative preference towards their original ingroup, while discrimination of and distrust regarding members of the former outgroup decrease (Dovidio et al., 2000a). With regards to nationalism, mechanisms proposed by CIIM that reduce intergroup bias should thus reduce the severity of the effects of the national sentiment, i.e., firms should less distrust the target nation and hence perceive reduced uncertainty in CBAs involving targets from these countries.

CIIM differentiates two mechanisms that reduce intergroup bias (Dovidio et al., 2000b). Decategorization refers to the reduction of the perceived salience of original group boundaries by generating a more differentiated perception of members of the outgroup, such that they are perceived rather as individuals than as a homogenous group (Dovidio et al., 2000a). Recategorization refers to the redefinition of group boundaries towards a one-group representation (Gaertner et al., 1993). Based on this differentiation, we consider two specific factors that extant literature has pointed out as driving forces of de- and recategorization

(Martinez-Ebers et al., 2021): Contact between groups as a decategorization mechanism (Dovidio et al., 2000a) and association with a superordinate identity as a recategorization mechanism (Gaertner et al., 2000). In the following, we will discuss both factors in more detail and we will explain their role as moderating factors of the proposed main effect.

Prior contact

Social sciences research has a long tradition of examining intergroup contact as a factor that can reduce intergroup bias (e.g., Allport, 1954; Brewer & Miller, 1984; Gaertner et al., 1994; Hewstone & Brown, 1986; Pettigrew, 1998). The main mechanism relies on the decategorization of outgroup members, i.e., a shift from the perception of outgroup members as a homogenous group to a more personalized perception of individual outgroup members, where a more heterogenized perception of the outgroup weakens the salience categorization and can hence reduce intergroup bias (Dovidio et al., 2000a).

However, immediate contact between focal group members is not necessarily required. Instead, indirect contact may be sufficient to stimulate decategorization (e.g., Dovidio et al., 2003; Pettigrew, 1998; Pettigrew et al., 2011). For instance, extant studies have proven that even the knowledge of friendship between ingroup members and outgroup members is sufficient to reduce categorization and bias (Paolini et al., 2004; Pettigrew et al., 2007). If other ingroup members are in contact with outgroup members, acceptance for the outgroup members and, by extension, for the outgroup increases and anxiety is reduced (Wright et al., 1997).

Regarding our predictions on acquirer country nationalism and equity stake decisions in CBAs, we thus anticipate a moderating effect of prior contact between the countries. Theoretically speaking, we expect that prior contact between countries induces decategorization, such that negative perceptions about other countries of acquirers with a strong nationalist sentiment are reduced. Prior contact with the target country allows to gain experience with and knowledge about the outgroup and is thus related to a less

undifferentiated representation of outgroup members, shifting from a group-based perception of the target country to a rather individual-level perception of the various foreign country stakeholders with which the acquirer interacts before, during, and after the acquisition process. Due to indirect intergroup contact effects (Pettigrew et al., 2007), we expect that the negative bias of the acquirer reduces even if the contact is not established by the management team or employees of the acquirer firm itself, but merely by other members of the acquirer country, because those in contact share their experiences with and knowledge about the foreign country and thus contribute to a general reduction of stereotypes. As group boundaries blur, and prejudice and negative bias is reduced, the acquirer's distrust in the target country and, consequently, in the target firm, is lowered, which reduces the uncertainty surrounding the deal. This, in turn, results in less negative equity stake decisions. Therefore:

Hypothesis 2a (H2a): *The extent of prior contact between members of the acquirer and target nations weakens the effect of acquirer country nationalism on equity share.*

Superordinate identity

Group member perception of the original group boundaries can diminish if the group members have the prevailing view that the two groups share a superordinate identity (Gaertner et al., 1989). The underlying process is that of recategorization, i.e., the former categorization into strictly divided ingroup and outgroup is restructured into a categorization of a shared group identity (Gaertner et al., 2000). Ingroup members direct attention towards the similarities with the former outgroup, rather than towards differences (Martinez-Ebers et al., 2021; Riek et al., 2010). As a consequence, the effect of a more positive perception of the former ingroup extends to the superordinate group, and thus to members of the former outgroup (Gaertner et al., 1989). This, in turn, reduces negative perception of and behavior towards the former outgroup, as studies have successfully demonstrated (Riek et al., 2010; Ufkes et al., 2012).

Regarding the effect of acquirer country nationalism on equity stake decision in CBAs, we hypothesize that a superordinate identity of the acquirer and target country initiates a recategorization process that weakens negative target country perceptions by the acquirer, and that, by extension, weakens negative perceptions of the target firm and its stakeholders. If the acquirer has the perception that their home country shares a common identity with the target country, the target country and its members are less perceived as an outgroup and more perceived as a part of the shared superordinate group. As a result, the acquirer will attribute more positive ascriptions to the target country. In turn, negative bias is lowered, which reduces distrust towards the target country and its members and, as such, towards the target firm. Finally, lower distrust relates to a lower perceived uncertainty surrounding the acquisition. Hence, the acquirer is less inclined to pursue a lower equity share. Therefore:

Hypothesis 2b (H2b): *Association with a superordinate identity of the acquirer with the target nation weakens the effect of acquirer country nationalism on equity share.*

4.3. Method

4.3.1. Dataset

To test our hypotheses, we have constructed a dataset of CBAs building upon the SDC Platinum database. We collected data on acquisitions announced between January 1, 2000, and December 31, 2020. We exclude financial buyers and repurchases. Our final dataset contains 15,573 observations, out of which 12,277 are cross-border deals and thus relevant to test our main hypothesis. The mean deal value is USD 380 million.

4.3.2. Variables and measures

Dependent variable

As our dependent variable, we employ the equity share of the target firm that the acquirer aims to purchase in the deal. We use the corresponding variable provided in SDC Platinum (Chari & Chang, 2009). We focus on the percentage sought instead of the percentage acquired, which may be impacted by factors outside the intrinsic strategic intentions of the

acquirer, such as approval processes by the government or shareholders, dynamics of deal negotiation, and competing bidders, among others. The equity share variable ranges from 0.1 percent to 100 percent (Falaster et al., 2021; Malhotra & Gaur, 2014).

Independent and moderating variables

The independent variables in our model are nationalist sentiment, prior contact between acquirer and target country, operationalized as the number of exchange students from the acquirer country studying abroad in the target country, and belonging to a superordinate identity, operationalized as the association of the acquirer and target country with the same cultural cluster.

Our main independent variable is home country nationalist sentiment. We use the survey on national identity by the International Social Survey Programme (ISSP) that surveyed the attitudes of over 105 thousand participants in three waves (1995, 2003, and 2013) and across 31 countries. Following previous research (e.g., Ariely, 2012; Davidov, 2009, 2011; Ertug et al., 2023; Huddy & Khatib, 2007), we use two items of the ISSP survey to operationalize nationalist sentiment: "Generally speaking, [country] is a better country than most others" and: "The world would be a better place if more people were like the [nationality]", where "[country]" and "[nationality]" correspond to the country and nationality of the survey participants. The items are measured on a 5-point scale ranging from "agree strongly" (1) to "disagree strongly" (5), which we reverse coded such that a higher score indicates a stronger nationalist sentiment. The nationalist sentiment score of each participant is calculated as the average of the items; and the national score is the average of all participant scores for each survey wave. We interpolated values for missing years.

We operationalize our first moderator, the extent of contact between the acquirer and target nation, as the number of exchange students from the acquirer country studying in the target country. Previous research has demonstrated that the contact established with other nations by international students in a foreign country can improve attitudes towards this

country (Selltiz & Cook, 1962; Waßmuth & Edinger-Schons, 2018). While the contact established through exchange students need not be necessarily a direct contact with regards to the focal firm, we believe that it does serve, at least, as an indirect contact, which, too, is capable of reducing group thinking and, consequently, negative outgroup bias (e.g., Dovidio et al., 2003; Pettigrew, 1998; Pettigrew et al., 2011). We collect the data from the database of the UNESCO Institute for Statistics (UIS), which captures numbers of outbound students of tertiary education by foreign country and by year.

We operationalize our second moderator, a shared superordinate identity, as a dummy variable that equals one if the acquirer and target country belong to the same cultural cluster, and zero otherwise. Culture represents societies' common "preferences, values, and beliefs" (Hofstede, 1984, p. 43), and cultural clusters represent "groups or classes, assumed to be relatively homogeneous" (Ronen & Shenkar, 2013, p. 869), of countries based on similarities between national cultures. With regards to SIT, while the nation can be a strong criterion for categorization into groups, the broader domain of one's cultural cluster can create a sense of belonging, too, and can therefore serve as a group forming factor, in the wider sense. The principle is explained in an illustrative way by (Allport, 1954), who conceptualizes the different levels of an individual's group association as concentric circles, with closer groups, such as the family or the neighborhood, at the center, and broader groups, such as the ethnicity, at the outer rings, and the nation level rather towards the middle. Likewise, we consider the cultural cluster as a broader group, which, relative to the narrower nation group, presents a superordinate identity. We use the classification of countries developed by Ronen and Shenkar, which group countries into eleven clusters (Arab, Near East, Lating America, East Europe, Latin Europe, Nordic, Germanic, African, Anglo., Confucian, Far East) and a few individual countries not assigned to any of the clusters (Ronen & Shenkar, 2013). We assign countries missing from the Ronen and Shenkar classification to the best fitting cluster.

Control variables

We control for several factors that may additionally impact the dependent variable. First, we include control variables on the deal level. We control for the deal value, because larger deals are more complex and require greater financial commitment. Therefore, uncertainty and risk for the acquirer is higher, which could impact the acquirer's equity stake decision (Falaster et al., 2021; Malhotra et al., 2016). We include a dummy variable that equals one, if the acquirer and target firm are from the same industry, and zero otherwise. If industries differ, the acquirer faces increased information asymmetry, connected to increased valuation costs and adverse selection hazards (Chari & Chang, 2009). We use a cash payment dummy variable that is one if the deal is transacted entirely in cash, and zero otherwise (Falaster et al., 2021; Malhotra et al., 2016), as different payment forms have varying implications for the uncertainty of the deal. We also include a competing bidder dummy which equals one, if other bidders have entered into the negotiation process, and zero otherwise (Guo et al., 2016). If other bidders are present, the acquirer may adjust the equity share sought in order to influence negotiation dynamics. All deal level control variables are derived from the SDC Platinum dataset.

Second, our model contains control variables on the country level. We control for acquirer and target country economic freedom using the economic freedom index of the Heritage Foundation. Greater economic freedom in either country reduces the threat of unsolicited government interventions, and hence the uncertainty surrounding the deal (Tran, 2019). Furthermore, we include the GDP per capita of the acquirer and target firm country based on World Bank data (Buch & DeLong, 2004; Li & Xie, 2013).

Third, we control for firm level variables. We control for acquirer size, because larger firms possess greater financial resources that facilitate the acquisition of larger equity shares (Chari & Chang, 2009). We measure acquirer size using the number of employees. We

furthermore control for the profitability of the acquirer firm using the acquirer return on assets (ROA). Finally, we include year, industry, and region fixed effects (Zhang & He, 2014).

4.3.3. Estimation model

We construct a fractional regression model to test our hypotheses, which suits better than the conventional Tobit model. Tobit models are applied when data are censored below or above a threshold. Our dependent variable, equity share, however, is not censored, but it is only defined over the interval that ranges from 0.1 percent to 100 percent (Villadsen & Wulff, 2018). Fractional regression "should be the first choice when management researchers encounter a fractional outcome variable" (Villadsen & Wulff, 2018, p. 2).

The focus of our hypotheses is entirely on CBAs. However, there may be unobserved factors that impact the likelihood of engaging in a cross-border deal, relative to other types of deals, such as domestic acquisitions. The same factors may be related to the equity share decision, resulting in a potential threat of sample selection bias. To correct for this, we employ a Heckman procedure and set up a two-stage model involving an instrument variable. In the first stage, we determine the likelihood of a firm engaging in a cross-border relative to a domestic acquisition. In the second stage model, we assess the effect of acquirer country nationalism on the equity share decision.

For our instrument, we use the share of cross-border acquisitions in the acquirer country, which we calculate based on SDC Platinum deal data. A suitable instrument should affect the results of the first-stage model, while not directly affecting the results of the second-stage outcome model (Wolfolds & Siegel, 2019). We argue that the acquirer country's share of CBAs fulfills these criteria. A country in which firms have recently engaged more in CBAs indicates that there may be political and economic factors that promote the strategic decision to expand outside the home country. Therefore, a firm from a country with a high share of CBAs may be more inclined to perform a cross-border deal as well. On the other hand, there

should be no direct relationship between the acquirer's country share of CBAs and the equity share sought in the focal deal. The model is summarized in Figure 4.1.

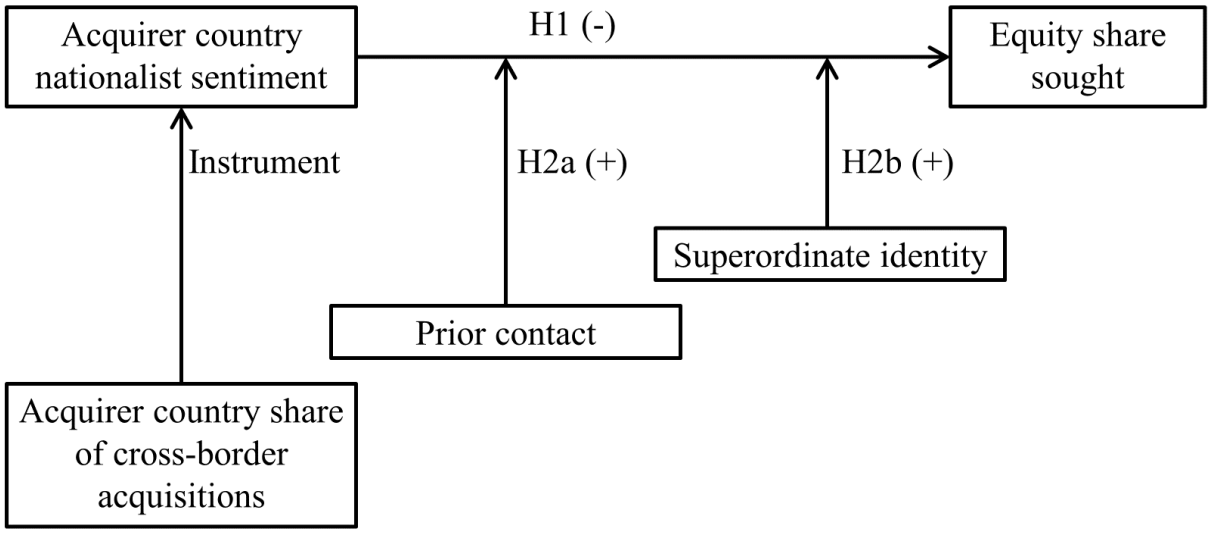


Figure 4.1. Research model

4.4. Results

4.4.1. Descriptive statistics and correlation matrix

Table 4.1 provides the distribution of target firms' regions and industries. Table 4.2 provides the descriptive statistics of the variables in our analysis and the correlation matrix. The tables differentiate between the subsamples for cross-border and domestic deals. The correlation matrix refers exclusively to cross-border deals, as these are of greatest relevance for our hypothesis testing. All variance inflation factors (VIFs) are below 10 suggesting no major multicollinearity in the regression model (Woolridge, 2012).

Table 4.1. Distribution of target firms' regions and industries

Region	Domestic deals	Cross-border deals	Percent of total sample	Industry (one-digit SIC code)	Domestic deals	Cross-border deals	Percent of total sample
Europe	545	7,087	49.0 %	Personal and business services (7)	655	2,472	20.1 %
North America	1,534	2,496	25.9 %	Heavy manufacturing (3)	501	2,535	19.5 %
Asia	907	1,147	13.2 %	Light manufacturing (2)	337	1,892	14.3 %
Oceania	200	915	7.2 %	Finance, insurance, real estate (6)	690	1,425	13.6 %
South America	0	414	2.7 %	Transportation / public utilities (4)	326	1,141	9.4 %
Africa	97	105	1.3 %	Mining and construction (1)	309	1,086	9.0 %
Middle East	13	113	0.8 %	Wholesale and retail trade (5)	231	861	7.0 %
Total	**3,296**	**12,277**		Public services (8)	216	766	6.3 %
				Agricultural, forestry, and fishery (0)	27	91	0.8 %
				Public administration (9)	4	8	0.1 %
				Total	**3,296**	**12,277**	

Table 4.2. Descriptive statistics and correlation matrix

		Domestic deals		Cross-border deals														
	Variables	Mean	*SD*	Mean	*SD*	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Equity share	.79	.33	0.81	0.32	1.000													
2	Nationalist sentiment	2.44	.24	2.37	0.31	0.035	1.000												
3	Same cultural cluster	-	-	0.42	0.49	0.123	0.157	1.000											
4	Exchange students	-	-	4164.36	6675.27	0.166	0.221	0.393	1.000										
5	Deal value	389.6	2977.37	377.83	1922.35	0.041	-0.047	-0.019	0.040	1.000									
6	Same industry	.47	.5	0.55	0.50	-0.013	-0.036	0.001	-0.050	0.062	1.000								
7	Cash payment	.29	.45	0.31	0.46	-0.061	0.013	-0.011	0.010	0.015	0.021	1.000							
8	Competing bidders	0	.06	0.01	0.09	0.025	0.017	0.029	0.007	0.119	0.021	0.059	1.000						
9	Acquirer econ. freedom	73.55	5.01	74.56	5.72	0.204	0.448	0.156	0.134	-0.037	-0.032	0.020	0.011	1.000					
10	Acquirer GDP per capita	44.29	13.79	41.91	11.39	0.190	0.042	0.081	0.141	0.044	-0.042	-0.037	-0.005	0.447	1.000				
11	Target econ. freedom	73.55	5.01	71.82	8.40	0.196	0.136	0.377	0.309	0.027	-0.061	0.014	0.034	0.187	0.177	1.000			
12	Target GDP per capita	44.29	13.79	37.29	15.26	0.233	0.034	0.206	0.300	0.077	-0.068	-0.034	-0.001	0.149	0.415	0.592	1.000		
13	Acquirer employees (thousand)	9.36	32.06	23.87	64.46	-0.123	-0.126	-0.106	-0.042	0.147	-0.036	0.044	0.009	-0.126	-0.034	-0.078	-0.084	1.000	
14	Acquirer ROA	-230.15	9496.64	-13.2	522.84	-0.013	-0.022	-0.024	-0.041	0.007	0.010	0.013	0.004	-0.020	-0.011	-0.017	-0.011	0.014	1.000
15	Share of CBAs	.11	.2	0.20	0.30	-0.062	-0.128	-0.038	0.111	0.049	0.015	-0.052	-0.003	-0.240	-0.003	-0.013	0.064	0.062	0.004

4.4.2. Test of hypotheses

To test the hypotheses, we build four models. Model 0 is comprised of only the control variables. We add the main independent variable, acquirer country nationalist sentiment, in Model 1. Models 2 and 3 separately test the effects of the moderating variables, i.e., prior contact operationalized through the number of exchange students of the acquirer country studying abroad in the target country, and a superordinate identity operationalized as a dummy variable regarding the same or different cultural clusters of acquirer and target country. Model 4 contains the full specification. Table 4.3 shows the regression results of the first-stage selection model and the second-stage outcome model corrected for endogeneity.

The instrument variable is significant ($p = 0.000$). The value of of atanh(ρ), which indicates that endogenous sample selection is in fact present, is significant, too ($p = 0.085$). Therefore, the use of a Heckman correction is appropriate. Furthermore, the coefficient of the instrument variable is positive ($b = 0.225$), indicating that, as assumed, firms from countries that have a higher share of CBAs are more likely to engage in CBAs.

Hypothesis H1 states that a stronger nationalist sentiment in the acquirer country relates to a lower equity share sought in CBAs. In the full model (Model 4), we find that the acquirer nationalist sentiment variable is negative and significant ($b = -0.052$, $p = 0.000$). The marginal effect of nationalist sentiment is -0.005, which means that if the nationalist sentiment score increases by one standard deviation, the equity share sought decreases on average by about 0.5 percentage points. Multiplying this with the average equity value of 1,040 million USD of the firms in our sample tells us that the equity value sought is, on average, 5.2 million USD lower for each increase of acquirer country nationalist sentiment by one standard deviation. The results support Hypothesis H1.

Table 4.3. Estimation results

	Model 0		Model 1		Model 2		Model 3		Model 4	
	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*
Second-stage model										
Nationalist sentiment			-0.036	0.005	-0.036	0.006	-0.052	0.000	-0.052	0.000
			(0.013)		(0.013)		(0.014)		(0.015)	
Nationalist sentiment X exchange students					0.009	0.462			0.002	0.875
					(0.012)				(0.013)	
Nationalist sentiment X same cultural cluster							0.063	0.010	0.062	0.013
							(0.024)		(0.025)	
Exchange students	0.052	0.003	0.056	0.002	0.053	0.006	0.049	0.008	0.048	0.012
	(0.018)		(0.018)		(0.019)		(0.018)		(0.019)	
Same cultural cluster	0.088	0.001	0.090	0.001	0.088	0.001	0.102	0.000	0.101	0.000
	(0.028)		(0.028)		(0.027)		(0.028)		(0.028)	
Deal value	0.162	0.001	0.160	0.001	0.161	0.001	0.160	0.001	0.160	0.001
	(0.048)		(0.048)		(0.048)		(0.048)		(0.048)	
Same industry	0.040	0.094	0.037	0.121	0.037	0.122	0.038	0.118	0.038	0.118
	(0.024)		(0.024)		(0.024)		(0.024)		(0.024)	
Cash payment	-0.150	0.000	-0.151	0.000	-0.150	0.000	-0.151	0.000	-0.151	0.000
	(0.024)		(0.024)		(0.024)		(0.024)		(0.024)	
Competing bidders	0.620	0.000	0.621	0.000	0.619	0.000	0.618	0.000	0.617	0.000
	(0.118)		(0.118)		(0.118)		(0.119)		(0.119)	
Acquirer economic freedom	0.133	0.000	0.154	0.000	0.154	0.000	0.149	0.000	0.149	0.000
	(0.013)		(0.015)		(0.015)		(0.015)		(0.015)	
Acquirer GDP per capita	0.101	0.000	0.085	0.000	0.085	0.000	0.084	0.000	0.084	0.000
	(0.018)		(0.019)		(0.019)		(0.019)		(0.019)	
Target economic freedom	0.075	0.000	0.079	0.000	0.080	0.000	0.073	0.000	0.074	0.000
	(0.015)		(0.015)		(0.015)		(0.015)		(0.015)	
Target GDP per capita	-0.017	0.394	-0.021	0.301	-0.022	0.276	-0.015	0.458	-0.015	0.452
	(0.020)		(0.020)		(0.020)		(0.020)		(0.021)	
Employees	-0.079	0.000	-0.081	0.000	-0.081	0.000	-0.081	0.000	-0.081	0.000
	(0.014)		(0.015)		(0.015)		(0.015)		(0.015)	
ROA	-0.250	0.154	-0.251	0.153	-0.250	0.156	-0.252	0.156	-0.252	0.157
	(0.175)		(0.176)		(0.176)		(0.178)		(0.178)	
Constant	0.485	0.043	0.480	0.044	0.479	0.044	0.480	0.042	0.479	0.043
	(0.239)		(0.238)		(0.238)		(0.236)		(0.236)	

	Model 0		Model 1		Model 2		Model 3		Model 4	
	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*
Second-stage model										
Share of cross-border deals	0.214	0.000	0.225	0.000	0.225	0.000	0.225	0.000	0.225	0.000
	(0.021)		(0.021)		(0.021)		(0.021)		(0.021)	
Nationalist sentiment			-0.116	0.000	-0.116	0.000	-0.116	0.000	-0.116	0.000
			(0.023)		(0.023)		(0.023)		(0.023)	
Deal value	-0.033	0.043	-0.034	0.042	-0.034	0.042	-0.034	0.042	-0.034	0.042
	(0.016)		(0.016)		(0.016)		(0.016)		(0.016)	
Same industry	0.064	0.074	0.063	0.081	0.063	0.081	0.063	0.081	0.063	0.081
	(0.036)		(0.036)		(0.036)		(0.036)		(0.036)	
Cash payment	0.121	0.001	0.129	0.000	0.129	0.000	0.129	0.000	0.129	0.000
	(0.037)		(0.037)		(0.037)		(0.037)		(0.037)	
Competing bidders	0.285	0.276	0.319	0.227	0.319	0.227	0.319	0.227	0.319	0.227
	(0.262)		(0.264)		(0.264)		(0.264)		(0.264)	
Acquirer economic freedom	0.347	0.000	0.417	0.000	0.418	0.000	0.417	0.000	0.417	0.000
	(0.024)		(0.029)		(0.029)		(0.029)		(0.029)	
Acquirer GDP per capita	0.069	0.024	0.016	0.617	0.016	0.618	0.016	0.617	0.016	0.617
	(0.031)		(0.032)		(0.032)		(0.032)		(0.032)	
Target economic freedom	-0.052	0.068	-0.046	0.110	-0.046	0.110	-0.046	0.109	-0.046	0.109
	(0.029)		(0.029)		(0.029)		(0.029)		(0.029)	
Target GDP per capita	-0.316	0.000	-0.321	0.000	-0.321	0.000	-0.321	0.000	-0.321	0.000
	(0.037)		(0.037)		(0.037)		(0.037)		(0.037)	
Employees	0.333	0.000	0.330	0.000	0.330	0.000	0.330	0.000	0.330	0.000
	(0.043)		(0.043)		(0.043)		(0.043)		(0.043)	
ROA	0.044	0.053	0.043	0.062	0.043	0.062	0.043	0.062	0.043	0.062
	(0.023)		(0.023)		(0.023)		(0.023)		(0.023)	
Constant	-0.703	0.181	-0.679	0.200	-0.679	0.200	-0.679	0.200	-0.679	0.200
	(0.526)		(0.530)		(0.530)		(0.530)		(0.530)	
atanh(ρ)	0.117	0.062	0.112	0.078	0.112	0.078	0.110	0.086	0.110	0.085
	(0.063)		(0.064)		(0.064)		(0.064)		(0.064)	
Log pseudolikelihood	-8,840.13		-8,824.97		-8,824.78		-8,822.86		-8,822.85	
Wald χ^2	42,191.73		42,247.27		42,270.96		43,108.85		44,281.96	
Prob > χ^2	0.000		0.000		0.000		0.000		0.000	
Observations	15,573		15,573		15,573		15,573		15,573	

Robust standard errors in parentheses.

Hypothesis H2a argues that prior contact between the acquirer and the target nation weakens the relationship between acquirer country nationalist sentiment and the equity share sought. In our research model, we operationalize prior contact by examining the number of exchange students from the acquirer country studying abroad in the target country. However, the coefficient of the interaction effect is not significant in our sample ($p = 0.875$). Thus, the findings do not support Hypothesis H2a.

Hypothesis H2b proposes that a superordinate identity weakens the relationship between acquirer country nationalist sentiment and the equity share sought. In our model, we operationalize whether the acquirer and target country share a superordinate identity by examining if they belong to the same cultural cluster. The coefficient of the interaction effect is positive and significant ($b = 0.062$, $p = 0.013$). Compared to the average marginal effect of nationalist sentiment of -0.005, the marginal effect decreases to -0.013 if the acquirer and target nation belong to different cultural clusters. In other words, if the nationalist sentiment score increases by one standard deviation, the equity share sought decreases on average by about 1.3 percentage points. Multiplying this with the average equity value of the firms in our sample reveals that if the countries belong to different cultural clusters, the corresponding equity value sought is, on average, 13.5 million USD lower for each increase of acquirer country nationalist sentiment by one standard deviation. Figure 4.2 shows the margins plot of the predicted equity share dependent on the acquirer country nationalist sentiment, and contingent upon whether the deal is between firms from countries of the same versus a different cultural cluster. The findings support Hypothesis H2b.

All observed effects are significant in the partial models, too, which provides additional support for the acceptance of Hypotheses H1 and H2b, and the rejection of Hypothesis H2a, respectively.

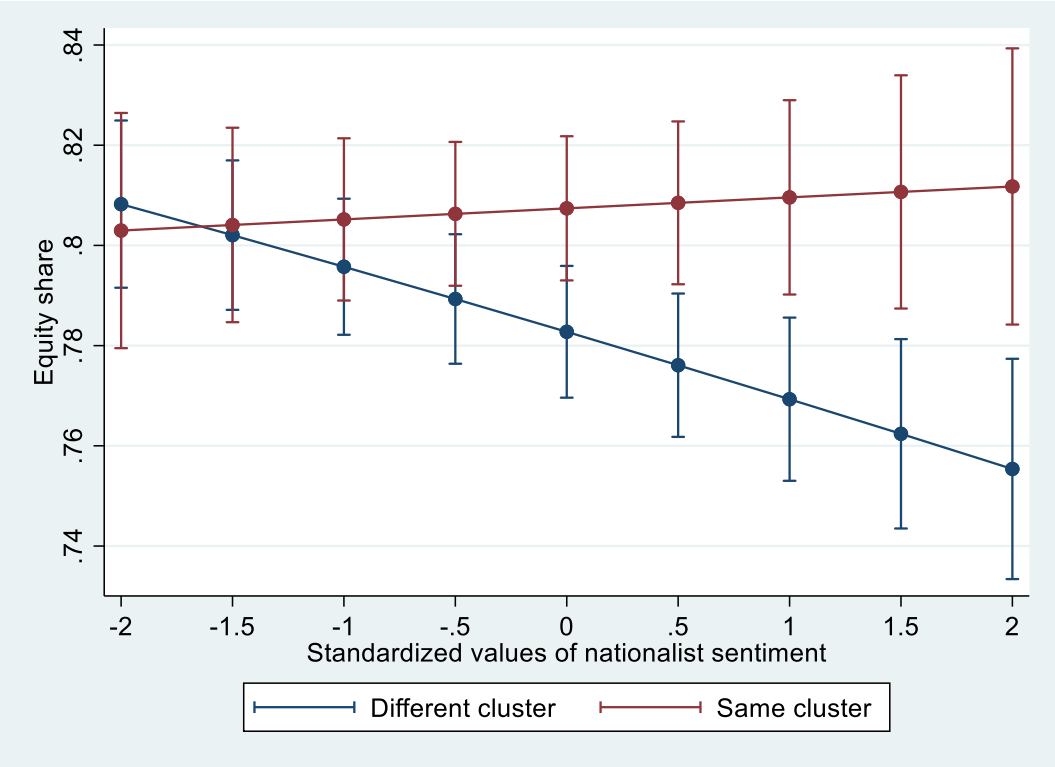


Figure 4.2. Predictive margins of firms from the same and from different cultural clusters

4.4.3. Robustness tests

We tested four different specifications of our model to evaluate model robustness. First, we tested a different sample specification. With 2,649 observations, target firms from the business services industry (SIC code 73), represented a particularly large share of observations in our sample (17.0 percent). Therefore, we ran our model again excluding firms from this industry. The results did not change significantly.

Second, we tested a different specification of the instrument variable to ensure that the results are not driven exclusively by the choice of the instrument. We replaced the share of cross-border acquisitions with the GDP of the acquirer country. We believe that a higher GDP indicates a larger domestic market, and hence leads to a lower likelihood of an international acquisition. At the same time, the acquirer's home country GDP should not have a direct impact on the equity share in international acquisitions. The results remained comparable.

Table 4.4. Robustness tests results

	Excluding business services		Acquirer country GDP as instrument variable		No correction for sample selection bias		Alternative control variable specifications	
	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*
Second-stage model								
Nationalist sentiment	-0.043	0.005	-0.052	0.000	-0.033	0.022	-0.030	0.037
	(0.015)		(0.014)		(0.014)		(0.014)	
Nationalist sentiment X exchange students	0.003	0.825	0.003	0.839	-0.017	0.173	0.001	0.923
	(0.014)		(0.013)		(0.012)		(0.013)	
Nationalist sentiment X same cultural cluster	0.057	0.032	0.061	0.015	0.100	0.000	0.078	0.002
	(0.027)		(0.025)		(0.021)		(0.025)	
Exchange students	0.057	0.007	0.047	0.014	0.042	0.016	0.037	0.044
	(0.021)		(0.019)		(0.017)		(0.019)	
Same cultural cluster	0.099	0.001	0.101	0.000	0.090	0.000	0.117	0.000
	(0.030)		(0.028)		(0.024)		(0.028)	
Deal value	0.164	0.001	0.160	0.001	0.053	0.153	0.149	0.001
	(0.049)		(0.048)		(0.037)		(0.044)	
Same industry	-0.012	0.632	0.038	0.113	0.079	0.000	0.038	0.111
	(0.026)		(0.024)		(0.021)		(0.024)	
Cash payment	-0.160	0.000	-0.150	0.000	-0.161	0.000	0.008	0.482
	(0.025)		(0.024)		(0.021)		(0.011)	
Competing bidders	0.685	0.000	0.618	0.000	0.593	0.000	0.050	0.000
	(0.121)		(0.119)		(0.111)		(0.010)	
Acquirer economic freedom	0.152	0.000	0.150	0.000	0.105	0.000	0.130	0.000
	(0.016)		(0.015)		(0.014)		(0.018)	
Acquirer GDP per	0.069	0.001	0.086	0.000	0.117	0.000	0.098	0.000
	(0.020)		(0.019)		(0.018)		(0.021)	
Target economic freedom	0.077	0.000	0.074	0.000	0.043	0.004	0.068	0.000
	(0.016)		(0.015)		(0.015)		(0.016)	
Target GDP per capita	-0.024	0.275	-0.018	0.379	0.014	0.487	-0.001	0.958
	(0.022)		(0.021)		(0.019)		(0.020)	
Employees	-0.088	0.000	-0.080	0.000	-0.079	0.000	-0.085	0.000
	(0.018)		(0.015)		(0.014)		(0.016)	
ROA	-0.307	0.182	-0.247	0.162	0.017	0.000	-0.271	0.139
	(0.230)		(0.176)		(0.005)		(0.183)	
Constant	0.476	0.049	0.451	0.057	0.684	0.001	0.386	0.111
	(0.241)		(0.237)		(0.202)		(0.242)	

	Excluding business services		Acquirer country GDP as instrument variable		No correction for sample selection bias		Alternative control variable specifications	
	Est.	*p*	Est.	*p*	Est.	*p*	Est.	*p*
Second-stage model								
Share of cross-border deals	0.235	0.000					0.239	0.000
	(0.023)						(0.022)	
Acquirer GDP			-0.312	0.000				
			(0.025)					
Nationalist sentiment	-0.084	0.001	0.001	0.966			-0.129	0.000
	(0.025)		(0.025)				(0.023)	
Deal value	-0.020	0.130	-0.027	0.079			-0.040	0.017
	(0.013)		(0.016)				(0.017)	
Same industry	0.034	0.391	0.076	0.034			0.043	0.244
	(0.040)		(0.036)				(0.037)	
Cash payment	0.124	0.002	0.137	0.000			0.051	0.004
	(0.040)		(0.037)				(0.017)	
Competing bidders	0.309	0.264	0.315	0.222			0.032	0.154
	(0.277)		(0.258)				(0.022)	
Acquirer economic freedom	0.398	0.000	0.252	0.000			0.648	0.000
	(0.032)		(0.030)				(0.036)	
Acquirer GDP per capita	0.020	0.567	0.335	0.000			-0.273	0.000
	(0.035)		(0.044)				(0.039)	
Target economic freedom	-0.074	0.023	-0.032	0.270			-0.167	0.000
	(0.032)		(0.029)				(0.032)	
Target GDP per capita	-0.315	0.000	-0.343	0.000			-0.227	0.000
	(0.041)		(0.038)				(0.036)	
Employees	0.344	0.000	0.346	0.000			0.304	0.000
	(0.052)		(0.044)				(0.042)	
ROA	0.040	0.129	0.042	0.068			0.036	0.129
	-0.689	0.194	-0.512	0.373			-1.288	0.009
Constant	(0.530)		(0.574)				(0.494)	
	0.235	0.000					0.239	0.000
atanh(ρ)	0.147	0.034	0.144	0.031			0.116	0.067
	(0.069)		(0.067)				(0.063)	
Log pseudolikelihood	-7,533.27		-8,814.24		-6,574.56		-8,565.37	
Wald χ^2	35,771.45		43,838.52		6,522.97		42,159.15	
Prob > χ^2	0.000		0.000		0.000		0.000	
Observations	12,924		15,573		15,577		15,527	

Robust standard errors in parentheses.

Third, we tested a different model specification by recreating the model without the Heckman correction for endogeneity through sample selection. To do so, we built a simple one-stage probit model. The results did not change significantly.

Fourth, we tested different measurements for several control variables. We employed an alternative measure for economic freedom based on the index of the Fraser Institute, and we replaced the cash only dummy and the competing bidder dummy by their numeric pendants, i.e., the percentage of cash and the number of competing bidders. Again, we found no significant changes in the results. Table 4.4 summarizes the results of the robustness tests with regards to the full model that includes both moderators.

4.5. Discussion

Drawing upon SIT, we hypothesize that acquirers from countries with a strong nationalist sentiment have a stronger tendency to distrust foreign countries and firms originating from foreign countries, which leads to an increased uncertainty about CBAs and hence promotes a more careful approach to CBAs, manifested in lower equity share sought. Furthermore, we argue that concepts established by SIT which reduce inter-group bias apply to the case of international acquisitions. As such, we hypothesize that both prior contact and a superordinate identity reduce the strength of the main effect. Prior contact promotes decategorization, and a shared superordinate identity promotes recategorization, both of which decrease the nation-level group thinking and thus reduce negative bias towards the outgroup, i.e., the foreign country and its actors. We find empirical support for the main effect of acquirer country nationalism. Furthermore, we find support for the moderating effect of a superordinate identity, which we operationalize as a shared cultural cluster of the acquirer country and the target country. We do not find empirical support for the moderating effect of prior contact, which we operationalize by the number of exchange students from the target country in the acquirer country.

4.5.1. Contributions

Our work advances the literature on international acquisitions and SIT in two main ways. First, with acquirer country nationalism, our study introduces a novel determinant of equity share in CBAs that has not been previously analyzed. Extant literature has examined a broad range of factors that impact the equity share decision (e.g., Chari & Chang, 2009; Cuypers et al., 2015; Falaster et al., 2021; Malhotra et al., 2018; Malhotra & Gaur, 2014; Yiu et al., 2021), but has disregarded the acquirer country's nationalist sentiment. However, in light of the recent global surge of nationalism (Meyer, 2017), it is pivotal to understand its implications on strategic decisions and their outcomes. While previous literature has highlighted the role of nationalism in the target country, mostly in the form of protectionist regulations (e.g., Liou et al., 2023; Serdar Dinc & Erel, 2013; Zhang & He, 2014), researchers have focused less on the role of nationalism in the acquirer country. We close this gap by highlighting the role that acquirer nationalism plays in terms of equity stake decisions, and we demonstrate how stronger nationalism is related to a lower equity share sought. In addition, we propose two different factors that mitigate the effect: Prior contact and a superordinate identity, and we find empirical support for the latter.

Second, our work contributes to the literature stream that applies SIT to international business phenomena. Contrary to prior studies, which have commonly applied SIT to elaborate on identity conflicts of employees passing over to a post-merger organization and on the potential barriers of post-merger integration (e.g., Giessner et al., 2012; Terry et al., 2001; van Knippenberg et al., 2002), our study applies SIT to explain pre-merger strategic considerations regarding deal setup. In particular, building upon SIT, we show that managers with a strong nationalist sentiment may be biased by an ingroup / outgroup worldview with a natural aversion against firms from foreign countries. As such, we provide novel insights into how perceptions of identity impact managerial decision-making, namely, that a strong nationalist sentiment, i.e., a perception of superiority of the own country, induces perceived

uncertainties regarding foreign countries and firms from those countries, which impacts equity share decisions in international acquisitions. Our findings are particularly interesting as they underscore the pervasive impact of bias even in a context that ostensibly demands objective choices. Therefore, our study meets the demand for perspectives on international businesses that are driven more by sociological and psychological factors (Raskovic & Takacs-Haynes, 2020).

4.5.2. Limitations and future research

Our study has limitations. First, we argue that nationalism impacts the acquirer's perceived uncertainty about the deal, and that in response to increased uncertainty, acquirers prefer to acquire lower equity stakes, which allows a wait-and-see approach until they have gathered additional learnings and the uncertainties can be resolved, which is when the acquirer has the implicit or explicit option to acquire additional equity stakes. However, we do not examine subsequent investments or divestments at a later point after the initial partial acquisition. Bids for additional equity stakes may be regarded as a signal for a high value of the target firm, which may motivate competitors to enter into the bidding process. However, a partial acquisition typically entails preemption rights, and the status of a partial acquirer is different from that of an acquirer that does not yet possess any shares in the target. Therefore, our main theorization should not be significantly impacted. Nonetheless, future research could concentrate on the patterns of subsequent bids.

Second, we cannot find empirical evidence for the hypothesized moderating effect of prior contact. According to theory, prior contact should reduce the perceived salience of group boundaries (decategorization), and hence should weaken the effect of nationalism. Thus, the non-significance of prior contact as a moderating factor is somewhat surprising. A possible explanation for this outcome is that our operationalization, i.e., the number of exchange students from the acquirer in the target country, is not sufficiently informative in the context of strategic firm decisions in international acquisitions. In other words, while exchange

students undoubtedly generate contact between nations, it may not be the type of contact that is truly relevant to affect managerial sentiment and, as a consequence, managerial strategic decisions. Future research could elaborate in more detail the different types of contact, and the conditions of contact, that are relevant in strategic firm decisions in the context of nationalism.

Finally, our analysis focuses on the acquirer perspective of the deal, i.e., we suppose that the equity decision is driven primarily by factors salient to the acquirer, while we do not explicitly incorporate factors salient to the target side. While this perspective is not uncommon (Chari & Chang, 2009), future research from the target perspective might detect additional seller side factors.

5. General discussion and conclusion

5.1. Summary of the key insights

In times of growing politicization of the economy, firms need to develop and implement appropriate strategies that take into account the influence of political factors. Therefore, in my dissertation, I provide a broad perspective on different political factors that impact firms' strategic decisions and their outcomes. In particular, I analyze how the advantageousness of a partner firm's state ownership is moderated by inter-country distances, and I explain the effect of the target firm's state ownership on the equity share decision of acquirers in international acquisitions. Furthermore, I demonstrate how the equity share decision is biased by a strong nationalist sentiment of the acquirer.

The three chapters of my dissertation each answer one of the research questions RQ 1 - RQ 3. Regarding RQ 1 ("How do inter-country differences impact the success of partnering with SOEs?"), I find that both political distance and cultural distance improve the advantageousness of establishing an IJV with a local state-owned partner firm. If political distance is high, the foreign firm will lack prior political embeddedness, but it can establish political connections through the political network of the state-owned partner. If cultural distance is high, the foreign firm will face increased difficulties navigating the local market environment, so that non-market advantages provided by a local state-owned IJV partner firm, such as resource access and policy support, are particularly critical for the foreign firm. Regarding RQ 2 ("How does the state ownership of a potential target firm impact the acquirer's equity share decision in CBAs?"), I find that a target firm's state ownership leads to a lower equity share sought, because the acquirer firm perceives the deal to be more uncertain due to the state-owned target firm's relative lack of transparency. Furthermore, I find that the effect is particularly strong if the acquirer is from a country that is characterized by a high degree of uncertainty avoidance, as such an acquirer will perceive the uncertainty about the

state-owned target firm as more severe and will hence take even more cautious strategic decisions.

Regarding RQ 3 (“How does nationalism in the acquirer country bias the acquirer's equity share decision in CBAs?”), I find that nationalism in the acquirer country creates a bias for the acquirer, in the sense that the acquirer perceives a greater distrust towards the target country and the target firm, which increases the acquirer’s perceived uncertainty in the CBA, such that the acquirer prefers the acquisition of lower equity shares. Besides, I find that a shared superordinate identity, such as a common cultural cluster of the acquirer and target nation, weakens the effect

Taken together, my dissertation also provides an answer to the main RQ (“How does the growing politicization impact strategic decisions of international businesses and their outcomes?”). The answer is three-fold, namely that the politicization of international business creates opportunities, external challenges, and internal challenges.

First, opportunities arise when political factors create non-market advantages. Firms that leverage these political factors to their benefit create competitive advantage over rivals. In Chapter 2, I explain how an IJV partner firm’s state ownership constitutes such a factor: If the political or cultural distance between the countries of the IJV partners is high, the foreign firm has a relative disadvantage of doing business in the IJV country, which can, however, be mitigated by leveraging the political connections of a state-owned IJV partner, improving IJV success. Second, external challenges arise when political factors create uncertainty. I demonstrate this idea in Chapter 3, where I point out that state-owned acquisition targets are related to greater uncertainty for the acquirer due to their relative opacity, such that acquirers of SOEs prefer to acquire lower equity shares compared to acquirers of non-state-owned target firms. Third, internal challenges arise because political factors induce bias. I underscore this concept in Chapter 4, in which I observe that an acquirer’s nationalist attitude biases the acquirer’s equity share decisions. More specifically, an acquirer that is characterized by a

strong nationalist sentiment perceives the target country and its actors, including the target firm, as less trustworthy, which increases the acquirer's perceived uncertainty. As a result, the acquirer prefers a lower equity share compared to a less nationalist acquirer.

5.2. Contributions

Each chapter makes individual contributions to different literature streams. I highlight these chapter-specific contributions at the end of each chapter. Beyond these tailored contributions of the individual chapters, my dissertation makes a number of overarching contributions to strategic management research.

First, in my dissertation, I provide a multifaceted view regarding the influence of political factors. Extant studies that have analyzed political factors have typically focused exclusively on one type of effect. For example, some studies have focused on challenges (Henisz, 2000; Jory & Ngo, 2014), while others focus on opportunities (Li & Zhang, 2007; Sun et al., 2010) of politicization. In my dissertation, I move away from a one-sided analysis to a more comprehensive analysis of both opportunities and challenges of politicization.

Second, my dissertation reveals a broad range of political factors that are relevant for globally operating firms. Contrary to extant studies, which have typically focused exclusively on a single political factor, such as a firm's state ownership (e.g., Mohr et al., 2016a; Okhmatovskiy, 2010; Wang et al., 2023) or political affinity (e.g., Bertrand et al., 2016; Fieberg et al., 2021; Hasija et al., 2020), I simultaneously touch upon multiple concepts, namely, state ownership (Chapters 2 and 3), nationalism (Chapter 4), and political animosity (Chapter 2), as well as cultural distance that interacts with the political dynamics (Chapters 2 and 4). Taken together, this comprehensive picture improves the understanding of interdependencies between the political factors in focus. For example, state ownership has ambiguous effects, where a state-owned partner improves IJV success in the light of cultural and political distance, as it provides critical resources to the joint venture, but it creates uncertainties in the pre-deal and deal phase of CBAs due to a relative lack of transparency.

Third, my dissertation contributes to the ongoing discussion on how rational decisions in strategic management are formed and on antecedents of potential non-rationalities. In particular, I stress the dual influence of political factors on strategic decisions: On the one hand, when acting in a rational and economic way, firms exploit political factors to their benefit, or they at least set up strategies to mitigate potential detriments of political factors. On the other hand, political factors can introduce bias, such as through nationalism, with the risk of resulting in potentially non-optimal strategic decisions.

In addition, my dissertation has practical implications for managers. By addressing the circumstances under which political factors can create opportunities, my dissertation enables better strategic decisions under the influence of political factors. Besides, in my dissertation, I explore politically induced bias in the form of nationalism, the knowledge of which may help counteract such bias in strategy development.

5.3. Avenues for future research

Building upon the insights generated by my research, avenues for future research open up. In particular, I demonstrate the multifacetedness of political factors, which may have varying implications based on contingent factors, and which may have interdependencies. This allows for further theorization in two main ways:

First, I would encourage future research to explore further contingencies that determine whether, or to what degree, political factors turn out to be opportunities or challenges. For instance, performance implications of governmental involvement in firms are ambiguous (Okhmatovskiy, 2010), and so are performance implications of involvement of SOEs in IJVs (Luo, 1997; Merchant, 2002), yet in my dissertation I demonstrate the strong dependence of the relationship on inter-country relationships, such as the political affinity between countries. Building upon this, future research could uncover additional moderating effects and thus shed further light on the direction of the effects of political factors.

Second, I suggest to explore further interdependencies between political factors in future research. As an example, I have revealed the individual effects of a target firm's state ownership as well as of an acquirer firm's nationalist sentiment on the acquirer firm's equity share decision. In addition, it is conceivable that the two factors have a crosswise impact on each other, for example in the sense that a nationalist acquirer attributes particularly low legitimacy to a foreign firm if it is government owned, which may reinforce the acquirer's preference for a lower equity share to shield against perceived uncertainties of the deal. As such, future research could deep dive on interdependencies between the political factors highlighted in my research, as well as the interdependencies with additional political factors that are beyond the scope of my dissertation.

6. References

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