MM 15-03-2022 SI Coupang 2:

The effects of political embeddedness on cross-border mergers and acquisitions: Alibaba's case

Abstract: With its dominant state-owned enterprises (SOEs), peculiar governance system and international ambitions, China offers a unique setting to test theories explaining the role of political embeddedness in management decisions. Cross-border M&As have become an essential tool for Chinese acquirers to internationalise. We examine whether political embeddedness influences firms' propensity for conducting cross-border M&As and their success. Using panel data with 30,314 firm-year observations from 2000 to 2015, we show that non-SOEs conduct more cross-border M&As than SOEs and they benefit more from M&A activities. After summarizing the dilemmas faced by politically embedded enterprises (PEEs), we introduce the successful case of Alibaba acquiring Lazada to explain the quantitative results in detail. Finally, we suggest potential approaches to alleviate institutional barriers for successful cross-border M&As.

Introduction

Mergers and acquisitions (M&As) are essential strategic corporate initiatives that enable firms to extend their current businesses, enter markets and leverage capabilities (Weitzel and Berns, 2006). Chinese enterprises have adopted cross-border M&As as a major mechanism of OFDI (Hong and Sun, 2006) and employed international listing as an important channel to raise capital to finance their international expansion. However, in sharp contrast to market-based developed economies, the Chinese economic system has hitherto been characterised by centralised political control, dominance of state ownership in big businesses, and bureaucratic intervention (Hong and Sun, 2006; Morck et al., 2008). Many publicly traded Chinese companies originated from government entities, and the state is still the majority shareholder exercising control (Chen et al., 2011). Furthermore, extensive political connexions between the government and executives of large firms are still the norm (Fan et al., 2007). There are many examples, where corporate executives are central or local government officials themselves. Consequently, the significant influence of the state has remained a striking feature of the economy, especially FDI by Chinese MNEs. All these features make China a very well-suited empirical setting to capture the effects of governmental signals on firms' behaviour and decision-making (Cui and Jiang, 2012).

Given the recent surge in OFDI, existing research on the drivers of Chinese OFDI strategies (Child and Rodrigues, 2005; Lu et al., 2011; Morck et al, 2008; Sun et al., 2010; Wu and Chen, 2014) and the determinants of M&A success (Zollo and Meier, 2008) approaches these topics more generically, without accounting for the peculiarities

of the Chinese institutional environment (Child and Rodrigues, 2005; Kling and Weitzel, 2011), except for a few studies such as Cui and Jiang (2012), Du and Boateng (2015) and Kling and Weitzel (2011). However, these studies only consider one dimension of political influence, i.e., state ownership, overlooking other forms of political embeddedness such as corporate executives' political connexions with the government or the Communist Party of China (CPC). Moreover, as China has a multilayer administrative system, different levels of political embeddedness might draw different effects on corporate investment activities and success. Such a nuanced view is missing in the extant literature, which does not provide a full explanation of how political embeddedness works in influencing the recent surge in Chinese OFDI. This study tries to capture a wider range of dimensions of political influence to assess their impact on cross-border M&A activities and their success.

Using a panel data set with 30,314 firm-year observations of publicly traded firms in China from 2000 to 2015, we find that non-SOEs conduct more cross-border M&As than non-SOEs. In addition, government-led M&As are less likely to achieve success, proxied by cumulative abnormal return (CAR), market-to-book ratio (MTB) and operational risk measures. The level of government ownership matters, in that central SOEs (i.e., SOEs controlled by the central government) conduct more cross-border M&As and benefit more from M&A activities than local SOEs. Political connexions of executives, as another dimension of political embeddedness, exhibit similar but insignificant effects on firms' international diversification choices and M&A success. This indicates that relative to executives' political connexions, government ownership

is the major channel through which political embeddedness operates on firms' internationalisation strategies and M&A success.

A relevant yet more important question is why NPEEs are more likely to conduct cross-border M&As and can benefit more from them, and how to alleviate the negative influence of political embeddedness on M&As. To this end, Alibaba offers an ideal case. Alibaba is representative in that it is now the largest privately owned Internet listed group in China, and it is well-branded in global B2B businesses (Kling et al., 2021). One of the milestones on its successful internationalisation path is Alibaba's acquiring Lazada, the largest B2C e-commerce platform in Southeast Asia in 2016. In introducing this case, we further explain NPEEs' advantages and successful risk response in detail and then deduce possible countermeasures for controlling the risks hidden in PEEs' cross-border M&As.

Research background and hypotheses

Political embeddedness and propensity for conducting cross-border M&As

To analyse how Chinese political embeddedness affects the propensity of PEEs conducting cross-border M&As, we follow the framework developed by Cui and Jiang (2012), which analyses institutional environments of both home country and host country, respectively. This framework is suitable for our research because institutional factors are particularly relevant in our research setting, in that firms encounter institutional pressure of those two aspects when conducting cross-border M&As. First, from the home country's view, the Chinese government exercises pervasive capital

control for OFDI (Morck et al., 2008). The Chinese PEEs, especially central PEEs, dominate critical and strategic industries such as energy, natural resources, transport, heavy industry, aviation, and telecommunications (Schüler-Zhou and Schüller, 2009). Due to their key status in the economy and inherent bonds with the government, PEEs are confronted with serious institutional constraints (Deng, 2009; Morck et al., 2008). Thus, compared with NPEEs, PEEs face an additional constraint when conducting cross-border M&As because in many cases they need to invest and deploy resources in specific areas due to either government requirements or their indebtedness to politicians (Wu and Chen, 2014), but there may not be many suitable cross-border M&A opportunities in these specific areas. Furthermore, politically embedded managers lack the capabilities and willingness to conduct cross-border M&As. These managers are mostly appointed by the government (Fan et al., 2007) and usually have complex objectives such as protecting their political career and personal wealth (Faccio, 2006; Li et al., 2008). Thus, compared with their counterparts in the private sectors, politically embedded managers are more likely to be "extra conservative" and risk averse (Teece, 2014) when selecting cross-border projects, as they are confronted with dual risks - both political risk and economic risk.

Second, from the host country's perspective, political embeddedness often conveys ideological and cognitive motivations such as "national pride" in conducting OFDI. Moreover, PEEs are often associated with the image of bureaucratic practice and inefficiency (Chen et al., 2011), and are usually perceived by host-country institutions not only as business entities but also as political actors (Cui and Jiang, 2012). The state-

driven cross-border M&As by PEEs are thus suspected of having political agendas that do not necessarily benefit the commercial interests of shareholders, or may even conflict with the business interests of local firms and distort competition in the host country. Hence, cross-border M&As conducted by PEEs might trigger political sensitivities and public concerns in host countries (Cui and Jiang, 2012). Consequently, these firms undergo strict scrutiny or even resistance by host-countries' regulatory institutions, which create strong institutional barriers for Chinese PEEs to conduct cross-border M&As.

Yet, the institutional environment could also promote the internationalization of NPEEs. We argue that, under the Chinese institutional environment, there are two motives for NPEEs to conduct cross-border M&As. The first motive for NPEEs to go global is to reach new markets and seek growth (Deng, 2009; Hong and Sun, 2006; Quer et al., 2012) as the domestic market is dominated by government-supported PEEs and has created a very competitive environment for NPEEs (Child and Rodrigues, 2005; Lu et al., 2011). It is also characterised by a weak legal system and poor protection for property rights (Delios et al., 2008), which makes it harder for NPEEs to grow healthily. Facing institutional and market constraints at home, NPEEs can use OFDI as a route escaping from the turbulence and uncertainty of the domestic institutional environment (Deng, 2009), avoiding cut-throat competition (Cui et al., 2011), introducing new products and accessing new innovations in the host market (Quer et al., 2012). Second, going global provides NPEEs with more (strategic) resources and assets (Deng, 2009). Due to institutional constraints, domestic policies of capitals such as land, finance,

natural resources and subsidies are much less preferential for NPEEs (Child and Rodrigues, 2005). Thus, cross-border M&As are effective springboards by NPEEs to acquire or buy strategic assets, or absorb managerial know-how (Quer et al., 2012) and operational knowledge (Schüler‐Zhou and Schüller, 2009) to compensate for their domestic competitive weaknesses and to compete more effectively against global rivals (Deng, 2009). Furthermore, as Peng et al. (2008) contend, NPEEs generically possess managerial incentive to pursue innovative and efficiency-seeking strategies. Compared with their politically embedded peers, NPEEs are young and have flexible organizational and governance structures (Wang et al., 2018, 2020; Wang and Yu, 2022). Firm strategies of NPEEs are often characterised by aggressive entrepreneurship (Peng et al., 2008) with a focus on innovation and change (Delios et al., 2008). These firm-specific characteristics act as pulling forces driving NPPEs to conduct cross-border M&As.

In summary, Chinese domestic institutional constraints, and their consequential resource and industry peculiarities refrain PEEs from conducting cross-border M&As and, at the same time, propel NPEEs to go global. Hence, we expect that compared to NPEEs, Chinese PEEs conduct less cross-border M&As.

Political embeddedness and M&A success

Although some studies find that political embeddedness can bring advantages to M&As of firms (Du et al., 2015), such as fewer financial constrains (Cull and Xu, 2003; Poncet et al., 2010) and policy supports (Zhou et al., 2015), a large body of studies show a

negative influence of political embeddedness on firm value of PEEs, as PEEs tend to be politically rather than commercially motivated (Du and Boateng, 2015; Tu et al., 2013). In the Chinese context, the objectives of PEEs are more complex (Chen et al., 2011; Shleifer, 1998). Economic missions, such as creating national champions and sustaining national economy are much more critical than commercial objectives. Social objectives such as providing employment, developing regional economies and maintaining social stability and fiscal health motivate the government to compete for resources (Chen et al., 2011; Lin et al., 1998). Thus, politically driven M&As usually diverge from firms' commercial objectives (Brockman et al., 2013; Sun et al., 2010). By contrast, the choices of international diversification made by NPEEs are more consistent with maximizing shareholder value and corporate development.

Moreover, the typical culture of PEEs increases the integration risk after M&As. For PEEs in China, the traditional culture, loyalty and guanxi (Law et al., 2000) for example, is one of the important elements that impact the firm performance and corporate governance, while NPEEs often have more vibrant and open culture and depend less on guanxi (Liu et al., 2011), due to the competitive market environment and less control of governments, which may be more acceptable for foreign firms. Therefore, compared to NPEEs, PEEs face more significant challenges in the post-merger integration process, which is vital for M&A success. For these reasons, we conjecture that compared to NPEEs, Chinese PEEs benefit less from M&As.

The level of political embeddedness

In China, the central government dominates the economy by issuing regulatory policies and delegating executive power to its local subordinates. Thus, different levels of political embeddedness in China might have different or even divergent interests and objectives due to this principal-agent relationship (Sun et al., 2010; Wang et al., 2008). Central PEEs are more tightly connected with the interests of the whole country, and are thus more concerned with globalization, openness and the integration of the country into the world economy (Child and Rodrigues, 2005). In many cases, the attempts of cross-border M&As are even initiated by the central government for national developing and strategic purposes. Thus, under the same scrutinizing system, it would be easier for central PEEs to get authorization from the central government and related regulatory agencies for their cross-border M&A activities (Wang et al., 2012). By contrast, local PEEs are less likely involved in globalisation and benefit less from M&A activities due to two institutional peculiarities of their own: fewer motives of going abroad, and lower institutional quality than central PEEs. First, local PEEs lack the motives to conduct cross-border M&As. Local PPEs are self-sufficient in terms of financial resources, preferable policy treatment and political bailouts due to their natural ties with the government (Chen et al., 2011; Tu et al., 2013; Fan et al., 2007). In addition, local PPEs would be less likely to receive administrative commands to conduct cross-border M&As because those projects related to national strategies initiated by the central government are undertaken mainly by central PEEs. For local PEEs, the marginal benefits of cross-border M&As are far less than the marginal costs as such activities would bring extra economic and political risks to the firm and local

politicians (Wang et al., 2012). Thus, self-interested local politicians would be extra reluctant to choose high-risk cross-border projects voluntarily. Second, as Du and Boateng (2015) find, the quality of the institution may affect the M&A process and firm value. The self-interested motives of local government leaders reduce the quality of local government institutions, which might reduce the benefits from M&As. As agents of the central government, local governments assume a heavy policy burden to boost the local economy, eliminate local unemployment and maintain local societal stability (Shleifer, 1998). Thus, local government leaders possess stronger motives to compete with each other in grabbing resources for social, political and personal purposes (Cheung et al., 2010; Faccio, 2006; Li et al., 2008; Fan et al., 2007). The M&As mandatorily conducted by local PPEs are one of the most 'efficient' vehicles for local government officials to boost local GDP and hit the appraisal target for promotion to enhance their political careers. Consequently, those M&As conducted by local PEEs might be value-destroying, as these M&As are driven by individual political goals rather than firm value maximisation, which may even incur unnecessary costs. Besides, too much government involvement for local PEEs also distorts policies for cross-border M&As and thus according benefits (Gu et al., 2020).

Apart from institutional peculiarities of local PEEs, the resource-based view propounds that firms can attain competitive advantage if they possess resources not held by others (Wernerfelt, 1984). These firm-specific variables that improve access to resources and capabilities translate into competitive advantage, which in turn stimulates internationalisation (Kling and Weitzel, 2011). In China, different levels of political

embeddedness provide access to resources and capital (Sun et al., 2010). Central political embeddedness provides firms with better access to financial resources, policy preferences and political assistance due to "natural ties" with the central government (Cheung et al., 2010; Cui and Jiang, 2012; Delios et al., 2008). Top managers appointed by the central government usually maintain strong connexions with central government officials (Delios et al., 2008; Li and Zhang, 2007). Compared with local firms, they enjoy much greater network advantages and receive support and even protection from the central government (Li and Zhang, 2007). As such, central PEEs obtain scarce resources, privileged industrial development information about foreign market and pre-emptive opportunities that enhances the likelihood of internationalisation through cross-border M&As (Kling and Weitzel, 2011; Wang et al., 2012). In addition, central PEEs can extract more value from M&A, for synergies can be realised easier, and better access to resources provides additional synergies (Kling and Weitzel, 2011).

Furthermore, Kling and Weitzel (2011) find that firms with better internal and external corporate governance mechanisms conduct more cross-border M&As and exhibit better value creation potential from M&As because they have easier access to foreign markets, and investors have more trust in their quality of governance. This notion also leads to the expectation that central political embeddedness might enhance internationalisation and benefit from it more than local ties as central PEEs are exposed to stronger internal and external governance. Both the central government and regulatory institutions such as the State-owned Asset Supervision and Administration Commission (SASAC) and China Securities Regulatory Commission (CSRC) exercise

considerable administrative control over central PEEs. In addition, central politically connected executives receive more public attention from the society and media nationwide (Chen et al., 2011; Fan et al., 2007), which in turn strengthens the quality of internal governance and increases the chances of conducting cross-border M&As and their value creation potential. Hence, we expect that compared to central PEEs, Chinese local PEEs conduct less cross-border M&As. Meanwhile, compared to central PEEs, Chinese local PEEs benefit less from M&As.

Data, variables and methods

Sample and data

The M&A deal-related data are extracted from Thomson Reuters Financial M&A database (SDC database). Our sample section criteria are as follows: (1) acquisitions announced between January 1, 2000, and December 31, 2015; (2) Chinese acquirers that are publicly listed on Chinese mainland stock exchanges, i.e. Shanghai and Shenzhen; (3) where the transaction value of the deal is recorded in the database. This creates a dataset of 7,164 domestic and cross-border transactions by Chinese mainland acquirers. Political embeddedness data are downloaded from the China Stock Market and Accounting Research (CSMAR) database. Finally, our unbalanced panel dataset includes 30,314 firm-year observations.

Political embeddedness

We measure firms' political embeddedness in two dimensions: government ownership

and executives' political connexions. The government has ownership if it directly and/or indirectly – through pyramidal structures – holds the majority of shares (Wang et al., 2008; 2018). Subsequently, we create a dummy labelled *gov* that takes the value 1 if the government has control right, and 0 otherwise. See Table A1 in the appendixes for variable definition.

As the second dimension of political embeddedness, a company is defined as politically connected if at least one of its directors, supervisors or top executives is or was a government official. To assess political connexion, consistent with prior research (Chen et al., 2011; Tu et al., 2013), we create a dummy denoted *pc*, taking the value 1 if a firm is identified as being politically connected, and 0 otherwise.

To measure the levels of political embeddedness, we create two dummies that refer to the local level of embeddedness. The dummy *locgov* takes the value 1 if the de facto owner of a firm is the local government and 0 otherwise. The dummy *locpc* takes the value 1 if a firm is identified as being politically connected with the local government, or local NPC or CPPCC and 0 otherwise.

M&A success

The success of M&A activities is multi-faceted regarding different stakeholders, periods, and firms' financial and non-financial performances (Zollo and Meier, 2008). We focus on shareholders' interests and use both market-based and accounting-based measures of M&A success. For market-based measures, we adopt an event study methodology and calculate cumulative abnormal returns (CARs) based on the

following three models. (1) Following Brown and Warner (1985), we use the CAPM and calculate CARs with a 90-day period transaction window, 30 days before the announcement date. (2) Following Dong et al. (2006), Fuller et al. (2002) and Kling and Weitzel (2011), we estimate a modified market-adjusted model and compute CARs for the three-day period around the announcement date [-1, +1]. (3) Following Brown and Warner (1980, 1985), we compute CARs with a constant mean return model. Then, we calculate average CARs labelled *car* based on the three approaches.[1]

For accounting measures, in line with Kling et al. (2014), we focus on value creation and operational risk exposure of acquirers after M&A. Value creation is measured by the market-to-book ratio (*mtb*), and operational risk exposure is computed as the volatility of cash flows (*risk*).

(Insert Figure 1 here)

Deal-related variables and control variables

We use both a dummy (*crossborder*) and the deal volume (*volcrossborder*) to capture cross-border M&As. In line with the M&A literature (Fuller et al., 2002; Weitzel and Berns, 2006), we control for several transaction-specific variables and firm-specific variables. Table A1 in appendixes shows definitions of all variables.

Methods

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[1] Unfortunately, due to copyright issues, the calculated values of cumulative abnormal returns (CARs) of each firm-year observation cannot be shared. However, all transformed data and computations used for the analyses are available on request by the authors.

We first adopt large sample regressions to test our hypothesis, and then use case study to deduce possible countermeasures for controlling the risks hidden in 'PEEs' cross-border M&As. We apply a logistic model for our binary dependent variable (Equation 1 in Appendix) and a random effect model to explain deal volume (Equation 2 in Appendix). To test whether PEEs, especially local PEEs would benefit less from M&A activities, we estimate a random effect model (Equation 3 in Appendix) for the three measures of value creation. Additionally, to test the effect on CAR, we also use quantile regressions analysis as CARs tend to exhibit outliers. In all the analyses, the explanatory variables are lagged by one year to account for alleged endogeneity. Using lagged variables ensures weak exogeneity.

Finally, to deduce possible countermeasures for controlling the risks hidden in PEEs' cross-border M&As, we illustrate the case where Alibaba acquired Lazada in 2016.

Results

Descriptive analysis

Table A2 in appendixes presents descriptive statistics highlighting the number and types of transactions, method of payment, state involvement, deal volumes, and measures of success.

In the 16-year sample period, the number of Chinese M&A transactions has ascended dramatically by 4,908%. Except for a sharp decline in 2005 and modest slowdowns in 2009 and 2012, Chinese firms conduct M&A activities at a steadily rising

pace until 2015. However, cross-border deals account for only 5.16% amongst all M&A transactions. Nevertheless, the tendency to internationalise has increased. In contrast to earlier studies (Kling and Weitzel, 2011), cash is no longer the predominant method of payment with less than half (48.52%) of all transactions making room for other forms of payment such as stocks and assets. The involvement of the government in M&A activities has declined from 62.21% in 2003 to 23.46% in 2015, meaning that with the deepening of economic reformations, government intervention in the economy has reduced. This trend and the fact that the average proportion of state-led M&As is 38.68% suggests a dominant position of NPEEs' M&As in our sample period.

M&As were rather successful, indicated by positive average CARs and MTB in excess of one (Kling et al., 2014). Figure 1a shows the change CARs of PEEs and NPEEs from 2003 to 2015. During this period, CARs of PEEs were consistently higher than that of NPEEs. Figure 1b shows the CARs of Alibaba before and after its announcement of acquisition of Lazada. The CARs of Alibaba were at a higher level and increased after its announcement on April 12, 2016.

Table A3 in the appendixes reports summary statistics for the dependent, independent and control variables employed in our analyses.

Political embeddedness and propensity for conducting cross-border M&As

Table 1 reports the results of different model specifications of Equation (1) and (2) for the hypothesised relationship between political embeddedness and the propensity for conducting cross-border M&As in China. The model specifications A and B are the

results of logit regression with the dummy *crossborder* as the dependent variable. Specifications C and D use transaction volume of cross-border deals (*volcrossborder*) as the dependent variable estimated with a random effects model. Models A and C focus on the influence of different types of political embeddedness on the likelihood to conduct cross-border M&As showing a negative and significant impact of government ownership after controlling for firm-specific variables and corporate governance measures. Political connexions, however, have a negative yet insignificant impact on both the *crossborder* dummy and deal volume. Together, these findings indicate that PEEs, especially SOEs are less likely to conduct cross-border M&As than NPEEs in China. Furthermore, we consider different levels of political embeddedness and use two dummies *locgov* and *locpc* to compare the influence of the local level with the central level. As shown in specifications B and D, similarly, the coefficient of *locgov* is negatively significant while that of *locpc* is negative yet insignificant, which indicates that local SOEs are less likely to conduct cross-border M&As than central ones, given both the number of transactions and volumes. In summary, the findings in Models B and D indicate that compared with local PEEs, central PEEs are more likely to conduct cross-border M&As.

(Insert Table 1)

Political embeddedness and M&A success

Table 2 and 3 present the results of different model specifications of Equation (3) for the hypothesised relationship between political embeddedness and M&A success. Table

2 reports the results of both random effects (Models E and F) and quantile regressions (Models G and H) for CARs (*car*). Models E and G show negative yet not significant partial impacts of political embeddedness on CARs indicating that in China, there is not much difference between PEEs and NPEEs regarding M&A short-term success. This finding is consistent with that of Kling and Weitzel (2011, p.369). However, the findings of Models F and H show that the level of government ownership does make a difference in influencing firms' CARs. The negative and significant relation between *locgov* dummy and *car* means that in China, local SOEs are more likely to have lower CARs than central SOEs in M&A activities.

Table 3 reports the results of random effects for *mtb* and *risk*. As is shown by Model I and K, SOEs benefit less from M&A activities as they tend to have lower MTBs and higher operational risks than non-SOEs one year after M&A announcements. Model J and L show evidence for the hypothesis that the level of political embeddedness does influence M&A success. Clearly, local SOEs are more likely to have lower MTBs and higher operational risks than their central peers. Local political connexion also reduces firms' MTB after M&A, but does not affect operational risks.

(Insert Table 2)

(Insert Table 3)

Why NPEEs conduct more and benefit more from cross-border M&As

From a theoretical perspective, the answer to this question is that NPEEs face less risk than PEEs in cross-border M&As from the start of planning to initiate M&As to the

integration and operation after M&As. Such risks include political, value, financial, and integration risks. While political risk is related to the propensity for cross-border M&As, value, financial, and integration risk determine the success of M&As. In other words, PEEs have dilemmas of cross-border M&As while NPEEs may not.

Political risk refers to the impediments brought by the political environments, policies, and institutions of the target's country or resistance due to political motives that may lead to a failure of M&As. Due to their natural ties with the government, PEEs will face more political resistance in cross-border M&As compared with NPEEs. For example, M&As conducted by PEEs are often regarded as political actions by the host country's government (Cui and Jiang, 2012), and are vulnerable to ideological (national sentiment, etc.) restrictions and resistance from local people and organisations. Also, PEEs are usually under a prejudice of bureaucracy and inefficiency (Chen et al., 2011), thus facing adverse restriction policies for cross-border M&As in the host country.

Value risk means that firms may have inaccurate estimates of the target's value before M&As. On the one hand, under the influence of governments, the objectives of PEEs' M&As are more focused on political strategy and social objectives (Chen et al., 2011; Lin et al., 1998), and value maximisation is not the first priority for such M&As, thus leading to a biased valuation of the targets. On the other hand, the PEE managers' lack of professionalism or the pursuit of political objectives may compromise their accuracy in valuation (Delios et al., 2008; Fan et al., 2007; Teece, 2014).

Financial risk refers to the possibility of financial breakdown in M&As. Cross-border M&As usually need reliable financial support. Governments' influence and

complex objectives could lead PEEs to take M&A activities without sufficient financial planning. Moreover, the strict and complicated funding scrutiny process (Cui and Jiang, 2012; Morck et al., 2008) due to governments' control often leads to the elapse of the optimum timing for M&As. Moreover, regarding the payment method, as PEEs are required to prevent national equity from being diluted, they tend to resort to cash payment. All these factors lead to higher financial risks for PEEs.

The integration risk arises after M&A activities are completed and indicate the risk related to business integration, enterprise management integration, and cultural values integration between acquirers and targets, which are vital for achieving synergies. Governments' control of PEEs will lead to personnel challenges since normally the government appoints the core managers and staff, but this would be difficult, ineffective, and even unacceptable in another country. Moreover, the corporate culture of PEEs in China is likely to cause barriers to integration after M&As (Law et al., 2000).

A successful case of Alibaba

After analysing the dilemmas of PEEs from theoretical perspectives, we then demonstrate the advantages and risk response of NPEEs in cross-border M&As and to show why NPEEs are more likely to conduct cross-border M&As, using the successful case of Alibaba.

Background

Founded in 1999, Alibaba is now the largest privately owned Internet listed group in China, a well-known brand in global B2B business, and the world's largest online

trading market and business exchange community (Kling et al., 2021). In May 2003, the famous online shopping platform Taobao Marketplace mainly based on B2C mode, was founded in Jack Ma's apartment. In December 2004, the independent digital payment Alipay and its escrow services were launched. And in April 2010, Alibaba entered the global consumer marketplaces by establishing AliExpress. Since then, after horizontal and vertical extensions to create a collaborative industrial chain, Alibaba has gradually developed from a single B2B e-commerce platform to a comprehensive life service platform integrating e-commerce, data, and finance. In the fiscal year 2021, the Gross Merchandise Volume (GMV) of Alibaba Ecosystem was RMB8119 billion, including Chinese and international retail markets. According to data released by Alibaba, 285 million of 1.24 billion annual active consumers of the Alibaba Ecosystem are foreign consumers for the 12 months ended September 30, 2021.[2]

Alibaba's outstanding global development is attributed to its successful internationalisation strategies and actions such as cross-border M&As. One of the most representative cases is Alibaba's M&A with Lazada, the largest and leading B2C e-commerce company in the Southeast Asia market. Lazada was founded in 2012 by a German start-up incubator company called Rocket Internet. Since its foundation, Lazada has constantly been enjoying superb growth and its GMV exceeded $1 billion in the first three years. Lazada focuses on B2C business and keeps expanding its business. It offers a wide range of products across 18 various categories such as fashion,

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[3] Information Source: https://www.alibabagroup.com

electronics, home-living products, etc.[3]   Figure 2 shows the main stages of development

of Lazada since its establishment and before Alibaba acquired it in April 2016.

(Insert Figure 2)

However, in 2014, Lazada's parent company Rocket Internet encountered some

difficulties in internal operations and faced a dire outlook. The situation was worsened

by Alibaba's entering the Southeast Asia market in the same year. In 2016, Rocket

Internet decided to sell its shares of Lazada to Alibaba and exit the Southeast Asia

market. During the following two years, Alibaba completed the cross-border M&A of

Lazada, increasing its capital by $2 billion.

This acquisition was completed through three stages. First, in April 2016, Alibaba

and Rocket Internet reached an agreement that Alibaba acquired a 51% controlling

stake in Lazada with $1 billion. In the following 18 months, Alibaba had the right to

continue to acquire all remaining shares. Next, in June 2017, Alibaba increased its

shareholdings of Lazada by $1 billion, reaching 83%. Finally, in 2018, because of its

significant improvement in business performance abroad, Alibaba spent $2 billion in

acquiring all the remaining shares and held 100% of Lazada.

After this cross-border M&A, Alibaba and Lazada have taken many actions to

achieve integration. Consequently, Alibaba completed its strategic aim of entering the

Southeast Asia market and achieved new growth in the business. Also, benefiting from

Alibaba's advantages in management, techniques, payment and logistics, the

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[4] Information Source: https:// www.lazada.com

performance of Lazada was considerably promoted.

Alibaba's risk prevention measures in cross-border M&As

Like PEEs, Alibaba's cross-border M&As also faced the four kinds of risks mentioned above, i.e., political risk, value risk, financial risk, and integration risk. The main reason that Alibaba's acquiring Lazada was so successful is that it has taken appropriate risk prevention measures.

Regarding political risks, China and Southeast Asian countries currently have conflicting interests and deep obstacles in relation to geopolitics. Moreover, apart from Singapore and Malaysia, other Southeast Asian countries have relatively imperfect institutions, which may cause problems for Alibaba's international development in the Southeast Asian market. To mitigate the impact of political risks, Alibaba took several effective actions. First, Lazada is a suitable target considering political risks since it was originally controlled by a foreign company Rocket Internet. Therefore, the acquisition of Lazada spurs less ethnic sentiment amongst local people. Further, affected by the financial crisis and European debt crisis, Southeast Asia countries have relaxed restrictions on foreign investment to achieve industrial upgrading and development. Under the context of favourable policies for international exchanges, the risks of cross-border M&As might be lower. In terms of international communication before and during the M&A, Alibaba took the initiative to carry out in-depth cooperation with the local governments in Southeast Asia countries. For example, Jack

Ma, the founder of Alibaba has been invited by Darmin, Minister of Economic Coordination of Indonesia, to be the consultant in his name to help SMEs and e-commerce development. Through such communication and cooperation, Alibaba gained political advantages in Southeast Asia that were beneficial for its cross-border M&As.

Value risks mainly come from the lack of authenticity in financial statements, information asymmetry, and improper valuation methods. Different accounting standards under various jurisdictions could create hindrances for Alibaba to evaluate. Furthermore, E-commerce is a typical asset-light industry for which traditional valuation methods do not apply, because its earnings mainly depend on its intangible assets such as customer and data resources, R&D capabilities, and logistics service quality. This notable feature makes it more difficult to evaluate targets of M&As. To this end, Alibaba hired Morgan Stanley Asia Ltd. as the exclusive financial advisor during the transaction. Its third-party perspectives and professional capabilities could alleviate the information asymmetry to a certain extent and come up with a more accurate valuation of Lazada. Moreover, based on the full understanding of the business models of both sides, Alibaba accurately predicted the development prospects of Lazada. For example, Alipay under Ant Financial Services Business can connect to Lazada's HelloPay to provide further improvement of its payment system, and Cainiao Logistics of Alibaba can connect to Lazada's two major logistics systems, Lazada LGS and Lazada Express, to promote transportation capacity and reduce transportation costs by optimizing the construction of its logistics and assembly centres and the selection of

transportation routes. Taken together, Alibaba successfully tackled the value risk during the M&A.

Financial risks could arise in both financing and payment processes. From a financing perspective, unreasonable capital structures will bring about high financing costs and equity dilution concerns, and untimely fundraising will lead to M&A failure and even bankruptcy. Since its listing in the U.S., Alibaba has tried to keep its solvency at an acceptable level and reached a five-year loan agreement of around $4 billion with a consortium of 8 lead banks. These preparations laid a good foundation for its cross-border M&As. Regarding payment, M&A payment methods typically include options, equity, leverage, cash, and hybrid approaches. Alibaba paid by cash for this acquisition and thus obtained several advantages. First, it helped Alibaba effectively avoid the value-floating problem caused by stock payments and bond exchanges payment. Second, cash payment facilitated Alibaba's acquisition, which is important since the market favoured Lazada because of its excellent development in the E-commerce industry. Last, cash payment was also helpful in avoiding equity dilution concerns. Although paying by cash has obvious drawbacks, such as liquidity issues, Alibaba solved this problem by using bank loans and generating cash flows from its digital payment platform Alipay.

The integration risks faced by Alibaba after this acquisition were relatively higher than other cross-border M&As, as the target company Lazada was multi-national. To this end, Alibaba took actions to mitigate risks regarding culture, business and human resources. First, Alibaba adopted a local culture integration strategy. Specifically,

Alibaba retained Lazada's original corporate culture and simultaneously strengthened connexions between its employees and the acquired personnel. For example, Alibaba built an internal communication platform and advocated group representatives to take the lead in English training. Moreover, on the premise of respecting local culture and religion, Alibaba took advantage of the opportunity of traditional Chinese festivals and carried out activities to promote Chinese culture. Consequently, obstacles caused by cultural differences have been eliminated to a large extent. Second, Alibaba's business integration was effective. After the M&A, the functions and services of Lazada's E-commerce platform were preserved as much as possible, catering to the original consumption habits of Southeast Asian consumers and avoiding major losses of customers. Third, Alibaba adopted appropriate personnel arrangements. Alibaba did not make major adjustments to the organisational structure right after completing the acquisition, which effectively prevented Lazada employees from panicking. Until two years later, Alibaba restructured its own human resources and appointed group chief human resources officer, head of Ant Financial Services Business, Lei Peng, as the CEO of Lazada to help Lazada develop to the next level.

Implications

Theoretical implications

This paper contributes to the ongoing research about political embeddedness and M&As in several ways. First, we complement the international business literature by analyzing the institutional and governance determinants of Chinese acquirers'

propensity for going abroad and M&A success. We extend Kling and Weitzel (2011) by showing that not only resource endowments and industrial traits that matter in listed firms' internationalisation, firms' political embeddedness could play a major role in affecting firms' M&A activities and their success.

Second, this paper adds to the literature in political economy by applying a more comprehensive measure of political embeddedness, thus enriching the findings of the effects of political embeddedness in emerging markets.

Another important point lies in the fact that we summarise possible countermeasures from the successful case of Alibaba acquiring Lazada for PPEs to mitigate the negative influence of political embeddedness and benefit more from cross-border M&As.

Practical implications

These findings have several important implications for managerial practice related to cross-border M&As. As a representative of NPEEs, Alibaba offers insight into alleviating risks in cross-border M&As. We have deduced the dilemma of PEEs when conducting cross-border M&As in Section 5, and here we summarise countermeasures referring to the successful case of Alibaba acquiring Lazada (presented in Figure 3).

(Insert Figure 3)

First, a carefully chosen target helps to reduce political risks. PEEs can choose targets from countries with preferential policies and targets that are internationally

owned companies. Moreover, since PEEs usually receive more government attention and assistance than NPEEs, they have more resources, such as advanced technology and abundant financing. Therefore, before the acquisition, PEEs can alleviate the political resistance by providing help to the target country.

In terms of valuation risk prevention, PEEs could improve their assessment ability from two aspects. One is to improve the estimation accuracy of the target by enhancing PEEs' professionalism. As the governments usually appoint 'PEEs' managers, governments could select more experienced and qualified candidates. The other is to inspect the valuation process more carefully. A better prediction of growth potentials is especially crucial in an accurate valuation. If necessary, help from third-party professional organisations is also worth considering.

For financial aspects, inadequate financing and improper payment methods are the two main sources of risk. First, compared to NPEEs, PEEs suffer less from financing constraints and thus could better use this funding advantage. Second, PEEs should streamline the payment process for the payment approach, as timely payment is crucial for securing a deal. Moreover, on the premise of sufficient funds, PEEs can increase the proportion of cash payments to avoid equity dilution concerns.

For risks during the integration after the cross-border M&As, PEEs could take countermeasures in culture, business and human resources integration like Alibaba did. First, PEEs should respect local culture and adequately retain the original corporate culture, which is helpful to eliminate the resistance of target companies. Also, they can

carry out more cultural activities to improve communication and understanding between employees. Second, in terms of business integration, it would be better to gradually optimise the business model or services based on the original business model to avoid losing existing customers. Third, as for human resources management, the "Partner-like" control mode implemented by Alibaba is worth learning from. After sufficient fitness with their targets, politically embedded acquirers could realise control gradually. This way, integrations after cross-border M&As can be completed smoothly and help achieve synergies.

Limitations and future suggestions

Our limitation lies in the proxies of political embeddedness. The underlying assumption is that all politically embedded firms have similar extents of connexions. However, the degree of political influence might differ amongst firms, most of which is challenging to quantify. Moreover, the influence from political connexions should be expected to differ for a member of parliament or a minister in the government. Consequently, different types of political connexions, apart from the differentiation of local or central connexions, may have different effects. Regarding the proxies of M&A success, we only considered short-term measures, thus neglecting the long-term effects. Based on these findings and limitations, future research could provide a more detailed measurement of the degree of political influence. Overall, more research is needed to improve our understanding of the influence of political embeddedness on firms' strategic decision-making.

Conclusion

This study investigates how political embeddedness affects Chinese listed firms' propensity for conducting cross-border M&As, M&A success and an introduction of a successful case of Alibaba. We find that compared to non-SOEs, SOEs conduct significantly fewer cross-border M&As. Meanwhile, SOEs benefit less from M&A activities by indicating that SOEs exhibit lower MTBs and higher operational risks after M&A activity than non-SOEs, although we do not find significant evidence for the relationship between government ownership and CARs. We also find that central SOEs are more likely to conduct cross-border M&As than local SOEs. Our findings also indicate that central SOEs benefit more than local SOEs in terms of CARs, MTBs and operational risks. Hence, local SOEs exhibit poor M&A performance, which is in line with Xia and Fang (2005, p.50), who contend that "local SOEs mainly cause the value-destroying effect of SOEs". By contrast, as another measure of political embeddedness, executives' political connections do not strongly influence 'firms' propensity for cross-border M&As and M&A success.

We illustrate our regression findings by theoretically summarising dilemmas in cross-border M&As and introduce the successful case of Alibaba acquiring Lazada to show why and how NPEEs can conduct and benefit more from cross-border M&As. Finally, we suggest that barriers and risks of conducting cross-border M&As may arise from different stages of the M&A process and can be classified as political, value, financial, and integration risks. Referring to Alibaba's successful acquisition of Lazada,

countermeasures from these four corresponding aspects can be used by PEEs to benefit

more from cross-border M&As.

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Table 1. Effects of political embeddedness on cross-border mergers
(Dependent: A/B: crossborder; C/D: volcrossborder)

	[A]	[B]	[C]	[D]
L.gov	-0.431**		-0.054**	
	(-2.32)		(-1.98)	
L.pc	-0.134		-0.022	
	(-0.69)		(-0.76)	
L.locgov		-0.748***		-0.104***
		(-3.71)		(-3.85)
L.locpc		-0.176		-0.025
		(-1.08)		(-1.06)
L.size	0.473***	0.479***	0.062***	0.063***
	(4.99)	(5.09)	(4.60)	(4.77)
L.lev	-1.252**	-1.327***	-0.125*	-0.128*
	(-2.47)	(-2.62)	(-1.82)	(-1.89)
L.roa	2.501	2.279	0.182	0.155
	(1.19)	(1.09)	(0.67)	(0.57)
L.fcfrate	0.202	0.264	-0.007	0.001
	(0.24)	(0.31)	(-0.07)	(0.01)
L.growth	0.180	0.199	-0.017	-0.016
	(0.54)	(0.61)	(-0.38)	(-0.35)
L.age	-0.011	-0.005	0.001	0.002
	(-0.61)	(-0.29)	(0.44)	(0.68)
L.mgtshare	-0.471	-0.461	-0.067	-0.070
	(-0.82)	(-0.81)	(-0.78)	(-0.81)
L.hhi10	0.050	0.009	0.113	0.119
	(0.08)	(0.01)	(1.15)	(1.22)
L.independent	-2.565*	-2.619*	-0.447**	-0.450**
	(-1.65)	(-1.69)	(-2.13)	(-2.15)
L.board	-0.009	-0.005	0.001	0.002
	(-0.19)	(-0.10)	(0.14)	(0.22)
L.duality	0.177	0.187	0.015	0.015
	(1.00)	(1.05)	(0.56)	(0.55)
L.intershare	0.373	0.331	0.145**	0.140**
	(1.21)	(1.07)	(2.46)	(2.39)
Industry dummies	Y	Y	Y	Y
Year dummies	Y	Y	Y	Y
Random province effects	Y	Y	Y	Y
Random firm effects	Y	Y	Y	Y
Intercept	-10.466***	-10.776***	-0.483	-0.522
	(-4.71)	(-4.85)	(-1.37)	(-1.49)
N	5482	5482	5576	5576
Wald chi2	81.667	92.410	106.762	118.910

Notes: ***, ** and * indicate statistical significance at 1 %, 5 %, and 10 % levels respectively (two-tailed), z-values are below the regression coefficients in brackets. Individual coefficients of the industry dummies, year dummies, and random province and firm effects are not reported for parsimony. See Table A1 for variable definitions.

Table 2. Effects of political embeddedness on M&A success
(Dependent: car)

	[E]	[F]	[G]	[H]
L_gov	-0.004		-0.007	
	(-1.45)		(-1.45)	
L_pc	-0.001		-0.002	
	(-0.23)		(-0.46)	
L_locgov		-0.007**		-0.011**
		(-2.36)		(-2.41)
L_locpc		0.001		0.001
		(0.30)		(0.28)
L_size	-0.014***	-0.013***	-0.021***	-0.021***
	(-8.91)	(-9.00)	(-8.49)	(-8.50)
L_lev	0.025***	0.025***	0.036***	0.033**
	(3.24)	(3.20)	(2.74)	(2.55)
L_roa	-0.167***	-0.168***	-0.215***	-0.210***
	(-5.38)	(-5.42)	(-4.01)	(-3.93)
L_fcfrate	-0.003	-0.002	-0.008	-0.012
	(-0.23)	(-0.18)	(-0.36)	(-0.56)
L_growth	0.005	0.005	0.005	0.004
	(1.01)	(1.05)	(0.54)	(0.45)
L_age	0.001**	0.001**	0.000	0.000
	(2.28)	(2.43)	(0.89)	(0.86)
L_mgtshare	0.003	0.003	0.006	0.006
	(0.33)	(0.35)	(0.40)	(0.38)
L_hhi10	0.024**	0.024**	0.037**	0.040**
	(2.25)	(2.26)	(2.17)	(2.36)
L_independent	0.017	0.016	0.020	0.011
	(0.75)	(0.70)	(0.53)	(0.29)
L_board	0.000	0.000	-0.000	-0.000
	(0.29)	(0.28)	(-0.25)	(-0.32)
L_duality	-0.001	-0.001	-0.003	-0.001
	(-0.46)	(-0.42)	(-0.69)	(-0.15)
L_intershare	-0.004	-0.004	0.002	-0.002
	(-0.65)	(-0.71)	(0.21)	(-0.21)
completion	0.019***	0.019***	0.035***	0.033***
	(8.77)	(8.76)	(8.86)	(8.33)
attitude	0.002	0.002	0.002	0.003
	(0.68)	(0.65)	(0.28)	(0.47)
divestiture	0.004*	0.004*	0.008*	0.008**
	(1.82)	(1.84)	(1.86)	(2.04)
cashmerger	-0.011***	-0.011***	-0.015***	-0.013***
	(-4.67)	(-4.65)	(-3.39)	(-3.05)
tglist	0.025***	0.025***	0.042***	0.038***
	(3.41)	(3.41)	(3.21)	(2.92)
horizontal	-0.003	-0.003	-0.002	-0.002
	(-1.10)	(-1.11)	(-0.44)	(-0.48)
Industry dummies	Y	Y	Y	Y

Year dummies	Y	Y	Y	Y
Random province effects	Y	Y	Y	Y
Random firm effects	Y	Y	Y	Y
Intercept	0.208***	0.206***	0.362***	0.358***
	(5.34)	(5.31)	(5.60)	(5.57)
N	4883	4883	4883	4883
Wald chi2	613.371	617.678		

Notes: ***, ** and * indicate statistical significance at 1 %, 5 % and 10 % levels respectively (two-tailed); z-values (for random effect models and logistic models) and t-values (for quantile regressions) are below the regression coefficients in brackets. Individual coefficients of the industry dummies, year dummies, and random province and firm effects are not reported for parsimony. See Table A1 for variable definitions.

Table 3. Effects of political embeddedness on valuation and risk
(Dependent: I/J: mtb; K/L: risk)

	[I]	[J]	[K]	[L]
L.gov	-0.166***		0.015*	
	(-3.65)		(1.90)	
L.pc	-0.036		0.009	
	(-0.84)		(1.09)	
L.locgov		-0.284***		0.014*
		(-6.28)		(1.76)
L.locpc		-0.061*		-0.002
		(-1.72)		(-0.31)
L.size	-0.805***	-0.802***	-0.000	0.001
	(-35.67)	(-35.95)	(-0.04)	(0.18)
L.lev	-0.671***	-0.682***	-0.003	-0.003
	(-6.22)	(-6.34)	(-0.13)	(-0.12)
L.roa	3.562***	3.542***	-0.084	-0.088
	(8.99)	(8.96)	(-0.97)	(-1.02)
L.fcfrate	0.013	0.030	0.013	0.012
	(0.09)	(0.20)	(0.37)	(0.32)
L.growth	0.180***	0.186***	0.038**	0.037**
	(2.87)	(2.98)	(2.52)	(2.44)
L.age	0.003	0.005	0.001	0.001
	(0.52)	(0.89)	(0.94)	(0.80)
L.mgtshare	-0.247*	-0.242*	0.032	0.029
	(-1.72)	(-1.70)	(1.22)	(1.12)
L.hhi10	0.561***	0.570***	0.001	0.004
	(3.46)	(3.55)	(0.03)	(0.13)
L.independent	0.934***	0.944***	-0.054	-0.047
	(2.96)	(3.00)	(-0.83)	(-0.72)
L.board	0.016	0.017	0.001	0.001
	(1.47)	(1.60)	(0.24)	(0.48)
L.duality	0.075*	0.077*	-0.005	-0.006
	(1.84)	(1.91)	(-0.59)	(-0.74)
L.intershare	0.261**	0.249**	-0.009	-0.008
	(2.38)	(2.29)	(-0.56)	(-0.49)
completion	0.020	0.020	0.002	0.002
	(0.75)	(0.75)	(0.30)	(0.30)
attitude	-0.000	-0.004	0.002	0.002
	(-0.01)	(-0.10)	(0.18)	(0.21)
divestiture	-0.005	-0.004	-0.001	-0.001
	(-0.18)	(-0.15)	(-0.21)	(-0.19)
cashmerger	-0.074**	-0.072**	0.005	0.004
	(-2.43)	(-2.37)	(0.63)	(0.59)
tglist	0.095	0.090	0.024	0.024
	(1.12)	(1.07)	(1.15)	(1.12)
horizontal	-0.061*	-0.062*	-0.000	0.000
	(-1.86)	(-1.88)	(-0.00)	(0.02)
Industry dummies	Y	Y	Y	Y

Year dummies	Y	Y	Y	Y
Random province effects	Y	Y	Y	Y
Random firm effects	Y	Y	Y	Y
Intercept	17.893***	17.792***	0.944***	0.939***
	(30.73)	(30.74)	(3.76)	(3.74)
N	5347	5347	5277	5277
Wald chi2	5419.721	5487.051	18018.692	18010.723

Notes: ***, ** and * indicate statistical significance at 1 %, 5 % and 10 % levels respectively (two-tailed); z-values are below the regression coefficients in brackets. Individual coefficients of the industry dummies, year dummies, and random province and firm effects are not reported for parsimony. See Table A1 for variable definitions.
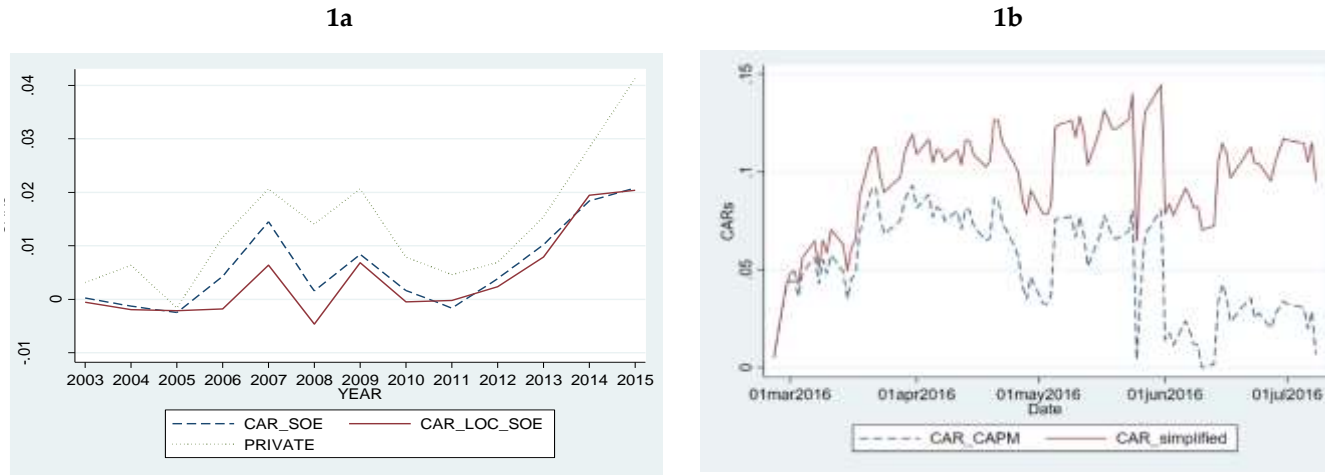
Figure 1. Comparison of CARs over time amongst subgroups with different types of ownership and Alibaba

1a   1b

Notes: In Figure 1a, the sub-group SOE indicates government-owned firms; the sub-group LOC_SOE indicates local government-owned firms; The sub-group PRIVATE indicates non-government-owned firms. The data contained in this Figure are calculated based on the data from the SDC database and the CSMAR database. Figure 1b shows the change of CAR of Alibaba before and after its announcement of acquisition of Lazada.

Figure 2. Lazada's development process before the acquisition

2012

Raised $40 million from Kinnevik at a $365M valuation

2013

Jan

Received an eight digit euro investment from German retail group Tengelmann Group

Jun

Secured $100 million of funding and launches a new mobile shopping platform

Sep

Received approximately US$250 million of funding from Tesco, Access Industries, Kinnevik and Verlinvest

2014

Nov

Lazada Marketplace saw a rapid growth accounting for more than 65% of Lazada's overall sales

Secured EUR200 million of funding from Temasek, Rocket Internet, Kinnevik, Verlinvest and other existing investors

2015

Apr

Reached US$1 billion of annualised GMV during its third year anniversary

Dec

Lazada Group's Online Revolution recorded US$40m GMV in 3-day finale

2016

Mar

Announces annualised GMV of US$1.3 billion ahead of Southeast Asia-wide birthday campaign

Apr

Alibaba announced 100% acquisition of LAZADA

Figure 3. Logic diagram of PEEs conducting cross-border M&As

Host Country's Perspective
- Be regarded as political actions;
- Under the prejudice of bureaucracy and inefficiency;
- Restriction policies;

Home Country's Perspective
- The great control of government;
- Complex objectives;
- Managers are less capable and risk-adverse;
- Managers' self-political motivation;
- The corporate culture is difficult to integrate;

Political Risk
- Targets finding measures
- Communication actions

Value Risk
- Accurate valuation
- Micro strategy valuation

Financial Risk
- Financing measures
- Payment measures

Integration Risk
- Cultural measures
- Business measures
- HR measures

Characteristics of PEEs   **Dilemma of PEEs**   **Countermeasures**

Appendixes

Table A1. Variable definitions

Variable	Description
M&A success	
car	Cumulative abnormal return, computed as the mean of the CARs calculated with the following three models: 1) CAPM; 2) Modified Market Return Model; 3) Constant Mean Return Model.
mtb	Market to book ratio, computed as share market value divided by the book value of total assets.
risk	Operational risk exposure, computed as the volatility of cash flows.
Deal-related variables	
crossborder	Cross-border M&A dummy. The value is 1 if an M&A deal is cross-border; 0 otherwise.
volcrossborder	Cross-border M&A deal volume.
completion	M&A completion status dummy. The value is 1 if an M&A deal is closed; 0 otherwise.
attitude	Acquirer attitude dummy. The value is 1 if the attitude of the acquirer is friendly; 0 otherwise.
divestiture	Divestiture dummy. The value is 1 if an M&A deal is a divestiture; 0 otherwise.
cashmerger	Cash payment dummy. The value is 1 if an M&A deal is disbursed with cash; 0 otherwise.
tglist	Public status dummy of the target firm. The value is 1 if the target firm is publicly traded; 0 otherwise.
horizontal	Horizontal or vertical M&A dummy. The value is 1 if the acquirer and the target share the same SIC code; 0 otherwise.
Political embeddedness variables	
gov	Government ownership dummy. The value is 1 if the de facto owner of a firm is the government; 0 otherwise. The government has de facto ownership if it holds the most shares directly and indirectly.
locgov	Local government ownership dummy. The value is 1 if the de facto owner of a firm is the local government; 0 otherwise.
pc	Political connexion dummy. The value is 1 if one if a firm's directors, supervisors or top managers is or was: 1) a government official or 2) a representative of National People's Congress (NPC) or 3) a member of Chinese People's Political Consultative Conference (CPPCC); 0 otherwise.

locpc	Local political connexion dummy. The value is 1 if a firm has local political connexion; 0 otherwise.
Firm-specific variables	
size	Firm size, computed as the natural logarithm of total assets.
roa	Return on assets, computed as net income divided by total assets.
age	Company age, proxied by the duration from the Initial Public Offering (IPO) to the sample year.
lev	Financial leverage, computed as total liabilities divided by total assets.
growth	Total assets growth rate.
fcfrate	Free cash flow rate, computed as the sum of net profit, interest expenses and non-cash expenses minus the sum of the addition of working capital and capital expenditure.
independent	Proportion of independent directors on board, computed as the number of independent directors divided by total number of directors on board.
mgtshare	Management share percentages.
hhi10	Ownership concentration, computed as the Herfindahl–Hirschman Index of the first ten shareholdings.
board	Board size, computed as the number of directors on board.
duality	The duality dummy of chairman and CEO. The value is 1 if the CEO and chairman are the same person; 0 otherwise.
exchange	Stock exchange dummies, including Shanghai Main Board, Shenzhen Main Board, Small and Medium Enterprise Board and Growth Enterprise Market.
intershare	International shareholding dummy. The value is 1 if a firm is listed both domestically and abroad; 0 otherwise.
industry	Industry dummies, including finance, industry and manufacturing, real estate, commercials, comprehensive and public utility.
year	Year dummies, from 2000 to 2015.

Table A2. M&A activity, deal structure and success

Year	Cross-border	Domestic	Total	Cash mergers percent	State-led M&A percent	Deal volume ($Mil)	Volume per deal ($Mil)	Car	Value weighted car	MTB	Risk
2000	1	23	24	83.33%	-	471.9	19.663	2.63%	2.97%	3.235	2.246
2001	0	25	25	80.00%	-	2875	115.000	0.23%	0.78%	2.487	2.453
2002	3	97	100	57.89%	-	2938	29.380	0.44%	1.02%	1.892	2.516
2003	5	212	217	70.77%	62.21%	4318	19.899	0.09%	0.88%	1.440	2.289
2004	1	301	302	71.90%	56.29%	3913	12.957	0.05%	-0.18%	1.115	2.246
2005	3	195	198	83.08%	58.08%	1857	9.379	0.18%	0.24%	0.883	2.246
2006	1	215	216	57.69%	45.83%	9491	43.940	1.71%	4.71%	1.302	2.246
2007	12	371	383	52.48%	49.87%	25396	66.308	3.04%	6.91%	2.847	3.977
2008	10	471	481	46.43%	50.10%	58878	122.407	1.46%	-2.15%	1.225	3.356
2009	11	414	425	50.75%	52.00%	40623	95.584	3.15%	10.60%	2.457	3.674
2010	21	545	566	66.28%	47.53%	67829	119.839	1.90%	7.91%	2.567	3.125
2011	30	655	685	76.95%	41.75%	46744	68.239	0.89%	1.81%	1.648	2.999
2012	29	652	681	70.59%	36.42%	41836	61.433	1.47%	4.72%	1.536	2.820
2013	32	736	768	59.44%	32.68%	90437	117.757	3.23%	6.50%	1.759	3.016
2014	29	862	891	49.47%	29.52%	140448	157.630	5.28%	12.56%	2.108	3.398
2015	62	1,140	1,202	17.15%	23.46%	291512	242.522	5.37%	5.62%	3.087	3.554
Total	250	6,914	7,164	48.52%	38.68%	829566.9	115.797	1.94%	4.06%	1.974	2.885

Notes: State-led M&A percentages from 2000 to 2002 are not presented due to a data limitation.

Table A3. Summary statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
car	6,127	0.027	0.074	-0.083	0.202
mtb	29,199	1.995	1.525	0.354	5.973
risk	20,886	3.283	0.517	2.246	4.346
crossborder	7,164	0.035	0.184	0.000	1.000
volcrossborder	7,164	0.112	0.713	-3.101	8.869
gov	25,466	0.469	0.499	0.000	1.000
locgov	25,466	0.320	0.467	0.000	1.000
pc	28,894	0.799	0.401	0.000	1.000
locpc	28,894	0.721	0.449	0.000	1.000
size	30,311	21.595	1.153	19.811	24.126
lev	30,311	0.471	0.209	0.115	0.855
roa	28,948	0.035	0.047	-0.083	0.124
fcfrate	26,729	0.002	0.095	-0.235	0.160
growth	28,946	0.182	0.281	-0.163	0.992
age	30,314	12.325	5.556	0.000	35.000
mgtshare	25,461	0.062	0.152	0.000	0.891
hhi10	25,466	0.181	0.127	0.000	0.810
independent	28,725	0.333	0.107	0.000	0.800
board	28,730	9.155	2.076	0.000	22.000
duality	23,365	0.215	0.410	0.000	1.000
intershare	30,314	0.136	0.343	0.000	1.000
completion	7,164	0.453	0.498	0.000	1.000
attitude	7,164	0.860	0.347	0.000	1.000
divestiture	7,164	0.386	0.487	0.000	1.000
cashmerger	7,164	0.255	0.436	0.000	1.000
tglist	7,164	0.025	0.156	0.000	1.000
horizontal	7,164	0.239	0.427	0.000	1.000

Notes: See Table A1 for variable definitions.

Regression Formulae

$$crossborder_{it} = \alpha + \sum_{j=1}^{15} \beta_j D_j + \sum_{k=1}^{5} \gamma_k D_k + \delta_1 gov_{it-1} + \delta_2 locgov_{it-1} + \delta_3 pc_{it-1}$$

$$+ \delta_4 locpc_{it-1} + \theta_1 size_{it-1} + \theta_2 lev_{it-1} + \theta_3 roa_{it-1} + \theta_4 fcfrate_{it-1}$$

$$+ \theta_5 growth_{it-1} + \theta_6 age_{it-1} + \theta_7 mgtshare_{it-1} + \theta_8 hhi10_{it-1}$$

$$+ \theta_9 independent_{it-1} + \theta_{10} board_{it-1} + \theta_{11} duality_{it-1}$$

$$+ \theta_{12} intershare_{it-1} + \varepsilon_{it} \qquad (1)$$

$$volcrossborder_{it}$$

$$= \alpha + \sum_{j=1}^{15} \beta_j D_j + \sum_{k=1}^{5} \gamma_k D_k + \delta_1 gov_{it-1} + \delta_2 locgov_{it-1} + \delta_3 pc_{it-1}$$

$$+ \delta_4 locpc_{it-1} + \theta_1 size_{it-1} + \theta_2 lev_{it-1} + \theta_3 roa_{it-1} + \theta_4 fcfrate_{it-1}$$

$$+ \theta_5 growth_{it-1} + \theta_6 age_{it-1} + \theta_7 mgtshare_{it-1} + \theta_8 hhi10_{it-1}$$

$$+ \theta_9 independent_{it-1} + \theta_{10} board_{it-1} + \theta_{11} duality_{it-1}$$

$$+ \theta_{12} intershare_{it-1} + \varepsilon_{it} + u_i \qquad (2)$$

$$M\&A\_performance_{it}$$

$$= \alpha + \sum_{j=1}^{15} \beta_j D_j + \sum_{k=1}^{5} \gamma_k D_k + \delta_1 gov_{it-1} + \delta_2 locgov_{it-1} + \delta_3 pc_{it-1}$$

$$+ \delta_4 locpc_{it-1} + \theta_1 size_{it-1} + \theta_2 lev_{it-1} + \theta_3 roa_{it-1} + \theta_4 fcfrate_{it-1}$$

$$+ \theta_5 growth_{it-1} + \theta_6 age_{it-1} + \theta_7 mgtshare_{it-1} + \theta_8 hhi10_{it-1}$$

$$+ \theta_9 independent_{it-1} + \theta_{10} board_{it-1} + \theta_{11} duality_{it-1}$$

$$+ \theta_{12} intershare_{it-1} + \vartheta_1 completion_{it} + \vartheta_2 attitude_{it} + \vartheta_3 divestiture_{it}$$

$$+ \vartheta_4 cashmerger_{it} + \vartheta_5 tglist_{it} + \vartheta_6 horizontal_{it} + \varepsilon_{it}$$

$$+ u_i \qquad (3)$$