

# **National Rejuvenation and the Role of State-Owned Enterprises in Chinese Cross-Border Mergers & Acquisitions: An Institutional Perspective**

## **Abstract**

Despite a growing body of research investigating the motivations for Chinese cross-border mergers and acquisitions (CBMAs), most studies have overlooked the China-specific mechanism of CBMAs undertaken by its state-owned enterprises (SOEs). Building on in-depth interviews with China M&A experts with an emphasis on the institutional perspective, this research provides a new framework for conceptualizing the role of the informal and formal institutions and their intra- and inter-institutionalizations in shaping the specific features of Chinese SOEs' CBMAs. This research reveals a number of important findings. First, the concept of national rejuvenation is the core value of China's informal institution which currently has been recontextualized into China's resource seeking pursuit and quest for greater international influence. Second, CBMA is adopted as the main formal institutional engine for meeting these recontextualized core values. Third, the SOEs are considered as fundamental instruments to fulfil the state's objectives of national rejuvenation through their CBMA activities. Finally, the state commands a distinct pattern of CBMAs through formal control mechanisms and ensures that the objective of national rejuvenation is collectively shared among the state, SOEs, and SOE top-level managers.

**Keywords:** Cross-border M&As; formal and informal institutions; national rejuvenation; Chinese State; Chinese state-owned enterprises (SOEs); Chinese SOEs' top managers

## INTRODUCTION

Cross-border mergers and acquisitions (CBMA) by Chinese enterprises have played a crucial role in China's expansion in the global economy. Thanks to the impressive internationalization of Chinese enterprises, China has become a major player in the world's CBMA market. Starting from a base of less than USD 1.4 billion in 1990, the net value of CBMA undertaken by Chinese enterprises rose to over USD 99 billion and USD 130 billion in 2016 and 2017, respectively (UNCTAD, 2018), making China the largest purchaser of global M&A acquisition targets.

Apart from being the most active participant in the global M&A market, the high degree of state involvement in China's CBMA, also merits consideration. Analysing China's CBMA based on the Zephyr M&A dataset collected by the Bureau van Dijk (<https://www.bvdinfo.com>),<sup>1</sup> during China's 10<sup>th</sup> - 11<sup>th</sup> Five Year Plan (FYP) periods (2002 - 2010), there were a total of 47 completed CBMA deals by Chinese enterprises, and among them, state-owned enterprises (SOEs) accounted for 74.5% of the total completed deals. It is well known that SOEs were chosen by the state to be the first enterprises to go abroad (Buckley et al., 2007; Hong and Sun, 2006). In support of this, SOEs were often granted favourable loans to facilitate the swift acquisition of assets closely aligned with state interests (Child and Rodrigues, 2005). Despite the substantial increase in CBMA activities by non-SOEs whose CBMA deals accounted for more than 52% of total 194 deals during the period of 2011-2016, SOEs still dominate many key strategic industries assigned by state. For example, during the period of 2002-2016, 75.6% and 75% of the total completed CBMA deals in the natural resources industry (30 out of 41 deals) and finance industry (15 out of 20 deals) were conducted by SOEs, respectively.

Given the prominent contribution of CBMA to China's emergence as a global economic power and the significant role of SOEs in China's CBMA, much scholarly work has been undertaken on the topic of CBMA by Chinese SOEs using a quantitative approach. These studies have used empirical based indicators focused on the outcome of Chinese SOEs' CBMA in terms of their deal completion (Zhang et al., 2021; Zhang et al., 2011), cumulative abnormal returns on stock prices (Chen and Young, 2010; Du and Boateng, 2015; Sun et al., 2017; Tao et al., 2017; Yang and Zhang, 2015; Zhang and Mauck, 2018) and post-merger operation performance (Liu et al., 2021; Yang et al.,

2015). The findings of the existing literature on the outcome of SOEs' CBMA have been mixed. Compared to privately owned Chinese enterprises, some have found SOEs to show higher abnormal returns (Du and Boateng, 2015; Yang and Zhang, 2015), whereas others have found SOEs to experience lower abnormal returns on stock price (Chen and Young, 2010; Sun et al., 2017; Tao et al., 2017; Zhang and Mauck, 2018) or SOEs less likely to complete CBMA deals (Zhang et al., 2021; Zhang et al., 2011) or performed poor post-merger financial outcomes (Liu et al., 2021; Yang et al., 2015). We argue that the reason for these ambiguous results is largely attributed to the misrepresentation of the performance of CBMA in the context of Chinese SOEs. In the Chinese case, CBMA are chosen as a major tool to perform national level economic policies, and SOEs as organizational agents of the state are selected as the frontline player to ensure these policies are performed by conducting CBMA. These institutional settings have shaped the distinctive rationale of Chinese SOEs' CBMA which is uniquely differentiated from that of commercialized firms. However, econometric models of existing quantitative studies have assumed Chinese SOEs' CBMAs have been conducted based on conventional firm-level motivations. They do not capture the true narrative of China's specific institutional properties on CBMA by Chinese SOEs and its implication for deal performance. Robins (2013) argues that Chinese SOEs' financially underachieving overseas acquisitions should not be viewed as "failures" as SOEs do not work under typical timeframes. With the substantial backing of the central government, these acquisitions should be treated as long-term national-level strategic deals. For example, the cross-border deal by China National Offshore Oil Corporation's (CNOOC) acquisition of Canada's Nexen (oil and gas) in 2013 for \$15.1 billion – China's largest-ever foreign takeover at the time - is widely regarded as a failed acquisition due to production levels being below the expected barrelling capacity (WSJ, 2017). However, this deal from the Chinese state perspective can be understood as a successful case because it fulfils the major national level economic priority under the 12<sup>th</sup> Five Year Plan of securing a sustainable oil supply for the Chinese growing domestic demand. Therefore, the true performance of the CNOOC-Nexen deal cannot be fully understood when being evaluated solely from the lens of a firm-level financial performance.

In addition, there are a very limited number of qualitative studies who have addressed CBMA by Chinese SOEs using case studies and interviews (Child and Rodrigues, 2005; Rui and Yip, 2008; Zheng et al., 2016). Although they have included SOEs and their managers as a part of their research samples, SOEs' CBMAs are still understood in their studies from the perspective of conventional commercialized firm level motivations. Child and Rodrigues (2005) pointed out the role of the Chinese state as a sponsor of internationalization and outwards FDI for Chinese firms. However, in this study, the role of the Chinese state is regarded as a general feature of a domestic institution in the context of developing economies. As such, these qualitative studies again have failed to assess the China specific dynamic relationship between the state, state policies, and goals set to the SOEs in relation to conducting CBMA.

In order to understand the full function of the institutional mechanisms facilitating CBMA by Chinese SOEs, it is crucial to take into account the role of national rejuvenation as the pillar of the Chinese institutional formation. As the Communist Party's self-identity and guiding ideology for China to *return* to what is believed as their *former glory*, the national rejuvenation narrative has created a shared sense of purpose among the state, organizations, and the Chinese individuals since the formation of the People's of Republic of China (PRC) (Callanhan, 2016; Ferdinand, 2016; Gries et al., 2011; Zhao, 2005). Without addressing the influence of the poignant concept of national rejuvenation on forming national economic policy and the directed role of SOEs in their CBMA activities, the true picture of Chinese SOEs' CBMA in terms of its origin and performance cannot be fully assessed.

The above discussion calls for a systematic and contextualized analysis addressing the overarching institutional mechanisms of CBMA conducted by Chinese SOEs. To fill this knowledge gap in the international business literature, this study aims to add an institutional perspective to the research stream on Chinese SOEs and their CBMA activities. We build on the theory of institutionalization to preliminarily conceptualize Chinese SOE's CBMA by highlighting the interactions between the informal institution (i.e. national rejuvenation) and the formal institution (i.e. policies and regulations) at the national, organizational and individual levels.

With this baseline conceptual guideline, the following two broad research questions on Chinese SOEs' CBMA are generated: (1) What are the distinctive features of the institutionalization process in the China specific context? and (2) How does the Chinese-style institutionalization process facilitate the unique characteristics of CBMA activities by Chinese SOEs? Guided by these preliminary questions, we undertake 32 in-depth interviews with industry experts working on CBMA undertaken by Chinese SOEs, covering 26 different national level SOEs. These elite interviews allow us to confirm (i) how the national rejuvenation narrative is recontextualized within the informal institutional domain in response to the domestic and international environments, then (ii) how it is formally institutionalized and reflected through China's economic policies and regulations at the national level, and (iii) how the state is able to influence the actions of SOEs at the organizational level and SOE top management team at the individual level to ensure that the agenda of national rejuvenation is fulfilled through CBMA. Following the grounded theory analytical process, we develop a further comprehensive conceptual model that fully addresses the China-specific institutional mechanism of CBMA activities by SOEs.

The rest of this paper is organized as follows. After presenting the baseline conceptual framework of the institutionalization of informal institution into formal institution, and its application to the case of the Chinese SOEs' CBMA, we will outline the methodology of in-depth elite interview used in this research. Based on the findings of the elite interviews, this study develops a new conceptual model and finally, we conclude the study by discussing the academic and policy implications of the findings and suggesting directions for future studies.

## **BASELINE CONCEPTUAL FRAMEWORK: THE RELATIONSHIP BETWEEN INFORMAL AND FORMAL INSTITUTIONS IN CHINESE SOEs' CROSS-BORDER M&As**

[Insert Figure 1 about here]

The baseline conceptual framework central to this study is captured in Figure 1. Drawing on the institutionalization perspective with an emphasis on the interaction between informal and formal institutions (Barley and Tolbert 1997; DiMaggio and Powell 1983; Meyer and Hammerschmid, 2006; North, 1991; Scott, 1987; Zucker, 1977), we posit the two major elements in the institutionalization

process of conducting Chinese SOEs' CBMAs. At the informal institution level, the core value of national rejuvenation is shared among Chinese society (Callahan, 2016; Wang, 2014). Within the formal institution domain, CBMAs are specifically directed by China's national level policies, regulations, and guidelines (Jones and Zou, 2017; Luo et al., 2010; Sauvart and Chen, 2014). In this process, the SOEs are considered as fundamental instruments to fulfil the state's objectives of national rejuvenation. Since the central state is the ultimate owner and manager of the SOEs, the boundaries on the behavior of SOEs and SOEs top management are formally set, thus limiting how they can act in conducting CBMAs and thereby creating a distinct pattern of CBMAs by Chinese SOEs.

### **Institutionalization theory**

It was believed that the institution is comprised of the demands of centralized authorities as well as individual personal beliefs, practices, and norms (Meyer and Rowan, 1977), indicating formal and informal dimensions of an institution (North, 1991). The formal institution refers to the institutional framework that embodies the written, legal and regulatory rules (Pejovich, 1999), while the informal institution refers to rules such as traditions, customs, morals, values, religious beliefs, and all other norms that have been passed down through various generations (Barley and Tolbert, 1997). When addressing the process of institutionalization, it is the dynamic interaction between informal and formal institutions that form the rules used by society and the institution (Azari and Smith, 2012). The mechanism of China specific institutionalization on its SOEs' CBMAs can be conceptualized by incorporating the dynamic relationship between the informal and formal institutions at three levels – the national level (central government), the organizational level (SOEs), and the individual level (SOEs top-level managers).

### **Informal institution: national rejuvenation**

China's rich and well-documented history of past achievements has served to give the Chinese people a strong sense of national pride (Lin, 2013). However, from the Chinese perspective, recognition of these past accomplishments is diminished due to China's perceived "lost century" or "century of humiliation" (Kaufman, 2010). This period was symbolically ended by the formation of

the People's Republic of China in 1949, and since China reopen its doors in the 1970s, the state has communicated the emotionally poignant ideology of the “rejuvenation of China.” The Chinese believe their status in the world will return to their former glory – in contrast to some Western views of this phenomenon, i.e., China's rise to new fortunes (Yan, 2001).

The concept of the rejuvenation of China quickly resonated with the people of China, and has since become a deep-rooted driving force for the objective of reinstating China as a global leader (Ferdinand, 2016). Examples include the Mao Zedong's slogan of “the Chinese people have stood up” announced on 1<sup>st</sup> Oct 1949; the “Invigoration of China” narrative under Deng Xiaoping's regime; Jiang Zemin and Hu Jintao's slogan of “the great rejuvenation of the Chinese nation”; and the concept of the “Chinese Dream” under the current Xi Jinping's regime, driving the ideology of the “great rejuvenation of the Chinese nation.”

#### **Formal institution: institutionalization at the national, organizational, and individual level**

The informal belief of national rejuvenation shared among Chinese society is reflected in the formal institution. Directed by the state, CBMA is a strategic formal action to fulfil the informal objective of national rejuvenation and hence has institutionalized the related formal guidelines at the national, organizational, individual levels through varying policies and regulations at the respective levels. As state's strategic organizations sharing the same informal beliefs of national rejuvenation with state (Robins, 2013), if an SOE want to pursue a CBMA target, the M&A process requires the SOE to receive approval from the state agencies, state-owned assets supervision and administration commission (SASAC), national development and reform commission (NDRC), and ministry of commerce (MOFCOM) (Jones and Zou, 2017; Luo et al., 2010; Sauvant and Chen, 2014). Furthermore, as the renminbi (RMB) is not a freely convertible currency, the SOEs need to obtain foreign currency through the state administration of foreign exchange (SAFE) agency which will not be permitted unless the necessary approval is in place (Baker McKenzie, 2018). As a result of these administrative requirements, SOEs need to ensure that all CBMA deals are within the parameters of state plans to ensure state agency approval. The close association of SOEs to the state is further evident at the individual level. SASAC selects all senior managers/key personnel of SOEs and

leaders/top-level executives and the chairman of an SOE is selected by the organization department of the communist party of China (ODCPC) (Brødsgaard and Hubbard, 2017). As such, SOE leaders are incentivized to comply with the policies set out by the party leaders (Leutert, 2018) and consequently the state can further encourage CBMA to comply with party objectives at the individual level. A successful CBMA deal within the boundaries of the state plans have acted as sufficient leverage for a political promotion<sup>2</sup>.

## **RESEARCH DESIGN**

### **Elite interview**

To identify common themes that shape the China specific relationship between the state, SOEs, and SOE top management in SOEs' CBMA activities through the dynamic interactions between the informal and formal institutions, this research has adopted the elite interview process. McDowell (1998) considered 'professional elites' as a group that are highly skilled, professionally competent, and class-specific. The principal advantage of conducting elite interviews is that these elites are able to provide information not recorded anywhere else (Richards, 1996). Therefore, interviewing a group China specific CBMA experts offers a unique perspective on the mechanisms of CBMA by SOEs in relation to the interaction between informal and formal institutions.

### **Interview participants and interview process**

[Insert Table 1 and about here]

The profile for selecting interview candidates in this study is based on China experts with in-depth (i) industry-level knowledge on Chinese SOEs; (ii) relevant national level policies and regulations; and (iii) have been involved in the SOEs' CBMA process. Such experts included China M&A consultants, M&A analysts, M&A advisories, and M&A brokers. The sample of interview participants used in this study are entirely independent and are not connected to the state, while also, simultaneously possessing in-depth experience and knowledge on SOEs' CBMAs. It is therefore expected that the responses will be neutral and best minimizing potential bias towards SOEs or the



central government in relation their CBMAs. This will subsequently increase research validity and, ensure an honest and accurate reflection on the nature of the Chinese SOEs' CBMAs.

The interviews were conducted between 2016 - 2018 and were either held in person face-to-face, over a video call, or over the telephone. As summarized in Table 1, total of 32 interviews were conducted with 21 different interview participants, with a total of 11 follow up interviews. From the interviews, 26 different national level SOEs across all key strategic industries including natural resources, finance, technology, and manufacturing were covered. This, therefore, allows the research to attain a complete picture of the rationale for CBMAs by Chinese SOEs without the interference of industry biases.

The interviews length ranged from between 35 - 120 minutes. All interviews were conducted in English, and participants were promised anonymity. As summarized in the last column of Table 2, a series of potential interview questions were constructed to direct the interview process at the national, organizational and individual levels. During the interviews, the prepared questions were used when needed, else, the interviewer had flexibility in developing follow-up questions based on the respondent's dialog.

## **FINDINGS: THEMATIC ANALYSIS AND FINALIZED CONCEPTUAL MODEL**

[Insert Table 2 and Figure 2 about here]

Upon conducting the elite interviews, following the grounded theory strategy we used two distinct stages of coding to elicit the key categories as shown in Table 2. First, the substantive coding phase, which involves open and selective coding once a core category emerges (Bryant and Charmaz, 2007). Secondly, a theoretical coding stage in which the core categories are theoretically integrated and permitting the theoretical formulation. Both stages involve the data from the interviews being compared continuously, while also being theoretically sampled to saturate core concepts, collect new data, and assist in refining the categories (Charmaz and Belgrave, 2015). Building on the baseline framework, Figure 2 shows the completed conceptual model generated from thematic analysis of the interviews. The detailed mechanism of the institutionalization process in Chinese SOEs' CBMAs described in the finalized conceptual model is as follows.

### **Informal institution: intra-institutionalization from core value to recontextualized core value**

We find the Chinese informal institution can be specified with two separate levels - a 'core value' and a 'recontextualized core value.'

#### ***Core value of national rejuvenation***

The core value is considered as a fundamental and consistent informal objective of national rejuvenation. Interview participants expressed how past excellence had an ongoing impact on Chinese pride at all levels of society and is a commonly shared belief.

*"... achievements in science, technology, exploration...it's a clear well-documented rich history so the pride comes from that, who they were and who they think they should be in the world... they have always been pioneers in the world... today China is collectively working hard to continue that legacy and reclaim what was lost."*

*(Participant M1, Shanghai, M&A consultant)*

Participants also agreed on the lasting adverse effects of the century of humiliation on China's sense of pride. It is connected to the concept of what the Chinese see as a loss of face to the West.

*"It's definitely a painful point for them, it hurts the pride of the Chinese. It hurts them to know that they were taken advantage of during the loss century...but the very concept of the century of humiliation is so Chinese, it is so ingrained in their concept of face. The world sees it as you slipped a bit in global trade...someone got the better of you but to the Chinese, it is so ingrained into their face and pride that for them its humiliation."*

*(Participant J2, Geneva, M&A consultant)*

The concept of national rejuvenation is widely shared among the Chinese people as the Communist party's guided ideology; namely, restoring China's lost glory and reinstating the nation as a global

leader both politically and economically (Yan, 2001; Yu, 2017). Linking this point to the objective of rejuvenating China, participants demonstrated a shared belief that China is unable to accomplish this without pursuing international partnerships and more importantly, CBMAs.

*“Their desires to rejuvenate China and their objectives to reclaim past glory is intertwined with M&A because you can boil it down to a simple fact – they don’t enough resources.”*

*(Participant H1, Hong Kong, M&A consultant)*

### ***Recontextualized core value***

We find that the core value of national rejuvenation has been further internally institutionalized into the recontextualized core value within the informal institution domain (i.e., *intra-institutionalization*) which acts as a bridge to the formal institution. We argue that the recontextualized core can be modified to reflect the external environmental forces as well as the internal domestic conditions, such as dynamics of China’s power in the global economy and increased outward pressures from world leaders, and variations in national policies across different Communist Party leadership, respectively. As such, the re-contextualized core value itself can reflect continuous adjustments made to the informal objectives of national rejuvenation responding to the continuous changes in the external and internal conditions, and the formal national policies subsequently reflect these dynamics. All PRC leaders including Mao Zedong, Deng Xiaoping, Jiang Zemin, Hu Jintao, Xi Jinping have shared the core value of national rejuvenation. However, their actions in pursuing it have varied which is also reflected in the recontextualized core value, including ‘Going out’ strategy, ‘Made in China 2025’ strategy, establishment of the Ministry of Natural Resources in 2018, and Belt and Road Initiative (BRI). Analysing the interviews, we recognize China’s resource seeking pursuit and quest for greater international influence are two major adjusted core values in relation to the adoption of CBMAs as main engine for China’s economic growth.

*(1) China’s pursuit in resource security and self sufficiency*

It is argued that being self-sustaining in fundamental resources such as technology, food and energy is one of the key elements for national rejuvenation. Interview participants revealed that not pursuing CBMAs would significantly inhibit these key components of achieving rejuvenation.

*“Despite their (China) brilliance, ambition, and ability; they don't have sufficient resources domestically to achieve it (national rejuvenation) on their own, so they have to look outwards.”*

*(Participant H1, Hong Kong, M&A consultant)*

Using the example of the ChemChina-Syngenta deal, one interview participant expressed China is desperately seeking greater food security for the Chinese people and not for financial performance as seen in conventional firm-level motivations.

*“Chinese SOEs would now assess an investment according to what it brings to their own strategic development in China as opposed to investing in overseas cash cows. The ChemChina-Syngenta deal, one of the rationales for investment is clearly the access to Syngenta's knowledge base in the agribusiness field, and in doing so, help China's own food security.”*

*(Participant VI, London, M&A advisory)*

Participants also argued that particularly in the case of SOEs, CBMA deals are conducted with the objective of securing the fundamental natural resources needed to serve China's domestic agenda, as opposed to cultivating international relations or assisting the needs of other nations.

*“Even for natural resources, if they go overseas to buy for example a mine, the whole reason is still to focus on the Chinese market, this is something China needs. They just want to have more control and bring those resources back to China. I do not think they will try to develop business overseas.*

*Especially SOEs; they are not typical companies.”*

*(Participant L1, Shanghai, M&A consultant)*

As China has excelled with an accelerating urban population and has the largest middle-income class in the world, it furthers the necessity of securing enough resources to satisfy and sustain domestic demand through CBMAs by SOEs (Bloomberg, 2013). At the same time, SOEs' CBMAs has been used to acquire and control more critical resources that will be able to direct enough of the global supply so as to attain a higher level of command over economic affairs (Nordin and Weissmann, 2018).

*(2) China's quest for greater international influence*

We argue as a further element to support the pursuit of national rejuvenation, SOEs are seeking to acquire greater international influence. Participants demonstrated a belief that China has extended their global reach through SOEs' CBMA.

*"the major reason why the state is choosing SOEs to do these M&As is because they want to extend their global reach. After these M&As China will move towards a greater say in trade and access to more markets. It's what every Chairman's number one goal is - to make China the best, but the difference with China, they are not shy to make it public."*

*(Participant N1, Beijing, M&A consultant)*

In line with Ferdinand (2016), participants highlight that the current key government programs, specifically, the Belt and Road Initiative (BRI) is illustrative of China's growing self-confidence in extending their global influence as a result of its economic achievements. The objective of the BRI is understood as facilitating China's ascendance onto the global stage, economically, politically, and strategically (Yu, 2017). The participants emphasised the crucial role of SOEs' CBMA in fulfilling this objective by revealing that the current CBMAs by SOEs must be in-line with the BRI as per the state mandate.

*"The M&As from China currently are all related to the Belt and Road project, but this is not for mianzi (face) - this is a direct policy from the state for all Chinese SOEs. If you want to do an M&A it has to be in-line with this. You can clearly see the shift in geopolitics with this. Of course, China is*

*increasing their global footprint. But in the eyes of China, they want to restore what they believe is their rightful position in the world.”*

*(Participant M1, Shanghai, M&A consultant)*

### **Inter-institutionalization from recontextualized informal institution to formal institution at the national, organizational, and individual levels**

As described in Figure 2, China has chosen to use CBMA as a major tool to achieve national rejuvenation (i.e. core value) through enhancing China’s international influence and securing natural resource and self-sufficiency (i.e. recontextualized core value, *intra-institutionalization*). As a bridge to the formal institution, the recontextualized core values are materialized in the form of CBMA related policies and regulations (i.e., *inter-institutionalization*). From the conducted interviews, it was unanimous that the state can ensure the commitment of fulfilling the identified recontextualized core value through the formal institution at the national, organizational and individual levels.

#### ***National level***

##### ***(1) Guided CBMA agenda directed by the state mandate***

The interviews illustrated that the state plans are effective control mechanisms to guide the SOE’s CBMA target. The central government has overruling power and can exert its influence on M&A transactions through its formal policies and initiatives as per the agenda.

*“...the new SASAC guidelines on overseas investments, it is clear this will be used to only target companies which are strategically important to Beijing. The days of investments in all sorts of sectors by state-owned companies could be over.*

*(Participant V1, London, M&A advisory)*

Supporting the above, in 2017 the state council released a catalogue which acts as a guide on the type of foreign investments permitted including CBMAs. Industries are divided into three categories: ‘encouraged,’ ‘restricted,’ and ‘prohibited.’ Encouraged industries will usually receive preferential

treatment including subsidies and grants. Investments in restricted industries are subject to the review of the NDRC and MOFCOM. The prohibited list is firmly off limits for foreign investment (State Council, 2017).

Many participants have expressed that national level economic policies have become more specified (i.e., Made in China 2025 and the Belt and Road Initiative), and consequently it is understood as a de facto enforcement that SOEs should reflect these dynamics of economic policies accordingly in their CBMA deals.

*“...in China we only have one political party, and this person decides everything. So, when the country have policies like China 2025, this means SOEs will have targets that they need to achieve before the deadline. Every time the government makes a policy, SOEs needs to do it, you cannot fail. So, there will be political pressure for every boss and every SOE; you need to develop something before that deadline. So of course, this will be one reason why SOEs will look outwards to acquire some high technology company which will support China 2025.”*

*(Participant L1, Shanghai, M&A consultant)*

In particular, developing advanced technology has featured heavily in the 13th FYP (2016-2020), in addition to being listed in the ‘encouraged’ category in the NDRC catalogue for overseas investments. Key noticeable themes throughout the interviews were how this current agenda has effectively directed SOE’s CBMAs to transition from previous natural resource self-sufficiency focused acquisitions towards current technology self-sufficiency focused acquisitions. By doing so, SOEs have carried out the core responsibility of fulfilling the remaining state’s objective of self-sufficiency in technology (i.e., the recontextualized core value in Figure 2), thus one-step closer to completing the overall goal of national rejuvenation.

*“...last few years has been a shift away from certainly resource base acquisitions and revenue-based acquisition, now there is a shift towards policy directives in higher technology - this is in line with the*

*national governmental directives. If you are a coal mining SOE you may interpret this mandate as to go and buy AI technology - which may have no link with your core business at all. Strictly speaking, it's not the profit value maximizing problems that you're solving; you're simply responding to a particular administrative mandate."*

*(Participant J4, Shanghai, M&A brokerage)*

## *(2) Influence of state agencies*

From the interviews, it was evident that state agencies have a substantial influence over SOEs' CBMA deals through the state-controlled approval process. It was also pointed out that all Chinese SOEs must secure approval for any cross-border investments. In particular, the importance of SASAC's approval in SOE's CBMAs was highlighted by participants. If SASAC permits the SOE to pursue a cross-border target, the other state agencies will also follow suit. Likewise, if SASAC does not approve the deal, there is no way the SOEs can carry out outbound deals.

*"...at the moment if you make your case to the state council (SASAC), you will have the state backing, and you will have bank financing. If you can let us (SASAC) see your plan, then you will get the approval of the M&A plan."*

*(Participant G1, Beijing, M&A advisory)*

This is also supported by Robins (2013) who explained that SASAC can exercise the final authority over strategy and investment decisions. Aside from SASAC, participants further illustrated the necessity to obtain approval from all the various state agencies, such as NDRC, PBOC, SAFE, and MOFCOM.

*"If you want approval there are multiple organizations you need to get approved by - and that's SASAC, MOFCOM, SAFE. And above SAFE is PBOC and the state council, and so there are many organizations that have to approve the process. It's become very cumbersome over the past few*



years.”

*(Participant H2, Hong Kong, M&A consultant)*

*“...In China you have the NDRC who approves the overseas investment, with a certain amount you go to the state level...the government needs to see that the projects have some economic benefits, especially after many failures in terms of overseas international acquisitions.”*

*(Participant T1, Geneva, M&A consultant)*

Furthermore, participants expressed that the state uses the approval mechanism to ensure SOEs' CBMA are in-line with the objectives of national level economic policies. For example, the central government can effectively regulate and control SOE's CBMA by imposing greater capital restrictions through the SAFE agency.

*“This year (2017) outbound investment has been quiet due to capital flow restrictions. The SAFE has been tasked to vet cross-border transfers, this has certainly been a game changer for cross-border M&As.*

*(Participant VI, London, M&A advisory)*

### ***Organizational level***

#### *(1) Obligation to fulfil state plans with controlled autonomy*

Participants identified the critical importance of SOEs as a socio-economic mechanism for implementing state policy in China, therefore the subsequent behaviour of these organizations is a direct reflection of the state.

*“...SOEs from the very beginning are the pioneers of developing this country, at the very beginning the communist party gave them their strengths. In doing so, they promoted the entire economy and country by their firm grips through SOEs. Because they are quasi-government, they have to do things*

*not entirely economical because at the same time they have to carry out the plans laid out for the country by the state...*”

*(Participant G1, Beijing, M&A advisory)*

It emerged during interviews that SOEs have a certain level of degree of autonomy in conducting CBMAs. However, interviewees also emphasised that this autonomy falls within the boundaries and parameters of state plans.

*“If SASAC says you must have this deal done by a certain time but it cannot involve X Y Z, it is fine as long as you do not exceed those requirements, then you can demonstrate whatever entrepreneurial spirit you can and within the boundaries of what you are allowed. So yes, the manager does have a certain amount of decision-making power, but it is within what SASAC allows.”*

*(Participant J1, Hong Kong, M&A advisory)*

It indicates the China specific institutional setting where the state controls the macro component of the SOE’s CBMA in terms of the guided industries, while SOEs have autonomy in the micro component in terms of the selection of target firms within the state guided industries. Combining with the state’s full control over the approval process of SOEs’ CBMAs, this institutional setting shows how China effectively achieves national level objectives through CBMAs by means of optimal balancing between obligations and autonomy given to SOEs.

## *(2) CBMA as an instrument for SOEs to meet state-guided targets*

Supporting Brødsgaard and Hubbard (2017), interview participants stated that the objective of each SOE deal will depend significantly on what the state plans are, and how SOEs interpret state mandate - i.e., profit versus social driven deals. For example, some FYPs are driven by increasing national GDP and resultantly SOEs are assigned aggressive performance targets by the state, so therefore SOEs have little choice but to pursue lucrative CBMA opportunities.

*“...the state would say I need to see the SOE revenue grow by 50% or they would say I would like to see 20% of your revenue come from international sources; it’s really hard for a company to grow a business that fast – so naturally you have to acquire something”*

*(Participant J4, Shanghai, M&A brokerage)*

It was further reiterated by all participants that SOEs are also held responsible for sustaining social livelihood. Illustrated in the context of CBMAs, SOEs are encouraged by the state to acquire natural resources to fuel China’s growing economy. But in parallel to this, the market prices of these commodities are kept artificially low. This serves to subsidize other industries dependent on stable raw material prices and, thus preventing SOEs from maximizing profitability based on their CBMAs.

*“The government want SOEs to make a profit if they aren’t profitable it’s a financial burden for all of China. The problem for national SOEs is they also need to take social responsibility. For example, coal price, a SOE can buy many mines overseas, if they sell coal at the spot market price, they can get a much higher price; but the government does not allow this - they will decide the price. This is only one example, but you can apply this to all the SOEs in China.”*

*(Participant L1, Shanghai, M&A consultant)*

### ***Individual level***

#### *(1) State as ultimate principal of SOEs top management team*

Participants were unanimous in the view that top-level SOE managers are strategically placed into their positions by either SASAC or the state council. Regarding selection criteria, participants stated that high-level managers would either be political figures or industry experts with strong political ties.

*“The decision makers will consist of those who have been in the SOE for a long time and other political people. So, the head of SASAC was the previous head of CNPC, and sometimes you will have provincial heads who have been put into an SOE as a deputy executive chairman. Its usual to have a mix of people being appointed by the state and also people who have been there a lifetime.”*

*(Participant G1, Beijing, M&A advisory)*

As the most significant shareholder of SOEs, SASAC selects all senior managers and key personnel of SOEs. The top-level executives and the chairman of an SOE are selected by the Organization Department of the Communist Party of China (Brødsgaard and Hubbard, 2017). From this, it is evident SOE senior managers and chairpersons of SOEs are under considerable political control. As such, top-level SOE managers are highly incentivized to comply with the policies set out by the state and consequently SOEs leaders are acting as agents of the state. In the context of CBMAs, state appointed top-level SOE managers will act as a safeguard to ensure CBMAs are compliant with state orders.

*(2) CBMA for the career leverage*

Due to the close ties between SOEs and the party, it was discussed by participants that SOE leaders have substantial political influence but themselves are also under great political influence. Party recognition and other political incentives can be used as a core motivation to encourage exceptional performance from SOE managers. Interestingly, when asked whether an SOE manager would get politically rewarded for a successful CBMA, participants agreed that this would indeed act as a strong leverage. It indicates the convergence of interest between the state and the SOE top-level managers in pursuing CBMAs.

*“The SOEs internal organization structure is very complicated and it’s difficult to get promoted, you have to navigate the hierarchy. You can see the personnel movement among the SOEs and between the government - the chairman of one SOE just moved to the be vice president or vice governor of a province! It is interchangeable when it comes to that level, so if you are successful during your period at the SOE, and you make the company profit double through M&A, then yes, it is a good personal gain in terms of a promotion up the political ladder.”*

*(Participant T1, Geneva, M&A consultant)*

Participants also pointed out that the benefit of successfully completing a CBMA is not strictly reserved for the SOE top-level managers but it is also in the best interest of all stakeholders involved with the CBMA deal - such as all level managers within the SOE and the administrative agencies responsible for approving the deal.

*“Of course, the COFCO boss was motivated to buy Noble because he knew he would get a political promotion! Everyone benefits from a M&A deal, so everybody wants to do a big project. Everyone involved can be promoted even the government officials who were involved in approving the deal; it’s a great honour for all involved.”*

*(Participant K1, Shanghai, M&A brokerage)*

As each person involved in the SOEs’ CBMAs will also receive appropriate recognition for their efforts, we argued that everybody involved in the CBMA process are also incentivized to pursue a CBMA deal that complies within the boundaries of the state plans.

## **DISCUSSION AND CONCLUSION**

Using a total of 32 in-depth interviews with 21 China M&A industry experts supplemented with central government’s statements, regulations, and policies, this study examines the interactions between the informal and formal institutions in facilitating CBMAs observed by Chinese SOEs. This study considers the objective of national rejuvenation and how it is institutionalized into China’s formal institution at the national (state), organizational (SOEs) and individual (SOEs’ top-level managers) levels in the context of SOEs’ CBMAs. This study shows five key findings. First, the informal belief of national rejuvenation is a consistent core value forming China’s informal institution. Second, within the informal institutional domain, we identified the *intra-institutionalization* process which reflects the continuous adjustments made to the informal national core value of rejuvenation in response to internal and external environmental changes. We call the outcome of intra-institutionalization as the recontextualized core value which acts as a bridge to the

formal institution. This study recognises China's (i) pursuit in resource security and (ii) quest for greater international influence as the recontextualized core value of national rejuvenation.

Third, we identify the *inter-institutionalization* process wherein CBMAs by Chinese SOEs are adopted as main formal institutional engine for transferring these recontextualized core values within the formal institution domain at the national level through the use of policies, regulations and guidelines. We found SOEs CBMAs are directed by the state mandate and controlled through the approval system enforced by state agencies. Fourth, at the organizational level, this study finds that CBMA is the primary tool for SOEs to ensure they are able to fulfil the aggressive targets set by the state. This study has recognised the China specific institutional arrangement where SOEs are directly guided towards conducting CBMAs in specific industries, however they have autonomy in the choice of the target firms. Finally, at the individual level, we confirm the state acts as the direct principal of top managers in SOEs, and thus the SOEs top-level managers are incentivized to ensure their CBMAs are compliant with state orders. In addition, such tendencies are further enhanced by a strong link between the outcome of the SOEs' CBMA and a career promotion not just for SOE personnel but also for the individuals across the various state agencies involved in approving the CBMA.

Our research has contributed to the body of literature on Chinese SOEs' CBMAs in several ways. In terms of theoretical aspects, it synthesizes a nexus of 'informal' and 'formal' institutions whereby Chinese SOEs conduct CBMA activities, and suggests a typological framework of 'intra-institutionalization' within the informal institutions and 'inter-institutionalization' between the recontextualized core values and the formal institution at the national, organizational, and individual levels in the context of Chinese SOEs CBMA. Having identified a China specific institutionalization processes (i.e., intra- and inter-institutionalizations), this study has explained how the core value of national rejuvenation is recontextualized into China's (i) pursuit in resource security and (ii) quest for greater international influence within the informal institutional framework, and then formally institutionalized into relevant policies, regulations and guidelines. With this mechanism, this study has uncovered an exclusive role of SOEs' CBMA as a major instrument to achieve the core value of China's national rejuvenation.

In terms of methodological aspects, this study has conducted 32 in-depth interviews with China CBMA experts who possess extensive knowledge of Chinese SOEs, and have direct experience in leading SOEs CBMA deals. These interviews covered 26 different national level SOEs in strategically important industries that are under direct control of the state. It is argued that because this research is underpinned by data collected from independent and unbiased individuals closely involved with Chinese SOEs CBMA, the resulting insights are both rich and authentic. Thus, allowing the institutionalization process of national rejuvenation reflected in SOEs' CBMAs to be captured in full.

Our study offers four policy and managerial implications. First, given the identified exclusive relationship between the state and SOEs in the context of CBMA, the Chinese government needs to be aware of the conflicting view on the global reputation of SOEs and how they are perceived as business partners. The necessity of obtaining state approval at every stage of the SOEs' M&A process and a lack of transparency in the approval process have resulted in considerable uncertainty during the deal negotiations. As such, SOEs have subsequently gained a reputation for being difficult to engage and challenging to work with.

*“Some SOEs start the process of an M&A but in the middle of the process they disappear... so people are sceptical of Chinese SOEs. I have been in the process of an M&A where we were selling to the SOE, and from one day to another they stopped answering phone calls and replying messages.”*

*(Participant M2, Santiago, M&A advisory)*

At the same time, the exclusive relationship has been understood as a key attribute in the appeal of SOEs in the international M&A market. Participants pointed out that despite knowing the bureaucratic challenges associated with SOEs during the M&A process, targets still specifically seek to be acquired by SOEs. It is due to the vast pool of resources SOEs can attain as a result of the state association.

*“...for us SOEs are incredibly important... they are taken incredibly seriously, especially in the*

*energy sector. CNOOC, CNCP, Sinopec, all these companies are huge conglomerates and they acquire a lot. For the other oil companies like ExxonMobil, it's the SOEs who they want to meet.”*  
*(Participant J2, Geneva, M&A analyst)*

This paradox on the reputation of SOEs in their CBMAs has created the urge for the Chinese government to implement a balanced stance on supporting SOEs while minimizing potential bureaucracy in their CBMA process. Second, upon recognizing that the objective of national rejuvenation is collectively shared by SOEs and SOE top-level managers which assures that all SOEs' CBMAs are aligned with this objective, the Chinese government can, therefore, streamline the SOEs' CBMA process to reduce the level of authoritarian management to increase efficiency. By increasing the amount of autonomy given to SOEs, the SOEs and SOE managers will be better incentivized to demonstrate initiative and perform more entrepreneurial driven CBMA deals within the boundaries of the state guided objectives. Third, in recognizing the institutionalization mechanisms for Chinese SOEs' CBMA put forward by this research, host countries will have a systematic understanding of the core rationale for driving Chinese SOEs' CBMAs. This will help target firms in host countries better prepare themselves for the CBMA process and moreover, encourage them to carry out more thorough due diligence and vetting of proposals put forward by Chinese SOEs. Fourth, in understanding the effects of both the informal and formal institution on SOE's CBMA activities, a target firm can leverage this in negotiations, securing a better outcome for their stakeholders. This is because SOEs' CBMAs usually have specific strategic relevance to China's national objectives. As such, a better understanding of the magnitude of the political dynamics at play within SOEs and how these dynamics influence their CBMAs, will afford target firms with increased bargain power during negotiations.

This study has several limitations that could provide directions for future studies. First, it mainly captured the dynamic channel of the significance of national rejuvenation on motivating CBMAs by Chinese SOEs. It is also critical to ensure that upon acquiring the target organizations, Chinese SOEs are equipped to generate positive post-acquisition synergy. Thus, this research can be extended by analysing the post-M&A organizational synergy and post-acquisition longevity. Second,



our finalizing theoretical model explaining the relationship between informal and formal institutions in the Chinese SOEs' CBMAs is built on the in-depth interview with industry experts on single country and as such an issue of generalizability can be raised. Despite China having a unique cultural identity, the overarching implications of national rejuvenation could also be key drivers to other countries seeking to regain past economic prominence or political influence. Given that the Chinese economy has consistently continued to experience substantial economic growth, a closer analysis into the economic significance of a state-driven approach towards CBMAs using SOEs as a major facilitator for other transitional economies and their state-owned enterprises can be made.

## ENDNOTES

1. Financial offshore centers such as British Virgin Island and Cayman Islands were excluded from the dataset. Additionally, transactions targeting Hong Kong were excluded based on intermediary behaviour.

2. Such SOEs leaders who have been awarded with promotions include 1. Ning Gaoning whom led several large CBMA deals for national level SOEs including China Resources, COFCO, and SinoChem. Ning is currently the Chairman of ChemChina. He was also a member of the National Development Planning Expert Panel for China's 13<sup>th</sup> Five Year Plan, and has also been a delegate of the 17th, 18th and 19th National Congress of the Communist Party; 2. Su Shulin held positions in national level SOEs including CNPC, PetroChina, and was chairman of Sinopec. Su was selected to be a member of the Standing Committee of the provincial Party Committee of Liaoning Province, and he subsequently went on to become the Governor of Fujian province; 3. Ren Jianxin was the former chairman of national level SOE, ChemChina and was the figure behind several of China's largest CBMA deals including Pirelli and Syngenta. Ren was also the Deputy Secretary of the Committee of the Communist Party.

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Figure 1. Baseline conceptual framework: The relationship between informal and formal institutions in the Chinese State-Owned Enterprises' (SOEs) cross-border mergers & acquisitions (CBMA)

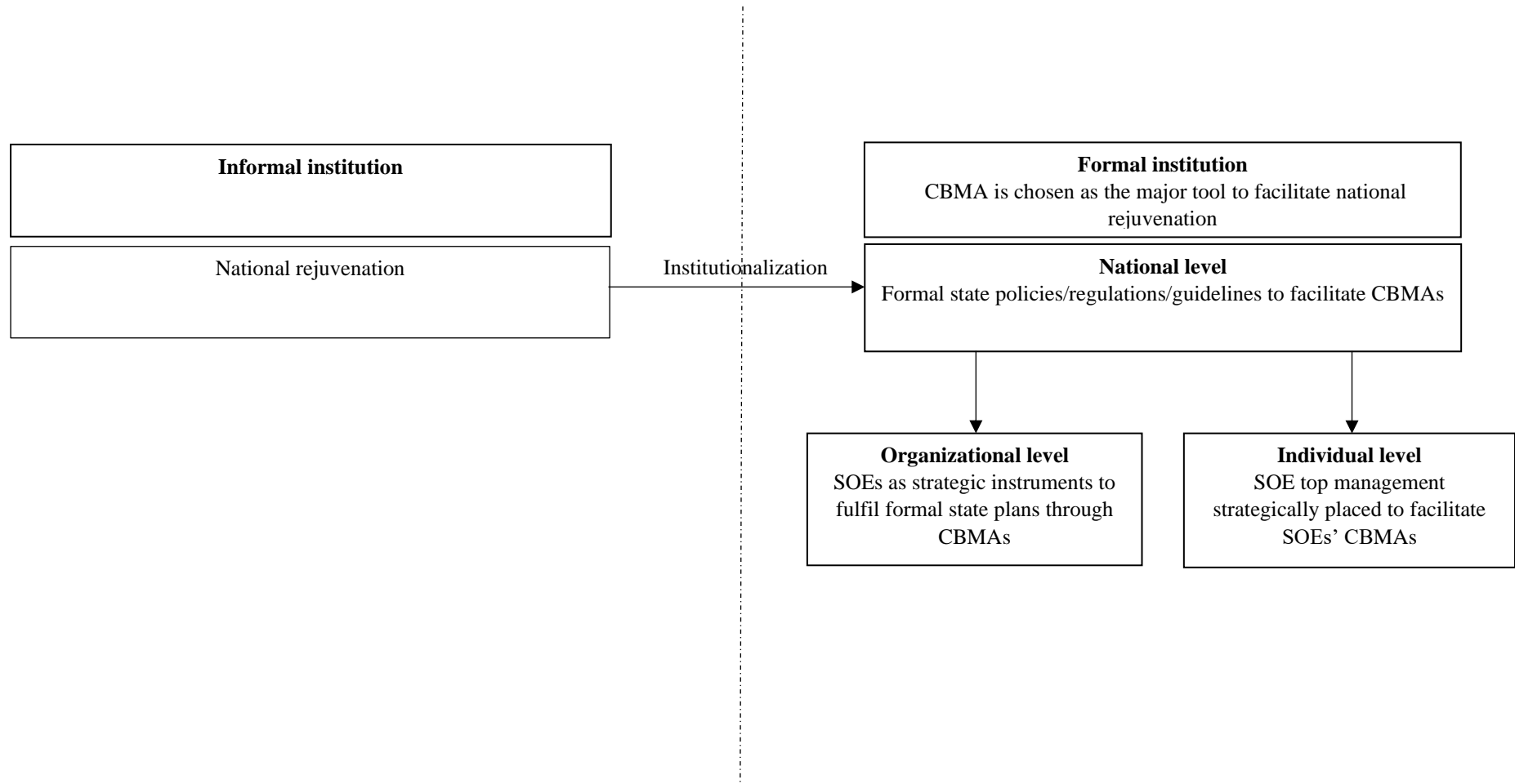


Figure 2. Finalized conceptual model: The relationship between informal and formal institutions in the Chinese State-Owned Enterprises' (SOEs) cross-border mergers & acquisitions (CBMA)

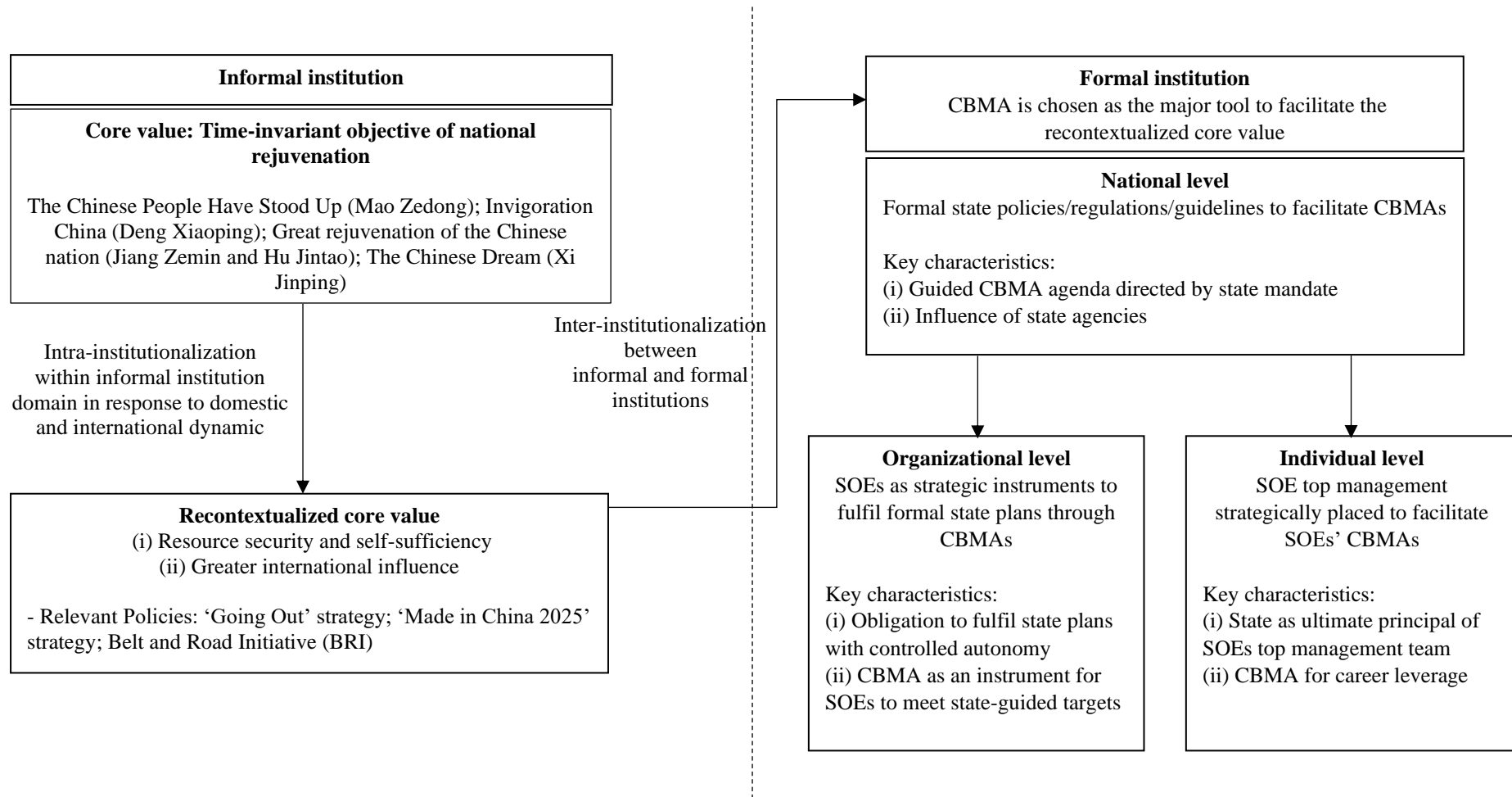




Table 1. Profile of interview participants

Participant	Role	Involved SOEs*	SOE industry	Gender	Years in industry	Location	Year of interview	Length (minutes)
A1	M&A consultant	CCCC	Natural resources	Male	8	Singapore	2017, 2018	60, 30
G1	M&A advisory	ChemChina	Natural resources	Male	8	Beijing	2018, 2018	60, 45
H1	M&A consultant	ChemChina	Natural resources, Technology	Male	18	Hong Kong	2017, 2018	60, 30
H2	M&A consultant	COSCO, COFCO, AVIC	Natural resources, Manufacturing	Male	9	Hong Kong	2017, 2017	60, 30
J1	M&A advisory	Anonymous	Technology	Male	5	Hong Kong	2018	90
J2	M&A consultant	State Grid of China	Natural resources, Technology	Male	5	Geneva	2018	120
J3	M&A analyst	Anonymous	Natural resources	Female	9	London	2018	45
J4	M&A brokerage	Anonymous	Manufacturing	Male	20	Shanghai	2018	35
K1	M&A brokerage	COFCO, China Baosteel Group	Natural resources, Manufacturing	Male	9	Shanghai	2018	90
K2	M&A consultant	China Telecom	Technology	Male	8	Beijing	2017, 2018	60, 60
L1	M&A consultant	Anonymous	Natural resources, Technology	Male	10	Shanghai	2018, 2018	60, 30
M1	M&A consultant	COSCO, COFCO, SINOCHART, Hesteel, Baogang	Natural resources, Manufacturing	Male	10	Shanghai	2016, 2017, 2018	60, 45, 120
M2	M&A advisory	Anonymous	Finance	Male	5	Santiago	2018	90
M3	M&A analyst	ICBC	Finance	Female	6	Beijing	2018	45
M4	M&A advisory	Anonymous	Finance	Female	5	New York	2018	35
N1	M&A consultant	Anonymous	Natural resources	Female	5	Beijing	2018, 2018	45, 45
P1	M&A consultant	China Baosteel Group	Manufacturing	Male	12	Santiago	2017, 2018	45, 60
R1	M&A advisory	CCCC	Natural resources	Male	10	Singapore	2018	50
T1	M&A consultant	Anonymous	Natural resources	Female	15	Geneva	2018	60
T2	M&A analyst	Anonymous	Natural resources	Male	5	London	2018	45
V1	M&A advisory	State Grid of China, General Water of China	Natural resources	Male	9	London	2017, 2018	50, 60

Note: Listed SOEs are based on those participants who have granted consent for disclosure only.

Table 2. Outline of recognized core categories and examples of questions asked

Institution		Category	Examples of questions asked
Informal institution	Core value	Rejuvenation of China	“Where does the pride in China stem from?” “How significant is the century of humiliation to the Chinese?” “Is China trying to revive its nation?”
	Recontextualized informal core value as outcomes of intra-informal institutionalization	Resource security and Self-sufficiency	“Why are these deals so important to China?” "Do you think China is trying to more self-sufficient and relying less on imports?" “Is independence important to China?” “How has the recent trade war with the US affected China?”
		Greater international influence	“Have SOEs extended their global footprint?” “Is having global influence important to China?” “Can <i>mianzi</i> motivate cross-border M&A?”
Formal institution as outcomes of inter-institutionalization between recontextualized informal core value and CBMAs as a strategic tool	National level	Guided CBMA agenda directed by the state mandate	“The idea of cross-border M&A, where does it come from?” “How connected is the state to SOEs?” “Are M&As more selective?”
		Influence of state agencies	“To what degree are state agencies involved in the M&A process?” “To what extent has the capital control restrictions affected overseas M&A?”
	Organizational level	SOE obligation to fulfill state plans with controlled autonomy	“How much freedom do SOEs have in the M&A process?” “Who selects the M&A target?”
		CBMA as an instrument for SOEs to meet state-guided targets	“Do SOEs have a responsibility to the people of China?” “To what degree are deals by SOEs driven by profit?” “What is objective behind the deals that SOEs have made?”
	Individual level	State as ultimate principal of SOEs top management team	“How are SOE leaders chosen?” “Why is it important for the state to place SOE managers?” “Do SOE managers have to follow the directives of the state?”
		CBMA for career leverage	“Post successful M&A, what will happen to the SOE manager?” “Will SOE managers act in best interest of SOEs?”