



# THOUGHT LEADERSHIP BRIEF

## Global Meets Local: Community, Political Ideology, and Chinese Cross-Border M&As in the U.S.

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### KEY POINTS

- ▶ Cross-border M&As are risky. And many announced cross-border M&A deals cannot be completed due to various reasons. Such a fact is especially true with firms coming from emerging markets acquiring targets located in developed countries. For example, one research reported that 32.5% of 3,483 cross-border M&As involving EMNCs from BRIC (Brazil, Russia, India, and China) failed to conclude when the acquisition targets were located in developed countries, in contrast with the 18% failure rate recorded for cross-border M&As between developed countries.
- ▶ In the context of the U.S., we find that political ideology of the local communities serves as an important yet over-looked factor that influences the success of Chinese acquisitions. Specifically, Chinese M&A deals are less likely to complete in more conservative communities than in more liberal communities, because local stakeholders perceive greater uncertainty and threats posed by foreign acquirers and thus harbor negative attitudes toward such deals in conservative communities.
- ▶ Media reports and local economic situation further shape the perceptions of the local communities toward Chinese acquirers. The effect of community ideology on Chinese firms' deal completion is strengthened by the Chinese acquirers' media exposure as well economic distress experienced by the community. While positive media coverage of Chinese acquirers attenuates the negative effect of conservative ideology on deal closure.



## ISSUE

Cross-border M&As are a major avenue for MNCs’ international growth and expansion. In comparison with greenfield investments, cross-border M&As allow foreign firms to enter new markets more quickly and efficiently. Recent years have witnessed a significant growth in cross-border M&A activities by emerging MNCs in developed countries. However, the completion rate of such deals is relatively low compared to the completion rate of MNC deals between developed countries.

While prior research in finance and strategy largely focuses on firm- and deal-level factors such as management resistance and bid premium in explaining failure of M&A completion, more recent studies have begun to adopt the institutional based view to investigate cross-border M&As. Institutional differences between the home and host country increase the complexity and uncertainty in the renegotiations during the public takeover process (i.e., the “intermediary” phase between the announcement date and the resolution date), resulting in higher likelihood of deal abandonment. In particular, these studies have considered both formal and informal institutional constraints including regulatory disapproval and cultural differences.

Despite the insights into the institutional effects on cross-border M&As, the literature remains incomplete in at least two aspects. First, while prior research has documented the effect of informal institutional on deal completion, we still know little about how informal institutions affect the M&A process. As such, the mechanism through which informal institutions lead to deal failure largely remains a black box. Second, the existing literature has focused on the national institutional environment but remained silent on institutional variations and heterogeneities within the same country.

## ASSESSMENT

In this study, we analyze the role of political ideology of host country communities in cross-border M&A completion. Ideology incorporates a set of assumptions, values and beliefs of groups of people that guide their interpretation of the environment. People with different political ideologies along the liberalism-conservatism spectrum demonstrate not only different preferences regarding public policies and social issues, but also different psychological orientations and behavioral patterns. As such, the ideological preference in local communities influences how local stakeholders interpret and react to an acquisition of a local target pursued by a foreign acquirer, as transfer of control of strategic assets and post-acquisition consolidation are both likely to cause perceived uncertainty and threat. Specifically, we analyze M&A deals pursued by Chinese firms in the U.S. and propose that these deals are more prone to abandonment after announcement in conservative communities than in liberal communities.

We constructed a dataset of Chinese publicly listed firms’ announced deals in the U.S. from 2000 to 2016. We coded county-level ideology using the popular vote results during the presidential election happening in 2000, 2004, 2008, and 2012. We checked the popular voting results for every county and coded the voting percentage for the Republican candidate for the popular vote (to measure state conservatism). We then used the election results to predict deal completion for the following four years until the next election. For example, for deals taking place in 2001 to 2004, we used the election results from 2000. We find that on average, upon a 1% increase in the republican vote, the completion rate decreases by 0.43%. For example, in 2012’s presidential electoral vote, the Republican President Candidate Romney received 60.57% vote in Arizona and 35.17% vote in

**Table 1. Chinese Firms’ Cross-Border Acquisitions of US Firms: Influence of State Conservative Ideology on Acquisitions’ Success**

Model	1	2	3	4	5
County Conservative Ideology (CCI)	-1.269 [0.027]	-0.685 [0.055]	-8.854 [0.129]	3.573 [0.0828]	-1.849 [0.056]
CCI x Coverage		-0.00433 [0.021]			-0.00563 [0.343]
CCI x ESS			0.144 [0.085]		0.112 [0.082]
CCI x CUR				-87.84 [0.0162]	-82.02 [0.0190]

P-value in parentheses



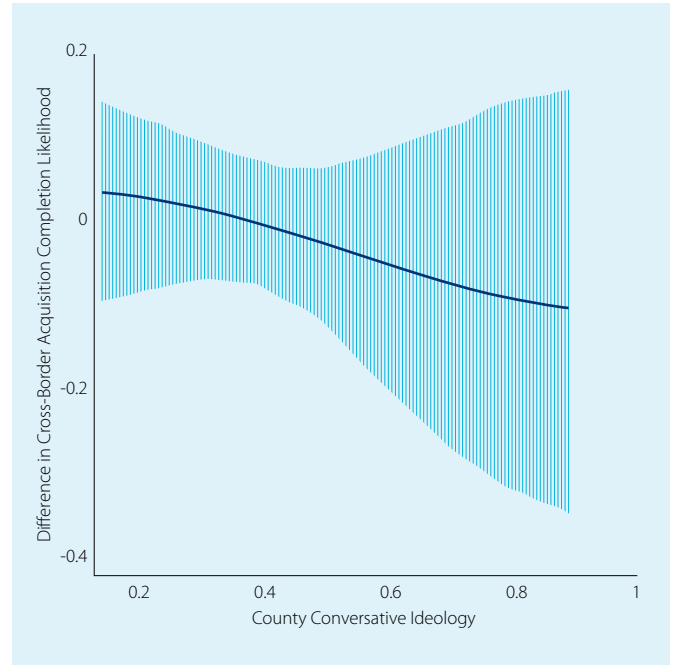
New York States. Our results suggested that in the post-election years, the acquisitions by Chinese firms in the State of Arizona are 10.9% less likely to complete than those acquisitions in New York States.

We further searched the acquiring firm's name in the year previous to the focal deal in the Factiva Global News Database. And we find that the negative effect of the conservative ideology on deal completion is enlarged if the acquiring Chinese firms received more media coverage. However, the negative effect is attenuated if such firms received more positive media reports. We measured county economic distress using the county unemployment rate in the focal year and also find the negative effect is more magnificent under a higher unemployment level.

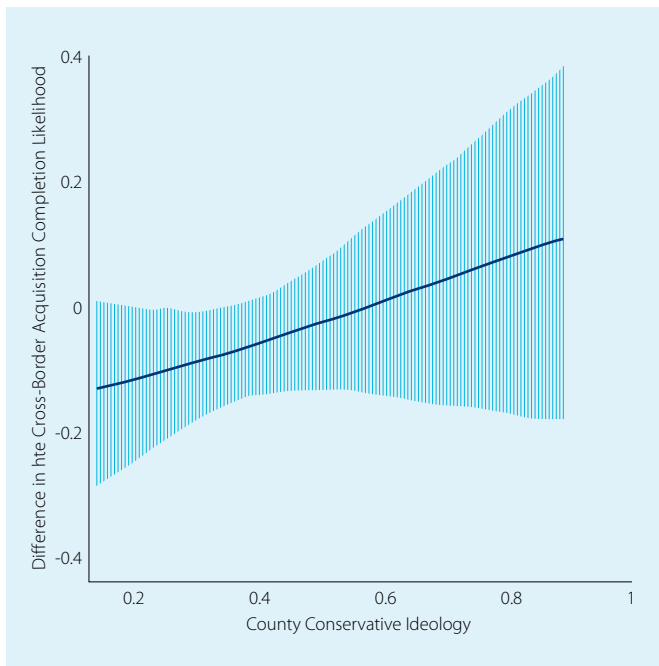
### IMPLICATIONS

This study uses a community-based lens to examine the effect of political ideologies in host country communities on cross-border M&A deal completion. Drawing on recent research in psychology of political ideology, we argue that M&A deals pursued by Chinese acquirers in the U.S. suffer a lower completion rate in conservative communities due to local stakeholders' negative attitudes and resistance caused by perceived uncertainty and threats.

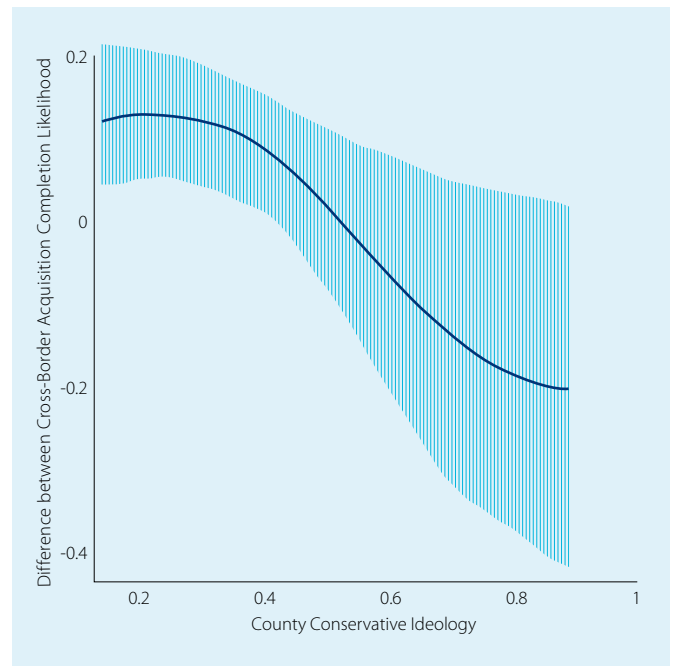
**Figure 1. Moderating Effect of the Media Coverage on the Relationship Between County Conservative Ideology and the Completion Probability of Cross-Border Acquisitions. The Y-axis Indicate the Difference of the Completion Probability for High Media Coverage Acquirer and the Low Media Coverage Acquirer.**



**Figure 2. Moderating Effect of the Positive Media Reports on the Relationship between County Conservative Ideology and the Completion Probability of Cross-Border Acquisitions. The Y-axis Indicate the Difference of the Completion Probability for More Positively Reported Acquirer and Less Positively Reported Acquirer.**



**Figure 3. Moderating Effect of the Economic Distress on the Relationship between County Conservative Ideology and the Completion Probability of Cross-Border Acquisitions. The Y-axis Indicate the Difference of the Completion Probability for High Distress and the Low Distress County.**



Our study contributes to the understanding of the failure and success of cross-border M&As conducted by firms from emerging markets. The majority of the studies focus on firm, deal and industry level factors. A recent trend of those studies have paid attention to institutional factors such as regulatory resistance from the national level. i.e. national security concerns of developed countries. We contribute by offering a new lens which highlights the role of the local community's ideology. Such ideology starts to play an important role after the announcement of the foreign deals. As the public takeover process includes final negotiations of strategic and administrative activities regarding implementation, communication and integration with and inside the community, unanticipated new information could result in renegotiations and jeopardize the deal.

The strategic implication for foreign acquirers is that in addition to the regulatory requirements at the national level, such informal processes at the local communities where acquisition take place are also crucial for them to take into consideration even before the announcement of the deal. They need to anticipate the resistance that might arise due to the social-cognitive mechanisms. We also caution that too much media exposure is not necessarily a good thing for foreign acquirers, unless they can receive very positive coverage which may alleviate the concern of threat and unfamiliarity.

One caveat is that we only examine Chinese firms' M&As in the U.S., while the dynamics could be different if other foreign countries undertake the same activities. For example, even the conservative communities may possess a more friendly perception toward companies from the U.S. allies. Comparative studies suggest fruitful research directions.

In sum, this study presents a community-based mechanism to explain the failure rates of emerging multinationals' M&A deals in developed countries. It complements extant institutional studies by focusing on the within-country heterogeneities of political ideologies that shape local community perceptions of and attitudes toward foreign acquirers and influence the cross-border M&A outcomes.



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