Ownership Type, Home-Country Government-Directed Investment Policies and Firm Value in Strategic Sectors: Evidence from Chinese Acquiring Firms

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Using data of Chinese acquirers in strategic sectors, we assess the role of home government and the effects of the interaction between ownership type and government-directed investment policies on acquiring firm value in cross-border acquisitions (CBAs). We find that CBA activities in strategic sectors encouraged by the home-country government through its investment policies experience significant increase in acquiring firm value. We also find that firms investing in government-designated strategic sectors generate wealth for acquirers, but contrary to efficiency logic rooted in agency theory, state-owned enterprises appear to outperform private-owned enterprises. Further analysis indicates that three financial incentives associated with government-directed policies – namely, interest-rate reduction, tax incentives and direct subsidies – constitute sources of firm value. Our results raise several policy implications, including the need for transparent and rule-based policies and governance systems to be developed and implemented by governments in the home and host countries to regulate state-supported firms investing in sensitive strategic sectors.

Introduction

Emerging-market firms have expanded their investment activities worldwide in recent years, and in doing so have acquired some iconic firms in developed countries, signalling their intentions to compete with established players in global markets (Cuervo-Cazurra, 2018; The Economist, 2012; Xie *et al.*, 2019). Growing research evidence suggests that emerging-market governments in India, China and Brazil support their firms' internation-

alization carried out predominantly through cross-border acquisitions (CBAs) (Du and Boateng, 2015; Heugens, Sauerwald and Turturea, 2020; Luo, Xue and Han, 2010; OECD, 2016). One example is the 'go abroad' policy[1] of the Chinese government, which fosters Chinese firms' international expansion into industries designated as strategic and priority[2] to seek resources unavailable in China. Under this policy, both state- and

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[1]Chinese government policy which encourages Chinese firms to invest in specific sectors abroad through fiscal and other incentives for firms that comply.
[2]We define strategic and priority sectors according to Chinese outward foreign direct investment guidelines (see Industrial Policy Guide OFDI No. 2006/1312).

[Correction added on 2 July 2021, after first online publication: Frank O. Kwabi's bio has been updated in this version.]

private-owned enterprises (SOEs and POEs) complying with the government policy guidelines in the 'go abroad' strategy receive privileged access to financial support and other preferential treatment.

The state-led system as documented above challenges the traditional explanation in international business literature that foreign direct investment (FDI) occurs when multinational firms have proprietary resources and skills which lead to a monopolistic advantage in the host country (i.e. the asset exploitation perspective) (Caves, 1971; Makino, Lau and Yeh, 2002). Yet, how home governments, the most salient institutions in emerging countries with resources and capability, influence firm internationalization and value has not been examined systematically, resulting in insufficient understanding of the consequences of their actions on firms (Hong, Wang and Kafourous, 2015; Huang *et al.*, 2017).

We investigate the above under-explored issue from the perspectives of the institution-based view and agency theory, which jointly postulate that firms and governments rationally pursue their interests and consider strategic choices which affect firm value as the outcome of such interactions (Peng, Wang and Jiang, 2008; Peng *et al.*, 2017). Home-government support for emerging-market firms can lead to different strategies, ranging from more compliance-based strategies, as emphasized by the institution-based view, to more self-serving strategies, displaying active agency (Hu, Cui and Aulakh, 2019). Governments in emerging countries can directly influence firms' strategy and value via country-level and firm-level policies (Hong, Wang and Kafouros, 2015; North, 1990; Scott, 2014). However, government ownership or government association with a firm has costs as well as benefits, which may increase or decrease firm value (Benito, Rygh and Lunnan, 2016; Calomiris, Fisman and Wang, 2010; Dewenter and Malatesta, 2001; Hansmann, 1996). On the one hand, government ownership and association with a firm may engender multilevel agency and asymmetric information problems (Boubakri, Cosset and Saffer, 2013; Okhmatovskiy, 2010), undermine management autonomy, market orientation and strategic flexibility (Estrin, Meyer and Nielsen, 2016; Huang *et al.*, 2017; Lioukas, Bourantas and Papadakis, 1993), and may hinder a firm's value creation (Lazzarini and Musacchio, 2018; Shleifer, 1998). Conversely, some scholars document that state ownership or government connections may provide sources of competitive

advantage in terms of resource acquisition, uncertainty reduction and offsetting challenges to legitimacy (Benito, Rygh and Lunnan, 2016), which may enhance firm value (Du and Boateng, 2015; Zhou *et al.*, 2015).

Grounded in the above, we employ two theoretical perspectives which pertain to two different facets of government–business interaction, that is ownership and specific government investment policies, to extend our understanding of the effect of government–business interaction on firm value. This is significant and timely, and is in contrast with prior studies that have tackled this subject from a single theoretical lens, with mixed results (see Dewenter and Malatesta, 2001; Shleifer and Vishny, 1994). In addition, recent literature suggests that many host-country governments increasingly restrict or place barriers on international economic transactions of firms investing in strategic sectors[3] due to security and economic concerns (Levine, Lin and Shen, 2020; OECD, 2016; Sultan Balbuena, 2016). Indeed, evidence suggests that the concerns of host-country governments amplify when the acquisition investments are made by SOEs and POEs supported by their home-country governments (Cuervo-Cazurra, 2018; Kirkegaard, 2020), with effects on transaction costs and firm value[4] (see Klein *et al.*, 2013). Yet prior literature has paid virtually no attention to the interaction effect of ownership type and home-country government-directed investment policies on acquiring firm value (see Levine, Lin and Shen, 2020). This study addresses this research gap.

The study examines the effects of ownership type and the role of home-country government to explore the effects of interaction between ownership type and government-directed investment policies on the value of the acquiring firm. We do so by employing data from a sample of

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[3]Seven European Union countries, including France, the UK, Germany and Italy, accounting for 66.5% of total inward Chinese FDI over the 2000–2018 period, had investment-screening mechanisms for acquisitions in the high-technology sector. Similarly, the Committee on Foreign Investment in the United States reviewed a total of 76 acquisitions over the 2013–2015 period (Annual Congress Report). In some cases, host governments block acquisitions.

[4]For example, the perceived association of Chinese technology giant Huawei (POE) with the Chinese government and army slowed down its revenue growth, with net profit margin decreasing to 7.3%, down from 8%, in the first quarter of 2020, due to the US government's restrictions imposed in late 2019 (The Telegraph, 2020).

695 Chinese firms which engaged in CBAs in Asia, Europe and North America over the period 1998–2015. We find that both SOE and POE acquirers investing in strategic sectors encouraged by the home-country government through its investment policies experience significant increases in firm value. Contrary to efficiency logic rooted in agency theory, which posits that POEs are more efficient compared to SOEs, we find that SOEs outperform POEs. Our results are robust to alternative measures and endogeneity concerns.

The study makes contributions to the institutional explanation of emerging-country firms' internationalization and performance. First, a large body of literature mostly based on agency theory provides overwhelming evidence that state ownership and firms associated with government are incompatible with efficiency due to multilevel agency and asymmetric information problems (Shleifer, 1998). Consequently, prior studies tend to overlook the importance of institutions and how SOEs and government-affiliated firms can exploit certain institutional advantages and resources to overcome institutional voids and increase firm value (Inoue, Lazzarini and Musacchio, 2013; Musacchio, Lazzarini and Aguilera, 2015). We show that SOEs and firms associated with government enable Chinese firms to access resources at lower cost, overcome institutional impediments and as a result earn abnormal returns. Thus, our findings indicate that home-country government-directed investment policies provide an important vehicle to offset ownership disadvantages and location disadvantages of emerging-country firms investing in other countries and help create value for acquirers.

Second, the study's findings provide a new framework for how state ownership, firms associated with government and home-government investment policies interact to influence value creation of emerging-market firms. Our framework suggests that home governments in emerging markets help shape the internationalization and value creation of emerging-market acquirers. Thus, the international growth of emerging-market firms and their subsequent performance are not only a function of host-country incentive policies and firm-specific factors, as documented in prior literature (Caves, 1971; Gubbi *et al.*, 2010; Makino, Lau and Yeh, 2002; Morck and Yeung, 1992). Home-country institutions, conceptualized as government rules and policies, matter. This may even be the case where the home-country government's

support for firms investing in sensitive technology sectors may endow such firms with suspicion and in some cases lead to imposition of restrictions by the host government (OECD, 2016). Our findings show that, notwithstanding the costs and restrictions associated with government support, Chinese international acquisitions improve firm value.

Theory and hypothesis development

Institution-based view and agency perspective

While there is broad agreement among researchers that institutions are vital for firms, the issue of how institutions matter is less understood (Aguilera and Grøgaard, 2019; Crotty, Driffield and Jones, 2016; Peng, Wang and Jiang, 2008). Scott (2001) defines institutions as encompassing three pillars: regulatory, cognitive and normative. Our point of interest in this study is on the regulatory pillar of institutions (i.e. formal institutions), where home-government-directed investment policies provide an incentive structure that affects the costs and benefits of doing business and acquiring firm value (Di Maggio and Powell, 1983; Donnelly and Manolova, 2020; Peng, 2003; Peng *et al.*, 2017). Hu, Cui and Aulakh (2019) and Peng *et al.* (2017) highlight the pervasive influence of emerging-market governments over businesses by using policy inducements to encourage firms' international expansion and reward them for their adherence. In the context of China, since 1999 the government has encouraged local firms through fiscal and other incentives to expand internationally into specific sectors. It is argued that such incentive policies are critical not only for emerging-market firms' internationalization, but also for their competitive advantage. According to Du and Boateng (2015), home-country government policies reduce institutional constraints and transaction costs, which may enhance the success of acquisition in terms of financial performance. Conversely, firms connected with the government are more likely to face investment restrictions in host countries when acquiring foreign firms in sensitive technology sectors (Levine, Lin and Shen, 2020; OECD, 2016; Sultan Balbuena, 2016). This not only makes acquisitions in strategic sectors risky, but may entail significant transaction costs with potential implications for destroying acquiring firm value. Thus, home-government policies which play an important role in shaping emerging-market firms' international expansion

entail costs as well as benefits, with palpable implications for firm value. Such considerations have not been examined systematically.

While prior literature has examined the effects of ownership on firm performance, relatively little academic research has been devoted to the effects of ownership structure and value of firms investing in designated strategic sectors (Du and Boateng, 2015; Fuentelsaz, Garrido and González, 2020; Okhamatovskiy, 2010; Scalera, Mukherjee and Piscitello, 2020; Zhou, Gao and Zhao, 2017). Nakamara and Xie (1998) argue that the ownership structure of acquiring firms is particularly important for technology-based firms whose competitive advantage comes in the form of intangible assets and which are more susceptible to agency problems. For example, Grossman and Hart (1986) and Nakamura and Xie (1998) note that in general it is difficult to write a legal contract which prohibits potential foreign competitors from unauthorized use of proprietary technology under joint equity ownership, thereby leading to agency conflict. Another potential source of agency conflict is that governments as owners in emerging markets may be concerned with technological progress and how to improve their country's global competitiveness, rather than profit maximization as an objective of the firm (Megginson and Netter, 2001; Shleifer, 1998). Thus, state ownership is frequently seen as a source of agency problems and more likely to destroy firm value. Compared to private ownership, government ownership is perceived to be costly and lowers market valuation (Chen, Firth and Xu, 2009) due to conflict of objectives and goals (Megginson and Netter, 2001; Shleifer and Vishny, 1994). In short, CBAs in strategic sectors are more prone to agency problems[5] and may affect firm value (Huang *et al.*, 2017; Okhmatovskiy, 2010; Shleifer, 1998).

Based on the above discussion, we expect home-government investment policies, ownership type and the interaction between government investment policies and ownership type to influence acquiring firm market valuation. We next develop three hypotheses in respect of ownership type, the role of home- government support and firm value.

Ownership type and firm value

The prevailing view in the management and finance literature emphasizes agency problems as the main reason for underperformance of SOEs and firms affiliated with government (see Calomiris, Fisman and Wang, 2010; Tian and Estrin, 2008; Zhou *et al.*, 2015; Zhou, Gao and Zhao, 2017). Thus, the argument that state ownership may also engender benefits for firms is scarcely examined. However, scholars such as Musacchio and Lazzarini (2014) and Zhou, Gao and Zhao (2017) argue that state ownership and firms' association with the state enables access to more capital and subsidies, enhances the ability to borrow more at a lower cost and increases access to privileged information, which may increase firm value. For example, Benito, Rygh and Lunnan (2016) and Okhmatovskiy (2010) highlight that government financial and non-financial support for these firms not only strengthens their market position but constitutes a means for competitive advantage and increase in firm value.

Musacchio and Lazzarini (2014), Ralson *et al.* (2006) and Stan, Peng and Bruton (2014) point out that SOEs in emerging markets, particularly China, have evolved to become market-oriented and dynamic competitors and tend to enjoy greater autonomy in operational and other decisions than they did a few decades ago. Others, such as Heugens, Sauerwald and Turturea (2020), theorize that, compared with private acquirers, state acquirers are more likely to exhibit strong commitment to reduce agency conflict and ensure efficiency of their investment overseas. This is because the success of their acquisition activities implies the success of home-government investment policy that supports these firms. Thus, we hypothesize:

H1: Chinese SOE acquirers will generate a higher firm value compared with Chinese POE acquirers.

Government-directed investment policy and firm value

In line with the 'go abroad' policy, which classifies some sectors as a priority,[6] the Chinese government encourages firms involved in international

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[5]SOEs are owned by the citizens of a country, with politicians acting as principals pursuing political and social goals attractive to them rather than the goals of the citizens and the firm (Shleifer, 1998; Shleifer and Vishny, 1994).

[6]In 1999, the Chinese government adopted a policy of helping Chinese firms to access to advanced technology and other strategic resources overseas unavailable in

acquisitions through low interest loans and subsidies (Xiao and Sun, 2005). For example, the National Development and Reform Commission (NDRC) and EXIM Bank of China jointly issued a policy statement regarding the eligibility of fiscal incentives and credit facilities for international projects endorsed by the government (Zhou *et al.*, 2015). Under this policy, the Chinese government – through the above agencies – will provide cheaper credit facilities to FDI projects in the following strategic sectors: exploration of a natural resource such as energy, oil, gas and precious metal mining; promotion of textile exports; and research and development investment in advanced technology. We expect all firms, irrespective of ownership type, complying with the criteria contained in the Industrial Policy Guide OFDI No. 2006/1312 and investing in government-designated priority sectors to obtain government support that may increase acquirers' firm value. Therefore, we hypothesize:

H2: Chinese acquiring firms investing in Chinese government-designated priority sectors in line with government-directed investment policies will generate a higher firm value.

Investment policy and firm value: The moderating role of ownership type

It may be argued that, compared to POEs, SOEs would be more likely to fully conform to state-directed policies, for the following reasons. According to the Chinese Company Act 1993, board directors of SOEs are allocated by the State Asset Supervision and Administration Commission (SASAC), with most of them being top state officials working in various ministries and state agencies (Francis, Hasan and Sun, 2009; Zhou *et al.*, 2015). Fan, Wong and Zhang (2007) document that SOEs' strategies, including CBA decisions, are eventually approved by the government, hence the state has a major influence on acquisition operations and can affect firm value. Thus, SOEs are likely to take speedy ac-

China (see Industrial Policy Guide OFDI No. 2006/1312; Deng, 2003; Cai, 1999; Wu and Sia, 2002). The Chinese government provides information on the barriers and challenges faced by Chinese firms, and cheaper and quick access to credit for firms acquiring firms in the following areas: energy, natural resources, mining, gas and oil, promotion of textile exports. The priority sectors in this study are minerals, petroleum, textiles and high technology.

quisition decisions, which are important for the success of merger and acquisition (M&A) deals. Wang *et al.* (2020) and Zhou *et al.* (2015) argue that, because senior managers work closely with the government, this may enhance information sharing, quick decision making and firms' ability to access new opportunities, and hence higher returns. Accordingly, we hypothesize:

H3: Positive returns will accrue to both Chinese SOE and Chinese POE acquirers investing in the Chinese government-designated priority sectors; however, the returns will be higher for SOEs compared to POEs.

Research methods and data

Data and sample selection

We report the data source and the process through which the sample was selected in Table 1. The sample comprises Chinese listed firms involved in international acquisitions over the 1998–2015 period. The dates of acquisition announcement, completion and the parties involved were derived from the records of the Chinese Stock Market and Accounting Research (CSMAR) database. We employed the following preliminary criteria to select firms to be part of the study sample: (i) the shares of the acquiring firms are traded on the two stock exchanges (i.e. Shenzhen and Shanghai) which deal in shares quoted in Chinese currency and are restricted to mainland China-based firms; (ii) the target and the acquirer firms must not be a trust or financial firm because of the nature of their assets and how they are regulated; (iii) the share price information of the acquiring firm should be available on CSMAR. The above restrictions resulted in an initial sample of 840 acquiring firms. To set apart the effects of each acquisition accurately, we determined that there should be no other business announcements within 10 days prior to or after the acquisition announcement in order not to distort stock market reaction. Additionally, the bidder should not engage in other acquisition activity within 3 months of the acquisition announcement. Further, we required continuous data around the announcement date for a period of at least 280 days. Imposition of the above requirements yielded a sample of 695 acquiring firms.

Panels B–E of Table 1 show the foreign locations of the targets, priority/non-priority

Table 1. *Sample selection and patterns of distribution*

	Frequency	Percentage
Panel A: Sample selection		
CBA after initial restrictions	840	100
Less: CBA without full data	86	25.71
Less: multiple acquisitions	57	18.57
Total	*695*	*55.72*
Panel B: Regional distribution		
Asia/Pacific	367	52.81
North America	138	19.86
European Union	190	27.33
Total	*695*	*100.0*
Panel C: Sector classification by state policy		
Priority (government support)	300	43.17
Non-priority (no government support)	395	56.83
Total	*695*	*100.0*
Panel D: Yearly distribution		
1998	7	1.01
1999	12	1.73
2000	16	2.30
2001	9	1.30
2002	14	2.01
2003	19	2.73
2004	8	1.15
2005	16	2.30
2006	22	3.17
2007	55	7.91
2008	69	9.93
2009	70	10.07
2010	88	12.66
2011	63	9.07
2012	79	11.37
2013	41	5.90
2014	48	6.91
2015	59	8.49
Total	*695*	*100.0*
Panel E: CBA by ownership type		
Private-owned enterprise	232	33.38
State-owned enterprise	463	66.62
Total	*695*	*100.0*
Total	**695**	**100**

classification according to the Chinese government's 'go abroad' policy, yearly distribution of acquisition deals and ownership type. As can be seen from the table, about 52.81% of the acquisitions occurred in the Asian region, with about 47.19% occurring in North America and European countries. The classification of firms into priority and non-priority was based on the Chinese government's 'go abroad' policy guide. The table shows that about 43.17% of the firms in the sample were in priority sectors, while non-priority sectors constitute about 56.83%. Regarding the yearly distribution, the table indicates that the trends of acquisitions fluctuated over the sample period. The highest number of acquisitions took place in 2010 and 2012, followed by 2009 and 2015, with the lowest number occurring in 1998. In terms of ownership, most of the acquiring firms (about two-thirds) come from SOEs, with POEs constituting about one-third. This confirms that, despite enterprise reforms and privatization, state ownership remains a key feature of China's corporate landscape.

Measurement of dependent and independent variables

Firm value

Prior studies indicate that the choice of performance measure is a difficult issue and has been a critical concern to researchers for many years (see Goldbeng, Grunfeld and Benito, 2008; Gubbi *et al.*, 2010). As a result, scholars have employed a variety of financial indicators, including accounting-based profitability measures and short-term/long-term stock market returns to assess firm performance. In this study, we chose stock market reactions to acquisition announcements as manifested in the changes of stock prices around the acquisition event window to measure firm value for several reasons. First, the central objective of this investigation is to assess the effects of specific home-government-directed investment policy on CBA performance. To effectively capture the value effect of this specific government intervention which occurred at the start of overseas expansion, it is important to focus on and clearly measure that specific event and attribute the impact of the policy intervention to it. Scholars such as Cording, Christmann and King (2008), Haleblian, Kim and Rajagopalan (2006) and Kale, Dyer and Singh (2002) and contend that stock market reaction to M&A pronouncements is expected to capture the price effect of the focal acquisition. Indeed, stock price movement is argued to have stronger predictive value compared to objective measures like ROA and ROE and tends to correlate with the actual value of a firm (Haleblian, Kim and Rajagopalan, 2006; Kale, Dyer and Singh, 2002). Second, stock market

reaction to M&A pronouncement contains both financial and non-financial information, such as expected future cash flows, costs associated with integration and cultural risk (Schoenberg, 2006). Lastly, for a considerable period of time, studies in management and finance have widely employed a stock market performance measure (see Gubbi *et al.*, 2010; Haleblian, Kim and Rajagopalan, 2006; Moeller and Schlingemann, 2005; Morck and Yeung, 1992). Grounded in the above, we use CARs accruing to shareholders as a measure of firm value.

We estimate CARs by employing a standard event study method – the market model (Brown and Werner, 1985). The CAR measure for our main analysis is calculated over a window period of 2 days $(t-1, t+1)$.[7] We derived the firm's abnormal returns by subtracting expected returns based on a market model from the firm's actual stock returns.[8] We calculate and analyse the CARs over the following period $(t-260, t-21)$, that is 260 trading days preceding the date of announcement of acquisition up to 21 continuous trading days before the acquisition announcement, where $t = 0$ represents the day of acquisition announcement.

Independent and control variables

The main predictor variables are sectors supported by the Chinese government and classified as priority, ownership type and the interaction between priority sector and ownership type (POE and SOE). We measure our predictor variables as follows. First, SOE is measured as equity capital invested by the central and local governments, and state agencies and institutions (see Lin and Bo, 2012). POE is the percentage of equity capital held by the firm's individuals and non-state institutions. Second, we collect industry data from official sources under the State Council,[9] which classifies industries into 'priority/encouraged' and 'non-

priority' industries. Next, we group the industries into types that distinguish between the priority and non-priority industries. Firms that adhere to Chinese government-directed policy to invest in designated sectors are deemed as priority sector firms, whereas firms investing in non-designated sectors are regarded as non-priority sectors. We then apply a dummy coded as 1 if the acquisition is in a priority industry, 0 if otherwise. We also collect data in respect of sample firms relating to the main fiscal and financial incentive devices employed in the government-directed investment policies for sample firms investing in priority sectors as an alternative measure for robustness check. We identified each firm in the sample by the actual fiscal and financial supports given to it by the government for investing in the designated priority. We matched these firms against the priority and non-priority sectors as contained in the government Industrial Policy Guide OFDI No. 2006/1312 to confirm that these firms are indeed classified as strategic and grouped as firms conforming to government-directed investment policy. To test whether ownership type interacts with government investment policies to influence firm value, we further create interaction variables between ownership types (i.e. SOE and POE) and firms investing in the priority industry (i.e. SOE*Priority and POE*Priority).

Firm-specific variables

Following the M&A literature, firm-specific factors, cultural distance and geographical variables are controlled in our regression analysis. We operationalize the acquirer's previous experience as the number of international acquisitions made prior to the CBA announcement. Following Boateng and Bi (2014), acquirer cash flows (Cash hold) is measured as cash and cash equivalent scaled by the total assets. Acquirer size is the natural logarithm of the acquiring firm's total assets (Moeller, Schlingemann and Stulz, 2004). Relative value ratio is the target's transaction value scaled by the total market capitalization of the acquirer. Deal size is the natural logarithm of the amount as consideration by the acquirer (Li, Li and Wang, 2016). Firm relatedness is a dummy variable which equals 1 if the bidder and target are in a similar business, and 0 otherwise (Singh and Montgomery, 1987). Cash payment is a dummy which equals 1 if cash is used to pay for the purchase consideration, and 0 otherwise (Boateng and Bi, 2014). Acquirer

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[7]The results hold for the following window periods: $(-1, +1)$; $(-2, +2)$; $(-10, +10)$.

[8]Shanghai composite return is a proxy for market returns.

[9]The official policy document – Industrial Policy to Guide Outward Foreign Direct Investment, issued by the following ministries and state agencies/departments: Commerce, Foreign Affairs, Finance, State Development and Reforms Commission, General Administration of Customs, State Taxation Administration and State Administration of Foreign Exchanges listing priority industries and non-priority industries.

return on assets (AROA) is a proxy of acquirer's net profit after tax scaled by the book value of the total assets (Danbolt and Maciver, 2012). We control for intangible resources using acquirer Tobin's Q, which is measured as the market value of equity and book value of debt divided by the book value of equity plus book value of debt prior to the acquisition announcement (Cuypers, Cuypers and Martin, 2017).

Cultural distance

Utilizing the four dimensions of Hofstede (1980) (i.e. uncertainty avoidance, power distance, individualism and masculinity[10]), cultural distance is calculated as the difference in scores between China and the country in which the target firm is located. Boubakri *et al.* (2016) and Steigner and Sutton (2011) document that these four dimensions are considered fundamental drivers of cultural differences across countries and have been shown to have effects on corporate growth, economic behaviour and performance. We calculated the cultural distance by employing the Kogut and Singh (1988) index. Our equation is as follows:

$$CD_j = \sqrt{\sum_{i=1}^{4}\left(\frac{(I_{ij} - I_{ic})^2}{V_i}\right)} \qquad (1)$$

where CD_j is the cultural difference of the jth country from the cth country, I_{ij} is Hofstede's score for the ith cultural dimension and jth country, I_{ic} is Hofstede's score for the ith cultural dimension and cth country and V_i is the variance of the score of the dimension.

Geographical influences on acquiring firm value

Prior studies suggest that the geographical region of the target firm can affect the value of acquiring firms (Kiymaz, 2004; McCarthy and Aalbers, 2016). We therefore include the following dummy variables for each of the three regions representing the location of the target firm as follows: North America 1, and 0 otherwise; Europe 1, and 0 otherwise; Asia 1, and 0 otherwise. Furthermore, we also included year and acquirer industry dummies.

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[10]We also use nine GLOBAL dimensions of national culture for robustness check.

Table 2. Abnormal returns of acquiring firms (firm value)

Event window	CAR (%)	Z-statistics	p-Value
CAR (−10, +10)	0.5776	6.7860	0.000
CAR (−5, +5)	0.6122	6.6952	0.000
CAR (−2, +2)	0.5763	5.5358	0.000
CAR (−1, +1)	0.5204	6.2504	0.000
CAR (−1, 0)	0.3767	6.8524	0.000

Note: This table presents the abnormal returns around CBM&A announcement days. CAR denotes cumulative abnormal returns.

The summary of variable measurements is presented in the Appendix.

Results and discussion

Firm value following announcement

In Table 2, we report the results of announcement returns (i.e. acquiring firm value) for the following event windows: 0, +1; −1, +1; −2, +2; −5, +5; −10, +10. The results indicate that the acquiring firms earn abnormal returns in all five event windows, suggesting that CBA announcements create wealth for acquiring firms. The returns accruing to the acquiring firms range from 0.38% to 0.61% for the five different event windows.

Univariate analysis

Table 3 presents summary statistics and the correlation between the variables in our model. The mean score for SOE is about 69%, while that for POE is 31%. Cultural distance has a mean score of 2.287, indicating that the majority of the CBAs occurred in countries which differ significantly from China in terms of culture. In terms of the correlation matrix, the majority of the correlations display low coefficients but, as a further check of multicollinearity, we implemented the variance inflation factor procedure. All the values are within an acceptable threshold.

To ascertain whether there are differences in terms of value creation between acquirers investing in government-designated priority and non-priority sectors, and then state-owned and private enterprises, we carried out a test of differences via independent t test for the following event windows: −1, +1; −2, +2. We find that acquirers undertaking acquisitions in government-designated sectors classified as priority have relatively higher mean scores compared to acquirers investing in

Table 3. Summary statistics

Variables	Mean	SD	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
A. Priority	0.41	0.49	1.00															
B. Cash hold	16.16	14.09	0.097**	1.00														
C. Prior experience	0.36	0.48	0.005	0.086**	1.00													
D. Relative value	0.099	0.166	0.046	0.100**	0.028	1.00												
E. Payment	0.79	0.404	−0.070*	0.102**	0.029	0.019	1.00											
F. Relatedness	0.52	0.500	0.057	−0.057	0.033	0.039	0.196**	1.00										
G. Deal size (million)	415.42	224.56	0.153***	−0.038	0.040	0.098*	0.056	0.102**	1.00									
H. Acquirer size	21.32	1.32	0.104**	0.023	−0.092**	0.006*	0.023	0.072	0.277**	1.00								
I. Tobin's Q	1.73	1.28	0.045	0.100**	0.032**	0.011	0.019	0.039	0.098	0.006	1.00							
J. AROA	0.021	0.020	0.045	0.101**	0.028	−0.058	0.020	0.040	0.098	0.006	0.045	1.00						
K. Culture distance	2.287	0.778	0.053	−0.002	0.029	0.045	−0.123***	−0.189**	0.061	0.051	0.034	0.045	1.00					
L. Asia	0.55	0.498	0.015	0.013	0.091	−0.035	0.075*	−0.110**	0.081	0.071	−0.016	0.035	0.314**	1.00				
M. N. America	0.15	0.356	−0.050	−0.093	0.073	0.016*	0.142**	0.173**	0.108	−0.21	−0.022	−0.016	0.402**	0.407	1.00			
N. Europe	0.25	0.432	0.057	0.047	0.022**	0.022	0.008	0.057	−0.011	0.047	−0.056	−0.022	−0.153*	0.033	0.240*8	1.00		
O. SOE	0.687	0.464	0.499**	0.009**	−0.15***	0.057*	0.006*	−0.086*	0.176**	0.063*	−0.190**	0.056**	−0.033*	−0.057*	−0.057*	0.047*	1.00	
P. POE	0.309	0.463	−0.524**	−0.005**	0.013**	−0.057*	−0.009*	0.105**	0.175**	−0.064*	0.121**	−0.057*	−0.047*	0.062*	0.127**	−0.049*	−0.408*	

Note: This table reports descriptive statistics and correlations. Variables are defined in the Appendix.

N = 695.

*p < 0.05.

**p < 0.01.

Table 4. Univariate t test

Event window	Variable	Mean	SD	t-Value
CAR (−1, +1)	Priority sector	0.4559	0.5417	
	Non-priority sector	0.0804	0.3791	2.447**
CAR (−2, +2)	Priority sector	0.5591	0.0823	
	Non-priority sector	0.2365	0.6543	2.602**
CAR (−1, +1)	SOE	0.8040	0.7636	
	POE	0.2661	0.3160	2.014**
CAR (−2, +2)	SOE	1.2777	0.5227	
	POE	0.2959	0.0455	1.993**

Note: This table presents the test of differences between the priority and non-priority sectors, and SOEs and POEs over two event windows (−1, +1; −2, +2).
***p < 0.01.
**p < 0.05.
*p < 0.1; number of cases = 695.

non-priority sectors in the two event windows. Regarding the relationship between ownership type and firm value, Table 4 documents a significant difference between SOEs and POEs, with the SOEs outperforming the POEs in the two event windows.

Regression results

This article examines the impact of state-directed investment policy and ownership type and explores the effects of interactions between ownership type and home-country government investment policies on firm value. To test our hypotheses, our basic regression model is given as follows:

$$
\begin{aligned}
\text{Firm value} &= \beta_0 + \beta_1 \text{Priority} + \beta_2 \text{SOE} + \beta_3 \text{POE} \\
&+ \beta_4 \text{SOE} * \text{Priority} + \beta_5 \text{POE} * \text{Priority} \\
&+ \sum_{t-1}^{n} \beta_6 \text{Controls} + \varepsilon_{it} \qquad (2)
\end{aligned}
$$

where our dependent variable firm value is the short-term acquirer returns (CAR). Priority sector represents a proxy for home-government-directed policies where financial incentives are offered to firms investing in those sectors. SOE and POE represent ownership type. SOE*Priority and POE*Priority represent the interactions of ownership type and government-directed incentives in the priority sectors, while Controls represents a set of control variables, namely, relatedness, ROA, Tobin's Q, cash holding, relative size, prior experience, deal size, size of the acquirer, regional dummies and cultural distance.

Ownership type, government-directed policies and firm value

Columns 1 and 2 of Table 5 document the effects of ownership type and firms investing in priority sectors. The findings concerning the priority sectors and the combined effects of ownership type and priority sector investments are shown in columns 3 and 4 of the table. Our findings show that SOEs and other acquirers investing in priority sectors generate abnormal returns for acquirers. The results confirm the t-test results in Table 4, which suggest that SOEs and firms investing in priority sectors have higher mean returns compared to POEs and firms investing in non-priority sectors, thereby providing some support for H1 and H2. The results that SOEs are positively associated with the firm value of acquiring firms appear to be inconsistent with the efficiency-based economic view, which contends that SOEs are incompatible with efficiency due to bureaucracy, differences between firm strategy and resource allocation decisions, and severe agency problems (Cuervo-Cazurra and Ramamurti, 2014; Goldbeng, Grunfeld and Benito, 2008; Huang *et al.*, 2017; Okhmatovskiy, 2010; Shleifer, 1998). One probable explanation is that SOEs from emerging markets have evolved from poorly governed firms into viable and well-governed competitive firms due to the greater operational and investment autonomy given to the managers of these firms (Ralson *et al.*, 2006; Zhou, Gao and Zhao, 2017). The SOE reforms which started in 1990 may have reduced agency conflicts often associated with SOEs under the former planned economy. This point is demonstrated by the volume of Chinese firms

Table 5. Effects of ownership, state-directed policies and interactions on firm value

Variable	Column 1	Column 2	Column 3	Column 4
Constant	4.133	5.052	5.167	4.399
	(0.710)	(0.906)	(0.898)	(0.695)
Priority sector	0.192***	0.180***	0.176***	0.193***
	(3.957)	3.824)	(3.570)	(3.955)
SOE	0.113***	–	0.110***	0.112***
	(2.808)		(2.749)	(2.781)
POE	0.032	–	0.074*	0.075*
	(0.661)		(1.821)	(1.851)
SOE*Priority	–	–	0.284***	–
			(5.018)	
POE*Priority	–	–	–	0.167**
				(2.473)
Relative value	0.035	0.029	0.019	0.031
	(0.709)	(0.682)	(0.398)	(0.615)
Deal size	−0.066*	−0.066*	−0.066*	−0.067*
	(−1.554)	(−1.560)	(−1.559)	(−1.561)
Acquirer size	−0.026	−0.034	−0.026	−0.025
	(−0.615)	(−0.817)	(−0.614)	(−0.597)
Cash hold	−0.054	0.065	−0.058	−0.054
	(0.827)	(0.990)	(0.891)	(0.816)
Tobin's Q	0.100**	0.111**	0.089*	0.108**
	(2.113)	(2.420)	(1.879)	(2.366)
AROA	0.016	0.018	0.014	−0.014
	(−0.389)	(0.455)	(0.344)	(0.394)
Cash payment	−0.209***	−0.203***	−0.197***	−0.205***
	(−3.197)	(−2.109)	(−2.998)	(−3.115)
Cultural distance	−0.158**	−0.168**	−0.147**	−0.149**
	(−2.329)	(−2.487)	(−2.138)	(−2.201)
Relatedness	0.149***	0.154***	0.139***	0.149***
	(3.498)	(3.604)	(3.237)	(3.491)
Prior experience	0.122*	0.114*	0.120*	0.124*
	(1.770)	(1.662)	(1.737)	(1.788)
Asia	0.155*	0.159*	0.155	0.157
	(1.715)	(1.750)	(1.714)	(1.726)
Europe	0.007	0.026	0.113	0.024
	(0.150)	(0.637)	(0.614)	(0.546)
N. America	−0.056	−0.056	−0.038	−0.055
	(−1.352)	(−1.370)	(0.227)	(1.084)
Year dummy	Included	Included	Included	Included
Industry dummy	Included	Included	Included	Included
F-value	6.454***	6.844***	6.317***	6.093***
Adjusted R^2	0.142	0.135	0.146	0.141

Note: This table reports the results of the effects of priority sector, ownership types, interactions between priority sector and ownership type on firm value. The dependent variable is CAR (−1, +1). Variables are defined in the Appendix. Our specification includes year and acquirer industry dummies.

***$p < 0.01$.

**$p < 0.05$.

*$p < 0.1$; number of cases $= 695$.

listed on the 2019 Fortune Global 500, with over two-thirds of the 129 Chinese firms being SOEs and having a combined revenue of US$8.2 trillion (Xinhuanet.com, 23 July 2019). The reforms may also explain why Sinopec, a state-owned Chinese oil company, tops the global ranking of firms by revenues and assets. Another plausible explanation for our findings may be that the lower interest rates and other fiscal incentives offered to Chinese acquirers undertaking investments in priority sectors

may lead to higher future cash flows and increased financial flexibility of acquiring firms, enabling them to take advantage of future investment opportunities and helping to overcome uncertainties associated with internationalization. As a result, stock markets may perceive the financial and other fiscal incentives positively, leading to improved market returns and firm value. Taken together, the reforms and the government 'go abroad policy' which provide resources to these SOEs may nullify the effects of agency costs associated with these firms, leading to an increase in firm value.

Regarding the positive and significant relationship between home-country government investment policies and the firm's market value, a possible explanation for this finding is that the resources embodied in home-country government policies lead to competitive advantage and value creation for Chinese acquiring firms. Thus, government financial and fiscal incentives serve as a means to acquire other resources and provide acquiring firms with strategic flexibility that helps acquiring firms to adjust to a complex and dynamic international environment (Patzelt and Shepherd, 2009), thereby increasing acquirers' returns.

The moderating role of ownership type

To probe further whether government support drives the acquirer firm's value irrespective of ownership type, we carried out further analysis for firms investing in priority sectors according to ownership type (i.e. SOEs and POEs). We therefore enter the interaction variables for ownership types and government-directed policy (SOE*Priority; POE*Priority) successively, in line with previous studies. The coefficients of interactions between SOE and priority sectors, and that of POE and priority sectors, shown in columns 3 and 4 of Table 5, have positive signs which are significant at the 1% and 5% levels, respectively. The findings suggest that both SOEs and POEs investing in government-designated priority sectors create value for the Chinese acquiring firms. However, the changes in firms' market values are higher for SOEs compared to POEs. Following Brambor, Clark and Golder (2005), who provide a comprehensive literature on multiplicative interaction models, we confirm the difference in market values of SOEs and POEs by estimating the net effects of the interactions of SOE*Priority

and POE*Priority.[11] The results indicate that the net effect for SOE*Priority is higher than the net effect for POE*Priority and provide support for H3. Overall, the findings suggest that the use of financial and other incentives helps Chinese acquiring firms to overcome their competitive disadvantages and improves wealth creation of these firms irrespective of ownership type; however, SOEs benefit more than POEs.

Consistent with prior studies, we find a number of control variables in our regressions to be significant. The study's results show that cultural differences tend to reduce the acquiring firm returns and such results are highly significant. This finding renders support to the conclusions drawn by the studies of Boateng *et al*. (2019) and Li, Li and Wang (2016), who found cultural distance to increase transaction cost and risk and negatively affect firm value. For firm-specific variables, we find that cash-financed acquisitions, relatedness, Tobin's Q, prior experience and the deal size impact on firm value. Specifically, we find cash as a method of payment for acquisitions and firm value of acquirers to be negatively related, suggesting that Chinese acquirers might over-pay the target firms due to overvaluation arising from information asymmetry between them and their overseas targets. As expected, we find acquirer Tobin's Q and prior experience positively influence firm value (Lang, Stulz and Walking, 1991). Regarding prior experience, we find prior foreign acquisition experience to improve firm value as expected (see Hitt, Hoskisson and Ireland, 2001). We find firm relatedness to be positively associated with firm value at the 1% level; however, deal size negatively affects firm value, with the effect being significant at the 10% level. Regarding geographical influences, acquisitions in Asia tend to create wealth for acquiring firms but acquisitions in North America and Europe appear to have an insignificant effect on firm value.

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[11]As recommended by Brambor, Clark and Golder (2005), we computed the net effects of SOE * Priority and POE * Priority. For SOE * Priority, the net effect is estimated: $(0.284 \times 0.41) + 0.110 = 0.22644$; 0.110 is the conditional effect of interaction between SOE and priority sector; 0.284 is the unconditional positive effect of SOE; and 0.41 is the average score. Using the same method, the net effect for POE * Priority is 0.14347. The market value is higher for SOE compared to POE.

Table 6. Incentives associated with state-directed policies to facilitate expansion

Government financial support	Number	Percentage
Interest rate reduction on loans	16	5.3
Tax support	45	14.9
Interest rate reduction and tax support	61	20.3
Interest rate reduction, tax support and subsidy	178	59.5
Total	**300**	**100.0**

Note: This table reports the fiscal/financial incentives provided by the home-country government to Chinese acquiring firms investing in priority sectors.

Sources of firm value underpinning state-directed policies

We explore the potential sources of firm value associated with state-directed policies. Under the 'go abroad' policy, Chinese firms investing in priority sectors (see Industrial Policy Guide OFDI No. 2006/1312) enjoy both financial and non-financial support such as low lending rates, tax support, subsidies and information about doing business in the target country. Table 6 reports the sources of support underpinning the government-directed policies. The table shows that the three main sources of fiscal/financial support offered to Chinese acquiring firms are interest rate reduction for loans, tax incentives and direct government subsidies. In terms of support offered to firms conforming to government-directed policies, 14.9% is in the form of tax incentives, representing the single largest source of incentives offered to acquiring firms. This is followed by interest rate reductions on loans, constituting 5.3%. Following that is a combination of interest rate reduction on loans and tax incentives, amounting to 20.3%, and lastly a combination of subsidies, interest rates reduction on loans and tax incentives, at 59.5%.

Robustness check and endogeneity concerns

In this section, we report the additional robustness checks of our results. First, we employed fiscal/financial incentives (identified in Table 6) offered by the Chinese government to acquiring firms investing in priority sectors as a proxy for government-directed investment policies (GOVSUBS). Second, we replaced CAR $(-1, +1)$ with a much longer event window $(-5, +5)$ as a measure of firm value. Next, the number of employees

Table 7. Robustness check

Variable	Column 1	Column 2
Constant	4.799	4.584
	(0.754)	(0.663)
GOVSUBS	0.133***	0.141***
	(2.850)	(2.690)
SOE	0.103**	0.109**
	(2.160)	(1.924)
POE	0.063	0.090*
	(1.230)	(1.624)
SOE*POE*GOVSUBS	–	0.126**
		(2.270)
Relative value	0.085	0.001
	(0.840)	(0.010)
Deal size	−0.094**	−0.075
	(−2.073)	(−1.309)
Acquirer size	0.017	0.004
	(0.372)	(0.072)
Cash hold	−0.054	−0.064
	(−0.768)	(−0.867)
Tobin's Q	0.129*	0.124*
	(1.667)	(1.656)
AROA	−0.081*	−0.074
	(−1.748)	(−1.456)
Cash payment	−0.228***	−0.224***
	(−3.229)	(−2.972)
Cultural distance	−0.156**	−0.192**
	(−2.137)	(−2.452)
Relatedness	0.159***	0.154***
	(3.491)	(3.145)
Prior experience	0.092*	0.091*
	(1.653)	(1.594)
Asia dummy	0.123	0.091
	(1.244)	(0.875)
Europe	0.029	0.032
	(0.583)	(0.626)
N. America	0.040	0.062
	(0.887)	(1.098)
Year dummy	Included	Included
Industry dummy	Included	Included
F-value	5.379***	5.175***
Adjusted R^2	0.149	0.174

Note: Cumulative abnormal returns for the event window $(-2, +2)$ is a dependent variable. Variables are defined in the Appendix. GOVSUBS is an alternative measure for the priority sector. Our specification includes year and acquirer industry dummies.
***p < 0.01.
**p < 0.05.
*p < 0.1.

was used as an alternative measure for acquiring firm size. Lastly, we employed the GLOBE data to measure the cultural distance (see House *et al.*, 2004). Following Kogut and Singh's (1988) estimation method discussed earlier, we compute the cultural distance by using all nine GLOBE

Table 8. *Propensity score matching results*

Panel A: Predicting the likelihood of acquisition in priority sectors

Variables	Coefficient	p-Value
Previous experience	0.364	0.012
Acquirer size	0.054	0.712
Relatedness	0.331	0.043
Intercepts	−0.969	0.000
Pseudo/adjusted R^2	0.039	
Number of cases	695	

Panel B: CAR results – treatment versus control groups

Event window	Control	Treatment	Difference	p-Value
CAR (−2, +2)	0.008	0.087	−0.078	0.066
CAR (−3, +3)	−0.020	0.056	−0.076	0.073
CAR (−5, +5)	−0.047	0.050	−0.096	0.024

Note: This table reports the results of the Logit model which estimates the likelihood of acquisition in the priority sector, with dependent variable equal to 1 if an acquisition is present, and 0 otherwise. CAR is cumulative abnormal return based on market model.

cultural dimensions (see Dikova and Sahib, 2013; Sarala and Vaara, 2010). Table 7 shows that the results of the explanatory variables relevant to the hypotheses are largely similar to the findings in Tables 4 and 5, with the net effect of the interaction of SOE*POE*GOVSUBS being positive.[12]

To overcome the self-selection bias often associated with the assessment of acquisition effects, we use propensity score matching (PSM), which generates a control group very similar to the treated firms based on observed firm characteristics for comparison (Dehejia and Wahba, 2002). We compare the mean CARs of a portfolio consisting of deals that involve the priority sector with a control group involving deals in the non-priority sector. Table 8 shows that acquisition in the priority sector increases firm value, thereby confirming our results reported in Tables 4, 5 and 7.

Conclusion

This paper investigates the impact of ownership type, state-directed investment policy and the ef-

fects of interactions between ownership type and home-country government investment policies on the firm value of Chinese acquirers. Using the event-study methodology, we find that Chinese firms making international acquisition investments generate abnormal returns for acquiring firms. We document that Chinese acquirers earn average abnormal returns ranging from 0.38% to 0.62% over the 21-day event window, indicating that Chinese international acquisitions create shareholder wealth. The results confirm the earlier findings of Du and Boateng (2015), who documented that Chinese international acquisitions increase firm value. The test of differences and the cross-sectional regression results evince some interesting features. Our results indicate that SOEs and acquiring firms investing in strategic sectors encouraged by the Chinese government obtain higher firm value compared to POEs and firms investing in non-priority sectors. Further analysis suggests that firms investing in government-designated strategic sectors earn abnormal returns irrespective of ownership type (i.e. SOEs and POEs). However, the returns for SOEs tend to be higher compared with POEs. Our results indicate that Chinese SOEs create more value compared to POEs, and the findings contradict the widely documented notion that POEs are better performers and more efficient. We therefore conclude that, notwithstanding the prevailing view that SOEs suffer severe agency costs and the host governments manifest hostility towards acquisitions by home-government-affiliated firms in sensitive technology sectors, these investments create value for Chinese acquirers. The underlying cause of the value creation may be that firms investing in designated strategic sectors convey positive signals to the market about state endorsement, the availability of financial resources at low cost and other forms of government support. As a result, these announcements elicit a positive reaction from investors and create value for emerging market firms. A further plausible explanation may be that SOEs from China have grown from poorly governed firms into viable and well-governed competitive firms due to the greater operational and investment autonomy given to the managers of these firms (see Bruton *et al.*, 2015; Ralson *et al.*, 2006). We also show that three main sources of fiscal and financial support are allied with the Chinese government-directed investment policy for firm internationalization, namely, interest

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[12]We estimate the net effect for SOE*POE*GOVSUBS as follows: $(0.126 \times 0.41) + 0.141 = 0.19266$, which is positive, suggesting that the combined effects of SOE, POE and government subsidies increase firm value.

rate reduction for loans, tax incentives and direct government subsidies, which drive firm value.

Contribution and implications

We make two important contributions to the literature. First, from the perspective of agency theory, a vast amount of literature documents that state ownership and firms associated with government are incompatible with efficiency in that the state tends to use such firms to pursue political and social objectives that conflict with profit maximization (Shleifer, 1998). Consequently, prior studies overlook the importance of financial resources associated with SOEs and government-affiliated firms, which may help to overcome institutional voids. Drawing on both the institution-based view and agency theory, we find that state ownership and firms associated with government enable Chinese firms to access resources at lower cost, overcome institutional impediments and, as a result, earn abnormal returns. Thus, our findings indicate that home-country government-directed investment policies provide an important vehicle to offset ownership disadvantages and location disadvantages of emerging-country firms investing in other countries, which significantly improves firm value.

Second, our findings provide a new framework of how state ownership, firms associated with government and home-government investment policies influence the value creation of emerging-market firms. Our findings indicate that home-country government-directed investment policies provide an important vehicle to offset ownership disadvantages and location disadvantages of emerging-country firms investing in other countries and help create value for Chinese acquirers. Thus, our framework suggests that home governments in emerging markets perform a vital role in shaping the internationalization and performance of emerging-market acquirers. This is important given that the majority of M&A research has focused largely on firm-specific factors and FDI inflows as a function of host-country incentive policies and how they influence a firm's efficiency and value creation (Gubbi *et al.*, 2010; Moeller and Schlingemann, 2005; Morck and Yeung, 1992). The effects of home-government investment policies on firm value have received limited attention (Tavares-Lehman, 2016).

However, recent research evidence suggests that, for firms investing in sensitive technology sectors, the support of the home government may endow them with suspicion and, in some cases, lead to imposition of restrictions which may increase cost and destroy firm value (OECD, 2016). Our findings show that, notwithstanding the costs and restrictions associated with government support for Chinese firms, they create value.

One policy implication is that home-country governments in emerging markets attempting to facilitate firm internationalization should use financial incentives – particularly, interest rate reduction for loans, tax incentives and direct government subsidies – as baseline incentives in addition to others to underpin government investment policies, as these incentives appear to be effective vehicles for creating value for acquiring firms. Another policy implication of our findings is that home-country government investment policies appear to help emerging-country firms' international expansion and enhanced opportunity to acquire resources and capabilities, help transform emerging markets and consequently increase shareholder wealth. However, it is pertinent to note that emerging-country firms benefitting from government-directed investment policies to facilitate international expansion may be viewed with suspicion, subjected to additional investment reviews and even become pawns to the political diplomacy of host and home governments. This calls for transparent and rule-based policies and governance systems to be developed and implemented by national governments in order to reduce the tensions associated with home-country government support and host-country government suspicion and concerns. For example, host-country governments can develop monitoring systems that will provide timely information about emerging-country firms' actions in host countries.

This study has illuminated the role of home-country government investment policies and their effects on acquiring firm value. However, given that this study focuses on home-country variables, the findings should be considered provisional. Consequently, further studies could examine home-country incentive in conjunction with specific host-country regulations regarding OFDI in sensitive technology sectors and employ both stock market- and accounting-based performance measures in a cross-country context.

Acknowledgement

Appendix

Measurement of independent variables

Variable	Measurement
SOE	Percentage of equity capital owned by central government, local government and government agencies and institutions as a majority shareholder (see Lin and Bo, 2012).
POE	Percentage of equity capital to total equity shareholding held by private individuals and non-governmental institutions in a Chinese firm as a majority shareholder.
Priority sector (Priority) & non-priority sector	Classification based on Chinese government document (No. (2006)1312) grouping sectors into priority and non-priority sectors for our sample. A dummy variable representing priority sector and non-priority sector was constructed. Companies backed by the Chinese government are coded 1, and 0 otherwise. Non-priority sector coded 1, and 0 otherwise.
SOE*Priority	Interaction between SOE and home-government investment policy proxy (Priority).
POE*Priority	Interaction between POE and home-government investment policy proxy (Priority).

(Continued)

Variable	Measurement
Cultural distance	Hofstede's (1980) four dimensions of national culture, namely, uncertainty avoidance, power distance, individualism and masculinity. Euclidean version of the Kogut and Singh (1988) index is used. We also use nine GLOBE dimensions of national culture for robustness check.
Regional location of the target (Region)	We include three regional dummy variables as follows: 1 if located in North America, 0 otherwise; 1 if located in Europe, 0 otherwise; 1 if located in Asia, 0 otherwise (Kiymaz, 2004).
Cash payment	Dummy variable which equals 1 if cash is used to pay for the purchase consideration, and 0 otherwise (Boateng and Bi, 2014).
Acquirer size	Natural logarithm of the total assets of acquiring firm (Moeller, Schlingemann and Stulz, 2004).
Deal size	Natural logarithm of the amount paid as a purchase consideration by the acquirer (Li, Li and Wang, 2016).
Relative value ratio	Calculated as the transaction value of the target divided by the total market capitalization of the acquirer prior to the bid announcement.
Acquirer cash flows (Cash hold)	Cash and cash equivalents divided by total assets.
AROA	Net profit after taxes divided by the average total assets at book value (Danbolt and Maciver, 2012).
Relatedness	A dummy variable which equals 1 if the acquirer and target are in a similar business, and 0 otherwise (Singh and Montgomery, 1987).
Prior experience	Number of prior international acquisitions made at the time of purchase.
Acquirer Tobin's Q	Market value of equity plus book value of debt over the sum of book value of equity plus book value of debt prior to the bid (Cuypers, Cuypers and Martin, 2017).
Year dummies	A set of dummy variables that control for time effect
Industry dummies	Acquirer industry dummies

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