Nonmarket Capital, Acquisition Strategy, and Firm Performance in Emerging Economies: Evidence from China

ZHANG, Lingqing

A Thesis Submitted in Partial Fulfillment
of Requirements for the Degree of
Doctor of Philosophy
in
Management

The Chinese University of Hong Kong

May 2011

UMI Number: 3497740

All rights reserved

INFORMATION TO ALL USERS
The quality of this reproduction is dependent on the quality of the copy submitted.

In the unlikely event that the author did not send a complete manuscript
and there are missing pages, these will be noted. Also, if material had to be removed,
a note will indicate the deletion.

UMI 3497740

Copyright 2012 by ProQuest LLC.

All rights reserved. This edition of the work is protected against
unauthorized copying under Title 17, United States Code.

ProQuest LLC.
789 East Eisenhower Parkway
P.O. Box 1346
Ann Arbor, MI 48106 - 1346

Thesis/Assessment Committee

Professor Hang-Yue Ngo (Thesis Supervisor)

Professor Daphne W. Y. Yiu (Thesis Co-supervisor)

Professor Chung-Ming Lau (Committee Member)

Professor Steven S. Lui (External Examiner)

Professor Kenneth S. K. Law (Chair)

ACKNOWLEDGEMENTS

It was a long journey before I finally reached here. During this journey, many people offered me generous help to make this dissertation possible.

First and foremost, I would like to express my deep gratitude to my supervisor, Prof. Hang-yue Ngo. He has provided incredible support to me. It is impossible for me to list every difficulty encountered in my four years' study in the PhD program but I do remember that he stood by my side, considered my perspectives, and provided all possible help along the way. Without him, I could not have finished my studies. I consider myself fortunate to have been his student.

Two other members in the doctoral committee gave me much needed guidance. Prof. Daphne Yiu discussed with me the general ideas and details of the subject. She guided me in macro strategy research, and taught me much knowledge and skills in this research field. Prof. Chung-Ming Lau provided insightful comments on my dissertation. Discussions with him were very helpful for me to improve the quality of my work.

My deep sense of gratitude and appreciation also go to two other professors who provided me help that I can never forget. Prof. Chi-sum Wong generously gave me financial support during my studies, enabling me to focus on my dissertation research. What is more, he taught me the value of principles in life and gave me knowledge that goes beyond the art of management. I admire his commitment to ethics, the wide scope of his knowledge, conceptual skills, and the care and support he provides to students. Prof. Yuan Lu also helped me a lot in my strategic research and my career development. I still remember those inspiring discussions about the institutional theory with him. Finally, Prof.

Shige Makino, Chairman of the department, cared a lot about students. He was always very busy, but he responded patiently to every student's questions about research, he attended almost every student's research presentations, and he introduced me many research and career opportunities. I appreciate very much for his help in my study in the department.

I have been fortunate to spend the formative years of my doctoral studies surrounded by an exceptionally unique collection of friends in Department of Management. Ms Yuanyuan Gong and I shared many happy hours together, and she never hesitated when I needed her help. Ms Yina Mao was always reliable and supportive. As senior students in the department, Mr. Weiwen Li and Ms. Yan Jiang were very patient whenever I had questions about research. Discussions with them were very important for me. In addition, Mrs. Shirley Tang and Mrs. Fiona Leung in General Office were very helpful and efficient in administrative issues. I hereby thank them all.

Lastly, I would like to thank my family for their unfailing love and support during my academic and career pursuit.

I am deeply indebted to all the above and those people whose names I cannot all list here. Thank you so much!

ABSTRACT

Acquisitions are regarded as a strategy to redeploy a firm's intangible assets, apart from tangible assets. A critical intangible asset to be redeployed in acquisitions is nonmarket capital, particularly in emerging economies. Nonmarket capital, defined as political capital, social capital and reputational capital that increase firm's institutional relatedness, has been viewed as an intangible asset of salient importance in emerging economies, for it can help firms enhance legitimacy, access market information and resources, and reduce uncertainty. And yet, the role of nonmarket capital in corporate acquisitions has been understudied. The main objective of this dissertation is to provide a comprehensive analysis of functions and dimensions of nonmarket capital, and examine how nonmarket capital is related to an emerging economy firm's acquisition strategy and performance.

Drawing from resource-based view and the signaling theory, I posit that substantial nonmarket capital generates value via substantial functions execution and by directly facilitating business transactions, while symbolic nonmarket capital helps signal a firm's underlying attributes and reduce market uncertainties. Accordingly, acquiring firms should leverage their nonmarket capital such that its substantive and symbolic functions can be effectively redeployed in target firms. In this study, I focus on three main target attributes, i.e. state ownership, product relatedness, and listing status that represent the uniqueness of strategic factor markets—political, product, and capital markets—in emerging economies.

Using China as the empirical context, data of 615 listed firms for 2003-2006 show that: (1) symbolic, instead of substantial, political capital interacts with state-owned targets and

is positively related to firm performance; (2) substantial social capital is positively related to product-unrelated targets and such strategy leads to superior firm performance; and (3) symbolic, as opposed to substantial, reputational capital positively affects firm performance in case of unlisted targets.

This dissertation aims to offer several contributions. First, this study enriches the concept of nonmarket capital by theorizing its different functions and dimensions, using the resource-based view and the signaling theory. Second, the study extends the acquisition literature to emerging economies context by highlighting nonmarket capital as a unique intangible asset to be redeployed in acquisitions and effects of nonmarket capital on corporate acquisitions. Finally, the study also offers strategic implications to managers in emerging economies by suggesting how they can leverage (or deploy) their nonmarket capital portfolios in pursuing corporate acquisition strategy.

Key words: nonmarket capital, acquisitions, China

摘要

一直以來文獻普遍認爲收購是重新利用公司的無形資產的一種企業戰略。在新興經濟體，一種能在收購中被再利用的重要的無形資產是非市場資本。非市場資本，即包括政治資本、社會資本、和信譽資本在內的能夠提高公司的制度相關性的資源，已經被認爲是在新興經濟體具有重要作用的無形資產。這是因爲它能夠幫助公司增加合法性、獲得市場訊息和資源、以及降低不確定性等。但是，對非市場資本在企業收購中的作用所進行的研究的很少。因此，本論文主要的研究目的是對非市場資本的功能和維度進行全面分析，並探討其怎樣影響及決定新興經濟體內公司的收購策略和績效。

從資源爲本理論和信號理論出發，我認爲實際性非市場資本通過執行實際功能來創造價值，而象徵性非市場資本通過對利益相關者傳遞信號揭露公司的隱藏特點並降低其不確定性，從而創造價值。因此，進行收購的公司能夠運用其擁有的非市場資本、從而使得該資本實質性的和象徵性的功能在收購物件上有效利用。在本論文中，我集中研究三種收購對象的特徵—國有股份、產品相關性、以及是否上市。這三個特徵分別代表新興經濟體三種重要的戰略要素市場（即政治市場、產品市場、和資本市場）的獨特性。

本論文使用中國在 2003 至 2006 年間進行過收購的 615 家上市公司的資料進行分析。結果顯示：第一，象徵性的而非實質性的政治資本與收購國有企業股份這一策略的聯合能導致較好的收購績效。第二，實質性的而非象徵性的社會資本會促使公司進行產品多元化的收購、並帶來較好的收購績效；第三，象徵性的而非實質性信譽資本與收購非上市公司這一策略的聯合會帶來較好的收購績效。

本論文旨在做出以下研究貢獻。第一，本論文以資源爲本理論和信號理論爲依託，創立了關於非市場資本的不同功能和緯度的理論模型，從而豐富了非市場資本的概念。第二，本論文強調非市場資本作爲一種獨特的無形資產可在收購活動中被再利用、並突出了其對公司收購行爲和績效的不同影響，從而豐富了對新興經濟體的企業收購的研究。最後，本論文在關於新興經濟體的企業應怎樣利用其擁有的非市場資本組合來決定收購策略這一論題上對企業管理者提供了啓示。

TABLE OF CONTENTS

ACKNOWLEDGEMENTS III
ABSTRACT V
TABLE OF CONTENTS VIII
LIST OF TABLES X
LIST OF FIGURES XI
CHAPTER 1. INTRODUCTION 1
Research Questions 1
Theoretical Framework 4
Contributions 7
Structure of Dissertation 10
CHAPTER 2. ACQUISITIONS AND FIRM PERFORMANCE 11
The Importance of Acquisition 12
Determinants of Acquisition Performance 14
Moderators of Acquisition Performance 17
Acquisition Strategy 19
Acquisitions in Emerging Economy Firms 21
Resources and Acquisitions 25
Summary 30
CHAPTER 3. NONMARKET CAPITAL IN EMERGING ECONOMIES 32
Linkage between Resource and Institutional Environment 33
Theory of Institutional Economics 35
Institutional Idiosyncrasies in Emerging Economies 38
Political dimension and government 39
Social dimension and business partners and investors 41
Legal dimension and the public 42
Summary 43
Market Capital 44
Nonmarket Capital 45
Definition and dimensions 45
Substantial versus symbolic nonmarket capital 48
The six types of nonmarket capital 57
Nonmarket Capital in Acquisition 76
Summary 77
CHAPTER 4. HYPOTHESES DEVELOPMENT 81
Strategies of Acquisition Target Selection in Emerging Economies 82
Political market—Acquisition of state-owned enterprises 84
Product market—Acquisition of product-unrelated targets 87
Capital market—Acquisition of unlisted targets 90
Nonmarket Capital and Acquisition Target Selection 93
Hypotheses 97
Political capital and acquisition 99
Social capital and acquisition 106
Reputational capital and acquisition 113

Summary 118
CHAPTER 5. METHODOLOGY 120
Empirical Setting: China 120
Sample and Data Collection 122
Measures 124
Dependent variables 125
Independent variables 128
Control variables 136
Model Specification and Analysis 141
CHAPTER 6. RESULTS 143
Statistical Power of Samples, Variables, and Test of Assumptions 143
Descriptive Statistics 144
Model Analyses and Hypothesis Tests 152
Acquisition of state-owned enterprises: Hypothesis 1a and 2a 152
Acquisition of product-unrelated targets: Hypothesis 3a and 4a 153
Acquisition of unlisted targets: Hypothesis 5a and 6a 155
Nonmarket capital and firm performance: Hypotheses 1b to 6b 156
Robustness checks 163
Summary of Results 165
CHAPTER 7. DISCUSSION AND CONCLUSION 167
Discussion of Research Findings 169
Political capital and acquisition 170
Social capital and acquisition 171
Reputational capital and acquisition 172
Review of Theoretical Framework 173
Contributions 174
Theoretical contributions 175
Practical contributions 179
Limitations and Future Research 180
Conclusion 184
REFERENCES 186

LIST OF TABLES

Table 2.1 Statistics of China acquisition activity in 1999-2008 13
Table 3.1 Definition and dimensions of nonmarket capital 59
Table 4.1 Review of hypotheses 118
Table 5.1 Examples of data coding and categorization 130
Table 6.1 Variable descriptions 145
Table 6.2 Distribution of deal numbers in each year by each firm 146
Table 6.3 Distribution of acquirer's industry 147
Table 6.4 Distribution of target's ratio of state-ownership in acquisition portfolio 147
Table 6.5 Distribution of target's ratio of product-unrelated targets in acquisition portfolio 148
Table 6.6 Distribution of target's ratio of unlisted targets in acquisition portfolio 148
Table 6.7 Descriptive statistics and correlations 150
Table 6.8 Results of fixed-effects model analysis on acquisition strategy—SOE as target 153
Table 6.9 Results of fixed-effects model analysis on acquisition strategy—product unrelatedness 155
Table 6.10 Results of fixed-effects model analysis on acquisition strategy—unlisted targets 156
Table 6.11 Results of fixed-effects model analysis on acquirer's post-acquisition performance (ROA) 159
Table 6.12 Results of robustness check on acquirer's post-acquisition performance (ROA) 164
Table 6.13 Summary of analysis results 166

LIST OF FIGURES

Figure 2.1 Research in acquisition performance 20
Figure 4.1 Theoretical model 96
Figure 4.2 Main effect model 98
Figure 4.3 Interaction effect model 99
Figure 6.1 Two-way interactions between symbolic political capital and acquisition of SOEs 160
Figure 6.2 Two-way interactions between substantial political capital and acquisition of SOEs 161
Figure 6.3 Two-way interactions between symbolic social capital and acquisition of unrelated firms 161
Figure 6.4 Two-way interactions between substantial social capital and acquisition of product-unrelated firms 162
Figure 6.5 Two-way interactions between symbolic reputational capital and acquisition of unlisted firms 162
Figure 6.6 Two-way interactions between substantial reputational capital and acquisition of unlisted firms 163

CHAPTER 1. INTRODUCTION

Research Questions

Acquisition has become a highly popular strategy for firm growth and expansion due to its potential benefits. For example, acquisition can help firms increase market share, acquire intangible assets like technologies, brands and managerial expertise, leverage slack, and seek complementary resources and capabilities, etc. Despite the popularity of acquisition as a strategy, findings on whether acquisition improves acquirer firm's performance and increases value for its stakeholders have been disappointing. As much as 70% of transactions have failed to achieve the original purpose of the acquirer (Peng, 2006a). For a long time, research has been focused on the central question of determinants of performance outcome of acquisition strategies; this is also the primary research question of this dissertation.

One stream of research views firm's characteristics and acquisition strategy used as the determinants of acquisition's outcome. The resource-based view (RBV) suggests that to generate competitive advantage, exploitation of a firm's existing resources during strategy implementation is as important as changing the stock of resources it owns (Barney & Arikan, 2001). One may expect that a firm's resource portfolio may have significant impacts on performance outcomes of its acquisition. The possession of resources boosts acquisition activities and is critical for acquisition success. Acquisition may create firm value only if "private and unique" or "inimitable" synergies exist between the acquiring and the target firm. Along this line of thought, three questions are raised, which are the research voids to be filled.

First, what kinds of resources are important in acquisition? This question becomes more salient when considering the impacts of institutional environment on corporate strategy to utilize resources. This dissertation focuses on acquisitions conducted by emerging economy firms. It is well-known that emerging economies have become important both economically and politically. Due to the vast institutional differences between these firms and firms of developed economies (Khanna, Palepu, & Sinha, 2005; Wright, Filatotchev, Hoskisson, & Peng, 2005), it is unwise to simply generalize Western theories to emerging economies without paying attention to the conditions that may drive or inhibit acquisitions there. From the perspective of the institution theory, North (1990) contended that any attempt to explore a firm's strategic choice requires an understanding of the institutional framework in which the firm operates. The formal and informal constraints of a particular institutional framework that managers confront are likely to determine firms' strategic behaviors and choices in a direct way (Dacin, Ventresca & Beal, 1999; Delios & Henisz, 2000; Khanna & Palepu, 2000, 2006; Lee, Peng & Barney, 2007; Meyer & Nguyen, 2005; Wan & Hoskisson, 2003). Peng (2006b) highlighted the dynamic interactions between institutions and companies, and considered strategic choices as the outcomes of such interactions. Therefore, the remarkable differences between institutional environments in emerging economies and developed economies make it crucial to examine institutional idiosyncrasies of institutions in emerging economies, before identifying the kind of resources that are of special relevance for emerging economy firms to conduct acquisition. In this dissertation, China is selected as the research context for several reasons. China is the world's largest emerging economy and the second largest economy. Its economic, political and legal institutions are yet to mature fully, and are in the transition.

Therefore, it is suitable for testing the theoretical model proposed in this dissertation.

Second, how do the resources generate value in the setting of emerging economies? Is it determined largely by fundamental features of focal resources? Understanding how resources affect acquisition can help evaluate the role of resources in acquisition performance. RBV has emphasized the importance of resources, but it does not explicitly explain *how* and under *what* conditions resources become beneficial. Hence, RBV needs some other theories to complement it. For example, the social capital theory discusses how social capital adds value - trust and the structure of the network explain some of the mechanisms. Resource dependency and stakeholder theory explain why some resources are critical while others are not, from the perspective of an open system. One notable theory is the signaling theory (Spence, 1973), which describes the process used by decision makers in situations of information asymmetry. Resources of symbolic characteristics can be used as a signal to stakeholders such as competitors, customers and the public, revealing invisible and inimitable characteristics of the focal firm. Thereby, the firm can acquire legitimacy from the stakeholders and influence outside stakeholders' decisions.

Third, what are the factors that determine the effect of resources on acquirer's performance after acquisition? One important factor is acquisition strategies used to leverage the resources. The concept of asset specificity has been proposed by Riordan and Williamson (1985) and Chiles and McMackin (1996). It refers to "the extent to which assets (e.g., physical, human or cultural) are specialized to a specific transaction and can be used only at lower value in alternative applications" (Chiles & McMackin, 1996, p. 74). Arguably, an appropriate acquisition strategy should fit "asset specificity" of focal resources used in acquisition so that the resources can be fully mobilized and performance

can be enhanced. Following this logic, the question becomes what types of acquisition strategies can best leverage the advantage (or the specificity) of focal resources in acquisitions in emerging economies.

The motivation of this dissertation, therefore, is to answer the above research questions. By doing so, it contributes to literature on research of acquisition and RBV.

Theoretical Framework

To fill the above research gaps, this dissertation develops and tests a theoretical model based on RBV, institutional economics, and the signaling theory.

First of all, nonmarket capital's dimensionality is explored, and its concept is enriched. Drawing on the theoretical foundation of RBV and institutional economics, this dissertation identifies nonmarket capital (including political capital, social capital and reputational capital) (Peng, Lee, & Wang, 2005; Yiu & Lau, 2007) as an important and special resource that emerging economy firms have been accumulating. These three types of nonmarket capital correspond to the three dimensions of institutional idiosyncrasies, and to a certain extent, increase firms' institutional relatedness and fix the issue of market failure in emerging economies. More importantly, based on RBV and the signaling theory, I further divide nonmarket capital into substantial and symbolic dimensions. Substantial nonmarket capital is the dimension that undertakes objective, substantial and tangible business functions. Specifically, substantial political capital is the capital generated from substantial experiences of dealing with bureaucracies and connections with bureaucrats and other elites, such as former government officials. Substantial social capital is the resource derived from personal networks with other business players that helps

execute substantial business functions. Substantial reputational capital refers to reputation that represents substantial social functions of the firm (i.e. production).

On the contrary, symbolic nonmarket capital is the resources that act as an indicator or signal to stakeholders of the organization's commitment or central and distinctive attributes that give it a competitive advantage over other organizations. Specifically, symbolic political capital is defined as grass-roots entrepreneurs' capital signaling to stakeholders that the focal firm maintains a good relationship with and can exert certain influence on the local government. Symbolic social capital is defined as a label signifying the high and central status of the firm in business network, as it generates from the position of business community leadership. Symbolic reputational capital pertains to an indicator showing the firm's (and top managers') competency and credibility. In view of the above differences, a typology of two-by-three of nonmarket capital is developed in this dissertation. To the best of my knowledge, few studies have explicitly differentiated substantial and symbolic mechanisms by which resources generate value for their owners. The value-adding acquisition strategies are identified according to the nature of each kind of nonmarket capital.

Moreover, influences of different types of nonmarket capital on the strategy of acquisition target selection and the subsequent performance outcome are investigated. The classical RBV seems to neglect the fact that simply possessing resources cannot guarantee higher economic returns. This dissertation emphasizes the importance of appropriate acquisition strategy that fits asset specificity of the focal resource, and argues that this is the key to value generation in acquisition. Three types of strategies of acquisition target selection are identified, based on the three strategic factor markets that are most relevant in

emerging economies. Then, it is argued that transactions in political capital like acquisitions of SOEs can best leverage advantages of symbolic but not substantial political capital. When firms consider retaining the current business scope and refining their advantages in the current product market, they should accumulate more symbolic social capital, as this type of resource is particularly helpful for searching for the appropriate target and integrating related targets. Finally, symbolic reputational capital can foster the confidence of the stakeholders, which is crucial when the firm is acquiring unlisted targets that are less known in capital market. Therefore, symbolic reputational capital is expected to promote acquisitions of unlisted firms and this combination of resources and strategy is also likely to result in acquirer's superior post-acquisition performance. The effects of substantial nonmarket capital, however, are contrary to the above functions of symbolic nonmarket capital. This is greatly due to distinctions between the two dimensions and their respective roles in emerging economies. As such, the conditions under which each type of nonmarket capital is value-adding or value-reducing are specified on the basis of whether the strategy of target selection leverages the advantages of the focal nonmarket capital.

In summary, drawing from resource-based view and the signaling theory, I posit that substantial nonmarket capital generates value via substantial functions execution while symbolic nonmarket capital helps signal a firm's underlying attributes and reduce social uncertainties. Therefore, it is proposed that acquiring firms should leverage their political, social and reputational nonmarket capital such that substantive and symbolic functions of such capital can be effectively redeployed in the target firms. In this study, I focus on three main target attributes—state ownership, product relatedness and listing status. These represent the uniqueness of strategic factor markets—political, product and capital markets,

in emerging economies. A number of hypotheses are developed based on the above conceptual framework. Then, I test the hypotheses by using archival data from Chinese listed companies, which are typical enterprises in China.

Contributions

The focus of this dissertation is on nonmarket capital, a special and important kind of resource in emerging economies such as China. Based on institutional economics and RBV, I attempt to develop a theoretical model by exploring nonmarket capital as an important resource for most organizations in emerging economies and examine its definition, nature and dimensionality. Then I review extant acquisition literature on determinants of acquisition strategies and performance outcomes. Based on the above, I study the role of resources in determination of acquisition outcomes and discuss how acquisition target selection influences value creation via nonmarket capital. Drawing on the theoretical arguments presented, I derive two sets of hypotheses, the first of which pertains to the relationship between each type of nonmarket capital and the acquisition strategy used to leverage it. The second focuses on the performance outcome of "match" and "mismatch" of nonmarket capital with acquisition strategy.

Overall, this dissertation attempts to make two contributions to the current literature. First is in terms of advancing acquisition literature and the second is in terms of nonmarket capital. The dissertation examines an important phenomenon in a new research context. It is a pioneer in domestic acquisitions in China. Decades ago acquisition was rarely seen in emerging economies. In recent years, more and more firms have adopted acquisition as a way of growth, and many of them have even started eyeing overseas acquisitions. However,

previous research has been largely in the context of developed economies and hence has been mostly focusing on market capital such as equipment, financial assets, or technologies. The patterns and motives of acquisitions in emerging economies have remained unexplained. This dissertation examines some special features of acquisitions in emerging economies.

Nonmarket capital is first identified as an important resource for emerging economy firms, which is expected to influence acquisition strategy and outcomes. The dissertation provides evidence that on top of market capital (i.e. traditional resources like financial capital and human capital), acquirer's nonmarket capital can also determine its post-acquisition performance, especially in emerging economies. Acquisition strategy is further identified as a moderator in the linkage between nonmarket capital and acquirer's performance outcome. The target selection strategy is linked to three strategic factor markets that are of special importance in emerging economies. The three linkages (i.e. political capital—political market, social capital—product market, and reputational capital—capital market) are determined by asset specificity of each type of nonmarket capital. Further, the outcomes of each acquisition strategy in each factor market are determined, to a large extent, by two mechanisms via which resources generate value, i.e. symbolic vs. substantial. As such, this study offers an important explanation for the mixed findings on acquirers' post-acquisition performances in previous studies.

Another major theoretical contribution of this dissertation is about nonmarket capital. It highlights the fundamental values of nonmarket capital such as increasing institutional relatedness in emerging economies context and catering to certain stakeholders. It also outlines the appropriate conditions in which the three dimensions of nonmarket capital,

political, social and reputational capital, are relevant in political market, product market and capital market, respectively. Besides, it describes the characteristics and mechanisms of value generation by substantial and symbolic nonmarket capital as explained by RBV and the signaling theory, respectively. In so doing, the present research fills a research gap in RBV by incorporating arguments of institutional economics and the signaling theory.

The proposition that "institutions matter" is hardly novel or controversial. What is interesting is *how* they matter. Institutional economics is used to examine the political, legal, and social dimensions of institutional idiosyncrasies in emerging economies, and then to specify the core value of political, social and reputational capital so as to increase the institutional relatedness of firms to these three dimensions.

On the basis of this, I incorporate the signaling theory and explore the mechanisms by which symbolic nonmarket capital generates value, signaling firm's underlying attributes to its stakeholders and influencing their strategic actions. This mechanism contrasts with the usual way by which resources generate value, i.e. via substantial, direct and down-to-earth functions execution as explained by RBV. Two dimensions of nonmarket capital are identified, based on this salient difference. Few studies have explained how and why different resources (e.g., nonmarket capital) generate value on effective utilization. This dissertation develops a two by three typology of nonmarket capital, addressing both the institutional effect and the mechanism of value generation.

Moreover, I examine the conditions under which nonmarket capital is beneficial or detrimental to firm performance, and identify corporate strategies as one determining factor that affects the effect of nonmarket capital on acquisition outcomes. Past studies have mainly emphasized the positive value of nonmarket capital; few have examined the

way to manage and create value out of nonmarket capital. This study proposes the contingent value of nonmarket capital. Specifically, I explain when and why different combinations of strategies (i.e. acquisition target selection strategies) and resources (i.e. nonmarket capital) are beneficial or harmful in specific institutional environments (i.e. emerging economies). This moderating effect of acquisition strategy further specifies the role of nonmarket capital in acquisitions in emerging economies.

Structure of Dissertation

The remaining parts of the dissertation are organized as follows. Chapter 2 provides review of literature on acquisition. Research questions are defined after research gaps are identified. The theme of the dissertation—studying the kind of resources critical for acquisitions in emerging economies—is determined at the end of this chapter. In Chapter 3, after reviewing extant research about institutional economics and institutional idiosyncrasies in emerging economies, the definition and a typology of nonmarket capital are developed based on RBV and the signaling theory. Chapter 4 is hypotheses development. A theoretical model is presented to answer the questions raised in previous two chapters. Chapter 5 is the methodology section, in which samples, data collection, measures and operationalization, and analytical methods are described. Chapter 6 reports the empirical results. Chapter 7 summarizes the whole dissertation and discusses the contributions, limitations, and future research.

CHAPTER 2. ACQUISITIONS AND FIRM PERFORMANCE

Since the first wave of acquisitions in the United States, which started after the Depression of 1883, until the present upsurge in worldwide acquisition activity, a large body of literature on the topic has been accumulated. Early acquisition research originated in the fields of finance and economics. Economists have primarily emphasized motives for and types of acquisitions, besides analyzing their implications for firm performance and industry restructuring (e.g., Matsusaka, 1993). Research in finance has mainly focused on whether acquisitions create shareholder value around the announcement date (e.g., Jensen & Roeback, 1983). A common conclusion in virtually all studies in these research streams was that acquisitions do not create value for the acquiring organizations, but do regularly entail large positive abnormal returns for target firms (Agrawal & Jaffe, 2000). However, given the vast differences between economic and social institutions in developed and emerging economies, it is unwise to generalize conclusions of these studies to the context of emerging economies.

In this chapter, after highlighting the importance of acquisitions as a type of corporate strategy, I first discuss generic research on acquisitions with an emphasis on determinants and moderators of acquisition performance. Next, I review some differences between acquisitions in emerging economies and those in developed economies. Finally, I briefly review the theoretical base of the linkage between resources and acquisitions, and argue that resources play an important role in acquisition decisions and outcomes. The central research questions of this dissertation are posed after all the reviews.

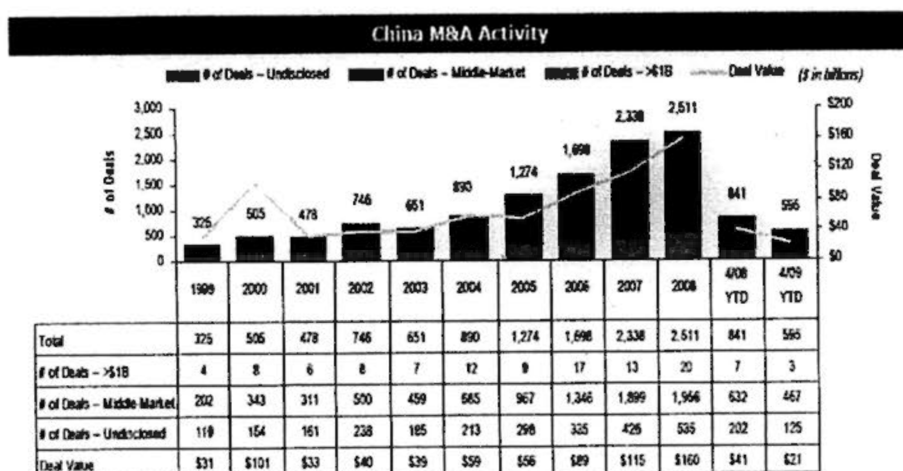
The Importance of Acquisition

Acquisitions (Siegel & Simons, 2010) is a strategy of firm growth through external expansion, rather than organic or internal growth. In general, acquisition refers to "the purchase of stock in an already existing company in an amount sufficient to confer control" (Kogut & Singh, 1988, p. 412). Acquisitions are generally classified as vertical, horizontal and conglomerate acquisitions. Acquisitions can help speed up innovation or learning process, upgrade the efficiency of particular activities such as research and development (R&D), marketing and distribution and manufacturing methods, etc., enlarge market share, and provide access to intangible assets like brand names, technologies, and manpower (Eun, Kolodny, & Scheraga, 1996; Hitt, Harrison, & Ireland, 2001). In this dissertation, acquisition specifically refers to the purchase (i.e. acquisition) of stock of another company, and the purchase does not necessarily result in controlling rights. Although there may not be a change of majority ownership, this definition already covers the essence of acquisition: risk taking, importance of asset evaluation and pricing, integration problem, synergy realization and so on. Moreover, this dissertation studies the relationship between resources and acquisition outcomes and, therefore, this definition is appropriate for this central theme and can cover more samples concerning resources usage.

As an important corporate strategy, acquisition has been a very popular growth strategy in recent decades. In 2004, 30,000 acquisitions were completed globally, equivalent to one transaction every 18 minutes (Cartwright & Schoenberg, 2006). The total value of these acquisitions was $1,900 billion, exceeding the GDP of several large countries. Even in emerging economies such as China, acquisition is blooming. According to an analysis conducted by PricewaterhouseCoopers, China's acquisition deals increased

34 percent in value between 2004 and 2005. Overall acquisition activity in China grew 34 percent in 2005 to reach US$46.4 billion in value, over the US$34.6 billion recorded in 2004. The number of announced deals climbed 14.5 percent to 857 in 2005 compared with 749 in 2004. In the year 2006, Wanke officially obtained controlling rights in Zhejiang Nandu Real Estate Group. The transaction was valued at more than RMB 3.6 billion and took 2 years to complete. It was the largest acquisition deal in real estate industry in China. Table 2.1 shows the statistics and the trend of China's acquisition activities in the period of 1999-2008. The basic trend is increasing over time.

Table 2.1 Statistics of China acquisition activity in 1999-2008



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	4/08 YTD	4/09 YTD
Total	325	505	478	746	651	890	1,274	1,698	2,338	2,511	841	595
# of Deals – >$1B	4	8	6	8	7	12	9	17	13	20	7	3
# of Deals – Middle Market	202	343	311	500	459	665	967	1,346	1,899	1,956	632	467
# of Deals – Undisclosed	119	154	161	238	185	213	298	335	426	535	202	125
Deal Value	$31	$101	$33	$40	$39	$59	$56	$89	$115	$160	$41	$21

Source: Dealogic and Robert W. Baird & Co. Incorporated M&A Market Analysis.

Adopted from Dealogic

Given this popularity of acquisition, several important questions arise. What is the performance outcome of acquisitions? What are the differences between acquisitions in emerging economies and developed economies? And how does institutional environment,

or acquisition strategies, or other factors determine the performance outcome? To answer these questions, the following literature review discusses generic research and current empirical results in the field of acquisition performance. After that, the uniqueness of acquisitions in emerging economies is examined.

Determinants of Acquisition Performance

Despite their popularity, acquisitions appear to have resulted in at best a mixed performance outcome for the broad range of stakeholders involved. While target firm's shareholders generally enjoy positive short-term returns, investors of bidding firms frequently experience underperformance by their shares in months following an acquisition, with negligible overall wealth gains (Jensen, 1988). Agrawal and Jaffe's (2000) comprehensive review suggested that in aggregate abnormal returns accruing to acquiring firms in the year following an acquisition are negative or, at best, not statistically different from zero. However, approximately 35-45% of acquirers do achieve positive returns in two to three years following the acquisition, with reported standard deviations of around 10% from the mean return (Cartwright & Schoenberg, 2006). The need to explain the antecedents of this variance lies at the heart of a large part of acquisition research. The main focus of strategic management research concerning acquisitions has been identification of strategic and process factors that help explain performance outcomes of acquiring firms.

There are three perspectives for examining the determinants of acquirer's post-acquisition performance. First, the pre-acquisition contingencies literature emphasizes pre-acquisition conditions which determine failure or success of these

transactions (Lubatkin, 1983). Such contingencies include an acquirer's prior acquisition experience (Haleblian & Finkelstein, 1999), relative size of the acquiring and target organizations (Lubatkin, 1983), business relatedness based on industry affiliation (e.g., Chatterjee, 1986), type of growth strategy (Howell, 1970), similarity of assets (Shelton, 1988), type of product market served (Seth, 1990), and organizational and strategic fit between an acquirer and the target, based on several strategic attributes. The main argument is that acquisitions that involve organizations which "fit" each other create synergies which, in turn, contribute to acquisition performance. While little consensus has emerged from this work (King, Dalton, Daily, & Covin, 2004), recent extensions to this perspective have provided detailed insights into value-creation mechanisms within acquisitions based on resource sharing (e.g., Capron & Pistre, 2002) and knowledge transfer (e.g., Ahuja & Katila, 2001). In addition, adopting a human capital perspective, Siegel and Simons (2010) found that acquisitions enhance plant productivity, and firm performance does not decline in the aftermath of these ownership changes.

Second, the "process" literature has focused on the role that the choice of integration strategy and acquisition process itself can play. Pre-acquisition factors like information gathering about a potential target, preliminary planning of the transaction, due diligence (Buono & Bowditch, 1989), during-acquisition factors like negotiation and bargaining power, and post-acquisition integration (Birkinshaw, Bresman, & Håkanson, 2000) have been taken into consideration. A key contribution of this approach has been the provision of contingency framework for the form of post-acquisition integration (Cartwright & Cooper, 1996) and an understanding of how different integration approaches may impact the ultimate outcome of the union (Child, Pitkethly, & Faulkner, 1999).

Strategy and organizational behavior scholars have highlighted that inappropriate decision making, negotiation and integration processes can lead to inferior acquisition outcomes. Notably, they argue that the primary determinant of acquisition success is the effective integration of the involved firms. This process comprises procedural integration of administrative, operating, management control, and strategic planning systems and procedures, physical integration of product lines and technologies to facilitate sharing of resources, as well as social integration of the involved workforces (Shrivastava, 1986). Besides, human resource management scholars emphasize the importance of communication, trust and mutual understanding between workforces of the acquiring and the acquired organizations (Schweiger & DeNisi, 1991), prevention of post-acquisition turnover of acquired organization's executives (Walsh, 1988), and the effective management of employee stress (Ivancevish, Schweiger, & Power, 1987), besides other psychological and emotional issues that arise after an acquisition (Marks & Mirvis, 1985). The central premise of these studies is that through effective communication, retention of top managers of the acquired firm, and active human resource management, the acquirer may be able to better coordinate and control the integration process and more easily resolve potential conflicts generated from acquisitions (Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986).

A final perspective pertains to the cultural dynamics of acquisitions. Poor culture-fit or a lack of culture compatibility has been a much cited reason for failure of acquisition returns (Cartwright & Schoenberg, 2006). This perspective could be viewed from both pre-acquisition angle and process angle. On the one hand, cultural fit may be considered as a type of "organizational fit". On the other hand, cultural fit may also influence the

integration process. The extent to which dissimilar cultures are made compatible after an acquisition, not the pre-acquisition culture fit, constitutes the main determinant of acquisition performance (Nahavandi & Malekzadeh, 1988; Olie, 1994).

The above paragraphs review the perspectives explaining acquirer's post-acquisition performance. This dissertation combines "pre-acquisition" and "process" perspective and focuses on the role of acquirer's special resource portfolio and acquisition strategies, aiming to reveal the determining factors of acquisition success in a special institutional environment, i.e. emerging economies.

Moderators of Acquisition Performance

Haleblian and Finkelstein (1999) summarized factors that moderate acquisition performance into several types: deal characteristics, managerial effects, firm characteristics and environmental factors. Regarding deal characteristics, a common argument asserts that managers finance acquisitions with cash when they perceive their firms are undervalued and with stock when they perceive their firms are overvalued (King et al., 2004). Fuller, Netter and Stegemoller (2002) found that private and subsidiary acquisitions increased bidder performance regardless of method of payment, but returns were greater when stock financing was used. Moreover, the agency perspective argues that executive equity and compensation influence interest alignment. Following these arguments, finance and management scholars have examined the influence of various ownership and compensation schemes on the acquisition—performance relationship. Mixed effects have been reported (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009).

The second factor is managerial expertise. The market appears to value the expertise and knowledge held by key executives of the target as their post-acquisition departures have been shown to negatively affect acquisition performance (Krishnan, 1997). Furthermore, extant research suggests that cognitive influences figure significantly in acquisition performance. Specifically, perceptions of task, cultural and political characteristics (Pablo, 1994) affect managers' acquisition judgments and acquisition performance.

The third factor is firm characteristics. Scholars have paid particular attention to the role of historical operating performance in acquisition events. For example, Heron and Lie (2002) showed that acquirers experienced strong operating performance both before and after acquisitions. Haleblian and Finkelstein (1999) found that the relationship between acquisition experience and acquisition performance was U-shaped, but not positively linear. Furthermore, post-acquisition performance tends to increase when bidders with high market-to-book ratios acquire targets with low market-to-book ratios. Some scholars (e.g., Beckman & Haunschild, 2002) have also argued that firm size affects the performance of acquisitions.

Finally, several scholars have proposed that temporal and environmental effects influence market response to acquisitions. For example, McNamara, Haleblian and Dykes (2008) pointed out that on average, firms that acquire early during an industry acquisition wave achieve positive returns, whereas the market punishes later acquirers. Recent research on strategic risk-taking has found that regulatory changes under the Sarbanes-Oxley Act have influenced CEOs' strategic decisions (Devers, McNamara, Wiseman, & Arrfelt, 2008).

Based on the third factor of firm characteristics, this dissertation proposes an important moderator that influences acquisition success - acquisition strategy (i.e. target selection).

Acquisition Strategy

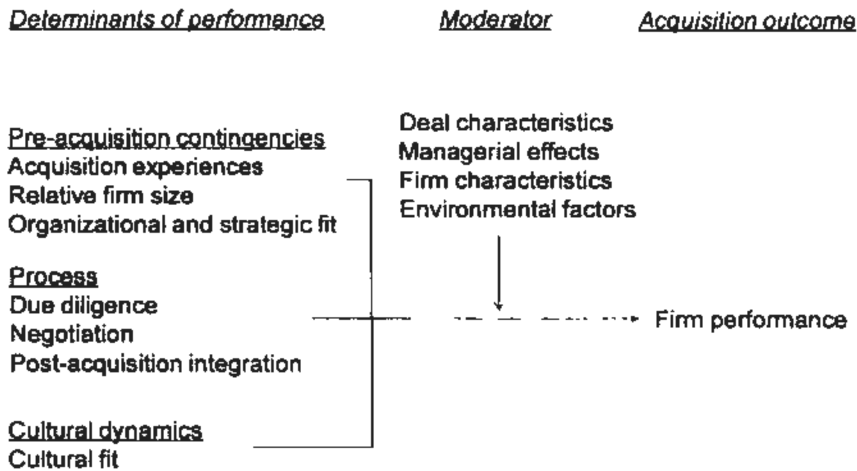
The above literature review suggests several determining factors of acquisition performance. However, little work has been done to conceptually identify or empirically measure acquisition strategies leading to specific outcomes (Maurer & Ebers, 2006). One of the most commonly used methods of identifying acquisition strategies was developed by The Federal Trade Commission of USA (FTC). The FTC classifies acquisitions into five types according to the economic relationship between merging firms. These types include horizontal, vertical, product extension, market extension and conglomerate acquisitions. Another method adopted by Hopkins (1987) distinguishes between marketing-relatedness, technology-relatedness and conglomerate acquisition strategies. Current research concerns more about acquisition speed (or rate), timing, product and geographic relatedness and so on.

Several factors that influence acquisition strategies have been identified. Below are some examples. Cote, Langley and Pasquero (1999) contended that the core activities and history of a firm can be used to explain its acquisition management behavior, such as opportunistic acquisitions with a short-term focus. Deutsch, Keil and Laamanen (2007) found that stock and stock options paid to outside directors are related in an inverted U-shaped manner to a firm's acquisition rate and that for stock options, this relationship is moderated by board composition. Xu, Zhou and Phan (2010) conceptualize sequential acquisitions as a real-option-based strategy, which results from and seeks to solve

valuation uncertainty through information gathering and learning after making a toehold purchase.

To summarize, Figure 2.1 outlines the above major perspectives explaining determinants and moderators of acquisitions performance in generic research.

Figure 2.1 Research in acquisition performance



Among others, target selection is an important strategy in acquisitions, as it relates to the fundamental problems of acquisition such as fulfillment of strategic goals, price of the deal, and the post-acquisition integration. Despite its importance, target lemons problems (i.e. choosing the unsuitable target to acquire) may result from mistakes in steps of search and screening, strategic evaluation, and financial evaluation. It is always difficult for acquiring firms to select the right targets. Time pressures, organizational complexity, unfamiliar product or geographic markets and the challenges surrounding appraisal of

intangibles can hamper a suitor's valuation and negotiation efforts (Reuer, 2005). Pablo, Sitkin and Jemison (1996) emphasized the role of risk in acquisition decisions and pointed out that studying risk is essential when appraising an acquisition candidate. Another reason for target lemon problem is incentive asymmetries. During search and screening, professionals (i.e. financial intermediaries) have superior information about potential target companies, while acquiring firms have limited time for exchanging information. But managers and professionals have higher incentives to find a target than owners (Parvinen & Tikkanen, 2007). Sellers also have natural incentive to inflate their representation of the quality of the offering in order to command a higher sale price. A basic solution for the target lemons problem is to have a strategically meaningful motivation, a deep understanding of their resource portfolio and sufficient information, and to follow this motivation and utilize the resources along the whole process.

Acquisitions in Emerging Economy Firms

Most of the research on acquisition reviewed above focuses on transactions in developed economies where acquisitions are supported by market institutions (Cartwright, 2005). Only a few studies have examined this phenomenon in emerging economies (He, 2009). As emerging economies are becoming more and more important economically and politically, more studies are called for on this topic.

Emerging economies are low-income, rapid-growth countries using economic liberalization as their primary engine of growth (Arnold & Quelch, 1998; Peng, 2003). Emerging economies are an ideal context to examine organizational phenomena using the institutional theory because of the rising importance of these economies and their

astonishing differences from developed economies (Meyer & Peng, 2005; Wright et al., 2005). On the theory side, emerging economies are characterized as moving towards "marketization" but still heavily regulated, providing the necessary institutional influences for developing and testing theories. Of the 64 emerging economies identified by Hoskisson, Eden, Lau and Wright (2000), 51 are rapidly growing developing countries and 13 are in transition from centrally planned economies to market economies (often known as "transition economies"). Some scholars stress that most emerging economies may be called network societies (Wellman, Chen, & Dong, 2002), where social relations and long term orientation are highly valued (Peng & Heath, 1996), and the boundary between government and business is blurred (Li, Lin, & Arya, 2008). On the practice side, emerging economies also play an important role as they are assuming an increasingly prominent position in the world economy. Emerging economies accounted for 39.7% of the global economy in 1990 and their share has since increased to 48% (2006). In terms of purchasing power parity, contribution of four leading emerging economies "BRIC" (i.e. Brazil, Russia, India, and China) to world economic growth rate has reached 50% (Internet statistics). China's economy overtook Germany in 2007, a year earlier than expected, and has overtaken Japan in the second quarter of 2010 as the second largest economy in the world.

The rising importance of emerging economies due to their fast growth and the uniqueness of their institutional environments have brought up an inevitable question for scholarly research, which does not appear to been answered adequately: Whether the western framework applies in emerging economies or not? If not, is there any modification needed? Do certain institutional idiosyncrasies and resources drive firms to adopt certain types of acquisition strategies? Do these institutions and resources relate to acquirer's

post-acquisition performance? The vast differences in institutional environment make it risky to generalize Western theories to emerging economies without a systematic understanding of the conditions that drive acquisitions in these settings. Moreover, the unique nature of management in emerging economies offers the potential to shift many of the current paradigms in management research when the role of national culture and other contextual variables is taken into consideration (Lau, 2007; Leung, 2007). Before addressing these questions, the first that needs to be answered is how acquisitions in emerging economies are different from those in developed economies.

Several differences between emerging and developed economies in terms of their institutional frameworks and the resultant characteristics of acquisitions are identified in literature. First, in political dimension, administrative bureaucracies in emerging economies like China have long dominated the process of governance (Potter, 1999). Government intervention (especially in state-owned enterprises, which account for a large proportion of the economy in many emerging economies) creates obstacles in management decisions, including acquisitions. Non-executive directors in emerging economies generally have less authority and legitimacy to monitor and discipline managerial actions compared to developed economies (Dutta, 1997). Agency problems result in problems related to acquisitions, like CEO empire-building. Moreover, excessive government intervention in markets, especially financial markets (Wade, 2004), makes economic transactions difficult. Emerging economies like China need a more robust system of corporate governance, greater transparency, and more predictable legal systems (Financial Times Special Reports, Oct. 1st, 2009).

Second, in social dimension there exists severe information problem. Recent research

by Xu, Zhou and Phan (2010) has found that in developed economies, where capital markets are relatively information-efficient, bidders generally face the same information about the target. In contrast, emerging economies such as China are characterized by a high level of information asymmetry. Acquirers in this environment have disparate access to information, and hence face varying degrees of valuation uncertainties, which influence their strategic responses. Under such conditions, an acquirer may overcome its information disadvantage by first becoming a shareholder of the target firm, and then capitalizing on this position to gather information on the target (Barclay & Holderness, 1990).

Lastly, in legal dimension, weak intellectual property regulations and law enforcement are unfavorable for development of the corporate control market (Allen, Qian, & Qian, 2005). For example in China, prior to the approval of the United Contract Law in March 1999, only limited protection was granted and that too to certain specified types of contracts (Potter, 2001). Djankov, La Porta, Lopez-de-Silanes and Shleifer (2003) provided an index of legal formalism as a proxy of contracts' enforceability, wherein China is below the world average. A World Bank database measuring the efficiency of contract enforcement ranked China 59th in 2005 and 63rd in 2006, among 175 countries in the world (higher rank represents more efficient contract enforcement). Thus we would expect that emerging economy firms may possess different kinds of resources, adopt different strategies, and have different motives in acquisition transactions. Correspondingly, factors influencing acquisition success could be different as well.

China is the largest emerging economy and has been selected as the study context of this dissertation. During the years 2002 to 2006, merger and acquisition activities have become more normalized. China's industrial growth has accelerated. Chinese government

has been trying to increase industry concentration so as to promote industry upgrade. Acquisition has become an important strategy for large central and local state-owned enterprises to increase their competitive advantages. Some laws and regulations about mergers and acquisitions have been promulgated by the regulatory authority. Government, though still leading Chinese listed firms' acquisition activities (as most of them are state-owned), has begun to encourage market-oriented acquisition activities (ChinaSecuritiesRegulatoryCommission, 2009)

In acquisitions conducted by Chinese listed firms, several important characteristics deserve special notice. First, the Chinese government encourages central government owned enterprises to take up leading positions in several strategically important industries, including auto industry, electronic communication, construction, steel and chemical industry, etc. This strategy seriously influences the strategic motives and actions of state-owned enterprises in China. Some SOE managers aim to attract full attention from government during this phase of industrial restructuring and, therefore, the restructuring they initiate is not necessarily in the best interests of shareholders. In addition, product-relatedness of acquisition deals is also heavily influenced by government's industrial policy. Second, government intervention is severe in transactions in China. Local governments over-protect their own interests and may hinder the progress of some transactions. This results in lack of efficiency and justice in capital market.

Resources and Acquisitions

The trend towards globalization of economic activities is forcing firms to reconsider both scope and organization of their value-added activities. One of the responses is to

"concentrate on critical competency", which is to leverage existing ownership-specific advantages (Dunning, 1995). In particular, firms tend to specialize in activities that require resources and capabilities that firms already have or can acquire and build a competitive advantage accordingly. The resource-based view (RBV) theorist (Wernerfelt, 1984) argued that organizational resources play a central role in competitive success. Barney pointed out that resources are valuable when they enable a firm to conceive of or implement strategies that improve its efficiency and effectiveness. To generate competitive advantage, a firm's exploitation of existing resources during strategy implementation is arguably as important as changing the stock of resources it owns (Barney & Arikan, 2001). As such, RBV concedes a role for the manager in perceiving opportunities, matching them to available resources, and augmenting the resources as may be necessary to implement the strategy. RBV enables us to gain a better understanding of how managers exploit market imperfections, in both resource (e.g., capital) and product markets, to enhance firm performance. This idea was also underscored by Dawar and Frost (1999) who suggested that in essence, a firm must understand the relationship between its assets and the changing nature of the institution in order to generate rents. Based on RBV, this dissertation specifically focuses on the role of resource in acquisition strategy and performance.

The linkage between acquisition and firm's resources like nonmarket capital can be explained from two angles. First, the possession of resources boosts acquisition activities in terms of deal numbers and is critical for acquisition success. In support of this, Dunning (1980) argued that the possession of underutilized resources like entrepreneurial and organizational capacity drives acquisition. Also, ample evidence demonstrates that resources of firms involved in acquisitions influence future product market performance

(Lubatkin, Schulze, Mainkar, & Cotterill, 2001). This is because acquiring firms' existing resources not only finance the transactions, but at a more fundamental level they also determine the strategic choices of the acquiring firms. And finally, the significant relationship between expertise of top executives and corporate diversification strategy indicates that strategy and managerial resources are closely related to each other (Song, 1982).

Second, appropriate leveraging of resources is the key step to acquisition success. Barney (1988) suggested that acquisition may create firm value if "private and uniquely" or "inimitable" valuable cash flows exist between acquiring and target firms. Rare resources that are apparently idiosyncratic to the firm are more ambiguous to other firms (Reed & DeFillippi, 1990) and, therefore, less imitable. Lockett, Thompson and Morgenstern (2009) argued that growth of the firm involves discovering new market opportunities and using existing resources in sync with these opportunities. On this theoretical basis, acquisition is viewed as a means to deploy resources at hand and generate ample returns. Acquirers exploit their resource sets by both adding to existing areas of strength and deploying resources in new areas. Many studies have supported these arguments. Capron and Pistre (2002) found that acquisitions create value for the acquirer when competitors cannot duplicate the synergy. This occurs when the acquirer controls some unique resources which can be leveraged in the target's context. In a similar vein, other scholars have argued that managers view horizontal acquisitions as a means of facilitating redeployment of assets and competency transfers to generate economies of scale. Capron, Dussauge and Mitchell (1998) found that horizontal acquisitions often led to significant resource realignment between acquirers and targets.

It can be inferred from the above discussions that the ability of a firm to realize synergy in an acquisition depends significantly on whether it is equipped with the requisite firm characteristics needed to capitalize on the opportunity and turn the potential into reality. Specifically, as argued by Chatterjee (1986), the amount of economic value that will result from an acquisition depends on both the amount of resources held by the firm and availability of opportunities to utilize the resources. Acquisition is traditionally conceptualized as a strategy of growth and expansion, but it is also a way to utilize resources so as to create value. Firms use acquisitions to leverage their unique ownership advantages such as resources (Ahuja & Katila, 2001; Capron & Pistre, 2002; Rui & Yip, 2008). Sirmon, Hitt and Ireland (2007) contended that resource management is the comprehensive process of structuring the firm's resource portfolio, bundling the resources to build capabilities, and leveraging resources for creating and maintaining value for stakeholders. Based on the above two links between resource and acquisition and this nature of acquisition, in this dissertation, I frame acquisition as an opportunity to utilize, and a means to manage, resources, so as to capture market opportunities and create value. So, managers should trace the special characteristics of key resources and adopt the appropriate acquisition strategy that can leverage the advantages of the resources.

Despite this linkage, however, acquisition scholars have paid little attention to *how* (i.e. the mechanisms) and *when* (i.e. the contingent factors) the strategic characteristics (i.e. resources) of acquiring firms affect their ability to create value in acquisitions (King et al., 2004). This dissertation aims to fill this research gap by investigating the role of resources in acquisition strategies and firm performance in a special institutional context—emerging economies, and identify the possible conditions under which resources exert positive or

negative impact on acquirer's post-acquisition performance.

The theoretical model of this dissertation is based on two premises. First, resources can either add value or can destroy value. Zhou and Shao (2009) found that foreign firms benefit from their use of business ties, but their profitability suffers when they rely heavily on political ties. In contrast, Peng and Luo (2000) found that political ties positively affect market share and return on assets (ROA), whereas business ties foster market share but not ROA for Chinese firms. Park and Luo (2001) even reported that political and business ties enhance sales growth but have no effect on profits.

Second, the effect of resources (i.e. nonmarket capital in this dissertation) on firm performance depends on specific strategies adopted. The argument that strategy is a contingent factor determining the impact of resource on firm performance is well based. Priem and Butler (2001) contended that continued development of contingency theory of resource value is helpful in clarifying the role and likely contributions of the RBV in strategy research. Miller and Shamsie (1996) presented a contingency theory developed in the context of firm resources. Moving further, a line of research on product diversification suggests that there is a systematic relationship between the type of marekt a firm chooses to enter and its reosurce profile (Chatterjee & Wernerfelt, 1991). Resource detemines which market to enter, and this influences the effect of resources on final firm performance. Acquaah (2007) found that the impact of social capital on organizational performance is different for firms pursuing low-cost competitive strategy, differentiation competitive strategy, and those who do not pursue these strategies. Lau (2011) found that abundance of slack resources, social network and support from the institutional environment are instrumental in developing market-focused strategic orientations, and these strategic

orientations relate to higher firm performance.

A relevant issue is contingencies of social capital's effect on organizations. Both positive and negative outcomes of social capital have been reported (Portes, 1998). However, researchers have only begun to characterize the conditions that determine the relative importance of positive and negative effects. Contingencies of social capital's value include task characteristics, norms and beliefs, and actor's ability to use social capital (Adler & Kwon, 2002), but optimal level of social capital for organizational outcomes are not found.

Summary

This chapter reviews the literature about acquisition research, including determinants of acquisition performance, acquisition activities in emerging economies, and the linkage between resources and acquisition strategies and outcomes. Based on the literature review, the purpose of the dissertation is to examine the role of resources in determining acquisition strategies and acquirer's post-acquisition performance in the context of emerging economies.

Considering the importance of institutional environment in emerging economies, this research focuses on the type of resource that is of specific importance and relevance in acquisitions in emerging economies. After reviewing the differences between acquisitions in emerging economy firms and developed economies firms, two important questions emerge. First, apart from the general resources mostly discussed in current literature, what other resources are especially helpful for emerging economy firms to cope with institutional environment and determine the acquisition strategy and outcomes? Second,

what is the mechanism via which resource influences acquisition strategy and outcomes? These questions need to be addressed before further investigating the role of resources in acquisition strategies and firm performance in the context of emerging economies. These questions are the central theme of the next chapter.

CHAPTER 3. NONMARKET CAPITAL IN EMERGING ECONOMIES

Several theories are viewed as the pillars in strategy research field, such as resource-based view (RBV), transaction cost economics, agency theory, signaling theory, and industrial organization theory. Generally, these theoretical perspectives view an organization as an expandable, rational tool that exists to pursue relatively specific goals, and that consists of a relatively formalized structure (Baum & Rowley, 2002). Differently, the institutional theory emphasizes the importance of social characteristics of organizations and their social environments. Organizations are portrayed as social collectivities that consist of formal and informal structures, and that embed in external and internal social environment. The proponents of RBV contend that to cope with the threats and catch the opportunities presented by the environment, organizations have to develop certain resources and capabilities. RBV is a powerful theory that explains firm's nature as a bundle of resources and growth premise as possession of competitive advantages. On the other hand, the signaling theory has elucidated another mechanism by which resources help the firm respond to external requirements and generate value. Resource of symbolic characteristics can signal the underlying attributes to stakeholders, thereby reducing social uncertainty.

The purpose of this chapter is to identity the type of resources that are able to best respond to challenges of emerging economies institutional environment. On the basis of review of literature on institutional economics, RBV and the signaling theory, this chapter examines how these theories lay the foundations for the concept of nonmarket capital (introduced in the following sections) and reveals how they may contribute to fill the research voids identified in Chapter 2.

First of all, after explaining the importance of selecting the right resources, I review the assumptions, the key arguments, and new developments in institutional economics, with a focus on institutional idiosyncrasies in emerging economies. I then highlight the importance of nonmarket capital in emerging economies and develop the concept along two dimensions. The first dimension is the content of nonmarket capital, corresponding to political, social and legal institutional idiosyncrasies of emerging economies. The second dimension is the substantial versus symbolic mechanism of value generation. The theoretical foundations of these two mechanisms (i.e. RBV and the signaling theory) are reviewed and definitions, characteristics and values are discussed in detail in later sections. Finally, I argue that nonmarket capital is the resource of special importance in emerging economies. On top of that, I preliminarily summarize the theoretical contributions of this dissertation as investigation of the relationship between nonmarket capital and acquisitions in emerging economies.

Linkage between Resource and Institutional Environment

As reviewed in the last chapter, acquisition activities can be seen as a kind of corporate behaviors that exhibit unique characteristics in emerging economies, i.e. vis-à-vis developed economies. According to the institutional theory, these differences are caused by different institutional environments (in emerging economies). What is more, institutional environments determine the type of resources needed by firms. This section discusses why institutional environment is important and how it influences firm's strategic choice in terms of types of resources required.

The context within which a firm's capabilities evolve is crucial for understanding its

capabilities (Priem & Butler, 2001). Coase (1992, p. 718) commented that it is inadequate to merely "analyze in great detail two individuals exchanging nuts and berries on the edge of forest…without specifying the institutional setting within which the trading takes place, since this affects the incentives to produce and the costs of contracting." Some researchers suggest that the value of firm resources or capabilities is determined externally (Miller & Shamsie, 1996; Oliver, 1997; Priem & Butler, 2001). In particular, Oliver (1997) explained that resources are selected and deployed based on both internal and external institutional factors. External institutional factors include sources of firm homogeneity like social norms, regulatory pressures, talents transfers through human capital market, social and professional relationships, and competency blueprints. These external factors can influence perceptions and actions of consumers, employees and regulators in specific countries or markets, resulting in habitual, historically value-laden decisions. She further suggested that firms are able to create or develop institutional capital to enhance optimal use of resources. As pointed out by Ingram and Sliverman (2002, p. 20), "It (institution) directly determines what arrows a firm has in its quiver as it struggles to formulate and implement strategy and to create competitive advantage."

The mass of research in emerging economies context has been growing. For example, Peng (2001b) emphasizes the importance of institutional factors in developed and emerging economies contexts, with respect to resources involved in internationalization. Hoskisson et al. (2000) identified the role of RBV in emerging economies. However, few studies identify the type of resources that are critical but different from those in developed economies. This dissertation intends to bridge RBV, which emphasizes the importance of firms' internal resource endowments, and institutional economics, which highlights the

role of firms' external environment that determines the resource portfolio. On the basis of this integration, I further identify resources that are especially important for emerging economy firms.

Theory of Institutional Economics

Before searching for the answer to the question proposed at the end of the last chapter and looking into resources specially needed in emerging economies, I review the theoretical base of why institutional frameworks in emerging economies and developed economies are different and how their differences influence social and business life.

Institutional economics focuses on interaction of institutions and firms resulting from market imperfections (Harriss, Hunter, & Lewis, 1995). The major role of institutions in a society is to reduce uncertainty by establishing a stable (but not necessarily efficient) structure to facilitate human interaction (North, 1990, p. 7). The institutional environment has been defined as "the set of fundamental political, social and legal ground rules that establish the basis for production, exchange and distribution" (Davis & North, 1971, p. 71). Summarizing the new progress of institutional economics, Alston (2007) proposed that the government, the formal institutions (i.e. laws of society), and the informal institutions (i.e. norms of society) are the three main forms that determine institutions. Analogically, Khanna and Palepu (1997) summarized three main sources of market failures, i.e. misguided regulations, information problems and inefficient judicial systems, which correspond to these three dimensions. These forms of institutions interact with each other and determine property rights, technology, transformational costs, transaction costs, and subsequently economic performance.

Enforcement of the first kind of institution—formal institutions like laws—relies partly on the coercive power of the government and partly on beliefs of its citizens. On the other hand, informal constraints come from socially transmitted informatioh and are a part of the heritage that we call culture (North, 1990). In situations where formal constraints are unclear or fail, informal constraints play a larger role in reducing uncertainty, providing guidance, and conferring legitimacy and rewards to managers and firms (Peng, Sun, Pinkham, & Chen, 2009). McMillan (2007) argued that when markets work poorly, as they do in emerging economies, "the absence of strong formal institutions is conspicuous" and, therefore, informal institutions become important. The final form of institution is government. Government usually has a strong bargaining power and is the agent to constitute formal rules and to enforce formal rules (North, 1990). Government may also exert substantial influence on informal constraints, due to its ability to shape the norms of citizens (Higgs, 1987). To the extent that political leaders can sway public opinion, the passage of laws is likely to affect the beliefs of the constituents. In sum, institutions govern societal transactions in areas of (1) laws (e.g., economic liberalization, regulatory regime, etc.) corresponding to formal institutions; (2) societal norms (e.g., ethical norms, attitudes toward entrepreneurship) corresponding to informal institutions; and (3) politics (e.g., corruption, transparency) corresponding to government (Peng et al., 2009). The backbones of these three forms of institutions are the conceptual spokes such as transaction and transformational costs, property rights, and credible commitment that determine the simultaneous causal links between institutions and economic performance (Alston & Ferrie, 1999; Eggertsson, 1996; North, 1990).

Under the framework of these three forms of institutions, rules governing economic

and political activities are determined. Specifically, along these three dimensions, stakeholders of firms can be categorized as government, current business-related parties like customers, suppliers and competitors, and the vast public. Each group of stakeholders seeks to decide the set of economic institutions suitable for its interests, and the balance between political power and interests of stakeholders ultimately determines the final set of economic institutions, after a series of competitions, negotiations, and compromises. The collective choices of stakeholders of the society produce economic institutions, including both market institutions and nonmarket institutions. The economic institutions, in turn, shape the incentives of key economic actors in the society (Acenoglu, 2007).

One important economic institution is market institution. In a completely efficient market competition is perfected and strengthened by arbitrage and efficient information feedback to reduce transaction costs. Market institutions serve to limit transaction costs (McMillan, 2002). However, market is not always efficient and effective. To a certain degree, all markets contain some imperfections and are prone to failure. The first kind is endemic or natural market failure, where either the market is unable to organize transactions in an optimal way, or it is difficult to predict behaviors of participants. Such endemic market failure essentially reflects the presence of bounded rationality, information asymmetries and opportunism, which in many circumstances are more realistic principles governing economic behaviors (Williamson, 1985) than the assumptions of perfect rationality and profit- or utility-maximizing behavior on part of transactions in the market (Dunning, 1995). The second kind is called structural market failure, which arises from actions of participants within or outside the market that distort the conditions of demand or supply. This kind of market failure can be deliberately engineered by firms, and firms may

be able to influence the content and degree of market failure (e.g., by lobbying for particular government actions), and by setting up of compensating institutions (e.g., insurance and future markets) to reduce risk. Finally, under-development of market institutions also results in inefficiency of the market. Research has shown that the sources of market failure emerge due to the lack of intermediaries, information asymmetries, and agency problems (Khanna & Palepu, 1997, 2000).

To fix market failure, nonmarket institutions, i.e. economic rules, routines or constraints other than market institutions that also enable transactions, have to play a more active role in economic activities. Examples of nonmarket institutions are government policies and social norms. "Market failures" are often the justification for political intervention in the marketplace. Some scholars argue that the role of government is to act as a "welfare state" (Briggs, 1961), using state intervention in the market economy to modify the actions of the market. Some countries have often responded to market failures with state ownership (Megginson & Netter, 2001). Economies differ in terms of the extent to which nonmarket institutions, particularly the government, are involved in coordination of behaviors of economic actors (e.g., Friedman & Friedman, 1990/1979; Scott, 1995; Scott, 2001). All in all, market institutions and nonmarket institutions interact (i.e. complement, reinforce and counter balance) with each other, and govern contracting and other business activities in the society.

Institutional Idiosyncrasies in Emerging Economies

Based on the three dimensions of institutions reviewed in the previous section, namely, political (government), social (informal institutions) and legal (formal institutions), this

section investigates idiosyncrasies of the three types of nonmarket institutions.

Political dimension and government

This first dimension pertains to the political characteristics of emerging economies and government as stakeholder correspondingly. In institutional economics, economic role of the government is theorized as a principal social process through which institutions of economic significance are formed and revised. In other words, the government defines, diffuses, or enforces prevailing norms and requirements of acceptable firm conduct (Oliver, 1991). Additionally, it allocates resources, grants legitimacy, regulates and monitors transactions, creates and legitimizes organizational forms, determines or affects the distribution of property rights, and even acts as a financial intermediary. Therefore, it exerts a substantial influence on institutions and business operations (Dacin, Goodstein, & Scott, 2002).

In the context of emerging economies, governments have even greater power and intervene in businesses to a larger extent (Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004). For example, China's political decentralization empowers local governments great discretion in local economic matters and a wide range of authority to regulate the market through administrative method. The system is described as "federalism, Chinese style" (Montinola, Qian, & Weingast, 1995; Qian & Roland, 1998) or "local state corporatism" (Oi, 1992). In his seminal work, Walder (1995) demonstrated that China's local governments can operate as powerful "warlords" within their jurisdictions. Power conversion theory claims that Communist Party cadres use their superior positions within

powerful networks to preserve, and even enhance, their material advantages (Gerber, 2002).

However, when regulators place political goals above economic efficiency, they risk distorting the functioning of markets. There are several impacts. First, heavy government involvement means the uncertainties businesses face are institutional uncertainties, not market uncertainties (Lin, Cai, & Li, 1998; Puffer & McCarthy, 2007). For example, the state plays an active role in promoting "priority projects" or "pillar industries"(Lin et al., 1998), creating a protected environment that limits market uncertainties (Boisot & Child, 1996). Yet changes in state policies can be unpredictable, creating institutional uncertainties and increasing transaction costs for firms. Second, the attempt to control state-owned enterprises lowers these enterprises' efficiency (Cowan, 1990). A firm in China with a substantial government shareholding usually has political appointees as its top managers. Decisions of these top managers may not be based purely on economic considerations. They often refrain from adopting large scale organizational restructuring because of the risks associated with this strategy and the desire to protect their political prospects and personal wealth, regardless of the possible economic consequences of these strategies (Delios, Zhou, & Xu, 2008). Third, corruption is common in governments of emerging economies (Khanna & Palepu, 1997). Governments' great power and proactive interventions in economic matters create large room for government officials to extract rents. This situation makes it necessary for emerging economy firms to build good relationships with governments, in order to operate in semi-liberalised markets.

Social dimension and business partners and investors

The second dimension is the social norms of institutional idiosyncrasies and business partners, suppliers and competitors as stakeholders correspondingly. A common feature of emerging economies is the emphasis on informal personal relationships (Luk, Yau, Sin, Tse, Chow, & Lee, 2008). In emerging economies, formal institutional constraints (e.g., laws, regulations) remain relatively weak and "arm's length transaction" (i.e. rule-based, impersonal exchange with third-party enforcement) has not yet well established. Therefore, inter-personal and inter-organizational relationships become an important and effective means to exchange information, build trust and explore business opportunities (Powell, 1990; Xin & Pearce, 1996). In both initial and later stages of economic transition, business in emerging economies is coordinated through ties-based mechanisms (Child & Tse, 2001). According to the social network theory, economic actions are deeply affected by networks of interpersonal relations, and managers can use the social capital inherent in their personal relationships to influence allocation of resources and shape economic actions (Uzzi, 1997).

This prevalence of networks and relationships is omnipresent in emerging economies like China, Argentina (Guillén, 2000), Hungary (Stark, 1996), India (Kedia, Mukherjee, & Lahiri, 2006), Russia (Guriev & Rachinsky, 2005), and South Korea (Chang & Hong, 2002; Hoskisson et al., 2000). Some scholars stress that most emerging economies may be called network societies (Wellman et al., 2002) where social relations are highly valued (Peng & Heath, 1996).

To fit in with the culture of reliance on personal relationships, emerging economy firms adopt special tactics to deal with existing stakeholders, including partners, suppliers and competitors. The process of network accessibility and mobilization of resources for

instrumental and expressive gains is of particular significance when a society is experiencing rapid structural and cultural changes and when bureaucratic politics and market institutions interplay in a co-evolutionary manner (Parish & Michelson, 1996). Since economic activities are always entrenched in networks of human beings, the effectiveness of a competitive position is shaped by managers' connections with the external community. Managerial ties substitute the need for reliable government and rule of law to support transactions and exchanges (Peng & Heath, 1996). These ties are built on trust and cooperation, and are maintained by implicit rules of reciprocity and social obligations (Hitt, Lee, & Yucel, 2002; Park & Luo, 2001). They constitute the social capital owned by the firm at the organizational level. Firms rich in social capital often have good relationships with business partners and suppliers. Benefits of social connections include access to information, reduced transaction costs, and increased trust (Hitt et al., 2004). In a word, emerging economy firms need to connect to other social groups and build wide and dense social networks for doing business.

Legal dimension and the public

The third dimension is the legal characteristics, and the public as a stakeholder. Here, the public refers to potential and unknown investors, customers and business partners. Most emerging economies have developed at least some of the institutions necessary to encourage commerce and monitor execution of contracts. But both the legal infrastructure and law enforcement are still evolving, making the rules for market competition less predictable and less clear than in most developed economies (Hoskisson et al., 2000). The resulting information asymmetry and high level of opportunism have become one of the

major causes of market failures (Capron et al., 1998). As a result companies are less likely to be able to resolve disputes through judicial channels and transaction costs are hence increased (Khanna & Palepu, 1997). Achieving third-party enforcement of agreement via an effective judicial system that applies the rules uniformly is very critical for business. Markets depend on judicial systems that are strong enough to enforce contracts in a reliable and predictable way, while poor contract enforcement directly leads to lack of trust between parties to transactions. Companies are reluctant to do business without ensuring that their partners will meet their end of the bargain. So, emerging economy firms have to solve the weak contract enforcement problem and convince the public of their contract execution abilities.

Emerging economies governments attempt to fill in these institutional voids by extensive involvement. For example, they tend to use administrative orders to regulate and control the economy. There is much evidence in extant research to suggest that in the Chinese context, judiciary remains fused with the state, embedded in and subordinated to the rest of the government bureaucracy (Michelson, 2007).

Summary

In sum, as argued by Hoskisson et al. (2000), the above discussions show that government and societal influences are strong in emerging economies. "Informal constraints" rise to play a larger role in regulating economic exchanges during the transition, and have considerable influence over behaviors of both individual managers and their firms, as well as the generation of new formal constraints (Peng & Heath, 1996, p. 504). Political analyst Ian Bremmer even describes an emerging economy as "a country

where politics matter at least as much as economics to the markets" (Bremmer, 2005, p. 52).

Market Capital

Mainstream research focuses on the role of market type of capital in business strategies and firm performance. Market capital refers to the traditional corporate resources that could be quantified and can be traded in open markets. Examples include tangible assets like financial capital, technology (e.g., patents), as well as human capital and so on. The linkage between resources and acquisition has been discussed in the previous chapter, from the perspective of RBV. In retrospect, it is argued that possession of resources boosts acquisition activity in terms of intensity or value and is critical for acquisition success; appropriate leverage of resources is the key step to acquisition success. Obviously, market capital can facilitate the firm's strategy implementation, and acquisitions that can leverage the advantages of market capital can help reap economic returns. The value of market capital lies in financing acquisition deals (by finance capital), in determining acquisition choices (e.g., the decision could be based on the acquirer's own needs of technology), in choosing the appropriate acquisition targets and implementation of integration (by human capital), and so on.

Although market capital is useful for acquisitions, it is not enough. It does not address influences of institutional environment. For example, it cannot be directly used to deal with government, the rule-maker and the regulator of market activities, and nor can it generate close connections with business partners and stakeholders. Moreover, market capital does not tell customers whether the firm is trustworthy. Therefore, institutional environment and

its major players are especially critical in emerging economies since mature legal and market institutions have not been established and nonmarket institutions such as network relationships are needed to fix the "institutional voids" (Peng et al., 2005). Khanna and Palepu (2000) specified several types of market substitution roles that networks play in emerging economies. They fill the "institutional voids" in the capital market (creating an internal capital market for transferring funds and underwriting security issues), in market for managerial talents (rotating talent to member firms in need), in input and products market (investing in an umbrella brand name and a reputation for fair dealing and reliable products), and in market for technology transfer (assimilating technology from other firms through cooperative arrangements). Accordingly, in this dissertation, it is argued that firms derive nonmarket political, social and reputational capital from either institutional or business networks, or both, so as to increase their relatedness with informal institutions in the emerging economies context. Nonmarket capital is network-based. It can increase focal firm's institutional relatedness in emerging economies. Details are discussed in the following sections.

Nonmarket Capital

Definition and dimensions

The unique institutional idiosyncrasies of emerging economies present to firms the challenges of fit in the environment. The resource-based view (Barney, 2001) argues that to manage institutional idiosyncrasies firms have to possess certain resources and capabilities. The linkage between resources and acquisitions reviewed in the last chapter further

illustrates that certain (nonmarket) resources are of importance and can influence acquisition strategies and outcomes. In this dissertation, I argue that nonmarket capital is the resource that can be used to increase firm's institutional relatedness in emerging economies.

The concept of institutional relatedness is derived from Peng, Lee and Wang (2005). In their 2005 paper, they defined institutional embeddedness as "the degree of informal embeddedness or interconnectedness with dominant institutions" (p. 623). Greater institutional embeddedness increases the legitimacy of an organization and confers resources (DiMaggio & Powell, 1991; Oliver, 1997). Following this line of research, in this dissertation, a high degree of institutional relatedness means that there is a dense network of ties (or connections) with mainstream institutions. This helps firms capitalize on economies of scale based on nonmarket capital. Subsequently, I define nonmarket capital as political capital, social capital and reputational capital that can increase firm's institutional relatedness in emerging economies.

By definition, nonmarket capital is network-based resource. It is intangible, embeds in the setting, and cannot be traded in the market. A more important characteristic is that it endows firms with the ability to operate in a way that fits institutional idiosyncrasies and ingratiates stakeholders. As discussed in previous sections, due to historical reasons, market institutions have not matured in emerging economies. Such transitional stages are often characterized by the use of informal institutional and personal networks (Boisot & Child, 1996; Peng & Heath, 1996). Besides, when environmental forces create greater turbulence (as they do in emerging economies), there is greater need for inter-organizational connections (Daft & Lewin, 1993). As a result, in many circumstances,

nonmarket institutions like political and social forces even outweigh (although not to replace) market institutions in businesses. In brief, nonmarket capital can facilitate transactions by complementing or substituting some functions of the market, so that firms can obtain legitimacy for their activities, get access to resources that cannot be readily obtained in the regular market, and solve specific problems of doing business in semi-market institutions.

Corresponding to the political, social and legal dimension of institutions, nonmarket capital is divided into three sub-types, political, social and reputational (Peng et al., 2005). These three dimensions of nonmarket capital address the three dimensions of institutional idiosyncrasies and increase institutional relatedness. Specifically, strategic management research in emerging economies context distinguishes between inter-personal /inter-organizational relationships with government (or government officials) and with other firms (or managers in these business firms) (Li & Atuahene-Gima, 2000; Park & Luo, 2001; Peng & Luo, 2000). Acquaah (2007) found that social relationships with top managers of other firms and with government officials are different in firms pursuing different strategies, but they both enhance organizational performance. Reed, Srinivasan and Doty (2009) conceptualize social capital as a function of the value of an individual's (or a firm's) business relationship with others. In this dissertation, capital generated from these two kinds of networks is differentiated as political capital and social capital. The third type of nonmarket capital is reputational capital. A positive reputation can be seen as a valuable and intangible asset, which generates rents for firms (Fombrun & Shanley, 1990). As such, reputation can be examined through the lens of RBV and under the concept of nonmarket capital.

Substantial versus symbolic nonmarket capital

Apart from the dimension corresponding to institutional idiosyncrasies, nonmarket capital can also be divided into substantial and symbolic types, according to the different mechanisms via which (nonmarket) resources generate values. Etzioni (1964) suggests a logic for precise categorization of power in the organizational setting, based on the type of resource used to exercise power. Among the categories, utilitarian power is based on material or financial resources, consisting of substantial goods or services. On the other hand, normative power is based on symbolic resources, and such pure symbolic control includes normative symbols (i.e. those of prestige and esteem) and social symbols (i.e. those of love and acceptance). Similarly, I argue that nonmarket capital can generate power and value in two ways, and thus, it can be divided into substantial capital and symbolic capital. Driven from traditional arguments of RBV, I argue that substantial nonmarket capital helps facilitate substantial business transactions such as acquiring and securing resources, establishing cooperative relationships, crafting business strategies and so on. In contrast, symbolic nonmarket capital signals the favorable traits and the consequent legitimacy of the focal firm (i.e. the acquirer, in this dissertation) as discussed in the signaling theory. These two types of resources complement each other.

1. *Symbolic nonmarket capital: A signaling theory perspective*

As discussed in the previous section, RBV points out that valuable, rare, inimitable, and non-substitutable resources can lead to long-lasting competitive advantage and good performance (Barney, 1991). It is well accepted that resources, upon appropriate utilization

based on their inherent characteristics, can execute tangible functions directly, such as acquiring cash and technology, designing strategies, and expanding market, etc. Overwhelming attention has been paid by researchers to the substantial mechanism, but it has been largely ignored that certain types of resources generate returns for owners in a symbolic way. That is, even if the resource does not actually take any substantial functions, its existence has already indicated some invisible attributes of the focal firm to stakeholders, thereby bringing legitimacy and other invisible benefits. In support of this, Kirsch, Goldfarb and Gera (2009) found that the use of signals in strategic settings is associated with corporate outcomes like successful resource acquisition in the context of venture capital funding.

Signaling theory (Spence, 1973) has elucidated the mechanism of this effect. In much of the signaling literature, signals are rather broadly defined. Economists tend to view signals as possessing information content. Such content may be of value in judging the productivity of potential employees. Signals may also convey information about product quality (Engers, 1987; Kihistrom & Riordan, 1984) or the reputation and intentions of competitors, particularly regarding pricing initiatives (Scherer, 1980). Porter (1980, p. 75) suggests that generally "a market signal is any action by a competitor that provides a direct or indirect indication of its intentions, motives, goals, or internal situation." Anyhow, the signaling theory describes the process used by decision makers in situations of information asymmetry. When the capital market cannot adequately differentiate between good and bad players, good firms have an incentive to signal their quality by undertaking some actions that would be too costly for poor firms to imitate. These signals are important decision cues for stakeholders because they effectively communicate information about the firm and its

intentions. From the signal the stakeholders are able to infer the invisible and inimitable characteristics of the firm, and consequently the firm can acquire legitimacy from stakeholders and influence outsiders' decisions. In other words, the signal fulfills two important criteria: the signal is both observable and costly to imitate. Upon receiving the signal, the receiver assesses the perceived reputation of the sender and the commitment of the sender to the signal. This is combined with the signal's clarity, consistency with other signals, and perceived aggressiveness. The output is an interpretation of signal intent, which guides the reaction process. Finally, the specific reaction to the signal is a function of its factors (how aggressive or cooperative the signal is and how much commitment is behind it), firm factors (such as a firm's stature in the industry), market factors (especially the heterogeneity of consumer preferences and stage of the product life cycle), and industry structure factors (including the number of competitors and economies of scale) (Heil & Robertson, 1991).

In business research, the signaling theory is used mostly to predict reactions of the market. Certain features of the stock market make it particularly receptive to symbolic actions. It is a relatively complex "audience" composed of actors ranging from small individual investors to immense institutions, with varying levels of interest, ranging from passive to active, and with varying levels of expertise and access to information (Westphal & Zajac, 1998). Symbolic management scholars and institutional theorists have long argued that symbolic actions are most effective under conditions of ambiguity or uncertainty (DiMaggio & Powell, 1991; Pfeffer, 1981; Scott, 1995). So, despite the fact that such circumstances are not conducive to extensive communication and coordination among the disparate sub-groups (Baker, 1984), significant reactions to signals and strategic

actions are available almost immediately. This situation is very similar to the condition when firms have to deal with potential and unknown stakeholders like possible investors, future customers, and the public.

The above signaling effect exists in board as well as strategic actions of a firm. In addition to concrete resources that a board may provide to a firm, there is also a substantial stream of research suggesting that the board also serves a signaling function that can influence organizational performance via its affiliations, particularly in large firms (Westphal & Zajac, 1998; Zajac & Westphal, 1995). Higgins and Gulati (2006) studied the signaling effect of composition of an entrepreneurial firm's top management team (TMT) on organizational legitimacy that in turn influences investor decisions. Specifically, the authors found that firms signal resource legitimacy through TMT employment affiliations, role legitimacy through the kinds of positions held by the senior-most members of the TMT, and endorsement legitimacy through a firm's prestigious partnerships. Viewed from another angle, Heil and Robertson (1991) contended that competitive behavior may be influenced by signals sent by competitors. Specifically, competitive market signaling provides a means for managers to convey information to competitors or to seek information from competitors. In addition, symbolic actions such as adoption (and decoupling) of legitimate formal practices and the use of socially accepted language may play a role in the social construction of market value (Westphal & Zajac, 1998).

Drawing from the signaling theory, I define symbolic resources as resources that act as an indicator or a signal to stakeholders of the organization's commitment or central and distinctive attributes that give it a competitive advantage over other organizations, particularly in incomplete information settings. It can be easily derived from higher status

in business or social networks.

Several characteristics of symbolic resource are notable. First, symbolic resource is of ceremonial and symbolic nature. It signifies the focal firm's underlying and invisible attributes that are preferred by stakeholders, as well as alignment of the firm's strategies and stakeholder interests that reduces social uncertainty (Westphal & Zajac, 1998). For example, for entrepreneurs, symbolic resources may involve the ability to convey an image that is consistent with willingness to take risks and stir up the existing order, or the heroic capability of wealth creation through innovation (Clercq & Voronov, 2009). Second, "symbolic" refers to evoked meanings - people draw inferences about objects on the basis of shared interpretations (Zott & Huy, 2007). Symbolic resource enables firms to impose their interpretations on others and control the perceptions that they provoke in others (Calhoun, 2003). Third, symbolic resources and strategic actions determine each other. On the one hand, strategic actions generate symbolic resources. When a firm wants to signal a certain quality to the audience, e.g., to gain credibility with the other players in the game, it can commit itself to taking a particular course of action (Balakrishnan & Fox, 1993). On the other hand, symbolic resource can also actuate the firm to take corresponding strategic actions. Symbolic resources are critical in emerging economies, where the environment is full of turbulence and uncertainty, reliable information is scarce and business stakeholders, including business partners, customers and governments, etc., rely more on implicit information or clues to make business decisions. Therefore, symbolic resources can play a bigger role for the owners.

One source of symbolic resource is the firm and top managers' positions in industrial associations or ranking. That is because positions and ranking signifies the status of the

focal firm among peers. For example, a firm that leads an industrial association is more likely to be the leader of the industry in terms of market share, product quality or service, which signifies the focal firm's attributes like reliability, trustworthiness and so on. Societal status also results from ranking in terms of social esteem constructed on the basis of various criteria (Washington & Zajac, 2005).

As mentioned above, three types of nonmarket capital respond to three dimensions of institutional idiosyncrasies. These three types of symbolic nonmarket capital are discussed in detail below.

2. *Substantial nonmarket capital: A RBV perspective*

Resource-based view (Barney, 1991; Penrose, 1995; Rumelt, 1974) is a theory about the nature of firms. Theorists from this camp see firms as a bundle of various resources. The central tenets of the theory are firm heterogeneity and path dependence. That is, each firm's resource bundle is unique, being the consequence of its past managerial decisions and subsequent experiences (Lockett, 2005; Lockett & Thompson, 2001).

RBV also describes how firms actually operate. Based on assumptions of heterogeneously distributed resources and imperfect resource mobility, some valuable, rare, inimitable, and non-substitutable resources can lead to long-lasting competitive advantage and good performance (Amit & Schoemaker, 1993; Barney & Arikan, 2001). Barney contended that resources are valuable when they enable a firm to conceive of or implement strategies that improve its efficiency and effectiveness. Strategy can be viewdd as a "continuing searching for rent" (Bowman, 1974). Any sustainable competitive advantage is simply a rent conferred by imperfections in the resource market that prevents at least one

input being available on equal terms to all actual or potential competitors (Lockett et al., 2009). Empirical evidence supports this logic (see Barney & Arikan, 2001 for a review). Arguably, the function of an enterprise is to transform valuable inputs into more valuable outputs by the process of production. Inputs are of two kinds. The first are those which are available to all firms, like natural resources, labor, markets, legal and commercial environment, and government policies. The second type of inputs is some proprietary rights to use. Such ownership-specific inputs may take the form of some managerial capabilities, a property right (e.g., patents, or brand names) or organizational routines, or they may arise from technical characteristics of firms (e.g., surplus entrepreneurial capacity) (Dunning, 1980). Firm-specific assets—especially intangible assets like R&D capabilities, trademarks and other reputational investments—may be difficult for outsiders to monitor, understand and evaluate and, therefore, easily generate "private" value (Balakrishnan & Fox, 1993). Dunning further extended the theory and argued that ownership-specific advantages of firms should be broadened to take "explicit" account of costs and benefits derived from inter-firm relationships and transactions, particularly those that arise from social networks (Dunning, 1995).

However, neither the transformation arguments by Dunning nor resource market imperfection described by Barney have clearly explained the reason why the "outputs" are valuable. RBV does not explain why and under what conditions some resources are value-generating. Barney (1991) admitted that causal ambiguity exists between resources and sustained competitive advantage and that determination of the value of a resource is exogenous to the argument presented in his Journal of Management article. In mainstream resource-based research, most research efforts have been dedicated to resource's

substantial way to generate value, which is to bring some visible things or exchange for tangible benefits via mechanisms described by, for example, social network theory, power dependence theory, transaction cost economics, or others. Values of different types of resources are different. For example, political capital derived from kinship relationship can generate solid government support, such as bank loans and secured bailout (Faccio, Masulis, & McConnell, 2007). Social network brings benefits of social capital like rich and reliable information and more business opportunities. Technical know-how, managerial ability, organizational routines and other resources can also enable the firm to generate rents (Mahoney & Pandian, 1992). Despite this diversity, all these outcomes are of tangible direct benefits generated via substantially facilitating business transactions and depend on substantiality of resources.

Based on the theory of RBV reviewed above, the substantial type of mechanism in generating value (i.e. via facilitating business transactions) can be refined into the theoretical foundation of definition of substantial nonmarket capital. Summarizing the above classical findings, I define substantial resource as the type that undertakes objective, substantial, and tangible business functions.

As defined, substantial nonmarket capital usually plays substantial functions to solve real business problems. The variety of outputs that a firm can derive from its resources (i.e. fungibility of resources) determines the substantiality of the resource, which is constrained by path dependencies, managerial imagination (Penrose, 1995), transaction costs of realizing the economic potential of property rights, and the way in which property rights are constrained (Foss & Foss, 2005). The "substantial" nature of this type of resource determines the importance of its fungibility, as any function is needed *only* under certain

circumstances, and is effective *only* upon appropriate usage. The value of substantial nonmarket capital and its contributions to firm performance, therefore, depend on whether its function is really allowed and promoted to come into play. It could be value-reducing when it is utilized via the wrong corporate strategy and the investment is thereafter wasted.

Nonmarket capital acts to increase institutional relatedness. One source of substantial nonmarket capital is the firm's and top managers' social connections and professional experiences in dealing with institutional pressures from government, social parties, business partners, and the public. Companies acquire knowledge from experience, record it in their memories, and change their strategies based on the new knowledge (Levitt & March, 1988). Managerial ability is derived from managerial experiences, and is an important resource (Kor, 2003). Experiences accumulated when working in government can facilitate doing business with government. Managerial social networks can secure support from the connections. Firm's past record of doing business can also increase stakeholders' confidence in the firm. Along the "substantial" dimension, the three types of nonmarket capital corresponding to the three dimensions of institutional idiosyncrasies are discussed in detail herein below.

3. *Relationship between symbolic and substantial nonmarket capital*

A major difference between symbolic resource and substantial resource is that the former directly undertakes functions like obtaining cash, acquiring technology, designing wise business strategies, etc., while the latter generates value indirectly, via stakeholders' assessments of the firm's attributes. At the same time, these two types of resources are also closely related. Substantial resource and symbolic resource can influence each other.

Substantial (nonmarket) resources are essential for firms to take some strategic actions such as market expansion, diversification, innovation, and so on, and these actions show that substantial resource is functional and reliable. On the other hand, these actions in turn can be interpreted as signals revealing the underlying attributes of the firm and, therefore, increase a firm's symbolic resources. Hence, in some cases, substantial resource is the foundation of symbolic resource. Lounsbury and Glynn (2001) contended that (substantial) resource capital provides key contents for symbolic resources like entrepreneurial stories that enable resource flows to new entrepreneurial ventures. Moreover, similar to Brush and Artz (1999)'s finding that different capabilities are necessary to provide different classes of service in the veterinary industry, substantial and symbolic resources are complementary to each other and should be used in different circumstances. In the case of corporate strategy formation, if implementation of the strategy requires large amounts of tangible resources, substantial resources are indispensable. On the other hand, if the strategy involves larger risk, faces great uncertainties and needs stakeholders' recognition and support, symbolic resources can play a more important role in strategy implementation.

The six types of nonmarket capital

Based on the above discussion, a two-by-three typology of nonmarket capital is developed. That is, nonmarket capital can be divided into the three dimensions of institutional idiosyncrasies, with political capital dealing with political dimension, social capital dealing with social dimension, and reputational capital dealing with legal dimension. It can also be divided based on mechanisms through which it generates value (symbolic or substantial), with substantial nonmarket capital dealing with substantial

business functions and symbolic nonmarket capital dealing with expectations and perceptions of stakeholders. In the following sections, definition and characteristics of these two dimensions in total six types of nonmarket capital are discussed in detail. Table 3.1 summarizes the definitions, dimensions, value-generating mechanisms, and functions of nonmarket capital. To be clear, operationalizations are included. The details are discussed in the following.

Table 3.1 Definition and dimensions of nonmarket capital

	Political dimension Political market	**Social dimension** Product market	**Legal dimension** Capital market
Symbolic nonmarket capital Mechanism: Signaling theory	**Symbolic political capital** Definition: grass-rooted entrepreneurs' capital signaling to stakeholders that the focal firm maintains a good relationship with local government Functions: signify the capability to influence government and the potential to obtain government support Operationalization: number of positions chairman/CEO held in CPPCC	**Symbolic social capital** Definition: a label signifying the high and central status of the focal firm in business networks, generated from the position of business community leadership Functions: Signify the high and important status of the focal firm in business networks Operationalization: number of positions chairman/CEO held in chamber and industrial associations	**Symbolic reputational capital** Definition: the kind of reputation that signals managerial and strategic capabilities of the firm based on firm's past record Functions: show the managerial ability and quality of the firm Operationalization: number of awards chairman/CEO has received
Substantial nonmarket capital Mechanism: Resource-based view	**Substantial political capital** Definition: the capital generated from substantial experience and connections with bureaucrats and political circles (e.g., former government officials) Functions: Generate privileges and secured government support Operationalization: number of positions chairman/CEO held in CCP	**Substantial social capital** Definition: resources are derived from networks with business players that execute substantial business functions Functions: Accumulate experience of solving various business problems, seek support, and explore new growth opportunities Operationalization: number of other firms in which chairman/CEO once worked	**Substantial reputational capital** Definition: reputation that represents substantial social functions (i.e. business or social responsibilities) of the firm recorded on the basis of how they have performed particular activities in the past Functions: show that the firm is a provider of high-quality products and services, a responsible social actor, and a reliable business partner Operationalization: number of awards the firm has received

Note: CPPCC—Chinese People's Political Consultative Conference
CCP—Chinese Communist Party

1. Symbolic political capital

Symbolic political capital is defined as grass-rooted entrepreneurs' capital signaling to stakeholders that the focal firm maintains a good relationship with local government. Similar to substantial political capital, symbolic political capital is the resources that an actor can use to influence policy formation processes and achieve outcomes that serve the actor's interests (Birner & Witter, 2003), but these outcomes are achieved in a different way. The reason why firms need to "signify" their privileged access to power is that they are grass-rooted and they do not really enjoy institutionalized access to state-controlled resources. For example, it is found that to get access to more of these resources, firms may target political decision makers directly and exert "direct pressure" (Aplin & Hegarty, 1980), attempting to influence public policy by directly aligning the incentives of the policy makers with their interests through financial inducements (Hillman & Hitt, 1999). Moreover, the signal expressed by symbolic political capital can help avoid risks associated with identification as a private enterprise. The risks include discrimination (Pearson, 1997), or expropriation hazards such as reneging on contractual agreements (Hey & Shleifer, 1998; McMillan & Woodruff, 1999) or collecting bribes and seizing assets (Che & Qian, 1998; Henisz, 2000).

Firms with higher symbolic political capital are often large or profitable. On the one hand, larger firms have stronger motives to accumulate symbolic political capital. The public may adopt higher standards when judging and evaluating them because of their greater impact and visibility in the community. As a result they face greater challenges to their legitimacy (Deephouse, 1996). In response, they tend to acquire more symbolic political capital to signal their legitimacy and strength, and earn public and government

endorsement. On the other hand, larger and rich firms have greater capabilities to attract symbolic political capital. They have more social and economic ties to their environment (Pfeffer & Salancik, 1978), a longer history of interactions with their environment (Hannan & Freeman, 1984), better financial capabilities, and they are also rich in human capital that is good at public relations and that is well connected. Therefore, they can afford to invest in more symbolic political capital. In China, symbolic political capital is obtained by business elites via contributing to development of local economies, like offering a large number of job opportunities, investment in local infrastructure construction, and contributing a large proportion of tax income for local government, and the like (Li, Meng, & Zhang, 2006). In addition, firms with market capabilities have stronger incentives to enter into politics and influence public policy (Jia, 2008). In this sense, symbolic political capital is not secured as it rests on value that the firm contributes to the government. Unlike SOEs, as an outsider of political system, firms with symbolic political capital cannot get deep into the political system and share privileges.

There are several benefits of symbolic political capital. First, when firms are dealing with the government, symbolic political capital is a useful tool to lower institutional barriers, i.e. obstacles to doing business that are set by the government. Grass-rooted entrepreneurs often face many obstacles in doing businesses. Government controls most resources, and its identity as owner makes it naturally favor SOEs. As a result, other firms are in a disadvantageous position. Michelson (2007) argued that one consequence of institutional barriers to outsiders is the development of micro-level bridging strategies that give enduring value to political capital. For the government, symbolic political capital of a firm implies the firm has connections with it and obeys its authority. As such, symbolic

political capital is an excellent tool to deal with the government and brings to the focal firm higher probability of obtaining institutional support in terms of policy measures, land and taxes (Faccio, 2006), quotas and standard settings, and government funding or backing for loans (Wu, Wu, & Liu, 2008), market opportunities, policy information, and private or cooperative relationships with customers, banks and other stakeholders (Wei, 2006). Especially when market uncertainty and competition are prevalent in emerging economies, such signals become more desirable because they ensure a firm's favorable positioning in the value chain and ensure beneficial government protection (Boisot & Child, 1996; Luo, 2003; Podolny, 1994).

Second, symbolic political capital may act as a resource to attract cooperation from business partners and other stakeholders. The signals emitted by symbolic political capital are two-fold. Firstly, as discussed previously, in emerging economies government is a powerful, active and decisive party in business and economic activities. The possession of symbolic political capital reflects a close relationship with government, implying higher probability of government support for the firm. Secondly, symbolic political capital also conveys to stakeholders the focal firm's superior market capital and business capabilities. This is because institutional environments in most emerging economies are characterized by public and private expropriation hazards (Nee, 1992) like government bureaus' abusing their power to fine and even terminate private businesses, imposing levies which exceed firms' legal tax obligations, and so on (Cai, Fan, & Xu, 2005). Capable entrepreneurs and large and profitable private firms with greater market capabilities are more likely to incur these expropriations. They have the potential to achieve greater future performance with the removal of expropriation hazards and hence have greater incentives to invest in

symbolic political capital. In essence, higher symbolic political capital signals their outstanding market capabilities. Cooperating with firms rich in symbolic political capital can yield more benefits for stakeholders. As such, the signal that symbolic capital emits to stakeholders becomes the source of future opportunities of business cooperation and growth.

2. *Substantial political capital*

One intangible asset that has received little attention in the past is resource development as an organization's political acumen, i.e. the ability to influence public policies in ways that confer a competitive advantage. A firm neglecting corporate political strategy may be a result of managers viewing it as outside of their primary responsibilities (Post, 1978) but most savvy executives have firmly grasped the worth of political strategy as a strategic resource (Mahon, 1989). Political skills are an inimitable, valuable resource that can be used to neutralize, promote, or otherwise manage external constituencies. Managers following a compliance policy tend to employ legislative and political lobbying aimed at slowing down the pace of environmental legislation (Logsdon, 1985). Based on these views and following Birner and Witter's (2003) definition, political capital generally refers to resources that an actor can use to influence policy formation processes and obtain governmental support. It is generated from managers' (especially core members of top management team like chairman of the board) links to key political actors like government officials.

Substantial political capital is defined as capital generated from substantial experience of dealing with and having connections in bureaucratic and political circles, including

former government officials. Former-regime elites or cadres (often former communist party leaders and officers) are widely believed to have benefited from transition to and development of market institutions in emerging economies by becoming entrepreneurs. The decline of allocations by the government in the face of market reform does not imply reduced opportunities for the elite. Bureaucratic power, after all, did not provide political elites large private incomes or significant personal wealth. Markets and privatization have injected new value into public assets and have created unprecedented opportunities for insiders. These opportunities depend on the extent of regime change and barriers to asset appropriation (Walder, 2003). The ending of political constraints on accumulation of personal wealth, creation of new market value for access to or trading in existing public property, and for official discretion in regulatory decisions, has resulted in formation of networks of influence in the bureaucracy (Walder, 2003). Specifically, two factors have nourished their success. On the one hand, in most emerging economies government controls most resources and intervenes into many business and economic issues. Stronger power rests in the hands of government officials to design and implement economic policies and to enforce rules and regulations. For example, the Chinese polity is a continuation of a party-state and authoritarian society, in which government controls most resources (Raymo & Xie, 2000). Power accumulated under state socialism can be converted into assets of high value in a transition economy (Peng, 2001a). During privatization, for example, strategically located cadres can take advantage of their positions for acquiring state property. On the other hand, due to the weak market and legal institutions, interpersonal relationships are likely to play an important role in business and political issues in emerging economies. Cadres may tap into their personal networks to

acquire valuable resources from their former colleagues still in the government who maneuver policies across different sectors as intermediaries, seeking rents for their services. In China, local governments' initiate tremendous economic activities exist, a phenomenon labeled as "local state corporatism" that makes businesses rely on interpersonal connections (Oi, 1995).

Examples of successful former political or bureaucratic elites are easy to find. In one case, a former Chinese cadre, who quit his post at the State Planning Commission in 1989, operated a $120 million company by 1995. The firm comprised a futures-and-commodities trading operation, a clinic to treat nearsightedness with lasers, and a collection of high-tech startups. One of the key reasons why the former cadre did so well in business was that he had access to powerful friends and contacts in many government agencies. In another case, during the first period of major transition in Hungary (1989-91), cadre-entrepreneurs more than doubled their personal incomes, while noncadre-entrepreneurs and the entire population increased their income by 73 percent and 59 percent, respectively (Peng, 2001a).

Former-regime elites' special identities and experiences inside the regime lay the foundation of their privileges. From the definition, it can be inferred that the core value of substantial political capital is government support for doing business and the ability to influence government policies in favor of the focal firm. First, substantial political capital helps shape government's opinion towards directions favorable for the owner (Hillman, Zardkoohi, & Bierman, 1999), thereby providing sustainable competitive advantage for firm (Wei, 2006). Research on political strategies has confirmed that some firms actively seek to shape the "rules of the game" in their favor (Ring, Bigley, D'Aunno, & Khanna,

2005). Because of the prevalence of personal relationship in political issues, the dense social network established via working experiences in government agencies enables the top managers and the firm to exert substantial influences on government. In addition, managers and firms with high substantial political capital are better able to manage relationships with government officials. They understand the mindset of government officials and can spot government's interests and concerns. Therefore, it is easier for them to lobby or influence regulators, so that favorable policy changes can be promoted while adverse policy changes can be blocked (Henisz, 2003). As such, they are in a better position to safeguard their own interests against government intervention or regulation.

Second, substantial political capital helps firms obtain more institutional support, including interpretation of regulations, enforcing contacts, settling negotiations, providing financial support and preferential access to essential but bureaucratically controlled resources, erecting entry barriers for competitors, offering official protection and sheltering them from predatory state agents, to counter threats and uncertainties inherent in emerging economies (Michelson, 2007; Peng & Luo, 2000). For example, the main problem in obtaining a license is dealing with government bureaucracy (Allen et al., 2005); substantial political capital makes it easier for connected managements to get licenses, quotas and approvals. Besides, government also plays a key role in supplying funds and support services to firms (Yiu & Lau, 2007). Substantial political capital is also helpful for raising funds, especially from state-owned banks, the major financing source in China. Finally, local cadres may use their expansive connections and bureaucratic positions to secure information relevant to local economic growth, particularly under the condition of increasing market competition (Oi, 1995). With substantial political capital, managers can

understand government policies more clearly and get prepared in advance to cope with uncertainties.

3. Symbolic social capital

While substantial social capital is generated from relationships with various business parties and represents the ability to solve business problems, symbolic social capital is defined as the label signifying the important and central status of the focal firm in business network, as it is generated from the position of business community's leadership. As the signal is obvious to almost anyone in the network, it facilitates leveraging of existing advantages generated from current business network and maintenance of the current position. Firms with high symbolic social capital usually have good financial performance or large market share as heads of industrial associations or chambers are often business elites (Pearson, 1997). At the same time, it is also maintained by social or political activity and, therefore, costs time and effort. Extant research has found that social relations may become liability if (1) the relationship is too costly to maintain, or (2) it results in "relational lock-in" that brings negative impacts such as information redundancy (i.e. contacts locked in the relationship network tend to provide similar and thus redundant information).

Symbolic social capital brings about several benefits. First, the image of the leader in the focal product market is very helpful in expanding the existing territory and increasing market power. Industrial or trade associations constitute industry networks that provide a central forum for communication about business policies, political issues and market information (Delmas & Montes-Sancho, 2010). Moreover, in China, leadership of

chambers of commerce and industrial associations is mostly appointed by the government (Nevitt, 1996). Often, government picks heads of large and powerful enterprises so as to ensure its authority in the chambers. Such appointments also create the conditions for firms with symbolic social capital to work as an intermediary and a bridge linking the broad mass of firms and party and the government (Chen & She, 1988). These associations utilize their influence in government and power in the market to express and pursue the interests of their members (Nevitt, 1996; Pearson, 1997), and this strategy is especially necessary in emerging economies (Peng, 2001a). All the above factors—the communication advantage, the bridging role, and the relationship with government—make stakeholders tend to believe that firms rich in symbolic social capital are powerful and well-connected, in both politics and business. Because of this perception of stakeholders, heads of associations, or firms rich in symbolic capital, find it easier to garner support from stakeholders and acquire greater market power (i.e. to influence the market).

Second, symbolic social capital generates necessary, reliable and focal industry-related information (Peng, 2003; Peng & Heath, 1996). The mechanism is that industrial or social associations act as groups, share reliable information only with in-group members, and utilize their collective forces to influence policy making and institution establishment. For example, research has showed how trade associations can play a fundamental role in collection and diffusion of information about the industry and its economic and regulatory environment. More importantly, firms rich in symbolic social capital act as a hub in the network (Gupta & Lad, 1983; Zahra, Ireland, Gutierrez, & Hitt, 2000). Although symbolic social capital-owners do not necessarily connect to each individual member, their labels signifying their central positions provide them more

opportunities to exchange information. That is because in organizational field high-status actors have superior ability to access or disseminate information by virtue of their institutional roles or structural positions (Rao, 1998; Tsai & Ghoshal, 1998). North (1990) suggested that the cost of information is the key to the cost of transaction. Therefore, the information brought in by symbolic social capital is very useful for business activities.

4. *Substantial social capital*

Before defining substantial social capital, the definition of social capital should be clarified. Coleman (1988) started the proliferation of definition of social capital by including under the term some of the mechanisms that generate social capital (such as reciprocity expectations and group enforcement of norms), consequences of its possession (such as privileged access to information), and the appropriable social organizations that provide the context for both resources and effects to materialize. However, it is important to distinguish resources themselves from the ability to obtain them by virtue of membership in differdnt social structures, just as symbolic resource itself should be differentiated from symbolic power (i.e. the ability to manage symbolic resources). Bourdieu (1985, p. 248) defined social capital as "the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition." Bourdieu's treatment of the concept is instrumental, focusing on benefits accruing to individuals by virtue of participation in groups and on the deliberate construction of sociability for the purpose of creating this resource (Portes, 1998). Based on this definition, social capital in this dissertation specifically refers to capital generated from business network—managers'

connections with their counterparts at other firms such as buyers, suppliers, and competitors (Peng & Luo, 2000) and connections with other business leaders and social groups such as industry associations. Acquaah (2007) differentiated business community leadership and social connections with top managers in other firms. Following this classification, I further argue that social capital garnered from business connections is substantial in nature while social capital generated from the position of business community leadership is of symbolic characteristic. Accordingly, substantial social capital is defined as resources derived from networks with business players, which execute substantial business functions.

As defined, an important source of substantial social capital is diverse connections with various business parties. Business parties that connect to the focal firm are from different areas, some being suppliers, some being from strategic alliances, and some being customers. They can even be totally irrelevant to the industry that the focal firm is in. Social capital theory contends that such substantial relationships reduce transaction costs through the development of trust (Uzzi, 1997), the foundation for cooperation. Moreover, firm's capabilities for doing business are improved in the process of interaction and competition with various business parties because organizations learn from direct experience, and experience of others, and develop conceptual frameworks or paradigms for interpreting that experience (Levitt & March, 1988).

Business partner's trust and firm's business capabilities generate two major benefits. First, firms with high substantial social capital are able to solve business problems by themselves or through support from business partners. Second, substantial social capital residing in inter-personal and inter-organizational relationships creates larger potential for

exploration of future business cooperation and facilitates exchange in various business areas (Nahapiet & Ghoshal, 1998). The costs of searching and screening potential business partners and enforcing contracts are lower for networked persons and organizations due to their ability to identify and apply binding social sanctions on opportunistic behavior.

The environment in emerging economies is full of uncertainties, turbulence and possibilities. Diversification and change of business area are more beneficial (Khanna & Palepu, 2000). In such circumstances, fungible business skills and diverse connections are even essential. Podolny (1994) found that under high uncertainties economic actors are more likely to choose particular exchange partners with whom they have had prior transactions. Moreover, the rarity of reliable information and effective contract enforcement in emerging economies make substantial social capital to be of great importance.

5. Symbolic reputational capital

Stakeholders often lack effective and reliable information to judge whether or not the firm is using the right strategies. Correspondingly, symbolic reputational capital is defined as an indicator of the firm's competency and credibility (D'Aveni, 1990). It is found that managerial reputation may increase a CEO's prestige power, which is "related to a manager's ability to absorb uncertainty from the institutional environment" (Finkelstein, 1992, p. 515). In addition, a CEO is able to translate his reputation into power when dealing with internal and external constituencies (Treadway, Adams, Ranft, & Ferris, 2009); reputable top managers are able to adopt and execute good corporate strategies. Hence, symbolic reputational capital is not directly linked to the social function of the firm. Rather,

it reveals to stakeholders that the focal firm is well-managed, highly efficient, and with clear strategies.

Same as substantial reputational capital, the core value of symbolic reputational capital is the trust of the public and, therefore, reputational capital can address structural failures of market along legal and institutional dimensions in emerging economies. But the trust is with a different focus; it is strategic rather than production capabilities. Firstly, images of organizations and their leaders are intertwined (Sutton & Callahan, 1987). Symbolic reputational capital is embedded in top managers, as they are the decision makers who determine business strategies. Secondly, given that strategic decisions are unstructured and replete with ambiguities (Mintzberg, Raisinghani, & Théorêt, 1976), they invite the use of power and influence that star CEOs gain from public recognition, which allow them to leverage their knowledge and skills more effectively to produce positive firm outcomes. This creates the condition when managerial reputation proxy for corporate reputational capital that signals the managerial and strategic capability of the focal firm. Finally, as Pfeffer (1982) argued, the organization is externally constrained by its stakeholders. Such constraints can be best seen in administrative actions, which focus around creation of illusion of competence and control of the management so as to maintain internal and external support for what the organization is required to do to survive. During this process, the manager has a symbolic and legitimizing role. The above discussions suggest that managerial capabilities reflected in managerial reputation make external stakeholders believe in strategic abilities of firms rich in symbolic reputational capital.

A direct outcome of this trust is that the focal firm can take higher risks to explore new areas and take bold actions. At business-unit level, firms develop different strategic

postures by allocating resources in different ways across substantial different areas (Fombrun & Ginsberg, 1990). At the corporate level, firms differ in their diversification postures or the degree to which their activities span multiple related and unrelated businesses (Rumelt, 1974). But stakeholders may not be able to judge whether the strategies will lead to satisfactory economic return, especially when uncertainty increases (e.g., new business areas, unknown targets, etc.). Moreover, different stakeholders apply different criteria when evaluating corporate performance (Freeman, 1984). Therefore, symbolic reputational capital becomes an important reference for stakeholders to make judgment, as it reflects the collective recognition of an organization (Rindova & Fombrun, 1999). Firms with higher symbolic reputational capital are believed to be more likely to be successful. As such, firms having symbolic reputational capital find it easier to retain support from stakeholders when they are taking bold strategic actions.

6. Substantial reputational capital

There are many definitions of corporate reputation (for review of all perspectives, see Rindova, Pollock, & Hayward, 2006). According to the institutional theory, reputation forms as a result of information exchange and social influence of and among various actors interacting in an organizational context (Rao, 1994; Rindova & Fombrun, 1999). With a different focus, Fombrun (1996) and Brown (1995) emphasized components on which the overall evaluation is based, which may include the extent to which the firm is known to be good or bad, reliable, trust-worthy, reputable and believable. Fombrun and Shanley (1990) and Sullivan (1990) defined reputational capital as the prestige accorded firms on the basis of how they have performed particular activities in the past (Wilson, 1985). In other words,

it is information cues generated by firm's direct and indirect experiences. As the major recipients of such information are the stakeholders, reputational capital is more a property of the actor's relationship with an audience than a characteristic of the actor itself. The term "organizational stakeholders" here refers to all parties relevant to business operations, including customers, potential investors and business partners and the like.

Reputation captures several important dimensions of firm activity and assets (Dollinger, Golden, & Saxton, 1997). Fombrun and Shanley (1990) categorize reputation into: (1) market and accounting reputation representing corporate performance, (2) institutional reputation depicting firms as more or less visible, attractive and socially responsive, and (3) strategic reputation defining firm's corporate postures. Based on this and the substantial and symbolic nature of resources, reputational capital is divided into two dimensions, according to its contents: substantial reputational capital refers to reputation that represents the substantial social functions of the firm, while symbolic reputational capital refers to the kind of reputation that signals managerial and strategic capabilities of the firm. The information that substantial reputational capital conveys to the audiences (i.e. stakeholders) is about how well the focal firm has executed its real social and business functions and discharged its responsibilities. Firm with high substantial reputational capital is a provider of high-quality products and services, a reliable business partner and a responsible social actor. Therefore, substantial reputational capital pertains to the role of firm in the society rather than the firm's internal management quality.

The core value of substantial reputational capital is the trust of the public in the firm's ability to execute its functions and discharge its responsibilities and, therefore, it fixes obstacles created by weak contract enforcement in emerging economies. Information is

much needed in economic transactions. Buyers need reliable information to assess goods and services they purchase and investments they make, sellers need information about the market trend, new technologies, external analysts and investors attuned to market performance of firms routinely incorporate such data in their trading decisions, and the public judges how well firms respond to their noneconomic agendas. Weak institutions and poor information disclosure may result in costly transactions and opportunistic behaviors (Khanna & Rivkin, 2001; Williamson, 1981). For instance, those who provide capital may hesitate to fund firms in emerging economies because financial disclosure requirements are minimal in such settings and the rights of minority shareholders and creditors are often protected poorly. With more social capital, connecting parties are able to make better judgments because they are familiar with the focal firm. In a different vein, the public and the potential and unknown customers, suppliers and investors etc. have few references to judge whether the focal firm is a good provider of goods and services. The uncertainties are relatively more severe in emerging economies where business environment is uncertain, independent credit assessment agencies are rare, and government watchdog agencies are of little use (Allen et al., 2005; Hoskisson et al., 2000). To cope with this obstacle, corporate audiences routinely rely on firm's substantial reputation when making investment decisions and product choices (Dowling, 1986). First, from the perspective of the firm's involvement in the contract, strong reputations tend to attenuate incentives to behave opportunistically and reduce transaction costs associated with bounded rationality that are implicit in the overall costs of cooperation partner search and selection (Chiles & McMackin, 1996). Second, from the perspective of stakeholders, prominence in social function reduces uncertainty through "social proof" (Rao, Davis, & Ward, 2000) because it

reflects the collective recognition or the "majority vote" for an organization (Rindova & Fombrun, 1999).

A direct outcome of this trust is more resources and higher economic return. By signaling consumers about product quality, favorable reputations may enable firms to charge premium prices (Klein & Leffler, 1981), attract better applicants (Stigler, 1962), enhance their access to capital markets, and attract investors. For example, Knack and Keefer (1997) argued that informal credit markets that depend on strong interpersonal trust can facilitate investment where there is no well-developed formal system of financial intermediation, or where lack of assets limits access to bank credit. Lounsbury and Glynn (2001) pointed out that the reputation whose contents demonstrate a firm's credibility to external stakeholders and successful track record or prior performance history enable the firm to acquire a greater amount of resources. Therefore, substantial reputational capital becomes critical for doing business in emerging economies.

Nonmarket Capital in Acquisition

As discussed above, nonmarket capital increases firm's connectedness with major institutions in emerging economies by signaling firm's inherent characteristics (symbolic nonmarket capital) or by directly facilitating business transactions (substantial nonmarket capital). These functions can be utilized in acquisition transactions. Acquisition is an important and complicated strategic action for firms. Acquirers need not only strong market capital to finance the deal, but also have to deal with various stakeholders to ensure that the transactions go through smoothly. Government support in terms of licensing and financial loans, business players' information about the industry, and customers' trust in the

acquisition's viability are all necessary. Nonmarket capital can address these needs and, therefore, determines acquisition success to a large extent. Literature shows that acquisitions appear to provide at best a mixed performance outcome for a broad range of stakeholders. One reason could be that scholars neglect the role of nonmarket capital in determining acquisition performance. Moreover, nonmarket capital constitutes a key part of acquirer's resource portfolio. Motivated by the consideration of resource leverage and resource complementarity, acquirers may select certain types of targets, keeping in view their nonmarket capital at hand. Hence, nonmarket capital also influences acquisition strategy (i.e. target selection). The previous chapter has emphasized the importance of target selection (acquisition strategy). This relates to the fundamental problems of acquisition such as fulfillment of strategic goals, price of the deal, and the post-acquisition integration.

Despite its importance, however, past studies have mostly neglected the role nonmarket capital plays in acquisitions. So far, the concept of nonmarket capital has been studied only in the field of corporate entrepreneurship, by Yiu and Lau (2007). This dissertation aims to fill in this research gap and studies the application of nonmarket capital in the context of acquisition in emerging economies.

Summary

The main theme of this chapter is that due to market failures in emerging economies, nonmarket capital becomes an important resource to cope with the challenges faced by emerging economy firms.

To recap, it is argued that growth of emerging economies like China is facilitated

mostly by alternative financing and governance mechanisms, i.e. relationships and reputation (Allen et al., 2005), i.e. nonmarket capital. For example, Chinese firms were able to overcome problems of asymmetric information and lack of legal and contract enforcement mechanisms because they had developed institutions based on reputation (i.e. reputational capital), implicit contractual relations and coalitions i.e. relationships with government (political capital) and relationships with businesses (social capital). Therefore, nonmarket capital enables emerging economy firms to manage nonmarket institutions and make their businesses smooth and viable. Firms can use nonmarket capital to substitute market capital. First, to get access to resources that cannot be obtained through regular market, and second, to signal legitimacy and capabilities. Specifically, nonmarket capital brings emerging economy firms legitimacy and influence on government policies, valid information from business networks and influence in the industrial network, besides trust of organizational stakeholders on fulfillment of contract.

The above discussion points to the fact that nonmarket capital is a very important resource for emerging economy firms. Although studies on political connections, social capital and firm reputations can be found in current management literature, few have examined these types of capital under the umbrella concept (Hirsch & Levin, 1999) of nonmarket capital. The only exception so far has been Yiu and Lau (2007) who studied corporate entrepreneurship, positing that positive effects of nonmarket capital on firm performance are channeled through the resource configuration process reflected in various corporate entrepreneurial activities. The in-depth exploration of nonmarket capital is the first theoretical contribution of this dissertation.

The second theoretical contribution is to differentiate the substantial and symbolic dimensions of resources and to outline the value of each type of nonmarket capital. To the best of my knowledge, few studies have examined them along substantial and symbolic dimensions. This chapter has discussed in detail the definition, mechanisms, characteristics and values of substantial and symbolic nonmarket capital, laying the theoretical foundation for application of these two kinds of resources in the context of acquisitions in emerging economies, in the next chapter.

From the perspective of emerging economy firms, as a specific kind of resource of great importance, nonmarket capital has shaped firms' unique characteristics and, therefore, should also influence strategic behaviors and performance. Moreover, the investment in nonmarket capital can be paid back only when the capital is leveraged appropriately. Each type of nonmarket capital has its unique value. It is important to make the most of advantages of nonmarket capital. The relationship between resources and corporate strategies and the subsequent firm performance has been proposed and proved by many resource-based theorists, as reviewed at the end of Chapter 2. After theorizing the importance of nonmarket capital to emerging economy firms in this chapter, an important question arises: How does nonmarket capital affect acquisition activities in emerging economies? Specifically, if resource portfolio determines strategic choices, are the differences between symbolic and substantial nonmarket capital reflected in choices of acquisition strategies and the subsequent firm performance? To answer these questions, a series of hypotheses are proposed in the next chapter, based on the fundamental nature of the six types of nonmarket capital. As such, a third theoretical contribution of this research that it addresses how nonmarket capital influences the adoption and effects of strategic

actions of emerging economy firms.

CHAPTER 4. HYPOTHESES DEVELOPMENT

Acquisition entails target selection, combining two business units or organizations, communication and cooperation, structures and processes, as well as response and support of external environment (i.e. stakeholders). This corporate strategy, therefore, concerns restructuring and integration of internal resources, as well as interaction of the two firms with external environment. Given that emerging economies and developed economies have different regulatory and normative institutional environments, strategic choices and outcomes of acquisitions in emerging economies should be under a different set of constraints. The constraints can be reflected in the type of resources—a fundamental factor and the building block of a firm—that the firms seek to accumulate and leverage.

The research questions have been raised in Chapter 2; what resource is of specific importance and relevance in acquisition. In Chapter 3, institutional theory first helps identify the important resources for emerging economy firms - nonmarket capital. To further address how nonmarket capital influences acquisition, RBV and the signaling theory then reveal the fundamental differences in the mechanisms by which it generates value. Now the key question is how different types of nonmarket capital affect acquisitions in emerging economies differently, if the two mechanisms are significantly different from each other.

As outlined in previous chapters, literature on acquisition has a number of gaps. This chapter aspires to fill the voids. Theoretical arguments made in this chapter refer to the specific context of acquisition in China. So first, this empirical context is reviewed. After that, three strategic factor markets that are of special importance for emerging economies like China are identified. These strategic markets also constitute the boundary within

which each type of nonmarket capital is effective. Three relevant strategies of acquisition target selection in these three strategic factor markets are discussed. Specifically, strategy in political market (like acquiring SOEs) is most relevant to political capital, strategy in product market (like acquiring product-related firms) is most relevant to social capital, and strategy in capital market (like acquiring unlisted firms) is most relevant to reputational capital. Second, the logic linking resource and acquisition outcomes is proposed. Strategic factor market imperfection and asset specificity determine that acquisition strategies should align with characteristics of acquirer's resources. Finally, hypotheses explaining how the six types of nonmarket capital influence adoption of the afore-mentioned acquisition target selection strategies and performance outcome are proposed. Academic research and business practices have shown that majority of acquisitions fail to achieve their objectives, and as many as 80% of acquirers are not able to attain performance improvement. The hypotheses point out the boundary conditions where each type of nonmarket capital adds value to acquisition and when such benefits may deteriorate or even become detrimental.

Strategies of Acquisition Target Selection in Emerging Economies

Most research on alliance and acquisition typically rely on a transaction cost approach for theoretical perspective. In developing theoretical foundations, most studies have sought to extend and revise current theories through consideration of new contextual variables (Bruton & Lau, 2008). This dissertation is based on institutional economics and RBV and also tries to extend and develop the theory. Therefore, in conceptualizing acquisition strategies this dissertation aims to refine the strategies that are of special importance and

relevance in emerging economies. In addition, one research stream empirically examines the aspect of target and acquiring firms' characteristics. Accordingly, three types of strategic factor markets that cover most important contextual characteristics of emerging economies political market, product market, and capital market are used to derive respectively three types of acquisition strategies (i.e. target characteristics) state-ownership, product relatedness, and public-listing status.

Firstly, the three attributes reflect the three important strategic markets in emerging economies, i.e. political market, product market, and capital market. Firms exchange in several major strategic factor markets to acquire the necessary strategic assets or to leverage their strategic capabilities or assets to generate abnormal economic returns. Strategic factors refer to resources and capabilities that are the prime determinants of economic rents. Ghemawat (1991) suggested that one may classify industries in terms of the "strategic factors that drive competition in them by virtue of dominating the structure of sunk costs incurred in the course of competition."

Secondly, as discussed in the last section, the imperfection of strategic factor markets guarantee the chance of earning abnormal returns. Holding nonmarket capital of strategic importance for emerging economy firms (i.e. increased institutional relatedness), firms are able to reap superior performance outcomes via transactions in these strategic markets.

Thirdly, the three kinds of target attributes are especially related to the three kinds of nonmarket capital that increase emerging economy firms' institutional relatedness and set the boundary of effectiveness for each of them. Target's state-ownership relates to acquirer's political capital, target's product relatedness relates to acquirer's social capital, and target's listed status relates to acquirer's reputational capital. Different types of

nonmarket capital play different roles in different strategic markets.

The roles of these strategies, their linkages to nonmarket capital, and the existing research are discussed in the following section.

Political market Acquisition of state-owned enterprises

The first strategic factor market is political market, where firms transact over public policies with government policy-makers. Specifically, in this market, interactions of those seeking specific policy measures (i.e. firms, consumers, unions and activists, etc.) and suppliers of policy (i.e. government policy-makers) shape public policies (Bonardi, Hillman, & Keim, 2005). In a broader sense, political market is where firms and government interact and bargain so as to obtain what they want from each other. In political market, firms conduct corporate political behaviors in an attempt to use the power of government to advance private ends (Mitnick, 1993).

Recent evidence suggests that actions in political market are becoming increasingly important (Hillman, Keim, & Schuler, 2004). Research about the impact of political environment on the firm (e.g., Garcia-Canal & Guillen, 2008; Ring, Lenway, & Govekar, 1990) found that firms adopt certain strategies to cope with political imperatives and manage the firm/state interdependence. Especially in emerging economies, where market institutions are under-developed and nonmarket institutional idiosyncrasies such as "big government" and inter-personal relationships prevail, dealing and negotiating with government via individual-level political capital is beneficial for firms. This is similar to what is found by Garcia-Canal and Guillen (2008): it is more attractive to expand into countries characterized by governments with discretionary policymaking capacities so as

to be able to negotiate favorable conditions of entry.

Current research has assembled a relatively comprehensive inventory of various political tactics used to transact in political market and manage the political environment, such as lobbying, advocacy advertising, constituency building, financial contributions, and coalition formation (Bonardi et al., 2005; Hillman et al., 2004). Firms often use their political capital to bargain for benefits, and the final outcome is always the result of the game between state and private businesses and among different parties of the state in the political market. Accordingly, as proposed by Tian, Gao and Wei (2003), activities relating to government such as acquisition of SOEs are in effect a strategic action in political market that goes beyond its economic purpose. Politicians extract rents from companies they manage (Shleifer & Vishny, 1994). Exchanging the stakes of SOEs is actually a reallocation of state-owned interests under political pressures. In an extreme case of acquisition of an SOE (i.e. privatization), Feigenbaum and Hening (1994) further argued that some privatizations are advocated to achieve the short-term political goals of particular parties, politicians, or interest groups and to alter the balance of power. On the other hand, connecting with SOEs is a way to build a closer relationship with government. Using Hillman and Hitt's (1999) typology, acquisition of SOE is a "relational" political strategy, which attempts to build relationships across issues and over time so that when public policy issues that affect their operations arise, the contacts and resources needed to influence this policy are already in place.

Privatization is an extreme case of acquisition of SOEs in that SOEs are taken over and the ownership is changed. This has been studied the most. The key reason to privatization is unsatisfactory economic performance of public enterprises. Scholars in the fields of

public economics, agency theory, property rights, management and public administration agree that it is not ownership itself but managerial accountability that may fundamentally distinguish public from private enterprises and cause the inefficiency of many government-run firms (Uhlenbruck & De Castro, 1998). But the outcomes of this type of acquisition are found to be mixed. Focusing specifically on developing countries, some studies (Cook & Kirkpatrick, 1988; Wright, Hoskisson, Filatotchev, & Buck, 1998) failed to find superior efficiency in privatized versus public enterprises. Dharwadkar, George and Brandes (2000) suggested that weak governance and limited protection of minority shareholders in emerging economies create unique agency problems (e.g., expropriation) in the process of privatization. In China, acquisition of SOE is a special issue. Since 1990, the massive and unbearable losses incurred by its ailing SOEs have made the Chinese government commit to reforming failing SOEs, allowing them to reorganize, close down or be acquired by private businesses. The reform has de facto begun to remove a long-standing barrier to free market operations (Law, Tse, & Zhou, 2003). Research on 634 listed SOEs during the period 1994–1998 found that share issuing privatization is effective in improving SOEs' earnings ability, real sales and workers' productivity, but is not successful in improving profit returns and leverage after privatization (Sun & Tong, 2003).

As a target's state ownership, to a certain extent, concerns government's authority and the way it runs the economy, political capital is of particular relevance to acquisition of SOE. Research has found that ownership structure affects the ease with which government can intervene in firm operations (Megginson & Netter, 2001). It is reported that government intervenes seriously in SOE, especially in emerging economies where institutional constraints are weak (Shleifer & Vishny, 1994, 1998). So, acquisition of SOE

is to a certain extent to enter government's territory. As discussed before, the core value of political capital is government's approval of way of doing business and the ability to influence government policies in favor of owners of political capital. For this reason, political capital is of great significance when interacting with government, as in the case when emerging economy firms acquire targets with higher concentration of state-ownership.

The above discussions suggest that research on acquisition of SOEs in emerging economies is far from enough. Hillman and Hitt (1999) contended that firms make specific political action choices based on differential resources. Despite the relevance of political capital in political action and acquisition of SOEs, however, it is not clear how political capital would influence the strategy to acquire SOEs and the resulting performance outcomes.

Product market—Acquisition of product-unrelated targets

The second type of strategic factor market is product market. This research follows the original research line of industry analysis framework (Porter, 1980; Schmalensee, 1985), which focuses on product markets and views the sources of profitability to be the characteristics of the industry (classified by product type), as well as the firm's position within the industry. Decisions made in the product market include which products to sell, which markets to enter, etc. Among them, product market diversification is an important strategic decision that can increase economies of scope; the flip side is to maintain product market relatedness so as to achieve economies of scale.

Product diversification/relatedness is of special significance in emerging economies

characterized by higher transaction costs. An enterprise can often be more profitably pursued as part of a large diversified business group. Taking Chinese listed firms as example, the percentage of conglomerate firms had grown from an average of 15% of all listed companies in the mid-1990s to nearly 40% by the year 2002 (Delios et al., 2008). To explain this phenomenon, Khanna and Palepu (1997, 2000) argued that diversified firms can mimic the beneficial functions of various institutions present in developed economies. Therefore, imperfections in capital markets, contract enforcement, business-government relations, product markets, and labor markets make it more difficult for focused firms to survive. Firms can take advantage of these imperfections by diversifying at the firm level or through membership in industrial groups. On the other hand, related acquisition is a way to utilize existing advantages, increase market share, and exploitation of economies of scale. Also, Markides and Williamson (1994) argued that related acquisition creates potential for the firm to expand its strategic assets and create new assets more rapidly and at lower costs than rivals.

As for the outcomes, most research has shown that acquisitions of related businesses have yielded substantially higher gains than unrelated acquisitions. Finkelstein and Haleblian (2002) found that similar acquisitions are positively related to acquirer's post-acquisition performance, and second acquisitions underperform first acquisitions, particularly when first and second targets are from different industries. A meta-analysis based on 55 previously published studies by Palich, Cardinal and Miller (2000) found that performance increases as firms shift from single business strategies to related diversification, but performance decreases as firms move from related diversification to unrelated diversification. In emerging economies like India, Khanna and Palepu (2000)

found that unlike U.S. conglomerates and similar to affiliates acquired under leveraged buyouts, affiliates of the most diversified business groups outperform unaffiliated firms. Contrarily, however, research of emerging economies by Lins and Servaes (2002) found a discount for firms that are parts of industrial groups and for diversified firms with management ownership concentration between 10% and 30%.

To disentangle various reasons for the mixed empirical results, one perspective is to look at the resource portfolio of the firm undertaking diversification. Markides and Williamson (1996) identified several types of resources needed for entering an industry, i.e. inputs, process-related knowledge and markets. Moreover, Guillén (2000) developed a resource-based framework to approach business groups in emerging economies. Luo (2002) found that in emerging economies, when resource complementarity or goal congruity between parents is high, there is a stronger positive relationship between product relatedness and joint venture performance outcome.

When executives consider product or market diversification via acquisition, social capital is most relevant. Social capital's inherent benefits, generated from relationships with business partners and competitors, include diverse and reliable market information, potential cooperation opportunities, strong business support and so on. Such benefits are critical and indispensable for expanding business into new territories. Therefore, the boundary within which social capital is crucial and effective is the relatedness of acquisitions that concerns business scope. Although resource-based arguments have been used to explain product relatedness or diversification in emerging economies, resources such as social capital are not well studied.

Capital market Acquisition of unlisted targets

The last is the capital market. Capital market has at least four important functions: (1) to provide capital for listed firms, (2) to allocate resources efficiently, (3) to act as a platform for information exchange, including information about parties involved in transactions and about the market, and (4) to provide a market for corporate control. A vivid example of the information function of capital market is acquisition of unlisted targets. A bid—or pre-bid rumors—for a listed firm reveals new forward-looking information on the target but the information gets dissipated to other potential bidders and is thus likely to be fully factored into the target stock price. In contrast, private information on unlisted targets is less likely to be dissipated because it is often not available publicly and it receives little media attention. On the other hand, even if private targets become aware of the bidder's private information during the negotiation process, they have no available means of appropriating the value of it (unless they solicit rival bids) (Capron & Shen, 2007).

Capital market is also of special importance for firms in emerging economies. In emerging economies, capital markets are often shallow and underdeveloped, and intermediates like financial analysts and venture capitalists are few (Hoskisson et al., 2000). To cope with this difficulty, business groups can be used to generate internal financial market and counter-balance the fluid state of the institutional environment in emerging economies (Uhlenbruck, Meyer, & Hitt, 2003). Private firms face greater difficulties in obtaining bank loans, and the capital market becomes an important source of funds for them. Therefore, unlisted firms face even bigger challenges, such as lack of exposure in capital market and the subsequent lack of stable source of funds.

Research on unlisted targets has been relatively sparse due to unavailability of information on these firms and inadequate disclosure of terms of these transactions. Actually, the number of transactions involving unlisted targets is more than those involving publicly traded targets. Based on the SDC database, between 60 and 75 percent of firms acquired in the U.S. between 2000 and 2004 were privately held. Grant Thornton International Business Report (2008), found that mainland China had the highest number of privately held businesses expecting to grow through acquisition (67%) or IPO (60%) over the next three years, far above the global average. The distribution of gains is different between publicly listed targets and privately held targets. When the target is a publicly listed corporation, acquirers earn small and statistically insignificant returns as most gains typically accrue to the target. In contrast, buyers experience significant gains from acquisition of private targets, a result termed as the "listing effect" by Faccio, McConnell and Stolin (2006). Private firms cannot be bought and sold as easily as publicly traded firms. Lack of liquidity makes these investments less attractive and less valuable than similar, more liquid investments. The acquirer earns this discount when purchasing an unlisted firm (Fuller et al., 2002). Some scholars (Ang & Kohers, 2001; Faccio et al., 2006) have identified five factors that lead to higher premium for unlisted targets; whether the acquirer is in high-tech industry sector, the takeover market, the value of liquidity, the method of payment, and the state of the economy. To summarize, Mantecon (2008) suggested that two major differences between private and public firms, namely, the amount of uncertainty and ownership structure characteristics, influence the target's bargaining position and returns to acquirers.

Acquirer's reputational capital, finally, is most relevant to entrepreneurial activities

such as acquisition of unlisted targets. On the one hand, reputational capital brings to acquirer publicity among potential investors and customers, and at the same time conveys to stakeholders the owner's reliability, quality and trustworthiness. As such it reduces uncertainty of the focal firm's performance as perceived by stakeholders (Podolny & Stuart, 1995). The listing status of the target, on the other hand, also determines availability of information. Unlisted firms' information in terms of corporate governance and reliability, etc., is generally not known (or is less known) to financial markets and, therefore, they suffer the disadvantages of newness in the capital market. The publicity and positive signals from reputational capital is what they need. If unlisted firms are acquired by reputational capital-rich firms, acquirer's reputation can spill over to the unlisted target and compensate target's disadvantage. Target's public listing status is the boundary within which reputational capital is relevant and effective.

Apparently, available research on acquisitions of unlisted firms is not enough. Existing finance literature has dealt with performance questions without considering endogeneity of the acquirer's choice of target, while management literature, focused on developed economies, has seldom paid attention to acquisitions of unlisted firms. It seems that returns from acquisitions of listed and unlisted firms do not have any decisive pattern; they depend on acquirer's type of search and on the merging firms' attributes. Considering the importance of reputational capital for this kind of acquisition strategy, it is necessary to explore the role of resources in acquisition of unlisted firms and the subsequent performance.

Nonmarket Capital and Acquisition Target Selection

The central question of this dissertation is how nonmarket capital influences acquirer's choice of target and the subsequent acquisition performance. Granted that many factors like time, industry, managerial incentives and so on impact these issues, one fundamental factor is the nature of resources the acquirer has in hand. The effects of target selection strategy used to leverage nonmarket capital are determined by imperfections of strategic assets markets they are active in, and asset specificity of resources that they possess.

A strategic factor market is a market where resources necessary to implement a strategy are acquired. If strategic factor markets are perfect, then the cost of acquiring strategic resources will approximately equal to the economic value of output of the acquired resources, on deployment. The price of each resource reflects its value in all possible uses. However, usually, strategic factor market is imperfect, and firms may obtain above normal economic performance from acquired strategic resources and implementing strategies. Situations where strategic factor market imperfections come into play include when a firm controls unique resources, when only a small number of firms attempt to implement a strategy, when a firm already controls all resources needed to implement a strategy, when some firms have access to lower cost capital than others, and when different firms have different expectations about the future value of a strategic resource (Barney, 1986).

One outcome of some strategic factor market imperfections is asset specificity. Asset specificity refers to "the extent to which assets (e.g. physical, human, or cultural resources) are specialized to a specific transaction and can be used only at lower value in alternative applications" (Chiles & McMackin, 1996, p. 74). These specific assets are less redeployable to other uses than general purpose assets (Balakrishnan & Fox, 1993;

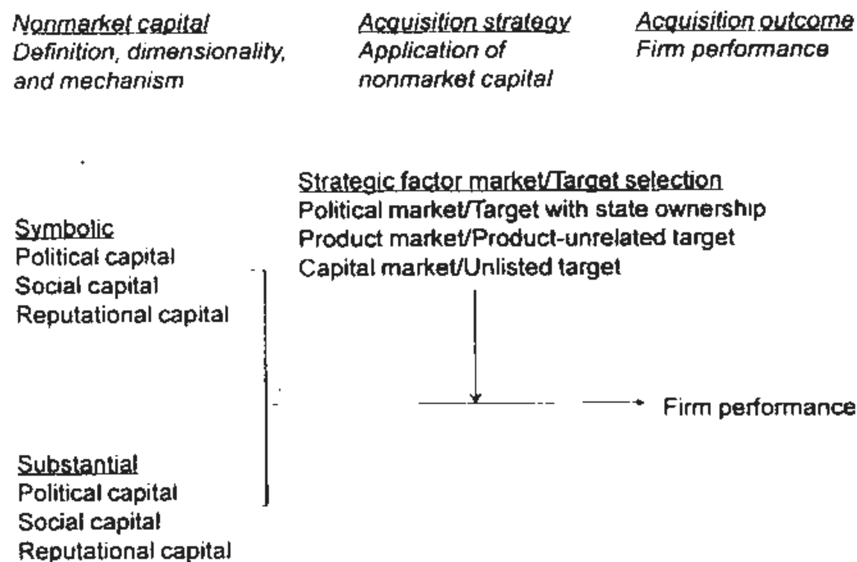
Williamson, 1981). Nonmarketability problems arise when specific identities of individual parties have important cost-bearing consequences. Secondary market for such assets may not value them as much as the firm and sometimes the secondary market may not even exist (Klein, Crawford, & Alchian, 1978; Williamson, 1975). Asset specificity is critical because once an investment has been made, the buyer and the seller are effectively "locked into" the transaction to a significant degree, as the value of specific capital in other uses is, by definition, much smaller than its designated specialized use (Williamson, 1983).

Because of imperfections of strategic factor market, asset specificity exists and holders of valuable, rare, difficult to imitate and non-substitutable resources such as nonmarket capital can earn abnormal economic returns. Specifically, in each strategic factor market different types of assets are required. Strategic factor market creates the context in which specific types of resources are effective and value-generating. Political capital is most effective where bargaining and cooperation with government are required. Social capital is most useful where the product or the service is the central issue. Finally, reputational capital can increase stakeholders' trust when unlisted firms do not have listing status to signal their trustworthiness.

RBV contends that different resources have different functions, and are deployable across a number of different markets (or occasions) over time. Under similar initial resources heterogeneity in firm outcomes may also occur because of choices of different corporate strategies for leveraging of resources (Amit & Schoemaker, 1993; Sirmon et al., 2007). To better manage resources, firms should use their resources in the right way and in the right context. That is, specific strategies should align with the fundamental characteristics of the resource. Strategies tailored to assets can reduce costs, improve

quality, and enable differentiation of products and services. Ineffective use of resources can not create value and may even be detrimental to outcomes. Firstly, fungibility of focal resources (nonmarket capital) is limited. Only a matched strategy can deliver value creation. Acquirers may not have the necessary capability to absorb and integrate the targets. Once inappropriate acquisition strategies are used or wrong targets are acquired, the expansion may result in the target and the nonmarket capital being liabilities. The problem facing managers, therefore, is to understand the characteristics and substantiality of resources at their disposal. Managers should develop proficiencies and become more effective at aligning firm strategies with the environmental context (including market conditions and industry- and nation-level institutions) in ways that enhance organizational performance (Holcomb, Holmes Jr, & Connelly, 2009). This dissertation specifies how each type of nonmarket capital should be used in the context of acquisition, or, the conditions under which each type of nonmarket capital is value-adding or value-destructive. The overall theoretical framework based on the above theory is presented in Figure 4.1 below.

Figure 4.1 Theoretical model



Asset specificity determines the varying applications of each type of nonmarket capital, according to its nature. Because acquisition is actually a kind of transaction in the open market, it is especially sensitive to efficiency of markets. Nonmarket capital is considered as the resource that is most useful when market is immature or fails; it is highly relevant for firm's decisions on acquisition and the subsequent outcomes. As discussed previously, nonmarket capital is divided along two dimensions, i.e. political vs. social vs. reputational, and substantial vs. symbolic. Accordingly, under this framework, and using asset specificity as the theory, I first discuss the boundary within which the three kinds of nonmarket capital are applicable (Match 1). Then the specific acquisition strategies that are (in)appropriate for generating value from nonmarket capital (Match 2) are discussed. Hypotheses are developed based on the arguments.

Hypotheses

Drawing from resource-based view and the signaling theory, I posit that substantial nonmarket capital generates value via substantial function execution while symbolic nonmarket capital helps signal a firm's underlying attributes and reduce market uncertainties. Imperfections of strategic factor market and asset specificity discussed above determine that only when the acquisition strategy matches fundamental characteristics of resources can abnormal economic returns be generated from strategic actions. Therefore, it is proposed that acquiring firms should capitalize on their political, social and reputational nonmarket capital in such a way that substantial and symbolic functions of such capital can be effectively redeployed in target firms. This section identifies specific strategies of acquisition target selection. I focus on three main target attributes—state ownership, product relatedness and listing status, representing the uniqueness of strategic factor markets (political, product and capital markets) in emerging economies, as discussed in the last section.

Theoretically, nonmarket capital is defined as political, social and reputational capital that increase firm's institutional relatedness in emerging economies. Here empirically, experiences and backgrounds of top managers like CEO and chairman of the board are used as the proxy of the construct. Demographic and background data may not be representative of true managerial skills but the general assumption is that attending proper schools, having impressive prior experience and associating with the right people indicate higher status, aggregated prestige and skill (Berger, Rosenholtz, & Zelditch, 1980). Pfeffer and Salancik (1978) pointed out that four primary benefits can be provided from board of directors: (1) advice and counsel, (2) legitimacy, (3) channels for communicating with

external organizations, and (4) preferential access to commitments or support from important elements outside the firm. Following this view, I argue that top managers like CEO and board chairman constitute a good proxy for political capital (e.g., help to acquire legitimacy), social capital (e.g., provide information and support and determine corporate strategies), and reputational capital (e.g., signal the quality of the firm). Moreover, top managers' (e.g., chairman of the board) past experiences and functional backgrounds reflect their resources and managerial schema that influence corporate financial performance (Roure & Keeley, 1990).

Based on these arguments and the literature review, a series of hypotheses are developed. Figures 4.2 and 4.3 describe the hypotheses.

Figure 4.2 Main effect model

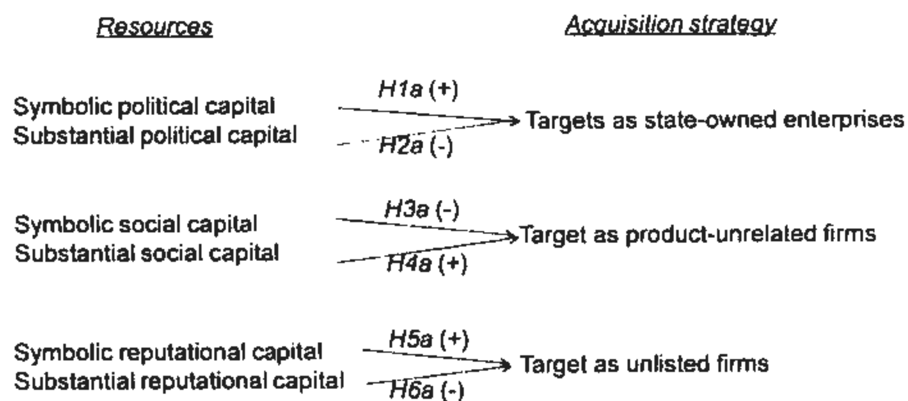
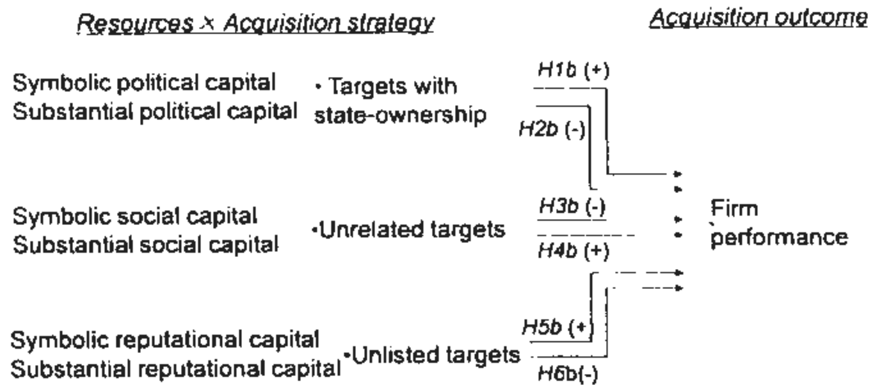


Figure 4.3 Interaction effect model



Political capital and acquisition

Political capital refers to resources that can be used to influence policy formation processes and obtain governmental support (Birner & Witter, 2003). Top managers' past working experience in government and political agencies best represent corporate political capital, as most political experiences and connections are accumulated while working in government agencies (Fan, Wong, & Zhang, 2007). Based on the mechanism by which nonmarket capital generates value, it can be divided into two types: symbolic and substantial. In the following section, specific outcomes of both symbolic and substantial nonmarket capital combined with certain acquisition strategies are discussed.

1. *Symbolic political capital*

Symbolic nonmarket capital is defined as resources that indicate or signal an organization's commitment or central and distinctive attributes that give it a competitive advantage over other organizations. Symbolic nonmarket capital takes its effect by signaling to stakeholders the hidden information about the owner of the capital. Strategic actions that fit asset specificity should be able to magnify the signal, and on the other hand, symbolic nonmarket capital combined with appropriate strategy should result in good performance outcome.

Symbolic political capital is defined as the grass-rooted entrepreneur's capital signaling to stakeholders that the focal firm maintains a good relationship with the local government. In China's political system, four agencies hold political power: central and local governments, Chinese Communist Party (CCP) Central Committee, National People's Congress (NPC), and Chinese People's Political Consultative Congress (CPPCC).

The latter two only have symbolic functions and do not have real power in hand (Potter, 1999). Symbolic functions of the two political agencies fit the concept of symbolic political capital. Therefore, in this study, symbolic political capital refers to top managers' or entrepreneurs' participation in political affairs, such as working in political agencies like CPPCC and NPC.

As discussed previously, political capital increases institutional relatedness via accumulating good relationship with the government. As reported, China's private entrepreneurs have been included or co-opted in political bodies like NPC and CPPCC to recognize loyalty (Pearson, 1997). Therefore, symbolic political capital can be viewed as a symbol of conformity to political authority. It is used by government as a kind of recognition and, therefore, brings a higher status to business firms. On the other hand, local

governments control most resources in China (Montinola et al., 1995). For stakeholders other than the government, participation in political affairs signals close interactions with government and potential strong governmental support. Based on these characteristics of symbolic political capital, it is argued that acquisition of SOE is an effective strategy that leverages symbolic political capital and generates distinctive competence.

First, symbolic political capital signals to local governments the legitimacy to acquire SOEs. Trustworthiness is an important criterion used for screening buyers (Graebner, 2009), especially when the seller is government. In cases of introducing strategic investors (i.e. no change of controlling rights), the government is very cautious. Governments often have strategic and political agendas related to its asset or things that relate to it (Zahra et al., 2000). Objectives of selling stakes in SOEs are as much political—like catering to specific stakeholder groups—as economic, a fact that should significantly affect negotiations (Uhlenbruck & De Castro, 1998). Symbolic political capital acts as a signal of political legitimacy, as participation in politics via NPC and CPPCC demonstrates cooperation with government which alleviates government's concerns about the motive of the acquirer and smoothness of future management and cooperation. In cases of takeover, as the target SOEs are less efficient (Walter, 1987) and even loss-making (at least in China) (Sun & Tong, 2003), the transaction intensifies the image of the firm as a responsible social actor in the eyes of local government. In both cases, getting involved in management of an SOE leads to close communication and cooperation with local government, thereby creating opportunities to strengthen the bond with some interest groups of government over a longer term. Therefore, acquisition of SOEs is an appropriate strategy used to leverage symbolic political capital in political market.

Second, for stakeholders other than government symbolic political capital signals the potential synergy effect of the deal based on characteristics of parties to the deal. Normally, members of CPPCC come from more diversified backgrounds, many being members of the social, cultural and business elite. It is also found that more members of NPC and CPPCC are from larger firms (Li et al., 2006). These grass-rooted business elites are likely to be more adaptable to markets competitive environments. On the contrary, SOEs are characterized by bureaucratic styles of functioning, political (rather than economic) strategic intentions, government-appointed top managers, and probably heavy social burdens (Garcia-Canal & Guillen, 2008; Walter, 1987). Introduction of investors is a way to increase profits of SOEs (Ramamurti, 1992), as increasing reliance on competitive forces like grass-rooted business elites without changing ownership leaves the public sector with responsibility of setting and achieving goals but has the advantages of promoting efficiency and reducing the bureaucracy (Feigenbaum & Henig, 1994). In the case of takeover, top management team of the acquiring firm has higher autonomy (Yarrow, 1986; Zahra et al., 2000) and can freely use its business expertise and diverse backgrounds and connections to fix the target's low efficiency and bureaucratic style (and other problems in SOE). The combination of acquirer's market expertise and target's political background seems promising. The signals of potential synergy reduce the social uncertainty about the performance outcome, and subsequently more support from stakeholders (i.e. customers, suppliers, and investors, etc.) is attracted by the focal firm (e.g., Choi & Shepherd, 2004). Because of the synergy, the resulting collocated and interdependent resource bundles are more difficult for rivals to imitate and are thus more valuable for achieving a performance advantage than is the sum of individual resources or

disjointed combinations (Porter, 1996; Thomke & Kuemmerle, 2002). Therefore, the performance is improved.

Because acquisition of SOEs leverages the advantage of symbolic political capital, more symbolic political capital promotes more such acquisitions. And the performance outcome is better in this combination of resource and target selection strategy. Therefore, I propose the following two hypotheses:

Hypothesis 1a: Top managers and entrepreneur's participations in politics are positively related to acquisitions of SOEs.

Hypothesis 1b: Interaction between top managers and entrepreneur's participation in politics and acquisition of SOEs are positively related to acquirer's post-acquisition performance.

2. *Substantial political capital*

To retrospect, substantial nonmarket capital undertakes objective, substantial and tangible business functions. The "substantial" nature of this type of resource determines its relatively low fungibility, as any function is needed *only* under certain circumstances, and is effective *only* upon appropriate usage. This deployment inflexibility represents greater challenges to managers in selecting appropriate strategies that meet asset specificity of the focal nonmarket capital (Sirmon, Gove, & Hitt, 2008).

Substantial political capital is defined as capital generated from substantial experience of bureaucratic and political life and connections with elites. I argue that top managers' past working experiences in government best represent substantial political capital. Firstly, most political experiences and connections are accumulated while working in government

agencies. Secondly, top managers are responsible for deciding corporate strategies and making sense of and managing a torrid flow of conflicting and ambiguous information (Mintzberg, 1973) and, therefore, their political experiences and connections to a large extent influence corporate decisions.

Finally, it is found that in socialist societies, including China, people connected with the government enjoy rewards (Nee, 1992). Hence, it is natural that these people would seek to utilize their experiences and connections accumulated while working in the regime. Top managers can utilize their political experiences and connections in government to earn economic returns for firms. Asset specificity implies that when taking actions in political market, specific strategies should be aligned with resources at hand. The "substantial" characteristic of substantial political capital means the target selection strategy should allow it to perform its function. However, although trading stakes of firms with state-ownership (e.g., SOEs) in acquisition deals can be viewed as a reallocation of state-owned interests under political pressure, it is not an appropriate strategy to leverage substantial political capital in political market.

First, firms rich in substantial political capital do not need to connect with government via wrestling in political market. As discussed in the last chapter, the government plays an especially important and powerful role in economic and business issues; political capital can increase institutional relatedness via obtaining institutional support from the government (e.g., Li, 2005; Peng & Luo, 2000). Government controls most resources and determines rules of the game in the market. In emerging economies, governments have even greater power and intervene in businesses to a large extent (Hitt et al., 2004). As there is no mature system to monitor and limit government's behaviors, in emerging economies,

many businesses need to be backed up by good relationship with government so as to run smoothly. Emerging economy firms have to face government and solve these problems. Substantial political capital can increase institutional relatedness via maintaining good relationship with government. It helps shape government's opinion towards directions favorable for the firm and obtain more institutional support in terms of interpretation of regulations, enforcing contacts, settling negotiations, providing financial support and preferential access to resources.

However, such relatedness emerges from natural and solid bonds with the government because substantial political capital is generated from the never-changed identity and rich bureaucratic experiences of top managers as former-regime elites. Moreover, the connections are especially useful in emerging economies where nonmarket institutions like interpersonal relationships prevail. Because firms rich in substantial political capital are already closely connected to government and enjoy much privilege (Szelenyi & Kostello, 1996; Walder, 1996), political action is not an appropriate strategy to use political capital and generate value from it. Hence, distinctive competency does not emerge from such acquisitions.

Second, acquisition of SOEs cannot leverage the advantages of substantial political capital and the mismatch of asset specificity also induces loss. When it comes to getting involved in the management of an SOE, post-acquisition management or integration of the target requires superior business expertise since SOEs have different strategic orientations or management styles (Cragg & Dyck, 1999). However, this is not the advantage of former-regime elites. They are rich in political experiences in government but not good at maximizing profit and dealing with organizational and managerial complexities that come

with strategic changes like diversification into new areas (Fan et al., 2007). Moreover, similar to the entrepreneur example described by Maurer and Ebers (2006), cognitive lock-in exists in former-regime elites. Rich working experiences in government may make the managers of the firm identify themselves primarily as officials, as do the fellow government officials with whom they most often interact. These cognitive perspectives and established bureaucratic frames of mind are so dominant that managers embedded with substantial political capital apply them even when confronting new business challenges and non-official partners. Therefore, firm relations with government have been viewed primarily as a cost or an institutional constraint on firms (Pfeffer & Salancik, 1978), rather than a set of opportunities for leveraging strategic assets and competencies to earn economic rents.

The above two arguments suggest that growth via acquisition of SOE is not a "fit" strategy for substantial political capital holders. Therefore, it is hypothesized that:

Hypothesis 2a: Top managers' working experiences in government are negatively related to acquisitions of SOEs.

Hypothesis 2b: Interaction between top managers' working experiences in government and acquisitions of SOEs are negatively related to acquirers' post-acquisition performance.

Social capital and acquisition

1. *Symbolic social capital*

Symbolic social capital is defined as a label signifying the high and central status of the focal firm in business network. Here, symbolic social capital refers to top managers'

leading positions in industrial associations or chambers, which best signal to stakeholders the symbolic central position within the industry and recognition by peers. That is because chambers of commerce and industrial associations are groups comprising most of firms in an industry. They act as a platform for information exchange, resource sharing and cooperation facilitator.

Social capital can increase institutional relatedness in that it emanates from social networks of relationships used to deal with existing stakeholders, and tacitly fits the social dimension of institutional idiosyncrasies in emerging economies, i.e. reliance on informal inter-personal relationships. This is true for both substantial and symbolic social capital. However, the two kinds of social capital increase relatedness with business players and generate value via different mechanisms and, therefore, should be used under different conditions. Considering the boundary of symbolic social capital, i.e. within or related to the focal industry, I argue that this kind nonmarket capital cannot be fully leveraged by unrelated acquisitions in product market.

First, acquiring product-unrelated target cannot magnify the signal to stakeholders, including customers, suppliers and competitors, that the acquirer is powerful in the focal product market. In contrast, it is an action highly likely to dilute acquirer's advantages in the focal industry. With top managers taking leading positions in industrial associations, firms with symbolic social capital are perceived as having occupied leading positions in the market, possessing advanced technologies and strong supply channels, and having the ability to provide focal products and services of prominent quality and reliability. As such, owner of symbolic social capital can connect to business players and the market more closely. This is especially true in the case of industries requiring high technologies or

sectors with high entry barriers. So, acquisition of related target consolidates the current status, exploits existing advantages and captures business opportunities in the current product market. It can further enhance this image and help strengthen the market position, gain greater power, block competition, and seek new market opportunities, and finally, of course, enhance symbolic social capital and increase institutional relatedness with business players in the focal market in return (Haleblian et al., 2009; Peng, 2006a; Singh & Montgomery, 1987). Unrelated acquisition (i.e. product diversification), however, is an expansion into new territory and a trial aiming to explore new opportunities. The advantage of symbolic social capital is hard to be leveraged in new areas as information, referral, and support from symbolic social capital are clustered in focal industry and usually do not spill over to other areas.

Second, the value-reducing outcome of diversification for symbolic social capital-rich acquirers results from misalignment of acquisition strategy and resource characteristics. Relationship lock-in describes a condition where social capital constrains actors' capacity and motivation to change the composition of their external ties and thus contributes to inertia in social capital (Maurer & Ebers, 2006). Under conditions of bounded rationality and environmental uncertainty, decision makers look to their counterparts in an effort to infer meaning from numerous and often ambiguous environmental cues (Berger & Luckmann, 1967; Festinger, 1954). In recent research, McDonald and Westphal (2003) found that CEOs' advice seeking in response to low performance may ultimately have negative consequences for subsequent performance. This is similarly caused by in-group identification and related in-group biases. People can base their identification with categorically similar others on a wide range of social attributes like shared functional

backgrounds, friendship ties, and employment in the same industry. As working experiences in focal firms constitute the proxy of symbolic social capital, a serious outcome is that an acquirer rich in symbolic social capital is locked in single-fold business networks and is not good at exploring and making changes and adopting in new environments and industries. The rigidity of mindset built by the relationship network is likely to impair post-acquisition integration and firm performance. Therefore, symbolic social capital is detrimental to firm performance when the focal firm is trying to diversify.

The above arguments lead to the following hypotheses:

Hypothesis 3a: Top managers' leading positions in industrial associations are negatively related to acquisitions of product unrelated targets.

Hypothesis 3b: Interaction between top managers' leading positions in industrial associations and acquisition of product-unrelated targets are negatively related to acquirer's post-acquisition performance.

2. Substantial social capital

Substantial social capital is defined as resources derived from networks with various business players that execute substantial business functions. In this study, top managers' working experiences in different business firms is the proxy of substantial social capital. That is because diverse business working experiences can best accumulate external business networks and the expertise of dealing with business problems, thereby executing substantial business functions. Like other forms of social capital, top managers' external networks hold contingent value (Burt, 1997), and are more beneficial in some specific contexts (than others).

Accumulating substantial social capital is a way to increase institutional relatedness in emerging economies in the sense that it emerges from social networks of relationships that represent the most salient characteristics of social dimensions in emerging economies. Inter-personal and inter-organizational relationships are important and effective means to exchange information, build trust and explore business opportunities (Powell, 1990; Xin & Pearce, 1996). For example, in emerging economy firms usually suffer severe dearth of information. Relational contracting (i.e. relationship-based, personalized exchange) has an advantage over formal institutions in that participants may have better information than any third party (e.g., courts) (Peng, 2003; Peng & Heath, 1996). The mechanism is that industrial or social associations act as groups, share reliable information only with in-group members, and utilize their political power to influence policy making and institution establishment. Similarly, in-group members trust each other and share resources and opportunities with each other. In a word, social capital is the product of usage of informal relationships and can increase the relatedness with key business players and with the society.

Especially, the core value of top managers' business working experiences (i.e. substantial social capital) lies in the strong support they enjoy across different business areas, enabling them to identify opportunities. They develop business sense to recognize implications of market changes, and have business skills accumulated from real business experiences and diverse business networks (Geletkanycz, Boyd, & Finkelstein, 2001). Considering this mechanism, I argue that product diversification (i.e. selecting product-unrelated targets) is an appropriate strategy to manage substantial social capital for the acquirer.

First, the advantage of diverse business working experiences can be best leveraged when expanding business scope. Based on RBV, within the firm's primary business domain, acquisitions are used mostly for resource deepening (Lee & Lieberman, 2010). Yip (1982) posited that relatedness reduces costs of entry when a firm enters via internal development because the firm can leverage its resource base to overcome barriers to entry. Similarly, from the perspective of RBV, firms need diversified connections and resources to overcome barriers to enter new and unrelated areas. Diverse business working experience is very useful in this regard, as it implies wide business opportunities and support generated from business connections accumulated at work, rather than refining resource deployment. Arguing from another perspective, Geletkanycz and Hambrick (1997) found that extra-industry ties are associated with adoption of deviant strategies. Similarly, diverse business working experiences can be best leveraged when firms expand or diversify business scope. Literature points out that the more diversified the firm is, the greater is the need for benefits of top managers' external linkages (Geletkanycz et al., 2001). Therefore, it can be inferred that expanding business scope is the strategy that best leverages advantages of diverse business working experiences.

Second, information and knowledge about other business areas generated from substantial social capital are critical for expanding business scope and exploring new opportunities. In emerging economy firms usually suffer severe dearth of information. Consumers have no redressal mechanisms if a product does not deliver on its promise. For information needs, relational contacts (i.e. relationship-based personalized exchanges) have an advantage over formal institutions in that participants may have better information than any third party (e.g., courts) (Peng, 2003; Peng & Heath, 1996). The mechanism is

that social networks act as groups, share reliable information only with in-group members, and utilize their political power to influence policy making and institution establishment.

Firms with substantial social capital have more information flowing to them from various channels that they can use to educate connecting partners regarding current market opportunities and possibilities, as well as the nature of different competitive strategies, and to provide insights required to lobby local and state officials (Zahra et al., 2000). Expanding in different product markets requires fine analysis of market conditions and potentials. Information available because of substantial social capital relates to industry environment, firms competing within that environment, and entities that affect their operations (Yoo, Reed, Shin, & Lemak, 2009). The information facilitates screening and searching under-valued or fit targets in related business areas (Poppo & Zenger, 2002). In addition, it can facilitate connections with top managers at other firms and close ties and strong bargaining power with buyers (Boisot & Child, 1996; Xin & Pearce, 1996). Therefore, substantial social capital is obviously useful for information exploration. This information advantage put firms rich in substantial social capital in favorable positions vis-à-vis competition in matters related to acquisitions.

The above arguments point to the following hypotheses:

Hypothesis 4a: Top managers' diverse business working experiences are positively related to acquisitions of product-unrelated targets.

Hypothesis 4b: Interaction between top managers' diverse business working experiences and acquisition of product-unrelated targets are positively related to acquirer's post-acquisition performance.

Reputational capital and acquisition

1. Symbolic reputational capital

Symbolic reputational capital is an indicator that shows firm's (and top managers') competency and credibility. Managers are critical in strategy crafting and decision making and, therefore, reputation pertaining to managers directly influences stakeholders' belief that the focal firm's business strategies will succeed and growth potential is strong. Reputational capital can enhance institutional relatedness as it makes firms to be perceived as more trustworthy and able to fulfill their contract obligations, by providing reliable products and services. Thus it is a strategy to compensate for a weak legal system. However, symbolic reputational capital is different from substantial reputational capital in that it has different contents in terms of specific types of reputation. Symbolic reputational capital signals the firm's celebrity status and high quality of management and concerns the image of its top executives as able managers. Based on this asset specificity, I argue that symbolic reputational capital can be fully leveraged in capital markets in acquisition of unlisted targets.

First, strategic actions like acquisitions of unlisted targets convey to important stakeholders that acquirers with symbolic reputational capital are committed to excel in management. This is an essential signal sent to stakeholders in the context of emerging economies where information about business players is rather sparse. Owners of symbolic reputational capital are firms with clear strategic intentions that are capable of managing businesses of private firms and leverage this advantage to integrate the target and realize synergies.

Second, acquisition of unlisted firms can use symbolic reputational capital in the

context of capital market. Denrell, Fang and Winter (2003) contended that strategic factor markets (including capital market that spreads information efficiently) often have incomplete information on new resources or new ways of using old resources (unknown to the market). As such, these markets can not accurately price new resources or resources to be used in unexpected ways. Because of this uncertainty, there may be more opportunities to acquire resources below their true market value than previously thought. Unlisted firms are even less known to capital markets. But such strategic actions need to be backed up by superior managerial insights. Besides information issues, the success of acquiring an unlisted firm depends to a large extent on availability of competent managers who can oversee the target's transformation. This is a particularly difficult task in emerging economies, where the lack of qualified senior executives can make transformation of an unlisted enterprise into a listed firm or integration of an SOE and a private firm challenging (Ozkaya & Askari, 1999). Correspondingly, top managers' managerial capabilities endow the acquirer with the image of a management expert. It signifies managerial capabilities critical in uncovering potentials inherent in private targets in face of information asymmetry, as well as management of the transition process induced by the acquisition. Potential investors and customers in capital market are more likely to view acquirers rich in symbolic reputational capital as capable of recognizing value of new resources and realizing the synergistic effects. As such, benefits of symbolic reputational capital are leveraged and the disadvantage of target not being listed in capital market is alleviated.

Finally, trust of the vast public can facilitate target's business as well. Marketing literature has found that reputation of the umbrella brand affects sales of products under brand extension favorably (Balachander & Ghose, 2003). In strategic alliance partner

selection research, some scholars (Dollinger et al., 1997; Eisenhardt & Schoonhoven, 1996) have argued that firms may use alliances to enhance their legitimacy by searching for partners with strong intangible assets, such as strong reputations. Firms develop alliances with partners to enhance their own reputation and image by tapping reputations of more established partners (Saxton, 1997). Similarly, the public's trust in a capable listed acquirer can spill over to the unlisted target, whose capability is unknown to the capital market, and facilitate operations of the business being acquired. This spillover effect is more salient in capital market, where information is spread more efficiently even when the acquisition target is less known before the deal. For listed targets, the listed status already endows them with symbolic capital that ensures availability of capital since they are perceived to have higher level of corporate governance and reliability in contract enforcement (e.g., Klapper & Love, 2004; Pagano, Panetta, & Zingales, 1998). However, positive effect of symbolic reputation capital is not that salient.

The above arguments lead to the following hypotheses:

Hypothesis 5a: Top managers' awards are positively related to acquisition of unlisted targets.

Hypothesis 5b: Interaction between top managers' awards and acquisitions of unlisted targets are positively related to acquirer's post-acquisition performance.

2. Substantial reputational capital

Substantial reputational capital indicates how well the firm has undertaken its substantial social functions. It is the recognition of firm's products and services by society and shareholders. It concerns specific outputs of the firm for the society, and directly links

to the function of the firm and signifies how well it fulfills its customers' expectations and requirements. Here, firm awards are the proxy of corporate reputation in social functions because awards or certificates that a firm has received are mostly about the quality of products and services, or fulfillment of the firm's responsibility to the government and the society. Therefore, these awards exactly reflect these attributes.

Reputational capital can increase institutional relatedness in that it can somehow respond to the problem of contract enforcement in emerging economies. In most emerging economies legal infrastructure and law enforcement mechanisms are still evolving, which makes the rules for market competition less predictable and less clear than in most developed economies (Hoskisson et al., 2000). The resulting information asymmetry and high level of opportunism have become one of the major causes of market failures (Capron et al., 1998). As a result companies are less likely to be able to resolve disputes through judicial channels and transaction costs are hence increased (Khanna & Palepu, 1997). Reputational capital can fix this problem because it indicates the underlying reliability and trustworthiness of the focal firm and somehow increases business partner's confidence in contract enforcement by the holder of reputational capital. However, the content of the reputation varies. Considering that firm awards (i.e. substantial reputational capital) indicate the quality of focal firm's products and services, I argue that acquisition of unlisted targets is not a value-adding strategy for firms rich in this type of nonmarket capital.

First, acquisition of unlisted firms does not leverage the advantage of firm awards. For firms which have received awards, their capabilities to meet the needs of customers are well recognized, but their expertise to spot business opportunities and reap higher returns after taking risks is not necessarily palpable. Without information from capital market,

assessing the value of unlisted firms and buying them at reasonable price pose significant difficulty for buyers (Akerlof, 1970). To solve this problem, acquirers need superior managerial capability for recognizing and assessing the target's value (Easterbrook & Fischel, 1981; Hitt, Hoskisson, Johnson, & Moesel, 1996), which is different from production capabilities. Management capability is essential to spot under-valued and uncertain targets, while production capability is more about technical problems. Superior functioning, such as the ability of production, does not necessarily relate to superior managerial sense for market opportunities. In addition, in stakeholders' eyes and in reality, firm-level awards do not ensure management expertise required in the process of post-acquisition integration. Therefore, substantial reputational capital cannot relieve stakeholder's concerns of uncertainty in target.

Second, as in strategic alliance, in acquisition spillover of acquirer's substantial reputation to the relatively unknown target is inevitable (Eisenhardt & Schoonhoven, 1996). Due to the uncertainty about unlisted targets' capabilities, the higher the substantial reputation of the acquirer is, the higher is the risk of its reputation to be diluted. The substantial reputational capital may even be ruined if the target has very high uncertainty if the market and the stakeholders of the acquirer are not sure about the product and management quality of unlisted target. Therefore, acquisition of unlisted firms is not an appropriate strategy to explore entrepreneurial opportunities and manage substantial reputational capital for the acquirer.

Hypothesis 6a: Acquiring firm's awards are negatively related to acquisition of unlisted targets.

Hypothesis 6b: Interaction between acquiring firm's awards and acquisition of unlisted

targets are negatively related to acquirer's post-acquisition performance.

Summary

Table 4.1 summarizes all hypotheses proposed in this dissertation.

Table 4.1 Review of hypotheses

Hypothesis	Content
Hypothesis 1a	Top managers and entrepreneur's participations in politics are positively related to acquisitions of SOEs.
Hypothesis 1b	Interaction between top managers and entrepreneur's participation in politics and acquisition of SOEs are positively related to acquirer's post-acquisition performance.
Hypothesis 2a	Top manager's working experiences in government are negatively related to acquisitions of SOEs.
Hypothesis 2b	Interaction between top manager's working experiences in government and acquisition of SOEs are negatively related to acquirer's post-acquisition performance.
Hypothesis 3a	Top manager's leading positions in industrial associations are negatively related to acquisitions of product-unrelated targets.
Hypothesis 3b	Interaction between top manager's leading positions in industrial associations and acquisition of product-unrelated targets are negatively related to acquirer's post-acquisition performance.
Hypothesis 4a	Top manager's diverse business working experiences are positively related to acquisitions of product-unrelated targets.
Hypothesis 4b	Interaction between top manager's diverse business working experiences and acquisition of product-unrelated targets are positively related to acquirer's post-acquisition performance.
Hypothesis 5a	Top manager's awards are positively related to acquisitions of unlisted targets.
Hypothesis 5b	Interaction between top manager's awards and acquisition of unlisted targets are positively related to acquirer's post-acquisition performance.
Hypothesis 6a	Acquiring firm's awards are negatively related to acquisitions of unlisted targets.
Hypothesis 6b	Interaction between acquiring firm's awards and acquisition of unlisted targets are negatively related to acquirer's post-acquisition performance.

This chapter seeks to answer research questions about emerging economy firms' acquisition activities raised in the preceding two chapters, using theories of institutional economics, resource-based view, and the signaling theory. A theoretical framework is

developed. The model highlights the differential effects of substantial and symbolic nonmarket capital on acquisition strategy and performance, as well as the moderating effect of acquisition target selection strategy on the relationship between nonmarket capital and performance outcome. Specifically, I argue that on the one hand acquisition is an expensive investment. Substantial nonmarket capital leads to inferior performance outcomes if its advantage is not leveraged according to its asset specificity. On the other hand, as contended by signaling theorists, certain acquisition strategies can leverage the signaling effect of symbolic nonmarket capital and lead to better firm performance. Only when the acquisition strategy matches asset specificity of the nonmarket capital can firm performance be improved by acquisition.

CHAPTER 5. METHODOLOGY

This chapter describes the research design used to empirically test the theoretical model developed in the preceding chapter. First, empirical settings, the samples, and some preliminary data analyses are discussed. Second, measurement of variables is explained in detail. This section presents definitions, operationalizations, and data source of each variable included in the theoretical model, and the control variables. Finally, statistical analysis techniques employed in the dissertation are presented.

Empirical Setting: China

The theoretical arguments developed in Chapter 4 are based on a specific context—emerging economy firms' domestic acquisitions. This dissertation chooses China as the representative emerging economy for three reasons. First, China is an economy with general emerging economies characteristics, such as fast-changing, low average income, and transition towards free market (Hoskisson et al., 2000).

Second, China has prominent nonmarket institutions. Market institutions in China are still underdeveloped, and nonmarket institutions like "big government" (i.e. a government which is excessively large, corrupt and inefficient, or inappropriately involved in certain areas of public policy or the private sector), social norms (i.e. emphasis on interpersonal relationships rather than law), and the importance of reputation are playing major roles in governing businesses and transactions. Specifically, China's economic institutions have been characterized by a mixed economic system. It is constrained by an institutional environment with continuous economic liberalization, gradual institutional transition

(Peng, 2003), lower environmental munificence (Tsui, Schoonhoven, Meyer, Lau, & Milkovich, 2004), and significant roles played by the government (Deng, 2004). The rapid transition to a market economy has not replaced the old political systems, which still substantially affect the country's economic activities (Child & Tse, 2001). Allen, Qian and Qian (2005) conducted a comprehensive study on China and reported that relationships and reputation, government, and Confucianism that defines social orders have profound impact on Chinese businesses. Secondly, the standard corporate governance mechanisms, protection of investors, and independent auditing system are weak and ineffective. Thirdly, in terms of the two key indicators of law enforcement (i.e. rule of law and government corruption), China's measures are significantly lower than those of developed economies. All of the above findings are in line with institutional idiosyncrasies along the three dimensions discussed in Chapter 3. Influences of these characteristics on institutions are reflected, for example, in R&D departments of Chinese firms. Inefficient and nontransparent legal frameworks and weak intellectual property rights discourage pursuit of innovation, making it difficult for businesses to invest in R&D or to build global brands (Khanna & Palepu, 2006). As a result, Chinese firms seldom create new products and processes. This symptom is prevalent in manufacturing sector, which contributes the most to GDP and employs most people in China.

Finally, despite these problems, China is among the most successful emerging economies. China has achieved excellent economic performance over the past three decades, and has become the largest and the fastest growing transition economy in the world. Devolution of power from the central government to local governments is arguably the most critical factor. Local governments can exercise discretion in setting taxes,

specifying entry barriers and creating administrative red tape for businesses operating within their jurisdictions (Lin, Fang, & Zhou, 1996). Some local governments function as "economic warlords" and protect firms that they own from those they do not own. Decentralization aligns local governments' own interests with business success under their jurisdictions (Thun, 2006). Business success in the locality creates financial and political capital for the local government. Local officials are, therefore, motivated to promote, protect and participate in local businesses. In sum, China appears to have achieved greater success than its Eastern European counterparts with its reforms (Boisot & Child, 1996). The "China Miracle" makes China intriguing for research.

Therefore, the first reason confirms China fits the definition of an emerging economy, and it can be inferred from the second reason that the China setting provides a context that fits the test of the theory, and the final reason shows China's importance in global political and economic issues.

Sample and Data Collection

The sample pool was decided according to the following criteria. Firstly, the samples are all listed Chinese firms. There were around 1,640 A-share listed firms during the sampling period from the year 2003 to 2006. IPOs and delistings caused variations in the total number.

Secondly, while the sampling period was from the year 2003 to 2006, in 1998-2002, the economy was gradually recovering from the damage caused by the 1998 Asian financial crisis, and in 2002 SARS hit China, causing turbulence in the economy. In 2007 the A-share market surged to a peak and formed a huge bubble. Only during the period

2003-2006 did the economy remain smooth; acquisitions level was steady during this period. In this period, listed firms grew strongly in domestic markets and began to expand aggressively in international markets (Deng, 2007).

Thirdly, because the research question of this dissertation is how nonmarket capital influences acquisition strategy and performance, only firms that conducted acquisition transactions in the above time frame were included in the sample. Currently there is no well-developed database of acquisition transactions in China. Therefore, the Mergers and Acquisitions Module of Thomson Financial's Securities Data Corporation (SDC) Platinum Database was used. It is the world's leading and most comprehensive source for information on mergers and acquisitions (Thomson-SDC, 2007), and is widely used in studies related to acquisitions, including diversification and restructuring strategies (Markides, 1995), limited arbitrage (Baker & Savasoglu, 2002), payment methods (Faccio & Masulis, 2005), mitigating risk in international acquisitions (Reuer, Shenkar, & Ragozzino, 2004), and so on. The database tracks information on all corporate transactions involving at least 5 percent of the ownership of a company, valued at $1 million or more. Hence empirically, acquisition of 5 percent of shares of the target is regarded as "acquisition" in SDC. From 1992 onwards, deals of any value (including undisclosed value) are covered. The SDC merger and acquisition module comprises several types of deals, including recapitalization, buybacks, purchase of assets and exchange offers. These types of deals are excluded from the sample. During the period 2003 to 2006, 615 Chinese listed firms were found to have conducted a total of 1,619 domestic acquisitions, according to SDC. The total number of firm-year observations is 1,037.

Fourthly, preliminary data analysis was conducted to select appropriate samples.

Content analysis based on Internet search was conducted to verify each transaction in the above SDC sample. 28 deals were excluded from the sample because these acquisitions either could not be found (based on the content analysis), or were not associated with any listed firms in China. After deleting sample firms with missing data, the final sample contains 532 firm-year observations.

The primary unit of analysis of this study, i.e. "the 'thing' which we collect information about and from which we draw conclusions" (de Vaus, 2001, p. 18, original quotations), is firm. I examined acquisition strategies in acquiring firms' acquisition portfolio and acquisition performances on an yearly basis. This unit of analysis allows detailed investigation of firm's strategy and performance outcomes, and fits the conceptual framework of the dissertation. Therefore, independent variables, dependent variables and controls were collected firm by firm and year by year.

In general, as described above, data about acquisitions were obtained from SDC database. Financial data about the sample firms (including firm performance and control variables) and independent variables (i.e. nonmarket capital) were obtained from China Stock Market and Accounting Research Database (CSMAR), the leading financial data and financial software provider in Mainland China. Nonmarket capital was hand-coded from the sample firms' annual reports. Details of measures and data sources are described in the following section.

Measures

To test the theoretical model developed in Chapter 4, this dissertation uses archival data. A large number of studies in the realm of acquisitions have been based on archival

data of larger, publicly traded corporate entities, and this dissertation builds on this body of research.

Dependent variables

1. *Firm performance*

Firm performance is a dependent variable in the theoretical model. There are many measures of acquisition outcomes in the literature, including firm performance, premia, employee turnover, cumulative abnormal return (CAR), and so on (Haleblian et al., 2009). In this study, unit of analysis is firm, and the ultimate goal of any corporate strategy is to increase firm performance. Therefore, I focused on the economic effect of acquiring firms for ease of generalization and comparison with previous research.

To capture economic performance, researchers have adopted both perceptual and objective measures. Perceptual measures have the merits of measuring overall performance from subjective indices, such as managers and stakeholders' expectations and strategic considerations. However, these perceptual measures are affected by different characteristics of managers and their positions in organizations. Moreover, such measures are often subject to inconsistency and ambiguity compared to objective measures (Lin, Yang, & Arya, 2009). Another measurement is short-window CARs used in event studies. Although change in stock price can be attributed to acquisition announcement with relative confidence by minimizing "noise" from other potentially confounding variables, it is less likely to incorporate the value created or destroyed during implementation of the acquisition (i.e. strategy implementation) (Haleblian et al., 2009). Because this dissertation studies the moderating effect of acquisition strategy, enough time should be allowed for

strategy implementation and integration. In addition, the financial market does not have sufficient information or foresight to predict systematically the fate of an acquisition on the basis of common knowledge available at the time of the announcement (Zollo & Meier, 2008). So CAR has its own limitations in terms of what it captures. And finally, the unit of analysis is firm-level, i.e. transaction-level measures like CARs are not applicable.

Therefore, an objective measure, accounting based measurement of firm performance, return on assets (ROA), is chosen to capture the economic performance of acquiring firms. Accounting-based indicators such as ROA, ROE, or earnings per share, capture a firm's internal efficiency in some way (Cochran & Robert, 1984). In general, accounting returns are subject to managers' discretionary allocations of funds to different projects and policy choices, and thus reflect internal decision-making capabilities and managerial performance rather than external market responses to organizational (nonmarket) actions (Orlitzky, Schmidt, & Rynes, 2003). However, compared to other accounting-based firm performance measures like ROE, ROA is a measure that considers all assets of the firm and covers the widest aspects of firm performance. Compared with Tobin's Q, ROA eliminates fluctuations and noises of the market and, therefore, reflects the real and long-term economic returns of strategic actions. Therefore, ROA was adopted as the major dependent variable. To allow enough time for acquisition strategy to take effect on firm, previous research has used 1, 3 years or longer lag (or average) to examine acquisition performance (King et al., 2004). To exclude the confounding influence of factors other than acquisition, a relatively short lag (i.e. 1-year lag) was adopted.

Data about firm performance, i.e. ROA, is obtained from WIND database. The data were screened to ensure accuracy, discover possible data entry errors, and identify missing,

incomplete and extreme data points.

2. *Target of acquisition (i.e. acquisition strategy)*

Acquisition strategy is another dependent variable and also a moderator. As discussed in Chapter 4, the boundary within which each type of nonmarket capital is relevant and effective varies. Political capital is most relevant in political market, while the distinction of acquisition of SOEs is political in nature. When firms are considering business scope in product market, social capital is most useful, and the related acquisition is the acquisition strategy of relevance. Reputational capital is most useful when firms operate off capital market; acquisition of unlisted firms is such a strategy. Therefore, empirically the target's attributes, i.e. state-ownership, product relatedness, or listed status represents the actions in these three types of strategic factor markets.

Information about the use of these acquisition strategies during the years of 2003 to 2006 is obtained directly from SDC database. The level of analysis of this study is firm level. Data was arranged firm by firm, and information about transactions was gathered first by year and then by firm. The acquisition strategy is operationalized as the ratio of number of targets with certain attributes to the total number of targets acquired by the focal firm in the focal year. This operationalization best represents the trend of the acquirer's strategic design. The specific measure of each type of acquisition strategy is as follows.

Acquisition of state-owned enterprises In acquirer's acquisition portfolio, in each year, the ratio of the number of state-owned enterprises (SOEs) targeted to the total number of targets was calculated.

Acquisition of product-unrelated firms If the target is in a different industry from the acquirer's, the transaction is considered as an unrelated acquisition. Many previous studies have measured relatedness based on industry code like SIC (e.g., Palepu, 1985). In this dissertation, CSRC's 6-digit industry code is adopted, as it is the official classification that is used widely. Ratio of number of targets that are in different industry to the total number of targets in the acquirer's one-year acquisition portfolio was calculated, and was used to measure the variable "unrelated acquisition".

Acquisition of unlisted firms In acquirer's acquisitions portfolio in each year, ratio of number of targets that were unlisted firms to the total number of targets in the focal acquirer's acquisition portfolio in the focal year is calculated.

Independent variables

Nonmarket capital

Theoretically, nonmarket capital is defined as political capital, social capital and reputational capital that increase firm's institutional relatedness in emerging economies. Empirically, as argued in Chapter 4, the experience and background of top managers can be used as the measure of the construct. Specifically, CEOs and chairmen of boards are the key decision makers of corporate strategies, the source of important information and resources, and even the image of the firm. For example, Pfeffer and Salancik (1978) pointed out that four primary benefits can be provided by board of directors: (1) advice and counsel, (2) legitimacy, (3) channels for communicating with external organizations, and

(4) preferential access to support from important elements outside the firm. Following this view, I argue that top managers like CEO and board chairman is a good proxy for political capital (e.g., help acquire legitimacy), social capital (e.g., provide information and support and determine corporate strategies), and reputational capital (e.g., signal the quality of the firm). Moreover, top managers' past experiences reflect their resources and management schema. Considering these critical roles they play, demographic and background data of top managers, especially CEO and chairman of the board, are used as proxy of firm's nonmarket capital. Even though demographic and background data may not be representative of true managerial skills, the general assumption is that attending proper schools, having impressive prior experience and associating with the right people indicate higher status, aggregated prestige and skill (Berger et al., 1980).

Data of CEO and board chairman's biography information (i.e. nonmarket capital) was downloaded from two databases in the form of text. The first is CSMAR, the leading financial data and financial software provider in Mainland China. The database is developed by GTA Research Services Center. The database extracts the information from annual reports of listed companies. CEOs and board chairmen's biographies, which includes information like education, work experience and part-time positions is obtained from this database. The second data source is Wan Fang Data, which provides information about CEO and chairmen's awards, certificates and recognitions, as well as the website of the firms, through which supplementary information about the focal firm was obtained.

Numbers were counted from the text of CEO and chairman's biography in the database and firm's introduction in websites by three research assistants, who were undergraduate students. Table 5.1 gives example of the data.

Table 5.1 Examples of data coding and categorization

Data quote	Category	Count as...
"Mr. Chen is a member of CPPCC..."	Symbolic political capital	1
"Mr. Mao was the secretary in The Office of Gansu Planning Commission, and Deputy Chief Section Member..."	Substantial political capital	2
"Mr. Xiong is now the Vice President of Shenzhen Federation of Industrial Economics and China Construction Metal Structure Association..."	Symbolic social capital	2
"Mr. Chen was the president of Baoan Hotel..."	Substantial social capital	1
"Mr. Li was honored as "2004 Chinese Annual Economic Figures".	Symbolic reputational capital	1
"In the year of 2005, Shuangxing was selected as one of the five hundred leading Chinese corporations..."	Substantial reputational capital	1

The coders were trained before data collection began. A uniform standard was illustrated first and was then adopted by all coders. In the above example, symbolic political capital is coded as 1 because of Mr. Chen's position in CPPCC, and substantial social capital is coded as 1 because of his position in Baoan Hotel. During the coding process, any unclear cases were sorted out in time and were then demonstrated to other coders so that they could follow the same solution. Ambiguous information was clarified and confirmed through other information sources like Internet or other databases. All hand-coded data were cross-validated by different coders to ensure accuracy. For specific definitions and measures of each kind of nonmarket capital, please refer to the following sub-sections.

Symbolic political capital Symbolic resource acts as an indicator or signal to stakeholders the organization's commitment or central and distinctive attributes that give it a competitive advantage over other organizations, particularly in incomplete information

settings. Similar to substantial nonmarket capital, symbolic nonmarket capital is divided into three sub-types, symbolic political, social and reputational capital. Symbolic political capital is defined as grass-rooted entrepreneurs' capital signaling to stakeholders that the focal firm maintains a good relationship with local government. It captures the symbolic nature of political capital. Same as substantial political capital, the measure is experiences of CEO and board chairman but with different focus. In China's political system, there are two government agencies that do not hold substantial political power, National People's Congress (NPC) and Chinese People's Political Consultative Congress (CPPCC). They are generally considered as rubber stamps and carry only symbolic meaning. To measure this dimension of political capital, two counts were used. First, the count of CEO and chairman's positions in NPC was used to capture the political capital accumulated in NPC. Second, CEO and chairman's number of positions in CPPCC was used to indicate the political capital accumulated from CPPCC. As the tenure of NPC and CPPCC is fixed for each position (i.e. 4 years for 1 position), the measure of tenure was not adopted. In addition, members of CPPCC are generally "successful" people in the society. A large part of them are business managers, owners or entrepreneurs, who really contribute to economic development of local area and who actively seek to connect with government. Quite differently, members of NPC are generally normal people, representing people with all kinds of backgrounds, ethnicity, gender, religion, jobs and incomes, etc. Therefore, CPPCC is a more accurate measure of SPC and, therefore, the number of positions that CEO and chairman had held in CPPCC was adopted as the measure.

Substantial political capital Substantial resource generates value by undertaking objective,

substantial and tangible business functions. Corresponding to the three institutional idiosyncrasies, substantial nonmarket capital is further divided into substantial political, social and reputational capital. Political capital is the resources that an actor can use to influence policy formation processes and achieve outcomes that serve the actor's interests (Birner & Witter, 2003). Political capital emanates from institutional network, i.e. political connections. Substantial political capital specially refers to capital generated from substantial experiences and connections in bureaucratic and political lives of former-regime elites. It captures the real and solid sources of political benefits emerged from experiences of former-regime elites. In support of this, Fan, Wong and Zhang (2007) defined CEO and chairman of the board's political connections as serving as a current or former government bureaucrat, that is, a current or former officer of the central or local governments or the military, officials in industry bureaus, and officials in regulatory and supporting organizations. In this dissertation, CEO and chairman's political connections built in the past bureaucratic life are used as the proxy to measure substantial political capital. The measures are adopted from Faccio, McConnell and Stolin (2006), with small modifications.

In China's political system, two agencies hold substantial political power; Chinese Communist Party (CCP) Committee and the government. To measure substantial political capital, counts of two variables were collected: the number of positions in CCP Committee that were held by CEO and chairman, and the number of positions in government agencies. Under the current political system, the party has power over government. CCP has complete control over organs of the State in China, and the Party also reaches down to the lower levels of social organizations (Knight & Yueh, 2008). President and members of

CCP committee at each administrative level are the key figures running China's whole political system. They are responsible for monitoring execution of policies set at higher levels, arbitrating disputes within their regions, coordinating the work of every department, and representing the local level to lobby the centre. In a word, they are the core of each level of political system in China and hold real power in the system (Lieberthal, 1998). Therefore, the number of positions the CEO and board chairman held in party committee (i.e. CCP) was finally used as the measure of this type of nonmarket capital. Data was hand-coded from CSMAR.

Symbolic social capital Symbolic social capital is defined as a label signifying the high and central status of the focal firm in business network, as it emanates from the position of business community leadership. It is used to account for the social capital that the firm accumulated from connections with competitors and relevant business players within the industry. Chambers of commerce and industrial association are groups comprised of most of firms in an industry segment. They act as a platform for information exchange, resource sharing, and as a cooperation facilitator. Therefore, leading a chamber is like occupying a central position in the business network. Under Chinese cultural norms, powerful firms are more likely to become leaders of a chamber. Therefore, the proxy for symbolic social capital would be CEO and chairman's positions held in chamber or industrial association. The number of these positions of the CEO and chairman was used to measure symbolic social capital.

Substantial social capital Social capital is defined as "the aggregate of the actual or

potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition" (Bourdieu, 1985). According to this definition, social capital emerges from business network - connections of chairmen with other business leaders and social groups such as industry associations. Pennings et al. (1998) gauged firms' social capital as the aggregate of social capital of individual firm members. Substantial social capital is defined as resources derived from networks with business players that execute substantial business functions. Due to the prominent role of CEO and chairman of the board in Chinese firms, I adopt a count of other firms that the CEO and chairman used to work in to measure the social capital that the firm had accumulated in different business areas before. Those firms are in different industries, and within each firm the manager held various positions with various tenures. Number of firms best represents the core value of substantial social capital in terms of professional managerial expertise, the sense to recognize market changes, and business skills. This measure is also adopted by Belliveau, O'Reilly and Wade (1996). Data is hand-coded from CSMAR.

Firm's experiences in dealing with various problems in business operations to a large extent are determined by top managers' past experiences. They are the ones who decide firm's strategic plans. They are also a major channel to collect business information. Their knowledge, experiences and connections are valuable assets for firm. Managerial ability develops through the experiences managers gain over time (Cannella & Holcomb, 2005; Kor, 2003). Specifically, as managers accumulate experience "on the job", they try out and hone their knowledge and skills, enabling them to gain proficiency in tasks that they regularly perform (Hatch & Dyer, 2004). Therefore, one thing to represent substantial

social capital is top managers' past experiences in business areas.

Symbolic reputational capital Symbolic reputational capital is defined as an indicator showing the firm's (and top managers') competency and credibility. It is taken as a signal demonstrating that the manger is competent, credible and trustworthy. One good measure of symbolic reputational capital is managerial reputation. As argued in Chapter 4, managers are critical in strategy crafting and decision making and, therefore, reputations of managers directly influence stakeholders' belief that the focal firm's business strategies will succeed and growth potential is strong. As such, characteristics of managers can influence organizational legitimacy and, further, market performance. These descriptions fit the definition of symbolic reputational capital. To measure it, the number of CEO and chairman's awards in the business community was counted. One example is "Outstanding manager of foreign-funded enterprises in Shenzhen."

Substantial reputational capital Reputational capital is the resource that reveals an attribute or a set of attributes ascribed to a firm, inferred from the firm's past actions and perceived as such by organizational stakeholders. Although some social characteristics may be easy to observe, consumers and other stakeholders may find it difficult to assess a firm's performance in different aspects. The degree of asymmetric information relating to social practices can be reduced by the firm itself or intermediaries (Doh, Howton, Howton, & Siegel, 2009). For example, awards and recognitions can been seen as preservation and enhancement of reputation. It is contended that receiving endorsement by a prestigious party embeds an organization in a status hierarchy that can enable the firm to build a

favorable reputation and, in turn, to survive and grow (Baum & Oliver, 1992). Graffin and Ward (2010) argued that certifications positively influence the long-term reputation of actors in situations that involve minimal technical uncertainty, and that certifications have the greatest impact on assessments of actors who are close to the uncertain standard of desirability. Therefore, receiving awards from government authorities, institutions and business associations is also a recognition that leads to intangible reputation (Graffin & Ward, 2010; Yiu & Lau, 2007).

Substantial reputational capital is defined as reputation that represents substantial social functions of the firm such as providing high quality products and services, being environmentally responsible, taking care of employees, and contributing ample taxes and so on. The awards or certificates that firms receive are mostly about the quality of products and services, or for fulfillment of responsibility to the government and the society. Therefore, these awards exactly reflect these attributes. To measure substantial reputational capital, the number of the firm's awards was counted. One example is "2005 best enterprise in Shanghai".

Control variables

Several control variables were used in this study so as to exclude influences of variables not included in the model. All data about control variables like organizational slack, firm size and so on were also from WIND database. Below are the details of the measures.

1. Industry

Dummy variables representing the industry of the acquirer are included in the model. The Chinese Securities Regulatory Commission (CSRC) 6-digit industry classification is adopted.

2. Firm age

Firm age is a continuous variable that can be obtained directly from WIND database. Older (and/or larger) acquirers often have more resources, management skills, and legitimacy that are helpful in executing a successful acquisition. Davis and Stout (1992) found that greater organizational slack, age and having a chief finance officer increase the risk of takeover, while family control and financial characteristics such as a high market-to-book ratio lower the risk. As the samples are A-share listed firms in China, I also used samples' listing age as control variable and found that the results remained unchanged.

3. Firm size

Firm size, measured by the natural logarithm of total assets, is controlled for. This variable is included in the model as it might influence both firm performance (Hitt, Hoskisson, & Kim, 1997) and acquisition behavior (Amburgey & Miner, 1992). For example, firm size may be important because large firms have resources to acquire other businesses when their managers view opportunities in the environment or are pressed to sell unprofitable operations, making restructuring a more frequent strategy (Hoskisson, Cannella, Tihanyi, & Faraci, 2004). Its inclusion might, therefore, account for a spurious correlation. I also tried to use natural logarithm of total number of employees as control

variable and the results remained unchanged.

4. Ownership type

Acquirer's state ownership data was obtained from WIND database, and was calculated as the ratio of number of state-owned shares to the total number of outstanding shares. Luo (1999) reported that ownership type, which can be taken as a proxy for firm-government relations, is a significant contributor to performance. The motivations, goals, and capabilities of a company are strongly related to the identity of its owners and how widely held or dispersed is the shareholding in the company (Shleifer & Vishny, 1994). Companies whose shares are widely held by private investors or that are owned by institutional shareholders tend to have a greater focus on shareholder wealth maximization strategies than companies that have a dominant majority owner or that are state-owned.

5. Leverage

Leverage was determined as an acquirer's total debt divided by its total assets (Laamanen & Keil, 2008). The motivation for introducing bidder leverage comes from results reported by Maloney, McCormick and Mitchel (1993) and others, who have shown that bidder abnormal returns are positively related to preannouncement bidder leverage. In contrast, however, Loughran and Vijh (1997) found no correlation between acquirer leverage and post-acquisition excess stock returns. To exclude its unclear influence, leverage was also added as a control variable.

6. Organizational slack

Slack refers to the stock of excess resources available to an organization during a given planning cycle (Voss, Sirdeshmukh, & Voss, 2008). Following prior research (Hitt et al., 1997; Vermeulen & Barkema, 2002), firms' equity-to-debt ratio, which is inversely related to slack, as a proxy for potential slack (Cheng & Kesner, 1997) and as a proxy for free cash flow (Barkema & Schijven, 2008), is controlled because firms with more slack resources are more motivated to engage in acquisition activities. It is also found that slack resources are crucial for managerial discretion (Hambrick & Finkelstein, 1987), and subsequently firm performance (Jensen, 1986) and acquisition strategies and the ability to resist shocks introduced by an acquisition (Kim & Finkelstein, 2009).

Another important reason for controlling organizational slack is that it can be viewed as a proxy of market capital which exerts important influence on acquisition strategies and outcomes. This theoretical model investigates the role of nonmarket capital in acquisition beyond market capital. Market capital should therefore be controlled. On the one hand, the construct market capital captures the kind of corporate resources that can be traded on market and whose value can be quantified. On the other hand, conceptually, slack resource refers to excessive resources, and empirically it normally includes financial and human resource capital (Mishina, Pollock, & Porac, 2004). Therefore, slack resource is mostly a resource in the traditional sense, not relationally based, and its value can be calculated. It fits the key concept of market capital.

7. *Past firm performance*

The profitability of the acquiring firm, measured as return on assets, has been controlled in many articles (e.g., McDonald, Westphal, & Graenmer, 2008), as it influences

the likelihood of acquisition and acquirer's post-acquisition profitability. Therefore, ROA one year before the acquisition deal was used as the measure of past firm performance.

8. Past acquisition experiences

Several scholars have posited that firm-level experience in making acquisitions influences acquisition performance, although empirical evidence is mixed. In China, acquisition activities have been emerging since the year 2000, while the time frame of the sample in this dissertation is 2003-2006. Thus, we controlled for the number of acquisitions completed by the focal firm during the prior two-year period (Beckman & Haunschild, 2002). This variable also serves as a more general control for possible sources of unobserved heterogeneity (Beckman & Haunschild, 2002; Gulati, 1995).

9. Deal magnitude

Prior studies of corporate acquisitions have examined how certain characteristics of the 'deal' or transaction might influence acquisition performance (Cartwright & Schoenberg, 2006). For example, the total money paid for deals in a focal year will have an impact on firm performance in short or long run. Therefore, we controlled for deal magnitude in the model. The variable was measured by the ratio of total value of all transactions in the focal year to the firm's total assets.

10. Year

Dummy variables representing different years are included in regression, controlling for potential influences of trends such as acquisition waves, the state of the economy, and

the general aging of firms (Barkema & Schijven, 2008). Alternative specifications with a calendar time variable led to similar results.

Model Specification and Analysis

The final data structure is cross-sectional, where firm–year represents the observation. Fixed-effects regression was used to analyze whether nonmarket capital affects the ratio of a certain acquisition strategy in the acquisition portfolio of a firm and the performance outcome. Dependent variable acquisition strategy is measured by the number of acquisitions with certain attributes. To make the number comparable among different acquirers, the number is divided by the total number of acquisitions by the focal firm in the focal year. Another dependent variable, firm performance, is also continuous variable.

Unobserved heterogeneity, which may occur because there are multiple observations on each firm and they are not independent of each other. This is always a potential problem in pooled time series (Petersen & Koput, 1991). A common approach to address problems of unobserved heterogeneity is to insert additional firm-specific error terms that are either fixed over time for each firm (fixed-effects models), or vary randomly over time for each firm (random-effects models) (Sayrs, 1989). Specifically, fixed-effects ordinary least squares (Kennedy, 1998) corrects for autocorrelation of disturbances due to time invariant firm-specific effects by inserting an error term that is assumed to be constant over time. Therefore, fixed-effects model was adopted.

Another specification of the model is robust estimation. In regression, optimality of the method of least squares is conditional upon properties of distribution of error terms. Estimators have the minimum variance (of all linear unbiased estimators) if the errors are

independent of regressors and are independently and identically distributed with finite variance. Least squares will also be efficient if the errors are normally distributed, otherwise least squares need not be efficient. However, in most cases the samples do not fit the above criteria (Butler, McDonald, Nelson, & White, 1990). The error structure is assumed to be heteroscedastic, auto-correlated up to some lag, and possibly correlated between the groups (panels). To deal with this problem, robust standard errors are used. These standard errors are robust to very general forms of cross-sectional (spatial) and temporal dependence even when the time dimension becomes large.

The proposed two models (one to test acquisition strategy as outcome and the other tests firm performance as outcome) were tested based on several hierarchical regression analyses to allow for a sequential inclusion of control and predictor variables. The dependent variable in the first model is acquisition strategy, and the dependent variable in the second model is firm performance. Based on procedures proposed by Baron and Kenny (1986) and Aiken, West and Reno (1991), the hypothesized interaction effects were examined statistically and plotted graphically. The Statistical Package for the Social Sciences (SPSS 15) and STATA 10 were used to carry out all analyses.

Robustness tests were also conducted using different measurements of the key variable, i.e. firm performance, and adding other control variables.

CHAPTER 6. RESULTS

This chapter describes statistical analyses conducted to test the hypotheses developed in Chapter 4. It begins with descriptive statistics. Then, empirical results are provided. The chairman and CEO's data were analyzed separately in two independent models. Results showed that in the model using CEO's data as the measure of nonmarket capital, no significant results were found. This result confirmed that in many Chinese firms chairman is the most important decision maker. In the following chapter, only results using CEO's data as the measure are reported.

Statistical Power of Samples, Variables, and Test of Assumptions

In order to determine whether the sample is sufficiently large in size to provide acceptable statistical power, two commonly used "rules of the thumb" are considered as a relative standard (Green, 1991; Pedhazur & Schmelkin, 1991). First, the Nunnally (1978) ratio of 10:1 suggests that the minimum sample size ought to be 10 times the number of independent variables included in a linear regression model. Second, Green (1991) proposed the 50+8x rule to determine a minimum sample size, where x refers to the number of independent variables used in a linear regression model. The largest number of independent variables (including moderator and interaction terms) included in a linear regression model in this dissertation is 15, suggesting a minimum sample size of 150, based on Nunnally's suggestion, and 170, based on Green's rule of thumb. The sample size of 577 is, therefore, large enough to assume adequate statistical power of the analyses.

Descriptive Statistics

To recapitulate, Table 6.1 displays variable names and descriptions.

Table 6.1 Variable descriptions

Variable name	Description and operationalization	Source
ROA	Accounting based firm performance, the average of return on assets of the focal year and of the previous year	WIND
Target as state-owned enterprise	Acquisition strategy, ratio of targets that were state-owned enterprises, in the acquisition portfolio	SDC
Target as unrelated firm	Acquisition strategy, ratio of targets in different industries in the acquisition portfolio. Relatedness is determined based on The Chinese Securities Regulatory Commission (CSRC)'s six-digit code classification.	SDC
Target as unlisted firm	Acquisition strategy, ratio of targets that's were unlisted firms, in the acquisition portfolio	SDC
Substantial political capital	Number of chairman's previous positions held in Committee of Chinese Communist Party (CCP)	CSMAR
Substantial social capital	Number of firms in which the chairman had worked before	CSMAR
Substantial reputational capital	Number of awards and recognitions that the firm received	CSMAR, Wan Fang, Company websites
Symbolic political capital	Number of chairman's current and previous positions held in Chinese People's Political Consultative Conference (CPPCC)	CSMAR
Symbolic social capital	Number of chairman's current positions held in chamber, industrial association, trade association and other business-related social groups	CSMAR
Symbolic reputational capital	Number of awards and recognitions that the chairman had received	CSMAR
Year	The year when the acquisition took place	SDC
Acquirer's age	Acquirer's firm age	WIND
Acquirer's firm size	The natural logarithm of acquirer's total assets	WIND
Acquirer's industry	Dummy for the acquirer's industry affiliation (CSRC 6-digit code)	WIND
Acquirer's ownership	Acquirer's ratio of state-owned shares to number of total shares	WIND
Acquirer's leverage	Acquirer's total debt divided by its total assets	WIND
Acquirer's organizational slack	Acquirer's equity-to-debt ratio	WIND
Acquirer's past firm performance	Acquirer's return on assets one year prior to the focal year	WIND
Acquirer's past acquisition experiences	Acquirer's number of acquisition deals conducted in previous two years	SDC
Deal magnitude	Acquirer's ratio of deal values conducted in the focal year over total assets	SDC

Prior to conducting model analyses to test the proposed hypotheses, quality and accuracy of the collected data were assessed. Data were screened in order to detect extreme values. Frequency distributions and descriptive statistics were examined for each variable, so as to determine if there were cases with values outside the possible range and if means and standard deviations were plausible. Statistics show that average value of acquisitions in the sample is 15.8 million US dollars, ranging from transaction values of 0.1 to 890 million US dollars. Table 6.2 shows the distribution of numbers of deals conducted by each listed firm in each year (i.e. 2003-2006). The numbers of transactions in the four years were 318 (2003), 544 (2004), 365 (2005), and 392 (2006). Table 6.3 shows the distribution of acquirer's industries.

Table 6.2 Distribution of deal numbers in each year by each firm

Deal numbers in each year by each firm	Frequency	Percent	Cumulative percent
1	626	60.4	60.4
2	307	29.6	90.0
3	69	6.7	96.6
4	20	1.9	98.6
5	7	0.7	99.2
6	3	0.3	99.5
7	3	0.3	99.8
8	1	0.1	99.9
10	1	0.1	100.0
Total	1037	100.0	

Table 6.3 Distribution of acquirer's industry

Industry of the acquirer	Frequency	Percent	Cumulative percent
1. Finance	3	0.5	0.5
2. Public utility	48	7.8	8.3
3. Real estate	28	4.6	12.9
4. General	127	20.7	33.6
5. Industry	359	58.5	92.0
6. Commerce	49	8.0	100.0
Missing	1		
Total	615	100.0	

In addition, Tables 6.4 to 6.6 present the distribution of the target's attributes in the sample.

Table 6.4 Distribution of target's ratio of state-ownership in acquisition portfolio

Target's ratio of state-ownership	Percent	Cumulative percent
.00	55.9	55.9
.14	.3	56.2
.17	.1	56.3
.25	.3	56.6
.33	1.5	58.1
.50	8.4	66.5
.67	.8	67.3
.75	.7	67.9
.80	.4	68.3
1.00	31.7	100.00
Total	100.0	

Table 6.5 Distribution of target's ratio of product-unrelated targets in acquisition portfolio

Target's ratio of product-relatedness	Percent	Cumulative percent
.00	24.4	24.4
.14	.2	24.4
.17	.1	24.7
.25	.4	25.0
.33	1.6	26.6
.50	6.8	33.5
.67	1.1	34.7
.75	.6	35.3
.80	.1	35.4
.82	.1	35.5
.83	.1	35.6
:86	.1	35.7
1.00	64.3	100.0
Total	100.0	

Table 6.6 Distribution of target's ratio of unlisted targets in acquisition portfolio

Target's ratio of unlisted status	Percent	Cumulative percent
.00	16.8	16.8
.25	.1	16.9
.33	.7	17.6
.40	.1	17.7
.50	7.3	25.0
.67	1.3	26.3
.71	.2	26.5
.75	.3	26.8
.80	.1	26.9
.82	.1	27.0
1.00	73.0	100.0
Total	100.0	

Table 6.7 summarizes descriptive statistics of all key variables and lists the pair-wise correlations of key variables in the models. The ratio of SOE targets and of related acquisitions in the acquisition portfolio are not found to significantly correlate with any nonmarket capital, while the ratio of target that were unlisted firms is negatively correlated with substantial reputational capital. Similarly, acquirer's post-acquisition performance did not significantly correlate with any type of nonmarket capital. But the six types of

nonmarket capital often correlate with each other in this sample. The estimated variance inflation factors (VIFs) of all variables are below the commonly used cut-off value of 10 (Chatterjee, Hadi, & Price, 2000), ranging from 1.01 to 1.54, thereby providing evidence of absence of multicollinearity among all predictors and control variables.

Table 6.7 Descriptive statistics and correlations

		1	2	3	4	5	6	7	8
	Mean	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	SD	0.221	0.315	0.953	1.543	1.389	4.071	0.457	0.429
	Min	-0.388	-0.051	-0.243	-1.765	-0.332	-2.363	-0.368	-0.717
	Max	1.961	3.949	9.757	12.235	12.668	34.637	1.632	0.283
	Observations	1034	1034	1034	1034	1034	1015	1023	1022
1	Symbolic political capital	1.000							
2	Substantial political capital	0.026	1.000						
3	Symbolic social capital	0.329**	0.074*	1.000					
4	Substantial social capital	-0.006	-0.063*	-0.018	1.000				
5	Symbolic reputational capital	0.106**	0.147**	0.316**	-0.049	1.000			
6	Substantial reputational capital	0.023	0.088**	0.016	-0.103**	0.096**	1.000		
7	SOE ratio	-0.009	0.016	-0.046	-0.028	0.009	-0.049	1.000	
8	Unrelatedness	-0.002	-0.0112	-0.041	0.023	-0.027	-0.005	-0.051	1.000
9	Unlisted target ratio	0.031	0.047	-0.016	-0.005	0.023	-0.052†	0.168**	0.068*
10	Acquirer's post-acquisition performance	0.026	-0.003	0.001	-0.049	0.032	0.053†	0.092**	-0.030
11	Acquirer's age	-0.041	-0.040	0.010	0.049	-0.077*	-0.027	-0.182**	0.005
12	Acquirer's firm size	0.041	0.042	-0.012	-0.112**	0.031	0.148**	0.168**	-0.100**
13	Acquirer's ownership	-0.120**	0.006	-0.121**	-0.007	-0.039	-0.022	0.375**	-0.068*
14	Acquirer's leverage	-0.019	0.018	-0.031	-0.055	0.044	-0.007	0.125**	-0.040
15	Acquirer's organizational slack	-0.013	0.021	-0.023	0.021	0.011	-0.074*	0.080*	0.001
16	Acquirer's past firm performance	0.011	-0.005	0.003	-0.007	0.022	0.047	0.068*	-0.004
17	Acquirer's past acquisition experiences	0.043	0.009	0.034	-0.009	-0.014	0.021	0.004	-0.052*
18	Deal magnitude	-0.010	-0.016	-0.014	0.035	-0.020	-0.017	-0.033	-0.050

†Correlation is significant at 0.1 level. *Correlation is significant at the 0.05 level; **Correlation is significant at the 0.01 level. All two-tailed.

Table 6.7 Descriptive statistics and correlations (continued)

		9	10	11	12	13	14	15	16	17	18
	Mean	0.000	0.021	9.534	7.692	0.341	0.091	1.262	0.023	0.705	0.012
	SD	0.381	0.111	3.952	0.992	0.260	0.093	1.701	0.141	1.156	0.086
	Min	-0.797	-1.980	2.000	3.015	0.000	0.000	-0.864	-3.257	0.000	0.000
	Max	0.20	0.278	27.000	11.883	0.850	0.500	27.375	0.610	8.000	1.883
	Observations	1024	1012	1012	1012	1035	719	1012	1012	1037	789
9	Unlisted target ratio	1.000									
10	Acquirer's post-acquisition performance	-0.030	1.000								
11	Acquirer's age	-0.163**	-0.116**	1.000							
12	Acquirer's firm size	-0.063*	0.288**	0.071*	1.000						
13	Acquirer's ownership	0.138**	0.140**	-0.371**	0.199**	1.000					
14	Acquirer's leverage	0.068†	0.064†	0.065†	0.260**	0.072*	1.000				
15	Acquirer's organizational slack	0.014	0.168**	-0.156**	-0.140**	0.113**	-0.233**	1.000			
16	Acquirer's past firm performance	0.019	0.097**	-0.090**	0.087**	0.068*	0.038	0.102**	1.000		
17	Acquirer's past acquisition experiences	-0.089**	0.040	0.136**	0.247**	-0.006	0.008	-0.090**	-0.014	1.000	
18	Deal magnitude	-0.019	-0.586**	0.058	-0.233**	-0.079*	-0.366	-0.032	0.028	-0.041	1.000

†Correlation is significant at 0.1 level. *Correlation is significant at the 0.05 level; **Correlation is significant at the 0.01 level. All two-tailed.

Model Analyses and Hypothesis Tests

Hypotheses developed in the previous chapter are reviewed in Table 4.2. To conduct data analyses and empirically test the theoretical model depicted in Figures 4.2 and 4.3, STATA was used. As described before, the unit of analysis is firm. The theoretical model is composed of the main effect model, from nonmarket capital to acquisition strategy (i.e. Hypothesis 1a, 2a, 3a, 4a, 5a, and 6a), and interaction effect model, from interaction of nonmarket capital and acquisition strategies to firm performance (i.e. Hypothesis 1b, 2b, 3b, 4b, 5b and 6b). Fixed-effects models were used to test the six hypotheses in the main effect model and the six hypotheses in the interaction effect model (Cohen & Cohen, 2003). Interaction effects were plotted graphically following Aiken, West and Reno (1991).

Acquisition of state-owned enterprises: Hypothesis 1a and 2a

The first step model in the theoretical framework is about the main effect of nonmarket capital on acquisition strategy of emerging economy firms. To test these sets of hypotheses, a hierarchical multiple regression model was conducted. Prior to regression of all predictors and control variables in a step-wise procedure, preliminary data screening tests were performed to identify potential multivariate outliers.

Table 6.8 presents results of tests of Hypothesis 1a and 2a, which suggest the relationship between political capital and acquisition of SOE. Model 1 includes all control variables. Model 2 introduces the two predictor variables, symbolic political capital (SyPC) and substantial political capital (SuPC). The outcome variable is the ratio of SOE targets in

the acquisition portfolio. The coefficient of symbolic political capital is negative (β = -0.190, $p < 0.001$), and thus fails to support Hypothesis 1a. However, the coefficient of substantial political capital is negative and significant (β = -0.146, $p < 0.05$). Therefore, Hypothesis 2a is supported.

Table 6.8 Results of fixed-effects model analysis on acquisition strategy—SOE as target

	Variables	Model 1	Model 2
	Independent variables		
H1a	Symbolic political capital (SyPC)		-0.190*** (0.048)
H2a	Substantial political capital (SuPC)		-0.146* (0.077)
	Controls		
	Acquirer's age	-0.050 (0.058)	-0.041 (0.060)
	Acquirer's firm size	-0.062 (0.246)	-0.007 (0.241)
	Acquirer's ownership	-0.361 (0.508)	-0.194 (0.493)
	Acquirer's leverage	-0.399 (0.873)	0.680 (0.930)
	Acquirer's organizational slack	0.261* (0.134)	0.322** (0.135)
	Acquirer's past firm performance	-0.735* (0.421)	-0.742* (0.427)
	Acquirer's past acquisition experiences	0.016 (0.036)	0.020 (0.037)
	Deal magnitude	6.671* (3.368)	6.174* (3.412)

N=532. Entries are unstandardized regression coefficients. Robust standard errors in parentheses. †*p < 0.1*, **p < 0.05*, ***p < 0.01*, ****p < 0.001*
Note: Year and industry dummies were included but are not reported. Dependent variable is the ratio of SOE in the acquisition portfolio.

Acquisition of product-unrelated targets: Hypothesis 3a and 4a

Hypotheses 2a and 5a suggest contracting effects of symbolic social capital (SySC) and substantial social capital (SuSC) in product diversification, i.e. acquisition of

product-unrelated targets. Table 6.9 presents results for this set of hypotheses. The testing methods are the same as for Hypotheses 1a and 2a. Model 1 includes all control variables. Model 2 adds the two predictor variables, symbolic social capital and substantial social capital. The outcome variable is the ratio of product-unrelated targets in the acquisition portfolio. The results show that only the individual direct effect of substantial social capital is significant. Specifically, the coefficient of substantial social capital is positive ($\beta = 0.095$, $p < 0.01$), and thus supports Hypothesis 4a. But the coefficient of symbolic social capital is not significant and, therefore, Hypothesis 3a is not supported.

Table 6.9 Results of fixed-effects model analysis on acquisition strategy—product unrelatedness

	Variables	Model 1	Model 2
	Independent variables		
H3a	Symbolic social capital (SySC)		-0.097 (0.206)
H4a	Substantial social capital (SuSC)		0.095** (0.037)
	Controls		
	Acquirer's age	0.009 (0.074)	-0.014 (0.074)
	Acquirer's firm size	-0.059 (0.259)	-0.096 (0.249)
	Acquirer's ownership	0.082 (0.310)	0.065 (0.297)
	Acquirer's leverage	0.307 (0.868)	0.609 (0.790)
	Acquirer's organizational slack	0.025 (0.118)	0.106 (0.121)
	Acquirer's past firm performance	-0.122 (0.474)	0.094 (0.446)
	Acquirer's past acquisition experiences	-0.012 (0.050)	0.008 (0.049)
	Deal magnitude	2.408 (4.220)	2.248 (4.168)

N=532. Entries are unstandardized regression coefficients. Robust standard errors in parentheses. †$p < 0.1$, *$p < 0.05$, **$p < 0.01$, ***$p < 0.001$
Note: Year and industry dummies were included but are not reported. Dependent variable is the ratio of unrelated targets in the acquisition portfolio.

Acquisition of unlisted targets: Hypothesis 5a and 6a

The final set of hypotheses about the main effect comprises Hypotheses 5a and 6a, which suggest the different effects of symbolic reputational capital (SyRC) and substantial reputational capital (SuRC) in acquisition of unlisted targets. Table 6.8 presents the results. The testing methods are the same as previous hypotheses. Model 1 includes all control variables. Model 2 adds the two predictor variables, substantial reputational capital and symbolic reputation capital. The outcome variable is changed to the ratio of unlisted targets in the acquisition portfolio. The results show that symbolic but not substantial reputational

capital is significantly related to acquisition of unlisted targets. The coefficient of symbolic reputational capital is positive ($\beta = 0.096$, $p < 0.1$), and thus Hypothesis 5a is supported. However, the coefficient of substantial reputational capital is negative ($\beta = -0.002$) but not statistically significant, and thus fails to support Hypothesis 6a.

Table 6.10 Results of fixed-effects model analysis on acquisition strategy—unlisted targets

	Variables	Model 1	Model 2
	Independent variables		
H5a	Symbolic reputational capital (SyRC)		0.096† (0.066)
H6a	Substantial reputational capital (SuRC)		-0.002 (0.032)
	Controls		
	Acquirer's age	0.004 (0.056)	0.016 (0.061)
	Acquirer's firm size	-0.449* (0.250)	-0.545* (0.259)
	Acquirer's ownership	0.040 (0.272)	-0.024 (0.269)
	Acquirer's leverage	0.465 (0.372)	0.396 (0.376)
	Acquirer's organizational slack	-0.095 (0.115)	-0.100 (0.111)
	Acquirer's past firm performance	-0.321 (0.358)	-0.385 (0.375)
	Acquirer's past acquisition experiences	-0.025 (0.034)	-0.022 (0.036)
	Deal magnitude	1.472 (2.056)	0.822 (1.988)

N=532. Entries are unstandardized regression coefficients. Robust standard errors in parentheses. †$p < 0.1$, *$p < 0.05$, **$p < 0.01$, ***$p < 0.001$
Note: Year and industry dummies were included but not reported. Dependent variable is the ratio of unlisted targets in the acquisition portfolio.

Nonmarket capital and firm performance: Hypotheses 1b to 6b

The second step model in the theoretical framework predicts that the interaction between nonmarket capital and the corresponding acquisition strategy influence firm

performance differently. Table 6.11 reports all results pertaining to the two-way interaction terms, including those between (1) H1b symbolic political capital (SyPC) and acquisition of SOE, (2) H2b substantial political capital (SuPC) and acquisition of SOE, (3) H3b symbolic social capital (SySC) and acquisition of product-unrelated targets, (4) H4b substantial social capital (SuSC) and acquisition of product-unrelated targets, (5) H5b symbolic reputational capital (SyRC) and acquisition of unlisted targets, and (6) H6b substantial reputational capital (SuRC) and acquisition of unlisted targets. The outcome variable is firm performance, measured by return on assets (ROA).

Model 1 is the base model, which includes all control variables. Model 2 introduces various types of nonmarket capital as predictors. Model 3 adds the moderators. Model 4 adds the six interaction terms involving acquisition strategies. All interaction components were centered at the mean, following Aiken et al. (1991).

As the results show, the coefficient of the interaction between symbolic political capital and acquisition of SOE is positive as predicted ($\beta = 0.061$, $p < 0.001$), thus supporting Hypothesis 1b. The coefficient of the interaction between substantial political capital and acquisition of SOE is negative, as hypothesized ($\beta = -0.024$, $p < 0.01$), thus supporting Hypothesis 2b. The coefficient of the interaction between symbolic social capital and acquisition of product-unrelated targets is not significant ($\beta = -0.011$) and, therefore, fails to support Hypothesis 3b. The coefficient of the interaction between substantial social capital and acquisition of product-related targets is positive, as hypothesized ($\beta = 0.008$, $p < 0.01$), thus supporting Hypothesis 4b. Finally, the coefficient of the interaction between symbolic reputational capital and acquisition of unlisted targets is positive, as predicted ($\beta = 0.012$, $p < 0.05$) and, therefore, Hypothesis 5b is also

supported. However, the coefficient of the interaction between substantial reputational capital and acquisition of unlisted targets is not significant (β 0.001), thus failing to support Hypothesis 6b.

Table 6.11 Results of fixed-effects model analysis on acquirer's post-acquisition performance (ROA)

	Variables	Model 1	Model 2	Model 3	Model 4
	Independent variables				
	Symbolic political capital (SyPC)		-0.005 (0.008)	-0.008 (0.009)	-0.023** (0.008)
	Substantial political capital (SuPC)		-0.005† (0.004)	-0.005 (0.004)	-0.014** (0.05)
	Symbolic social capital (SySC)		-0.001 (0.007)	0.001 (0.006)	-0.001 (0.011)
	Substantial social capital (SuSC)		-0.003** (0.001)	-0.003** (0.001)	-0.002† (0.001)
	Symbolic reputational capital (SyRC)		0.001 (0.002)	0.002 (0.002)	-0.001 (0.003)
	Substantial reputational capital (SuRC)		0.003* (0.002)	0.003* (0.002)	0.003† (0.002)
	Moderators				
	Target's state ownership (SOE)			-0.008* (0.005)	-0.006 (0.005)
	Target's relatedness (unrelatedness)			0.005 (0.005)	0.007 (0.006)
	Target's listed status (unlisted)			-0.006† (0.004)	-0.003 (0.004)
	Interactions				
H1b	SyPC × SOE				0.061*** (0.010)
H2b	SuPC × SOE				-0.024** (0.010)
H3b	SySC × unrelatedness				-0.011 (0.041)
H4b	SuSC × unrelatedness				0.008** (0.003)
H5b	SyRC × unlisted				0.012* (0.006)
H6b	SuRC × unlisted				0.001 (0.001)
	Controls				
	Acquirer's age	-0.005† (0.004)	-0.006* (0.003)	-0.006* (0.003)	-0.006* (0.003)
	Acquirer's firm size	0.032† (0.024)	0.044* (0.023)	0.040* (0.022)	0.040* (0.023)
	Acquirer's ownership	-0.034 (0.032)	-0.027 (0.033)	-0.031 (0.032)	-0.024 (0.033)
	Acquirer's leverage	-0.004 (0.027)	0.010* (0.027)	0.012 (0.028)	0.025 (0.027)
	Acquirer's organizational slack	0.030* (0.014)	0.029* (0.013)	0.030** (0.012)	0.034** (0.013)
	Acquirer's past firm performance	-0.084† (0.062)	-0.086† (0.061)	-0.096† (0.059)	-0.095† (0.058)
	Acquirer's past acquisition experiences	0.001 (0.003)	0.001 (0.003)	0.001 (0.002)	0.001 (0.002)
	Deal magnitude	-0.500* (0.258)	-0.461* (0.244)	-0.419* (0.233)	-0.405* (0.216)

N=532. Entries are unstandardized regression coefficients. Robust standard errors in parentheses. †$p < 0.1$, *$p < 0.05$, **$p < 0.01$, ***$p < 0.001$

Note: Year and industry dummies were included but not reported. Dependent variable is lagged ROA.

The six pairs of interactions are plotted in Figures 6.1 to 6.6. As depicted in the figures, the positive relationship between symbolic political capital and performance return exists only when there are more SOE targets in the acquisition portfolio. By contrast, such acquisition strategy results in negative performance return as firms possess more substantial political capital. Similar patterns are found in cases of social capital and reputational capital. The results further confirmed the hypotheses.

Figure 6.1 Two-way interactions between symbolic political capital and acquisition of SOEs

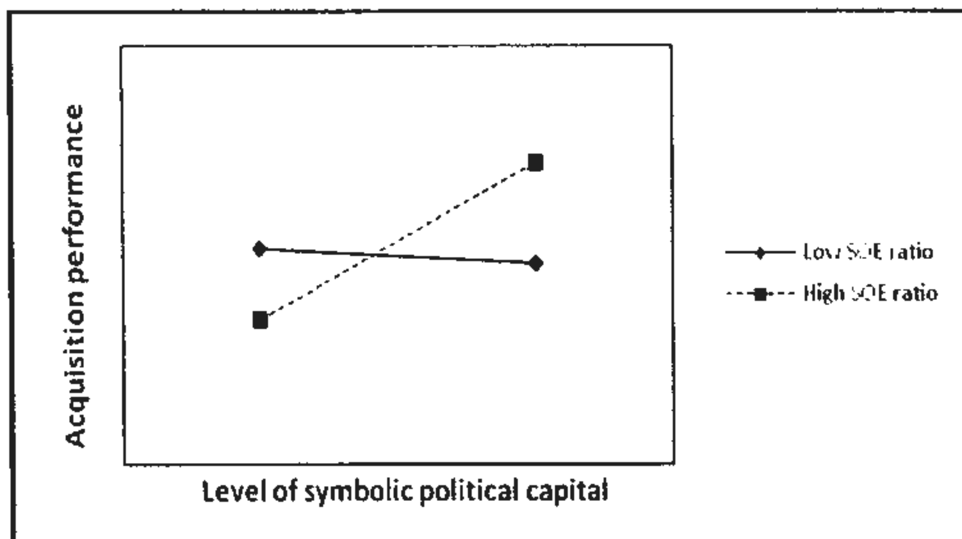


Figure 6.2 Two-way interactions between substantial political capital and acquisition of SOEs

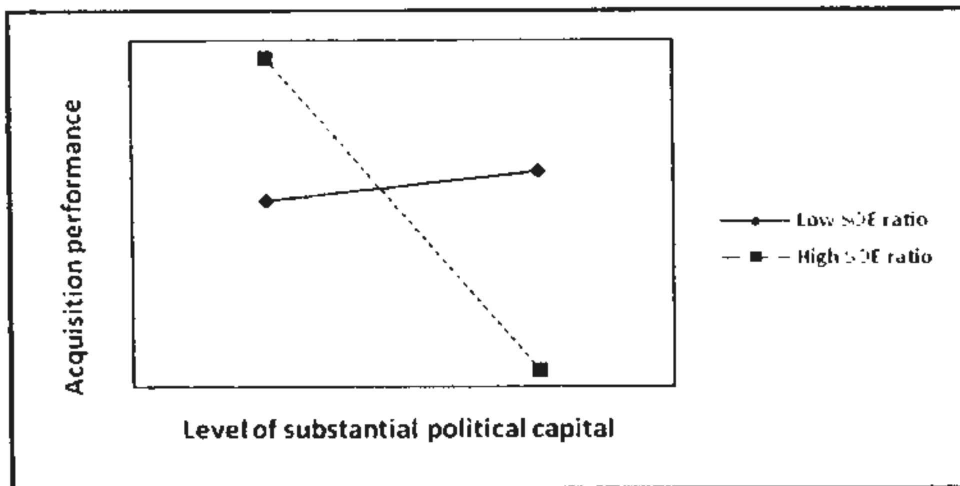


Figure 6.3 Two-way interactions between symbolic social capital and acquisition of unrelated firms

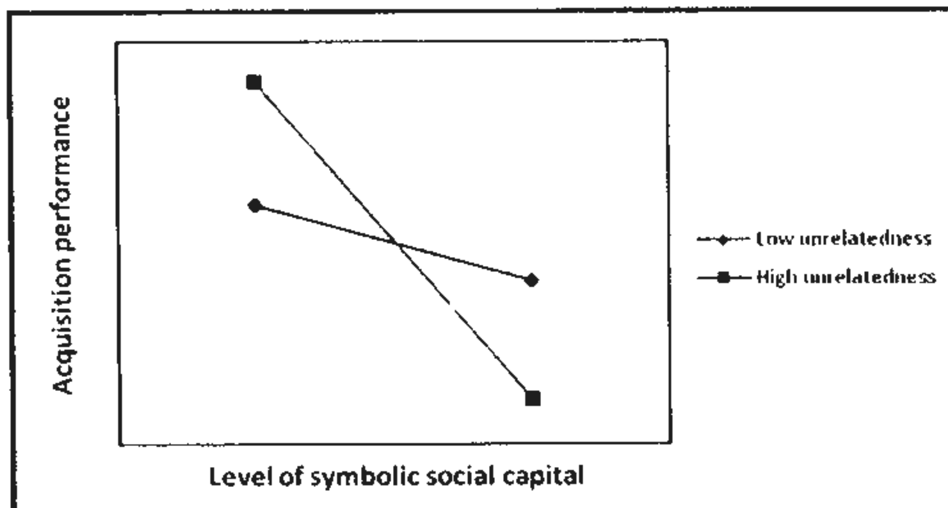


Figure 6.4 Two-way interactions between substantial social capital and acquisition of product-unrelated firms

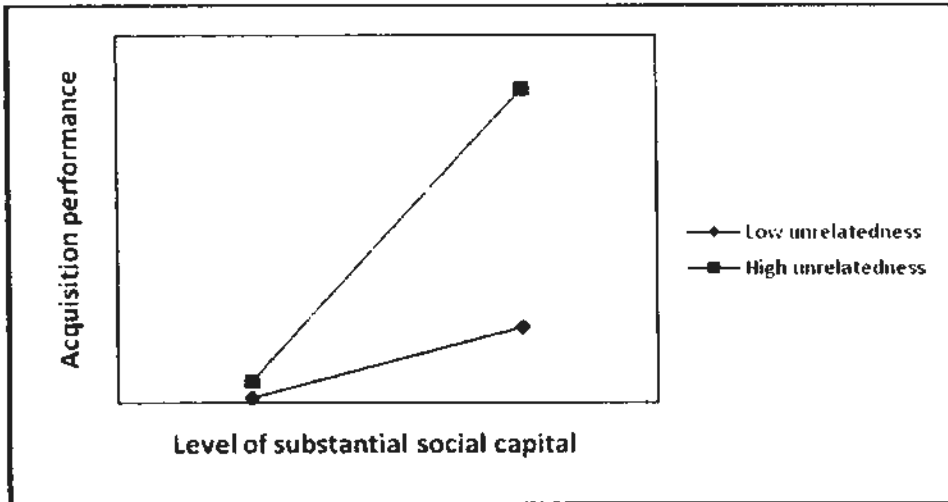


Figure 6.5 Two-way interactions between symbolic reputational capital and acquisition of unlisted firms

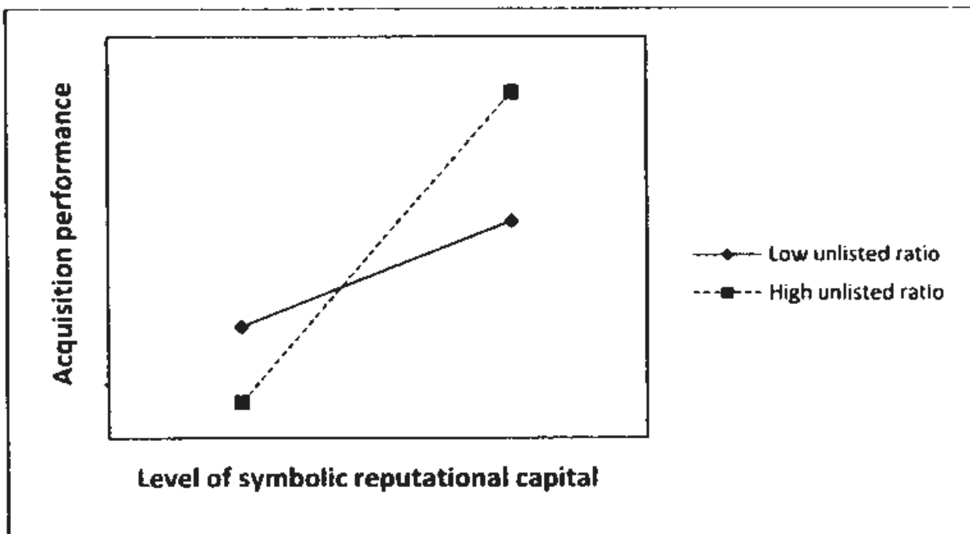
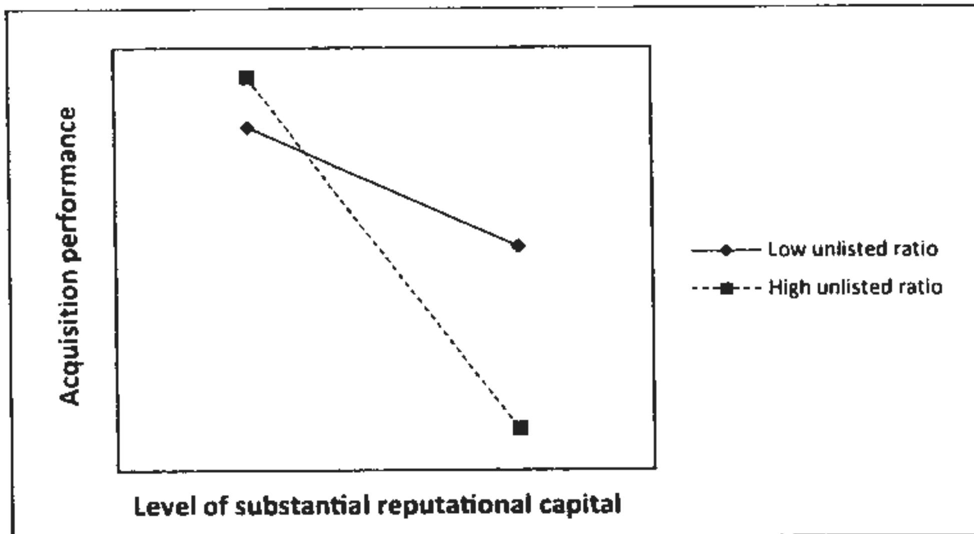


Figure 6.6 Two-way interactions between substantial reputational capital and acquisition of unlisted firms



Robustness checks

An important test that can check robustness of results is to change the measure of outcome variables. As substantial nonmarket capital creates value via direct functioning, I exclude symbolic nonmarket capital from the model and see if the results still hold. Analyses showed that the interaction between substantial political capital and acquisition of SOEs and the interaction between substantial social capital and unrelated acquisition remain significant ($\beta = -0.016$, $p < 0.1$; $\beta = 0.005$, $p < 0.1$, respectively). Table 6.12 shows details of the results.

Table 6.12 Results of robustness check on acquirer's post-acquisition performance (ROA)

	Variables	Model 1	Model 2	Model 3	Model 4
	Independent variables				
	Substantial political capital (SuPC)		-0.005† (0.004)	-0.006 (0.005)	-0.013* (0.006)
	Substantial social capital (SuSC)		-0.003** (0.001)	-0.003** (0.001)	-0.002* (0.001)
	Substantial reputational capital (SuRC)		0.003* (0.002)	0.003* (0.002)	0.003* (0.002)
	Moderators				
	Target's state ownership (SOE)			-0.007* (0.005)	-0.007† (0.005)
	Target's relatedness (unrelatedness)			0.003 (0.005)	0.004 (0.004)
	Target's listed status (unlisted)			-0.006† (0.003)	-0.005 (0.004)
	Interactions				
H2b	SuPC × SOE				-0.016† (0.010)
H4b	SuSC × unrelatedness				0.005† (0.003)
H6b	SuRC × unlisted				-0.001 (0.001)
	Controls				
	Acquirer's age	-0.005† (0.004)	-0.006* (0.003)	-0.006* (0.003)	-0.006* (0.003)
	Acquirer's firm size	0.033† (0.024)	0.045* (0.022)	0.042* (0.022)	0.043* (0.022)
	Acquirer's ownership	-0.034 (0.032)	-0.027 (0.033)	-0.030 (0.031)	-0.026 (0.033)
	Acquirer's leverage	-0.004 (0.027)	0.010 (0.027)	0.014 (0.028)	0.025 (0.027)
	Acquirer's organizational slack	0.030* (0.014)	0.028* (0.013)	0.029** (0.013)	0.030** (0.013)
	Acquirer's past firm performance	-0.084† (0.062)	-0.086† (0.060)	-0.094† (0.058)	-0.094† (0.059)
	Acquirer's past acquisition experiences	0.001 (0.003)	0.001 (0.002)	0.001 (0.002)	0.001 (0.002)
	Deal magnitude	-0.500* (0.258)	-0.458* (0.244)	-0.412* (0.233)	-0.411* (0.228)

N=532. Entries are unstandardized regression coefficients. Robust standard errors in parentheses. †$p < 0.1$, *$p < 0.05$, **$p < 0.01$, ***$p < 0.001$

Note: Year and industry dummies were included but not reported. Dependent variable is lagged ROE.

Summary of Results

Table 6.13 summarizes the findings for each hypothesis. Overall, all the interaction hypotheses are supported. Acquisition strategy is proved to interact with nonmarket capital and further determines firm performance after acquisition. For main effect, however, hypotheses about two types of reputational capital and hypothesis about symbolic political capital are not supported. The results show that reputational capital did not relate to acquisition of unlisted firms, nor was symbolic political capital found to influence acquisition of SOEs.

Table 6.13 Summary of analysis results

Hypothesis	Relationship/Expected Effects	Finding	Results
1a	Symbolic PC → acquisition of SOE	Significant and negative relationship between symbolic PC and ratio of SOEs in the acquisition portfolio	Not supported
1b	Symbolic PC → firm performance ↑ SOE target	SPC is positively related to acquirer's post-acquisition performance when the ratio of SOE in the acquisition portfolio is high.	Supported
2a	Substantial PC → acquisition of SOE	Significant and negative relationship between Substantial PC and ratio of SOEs in the acquisition portfolio	Supported
2b	Substantial PC → firm performance ↑ SOE target	Substantial PC is negatively related to acquirer's post-acquisition performance when the ratio of SOE in the acquisition portfolio is high.	Supported
3a	Symbolic SC → acquisition of unrelated targets	No significant relationship between Symbolic SC and ratio of unrelated targets in the acquisition portfolio	Not supported
3b	Symbolic SC → firm performance ↑ Unrelated target	Symbolic SC is not significantly related to acquirer's post-acquisition performance when the ratio of unrelated target in the acquisition portfolio is high.	Not supported
4a	Substantial SC → acquisition of unrelated targets	Significant and positive relationship between Substantial SC and ratio of unrelated targets in the acquisition portfolio	Supported
4b	Substantial SC → firm performance ↑ Unrelated target	Substantial SC is positively related to acquirer's post-acquisition performance when the ratio of unrelated target in the acquisition portfolio is high.	Supported
5a	Symbolic RC → acquisition of unlisted targets	Significant and positive relationship between Symbolic RC and ratio of unlisted firms in the acquisition portfolio	Supported
5b	Symbolic RC → firm performance ↑ Unlisted target	Symbolic RC is positively related to acquirer's post-acquisition performance when the ratio of unlisted targets in the acquisition portfolio is high.	Supported
6a	Substantial RC → acquisition of unlisted targets	Insignificant relationship between Substantial RC and ratio of unlisted firms in the acquisition portfolio	Not supported
6b	Substantial RC → firm performance ↑ Unlisted target	Substantial RC is no significantly related to acquirer's post-acquisition performance when the ratio of unlisted targets in the acquisition portfolio is high.	Not supported

CHAPTER 7. DISCUSSION AND CONCLUSION

This dissertation examines the roles of different types of nonmarket capital in emerging economies and when and how acquisitions create value out of nonmarket capital for stakeholders. This study builds on insights provided by institutional economics, resource-based view (RBV) and the signaling theory, and examines the differentiated effects of different types of nonmarket capital on acquisition strategy and performance, based on these theoretical perspectives.

Several gaps in extant literature on resources and acquisitions in emerging economies were identified. The first gap is about acquisition as a way to facilitate growth and expansion. Acquisition is becoming more and more popular in emerging economies also but most studies are based on western contexts. Because of the vast differences between institutions of emerging economies and developed economies, conclusions of these studies may not be generalizable to emerging economies. What is more, driving forces of acquisition strategies and determinants of acquisition success are left unexplained in the context of emerging economies.

The second is from the perspective of theory. RBV is a theory about the nature of firms. It has explored in depth what firm really is but at the same time, it also inevitably neglects influences of external factors. Priem and Butler (2001) commented that RBV has put "little effort to establish appropriate contexts." Being inspired by insights from institutional economics, this dissertation has integrated these two theories and suggested nonmarket capital as a key resource for emerging economy firms. Despite the importance of nonmarket capital in emerging economies, few empirical studies have systematically examined its characteristics and roles. Another research gap in RBV is that the theory does

not explicitly explain the mechanism of generating value from resources. The signaling theory has refined the symbolic property of resources and differentiates it from resource's substantial functions that directly generate value and lead to outcomes. It contends that resources can reveal business players or the focal firm's underlying attributes and thereafter influence stakeholder's behaviors. As such, the signaling theory supplements RBV.

Thus, based on the aforementioned considerations, three key research questions guided this study:

1. What is the resource that is of special importance and relevance to acquisition in emerging economies and why?
2. What are the characteristics and values of each type of nonmarket capital? How is the value of nonmarket capital realized in emerging economies?
3. How can nonmarket capital influence acquisitions in emerging economies? Specifically, does a certain kind of nonmarket capital drive the adoption of certain acquisition strategies? Under what circumstances does a certain kind of nonmarket capital generate better or worse performance outcomes?

This chapter is divided into five sections. The first section discusses research findings based on which preliminary answers to research questions are drawn empirically. The second section reviews the theories used and the theoretical arguments that answer the above research questions. The third section sketches contributions of this dissertation to theory, methodology and business practices. The fourth section discusses the limitations of this study and outlines several directions for future research. Finally, a conclusion is drawn.

Discussion of Research Findings

The results of this study are based on secondary cross-sectional data. Data was gathered in the unique context of an emerging economy, China, given that China is the second largest economy in the world and is undergoing transition to market economic institutions. A sample of domestic acquisitions by 615 publicly traded Chinese firms between the years of 2003 and 2006 was collected. Given data availability through secondary sources, all acquisitions within this time frame could be included, regardless of whether targets were subsequently divested, or whether the acquirers went bankrupt, were delisted, or purchased by other firms. This sample, therefore, can be considered representative of acquisition strategies in emerging economies.

7 out of 12 hypotheses are supported. Overall, it is found that different types of nonmarket capital drive acquirers to adopt different acquisition strategies and reap different performance outcomes. As hypothesized, substantial political capital suppresses acquisitions of SOEs. Substantial social capital promotes product diversification via acquisition. Symbolic reputational capital promotes acquisition of unlisted targets. However, results did not support hypotheses about linkages from symbolic political capital, symbolic social capital, and substantial reputational capital to acquisition strategy.

Moreover, empirical evidence suggested that these types of nonmarket capital had different effects on acquirer's firm performance (post-acquisition) when matched with respective acquisition strategy; some added value while others were detrimental to firm performance. Specifically, when symbolic political capital, substantial social capital, and symbolic reputational capital match SOEs, unrelated targets, and unlisted targets, respectively, the performance outcome is better. When firms with substantial political

capital acquire SOEs, financial returns are worse.

Political capital and acquisition

In this study, both types of political capital are found to negatively influence acquisitions of SOEs. Substantial political capital is significantly and negatively related to the ratio of SOEs in the acquisition portfolio. The relationship is very strong. This result supports the argument that acquisition of SOE is not the right strategy and cannot leverage advantages of substantial political capital. Being an "insider" of the political system, firms rich in substantial political capital reap best outcomes when acquiring non-SOE enterprises. This is because competitive advantages of the acquirer (i.e. substantial political capital) and the target (i.e. market capabilities) are complementary and, therefore, this combination is most likely to create synergy.

Contrary to the hypothesis, symbolic political capital was also found to suppress outcome of acquisitions of SOEs in this sample. One possible reason is that acquisition of SOE is a sensitive action in China due to some cases called "loss of state assets". It has occurred mainly in the form of price discounts when transferring state assets to private hands while financial controls remain weak (Garnaut, Song, & Yao, 2006), or if investments are not recouped when businesses fail. It is unclear what happens if when businesses go bankrupt, as finance and auditing procedures may be unable to ensure that relations are regularized (Duckett, 2001). If symbolic political capital is used to acquire SOE, the acquirer could be apprehensive of rent-seeking by government officers and accusations of having bought state-owned assets at unreasonably low price. As firms rich in symbolic political capital usually attract more public attention, they may want to avoid

such transactions. This factor may make the acquirer reluctant to seal the deal. This tendency is similar to the phenomenon of social control, where outside directors should refrain from showing favors to a CEO with whom they have personal relationships so as to maintain the quality of corporate governance (Westphal, 1999).

As in the theoretical framework, the results show that the effects of two types of political capital on firm performance depend on acquisition strategy. Acquisition strategy that matches asset specificity of the resource leads to good firm performance, while a strategy that does not match asset specificity results in waste of time, money and effort and consequently results in inferior firm performance.

Social capital and acquisition

Hypotheses about substantial social capital are supported. Substantial social capital facilitates product diversification, and this combination of resource and acquisition strategy leads to superior firm performance. This result confirms the role of firm's diverse business experiences in corporate diversification. However, no significant linkage was found between symbolic social capital and unrelated acquisitions. That may be because symbolic social capital signifies power and strength of the acquirer, and the effects of power and strength can spill over to other industries or fields. This explanation also refers to the interrelatedness between symbolic social capital and market capital. Symbolic social capital is built on the base of strong financial capabilities and managerial skills, which can be leveraged in a new industry. Therefore, their effects in other industries confound with those of symbolic social capital itself, i.e. the signaling effect of acquirer's power in focal industry, and yield insignificant results. To solve this problem, it would be better if these

effects can be isolated from the measure of symbolic social capital.

A related reason is that product diversification has to be supported by multiple capabilities, including tangible and intangible assets and market and nonmarket capital; it involves high uncertainties and the performance record of this strategy is not satisfactory (Hoskisson & Hitt, 1990). The effects of these factors are so strong that the positive effect of symbolic social capital on diversification is neutralized.

Reputational capital and acquisition

Hypotheses about symbolic reputational capital are supported, but those about substantial reputational capital are not. Results found no significant relationship between substantial reputational capital and acquisition of unlisted targets. There are several possible reasons for this insignificant result. First, conceptually, although symbolic and substantial reputational capital conveys to stakeholders different signals about the acquirer, the mechanism in both is signaling. Substantial reputational capital is of salient symbolic nature and its substantial nature is covered up. More research could further explore the substantial nature of substantial reputational capital. Second, research has identified several dimensions of reputation (Fombrun & Shanley, 1990; Rao, 1994), and awards and certificates represent only one of them. In addition, chairman's awards may not capture the essence of substantial reputational capital. For example, firms also receive awards for management performance and these awards also signal to stakeholders the acquirer's managerial capability in selecting and evaluating good acquisition targets.

Nevertheless, results indeed support that symbolic reputational capital facilitates acquisition of unlisted targets and helps reap good economic returns. As hypothesized, this

acquisition strategy can help firms rich in symbolic reputational capital explore opportunities off capital market and achieve positive performance outcomes.

Review of Theoretical Framework

The above results are derived from a rigorous and theory-based model, which aims to answer research questions mentioned at the beginning of this chapter. This dissertation is based on theories of institutional economics, resource-based view, and the signaling theory. Firstly, RBV has theorized the importance of resources for survival and success of firms. Hitt and coauthors (2000) contended that the types of resources to complement or leverage vary with institutional contexts. From the aspect of specificity and precision, institutional economics helps specify the context of application of some resources and, therefore, is essential to identify specific resources critical for firms in certain institutional contexts. Grounded on the three dimensions of intuitional idiosyncrasies (political—government intervention, social—reliance on informal relationships, and legal—weak contract enforcement), this dissertation suggests nonmarket capital (political, social and reputational) as the key resource for emerging economy firms.

Secondly, in terms of mechanism via which resource plays its role, this dissertation uses the signaling theory (Spence, 1973) to explain one way in which resource generates value, compared with the traditional mechanism explained by RBV: via substantial, direct and down-to-earth function execution. The theory helps explain the process used by decision makers in situations of information asymmetry. From signals received, stakeholders can infer invisible and inimitable characteristics of the firm, and consequently the firm can acquire legitimacy from stakeholders and influence outsider decisions.

Correspondingly, nonmarket capital is divided into six types, corresponding to the two dimensions, i.e. the types that respond to institutional idiosyncrasies, and the types that use different mechanisms to generate value.

Finally, based on characteristics of each type of nonmarket capital, I argue that when specific acquisition target selection strategies match asset specificity of each kind of nonmarket capital, it leads to superior acquisition outcomes. Symbolic political capital should be leveraged for transactions in political market, like acquisitions of SOEs. Social capital can help maintain business scope and consolidate the current status in focal product market via related acquisitions. Symbolic reputational capital is critical when the focal firm acquires unlisted firms that are less known in capital market. When strategies fail to leverage the advantage of the focal nonmarket capital, the investment is wasted and the acquired business may become a burden. What is more, the negative effect of that capital will emerge. The three types of substantial nonmarket capital (substantial political, social and reputational) would not reap good returns if the same acquisition strategies that fit symbolic capital are used.

Contributions

This dissertation makes several contributions to academia and business practices. Academic contributions include new insights into the development of the concept of nonmarket capital and outlines role of each kind of nonmarket capital in acquisition strategy and performance. This dissertation is also relevant and important for business practitioners as it outlines ways of using nonmarket capital to generate value in acquisitions in emerging economies.

Theoretical contributions

Building on insights of institutional economics, RBV and the signaling theory, this study attempts to provide a better understanding of circumstances under which certain types of nonmarket capital can be beneficial for firm performance. In so doing, the study contributes to the literature on acquisition in emerging economies, nonmarket capital, and RBV.

1. Acquisition literature

The first field to which the dissertation contributes is acquisition research. This dissertation is a pioneer in domestic acquisitions in China. Most research on acquisition is based on the context of developed economies. However, as Hoskisson et al. (2000) argued, there are vast differences between these two contexts, and hence the conclusions obtained in one context may not hold in the other. Using data of listed Chinese firms and the premise of institutional idiosyncrasies in emerging economies, this dissertation attempts to theorize and test some rules of acquisition activities in emerging economies. The theoretical model is based on the arguments that the three dimensions of institutional idiosyncrasies can be addressed by the three types of nonmarket capital to a certain extent, which in turn influence acquisition outcomes. The results support most hypotheses.

What is more, traditionally acquisition research from the resource perspective has focused on market-based capabilities and resources, such as cash, patents, human capital and so on. This study contributes to acquisition literature by examining the role of nonmarket type of or network-based resources (Yiu & Lau, 2007), i.e. intangible and

embedded resources that carry emerging economies characteristics. This study provides an empirical examination of the relationship between nonmarket capital and acquirer's post-acquisition performance.

Finally, findings reported in the existing body of empirical research on impact of resources on acquisition outcomes have been mixed and inconclusive. This dissertation suggests the presence of a moderator, i.e. acquisition strategy. For the same acquisition strategy, effects of substantial and symbolic nonmarket capital are different. Therefore, alignment of strategy with asset specificity of the focal resource becomes necessary.

2. Nonmarket capital

The second theoretical contribution of this study is advancement of understanding of the concept, dimensionality, characteristics, values, effectiveness and application of nonmarket capital in emerging economies. Firstly, the value of each type of nonmarket capital is identified. Nonmarket capital can increase institutional relatedness along government, social and legal dimensions. In addition, different kinds of nonmarket capital are effective in different contexts or within different boundaries. Political capital is effective in political market, social capital is useful in expanding or maintaining business scope in current product market, and reputational capital can fix the distrust of stakeholders in risky and bold strategic actions and, therefore, acquisition of unlisted firms that entails higher uncertainty in capital market is the boundary of its effectiveness. Although many studies have examined political, social and reputational capital under different research themes, few have examined them under the umbrella theme of nonmarket capital, and thereafter their deep values in increasing institutional relatedness are not fully discussed.

Secondly, not only is nonmarket capital found to be influential, its impacts are proved to be different across different types. Nonmarket capital is divided into two types, based on their value-generating mechanisms, i.e. substantial and symbolic type. Traditional RBV explains the mechanism by which substantial nonmarket capital generates value, and the signaling theory reveals the way in which symbolic nonmarket capital is useful. Few studies have explicitly outlined the differences between these two mechanisms, though mechanisms determine the role and context of applications of different resources. Based on institutional economics, RBV and the signaling theory, this dissertation develops a two by three typology of nonmarket capital, and clearly defines and describes each type. By doing so, understanding of the concept and dimensionality of nonmarket capital are greatly improved.

Finally, applications of nonmarket capital are specified in the context of acquisitions in emerging economies. Nonmarket capital studies have been very few, not to mention its effects on corporate strategy and performance. The only exception is Yiu and Lau (2007), who found that positive effects of nonmarket capital on firm performance are channeled through the resource configuration process executed by various corporate entrepreneurial activities such as product and organizational innovations, as well as new ventures. Addressing the question of how nonmarket capital is used for adding value and how it enhances firm competitiveness, this study finds that the relationship between nonmarket capital and firm performance is determined by acquisition strategy. More importantly, for one single type of acquisition strategy, substantial nonmarket capital and symbolic nonmarket capital can lead to two completely different outcomes. This dissertation provides evidence supporting that acquisition of SOEs leads to better firm performance

when the acquirer is rich in symbolic but not substantial political capital. Acquisitions of product-related targets match symbolic but not substantial social capital, and acquisitions of unlisted targets improve performance of firms with high symbolic but not substantial reputational capital.

Overall, this study contributes to the strategy and emerging economies literature by deepening people's understanding of nonmarket capital. It also provides empirical support for most hypotheses. This is an early attempt to theorize and test the role of nonmarket capital in institutional context of emerging economies.

3. RBV

The final part of this discussion emphasizes the theoretical contribution of this dissertation to RBV. This dissertation is an empirical application and theoretical extension of RBV. Institutional economics and the signaling theory are integrated into this theory.

Firstly, institutional economics is used to identify nonmarket capital as the type of resource that is especially important in emerging economies. The three dimensions of institutional idiosyncrasies of emerging economies are characterized and, accordingly, the three types of nonmarket capital (i.e. political, social and reputational) are shown to be capable of fixing market failures along these three dimensions and increase institutional relatedness of firms. The role of nonmarket capital is tested in acquisitions in emerging economies. As such, institutional economics advances the theory of RBV.

Secondly, theorists in RBV camp have emphasized the importance of resources for firms, but how the resources generate value and how they should be leveraged is seldom mentioned. The signaling theory complements RBV in that it refines the mechanism by

which symbolic type of resources generate value, i.e. signaling firm's underlying attributes and thereby influencing stakeholders' strategic actions. Symbolic nonmarket capital is characterized, and the conditions under which it adds value for acquirers are identified. Based on the symbolic characteristics, the way in which this resource should be used becomes clear.

Finally, another criticism concerning RBV is about the nature of resources (Priem & Butler, 2001). Miller and Shamsie (1996) argued that researchers should add precision to the theory by specifying the nature and usage of different types of resources. Although research conducted by Yoo et al. (2009) examined the different outcomes of different types of social capital emanating from top management team's external ties, the study did not systematically conceptualize the types of social capital. This dissertation, by differentiating the characteristics and value-generating mechanisms of six types of nonmarket capital, explores the different conditions under which these types of nonmarket capital are effective and beneficial for acquiring firms.

Practical contributions

This dissertation also has practical relevance and importance. Mergers and acquisition in emerging economies are becoming more and more popular; new records in terms of total transaction value are being established repeatedly. However, prior research pointed out high failure rates of these transactions. Therefore, it is important for business practitioners to obtain a better grasp of determinants of performance of these transactions.

This dissertation provides a better understanding of determinants of acquisition strategies and the outcomes. The results reveal both detrimental and beneficial effects of

nonmarket capital on acquirer's post-acquisition performance. The impacts are proved to depend on the specific acquisition strategy adopted. To achieve better performance outcome, acquisition strategies should align with asset specificity of resources. Through these results, managers may gain a better insight into the dual role of nonmarket capital in acquisitions in emerging economies, and may better identify potential opportunities for deployment of this and other key resources.

In addition, the practical contribution can be viewed from another perspective. Having confirmed the importance of the match between nonmarket capital and acquisition strategy (i.e. target attributes, in this dissertation), organizations can check their nonmarket capital portfolios and then choose the appropriate targets to acquire and come up with a handful of candidates. Through this, they can maximize their advantages and save time.

Limitations and Future Research

While this study makes several important contributions, it is not without limitations. First, one assumption of the theoretical model is that firms possessing nonmarket capital really utilize this resource during and after acquisition and achieve the effects described in the dissertation. However, restricted by data availability in archival datasets, this dissertation studied only the presence of nonmarket capital and its effects. There is no measurement of the process of actual *use* of nonmarket capital and it did not really test it. Future research could use surveys to collect data on usage of nonmarket capital, as subjective measures may be better able to capture the underlying mechanism. A sample item could be "Joining chamber increases business opportunities after a related acquisition".

Second, the measures of nonmarket capital could be further refined. Nonmarket capital involves more than ties to institutions. It embodies the managerial ability to leverage relationships with a variety of crucial institutions (e.g., financial institutions, labor force, etc.) (Peng et al., 2005). Although number of managerial connections is an objective reflection of nonmarket capital, other kinds of measures such as survey items can reflect more specific, precise and deeper information and could be considered as well. In addition, more analyses could be done to test the dimensionality of the construct, if the data allow.

Third, the sample of the dissertation comprises listed companies in China. Although China is a typical emerging economy, characteristics of institutions vary even among different emerging economies. For example, during its reform, the Chinese government maintained a central role in guiding the economic transition (Luo, 2003), whereas formerly planned economies in Central and Eastern Europe, such as Czech Republic, Hungary, Poland and Russia decentralized political control and maintained few central policies (Hitt et al., 2004). Further, Boisot and Child (1996, p. 623) suggested that what is unique about China's economic order is not the presence of network ties but "the depth and nature of its social embeddedness." Therefore, it is necessary to test the theories in other emerging economies. Also, listed companies are only a small proportion of all companies, and most small-medium size firms are unlisted. Although listed companies are representative in terms of industry and data of listed companies is reliable and comparable with other samples, it is necessary to incorporate those samples into the study so that the sample size can be enlarged and generalizablity of the theory can be increased.

Fourth, methodologically it is ideal to supplement this dissertation with case studies. Although the theoretical framework is based on some interviews with senior executives, no

serious and rigorous case studies were conducted. Case studies can uncover deeper mechanisms through which nonmarket capital works, check and probe aspects of the rationale of behaviors, and help establish a more thorough picture of the linkage from nonmarket capital to acquisition and to firm performance.

Finally, this dissertation does not discuss nonmarket capital's dynamic characteristics and fungibility, which are two related issues. The dynamic nature of emerging economies makes it necessary to take account of changes in the institutional environment (Hoskisson et al., 2000). Peng (2003) argued that the first phase of emerging economies' transition is characterized by relational contracting, which is replaced by arm's length transactions in the second phase, i.e. rule-based, impersonal exchange with third-party enforcement. As transaction complexity increases, informal information processing and contract enforcement within the group may become difficult. Therefore, the benefits of nonmarket capital are likely to fade as the institutional transition of emerging economies proceeds. This is similar with the proposition that market reform inherently devalue political credentials and connections in favor of education, experience and entrepreneurship (Gerber & Hout, 1998; Nee, 1996; Wu & Xie, 2003; Zhou, 2000). On the other hand, critics of this proposition have documented the persistence of official power and privilege (Bian & Logan, 1996; Rona-Tas, 1994), which demonstrates the continuing importance of nonmarket institutions (and capital) in emerging economies. So, it would be interesting to study how nonmarket capital and its usage evolve during the process.

In addition, as a type of resource, nonmarket capital may have a number of different applications, which may facilitate its deployment in overseas markets and across different situations. Redeployment flexibility or fungibility of firms' competitive advantages

determines how firms may optimally maximize their benefits (Anand & Singh, 1997; Wan, 2005). Strategic flexibility depends on the inherent flexibility of resources available to the organization and on managers' flexibility in deploying those resources for alternative courses of action, or "flexibility in coordinating the use of resources" (Sanchez, 1995, p. 138). How managers understand substantiality of resources at their disposal and maximize their usage in different situations is critical (Lockett et al., 2009). Uhlenbruck, Meyer and Hitt (2003) strongly emphasized that the continuously changing market conditions in emerging economies require the development of "strategic flexibility" that should help firms take advantage of existing and new strategic opportunities. Therefore, it would be interesting to see how nonmarket capital would add value via other types of corporate strategies in emerging economies. Such studies can give us a more complete picture of applications and value of nonmarket capital.

Besides fixing the above limitations, more theoretical advances could be made along this research line. First, it is important to measure the mechanism via which symbolic and substantial nonmarket capital generate value; the decisive differences between the two and the determining factors of their different applications. Including these process variables into empirical model is a critical advance. Second, it has been clear that symbolic/ substantial nonmarket capital and political/social/reputational capital have different applications in strategy formation. It would be interesting to further examine their relationships with each other. For example, it would be intriguing to explore under what circumstances and how they are complementary to each other if this is their relationship. Third, it would be helpful to understand how nonmarket capital is accumulated, developed and changed over time. Fourth, in theoretical and empirical models, the impact of market

capital is isolated. Since market capital and nonmarket capital together can be used in most business activities on and off market, it is important to investigate both at the same time and further explore their respective roles and relationships. Fifth, this dissertation only studies three types of acquisition strategies, and these three actually concern only target selection issues. Other target types and other acquisition strategies (such as real option, whether to gain control right now and so on) are worth exploring in future research. Finally, as the value of nonmarket capital lies in increasing institutional relatedness, it can be utilized in conditions other than acquisitions, such as strategic alliance, innovation, overseas expansion, entrepreneurship and so on. More research could be conducted.

Conclusion

This dissertation provides a comprehensive analysis of dimensions and value-generating mechanisms of nonmarket capital, and examines how nonmarket capital is related to an emerging economy firm's acquisition strategy and performance. It provides evidence supporting the conclusion that different types of nonmarket capital need to be leveraged via different acquisition strategies. Political capital, social capital and reputational capital have different territories. Within the territory, two dimensions of nonmarket capital, symbolic or substantial, should be matched with appropriate acquisition strategies. Results show that although symbolic political capital seems not to promote actions in political market, like acquisitions of SOEs, but it does bring better firm performance when combined with this strategy; by contrast, substantial political capital is likely to have a negative effect on performance outcome of acquisitions of SOEs. Similarly, using product-unrelated acquisition to manage symbolic and substantial social capital will

obtain opposite outcomes. Acquisition of related targets and maintaining current business scope in product market is beneficial for firms rich in symbolic social capital but is disadvantageous for firms with substantial social capital. Finally, the relationship between reputational capital and acquisition of unlisted targets is not clear in the results. In terms of the effect of value generation, acquisitions of unlisted firms can best leverage symbolic reputational capital instead of substantial capital, as firm performance is better for the former but worse for the later combination.

Based on the findings reported, a number of new research questions arise. For example, what are other possible acquisition strategies or corporate strategies to utilize nonmarket capital? Besides acquisition strategies, what are other possible factors influencing the effects of nonmarket capital on firm performance? Methodologically, can the mechanism through which nonmarket capital takes effects be measured? And, what is the relationship between different kinds of nonmarket capital and how does this interaction influence other organizational outcomes?

This dissertation is an attempt to study nonmarket capital in the context of acquisitions in emerging economies. It is hoped that this dissertation furthers our understanding of the nature and application of nonmarket capital as well as the rules of acquisitions in emerging economies, and will spark future research providing additional insights into this research line.

REFERENCES

Acenoglu, D. 2007. Growth and institutions. In L. Blume & S. Durlauf (Eds.), ***The new palgrave dictionary of economics***. London: Palgrave.

Acquaah, M. 2007. Mangerial social capital, strategic orientation, and organizational performance in an emerging economy. ***Strategic Management Journal***, 28: 1235-1255.

Adler, P. S., & Kwon, S. W. 2002. Social capital: prospects for a new concept. ***Academy of Management Review***, 27: 17-40.

Agrawal, A., & Jaffe, J. 2000. The post merger performance puzzle. ***Advances in Megers and Acquisitions***, 1: 119-156.

Ahuja, G., & Katila, R. 2001. Techonological acquisitions and the innovation performance of acquiring firms: a logitudinal study. ***Strategic Management Journal***, 22: 197-220.

Aiken, L. S., West, S. G., & Reno, R. R. 1991. ***Multiple regression: Testing and interpreting interactions***. Thousand Oaks: SAGE.

Akerlof, G. A. 1970. The market for "lemons": qualitative uncertainty and the market mechanism. ***Quarterly Journal of Economics***, 84: 488-500.

Allen, F., Qian, J., & Qian, M. 2005. Law, finance, and economic growth in China. ***Journal of Financial Economics***, 77: 57-116.

Alston, L. J. 2007. New institutional economics. In L. Blume & S. Durlauf (Eds.), ***The new palgrave dictionary of economics*** (Vol. 5, pp. 32-39). London: Palgrave.

Alston, L. J., & Ferrie, J. P. 1999. ***Southern paternalism and the American welfare state***: Cambridge University Press.

Amburgey, T. L., & Miner, A. S. 1992. Strategic momentum: the effects of repetitive, positional and contextual momentum on merger activity. ***Strategic Management Journal***, 13: 335–348.

Amit, R., & Schoemaker, P. J. H. 1993. Strategic assets and organizational rent. ***Strategic Management Journal***, 14: 33-46.

Anand, J., & Singh, H. 1997. Asset redeployment, acquisitions and corporate strategy in declining industries. ***Strategic Management Journal***, 18: 99-118.

Ang, J., & Kohers, N. 2001. The take-over market for privately held companies: the US experience. ***Cambridge Journal of Economics***, 25: 723-748.

Aplin, J., & Hegarty, H. 1980. Political influence: strategies employed by organizations to impact legislation in business and economic matters. ***Academy of Management Journal***, 23: 438-450.

Arnold, D. J., & Quelch, J. A. 1998. New strategies in emerging markets. ***Sloan Management Review***, 40: 7-20.

Baker, M., & Savasoglu, S. 2002. Limited arbitrage in mergers and acquisitions. ***Journal of Financial Economics***, 64: 91-115.

Baker, W. E. 1984. The social structure of a national securities market. ***American Journal of Sociology***, 89: 777-811.

Balachander, S., & Ghose, S. 2003. Reciprocal spillover effects: A strategic benefit of brand extensions. ***Journal of Marketing***, 67: 4-13.

Balakrishnan, S., & Fox, I. 1993. Asset specificity, firm heterogeneity and capital structure.

Strategic Management Journal, 14: 3-16.
Barclay, M. J., & Holderness, C. G. 1990. Negotiated block trades and corporate control. ***Journal of Finance***, 46: 861-878.
Barkema, H. G., & Schijven, M. 2008. How do firms learn to make acquisitions? A review of past research and an agenda for the future. ***Journal of Management***, 34: 594-634.
Barney, J. B. 1986. Strategic factor markets: expectations, luck and business strategy. ***Management Science***, 32: 1231-1241.
Barney, J. B. 1988. Returns to bidding firms in mergers and acquisitions: reconsidering the relatedness hypothesis. ***Strategic Management Journal***, Summer Special Issue: 71-78.
Barney, J. B. 1991. Firm resources and sustained competitive advantage. ***Journal of Management***, 17: 99-120.
Barney, J. B. 2001. Resource-based theories of competitive advantage: a ten-year retrospective on the resource-based view. ***Journal of Management***, 27: 643-650.
Barney, J. B., & Arikan, A. M. 2001. The resource-based view: Origins and implications. In M. A. Hitt, R. E. Freeman & J. S. Harrison (Eds.), ***Handbook of strategic management*** (pp. 124-188). Oxford: Blackwell.
Baron, R. M., & Kenny, D. A. 1986. The moderator-mediator variable distinction in social psychological research: conceptual, strategic, and statistical considerations. ***Journal of Personality and Social Psychology***, 51: 1173-1182.
Baum, J. A. C., & Oliver, C. 1992. Institutional embeddedness and the dynamics of organizational populations. ***American Sociological Review***, 57: 540-559.
Baum, J. A. C., & Rowley, T. J. 2002. Companion to organizations: an introduction. In J. A. C. Baum (Ed.), ***The blackwell companion to organizations*** (pp. 1-14). Oxford: Blackwell.
Beckman, C. M., & Haunschild, P. R. 2002. Network learning: the effects of partners' heterogeneity of experience on corporate acquisitions. ***Administrative Science Quarterly***, 47: 92–125.
Belliveau, M. A., O'Reilly, I. C. A., & Wade, J. B. 1996. Social capital at the top: effects of social similarity and status on CEO compensation. ***Academy of Management Journal***, 39: 1568-1593.
Berger, J., Rosenholtz, S. J., & Zelditch, J. M. 1980. Status organizing processes. ***Annual Review of Sociology***, 6: 479-508.
Berger, P. L., & Luckmann, T. 1967. ***The social construction of reality***. New York: Doubleday.
Bian, Y., & Logan, J. R. 1996. Market transition and the persistence of power: the changing stratification system in urban China. ***American Sociological Review***, 61: 739-758.
Birkinshaw, J., Bresman, H., & Håkanson, L. 2000. Managing the post-acquisition integration process: how the human integration and task integration processes interact to foster value creation. ***Journal of Management Studies***, 37: 395-425.
Birner, R., & Witter, H. 2003. Using social capital to create political capital. In E. Ostrom (Ed.), ***The commons in the New Millennium: Challenges and adaptation*** (pp. 291–334). Cambridge and London: MIT Press.
Boisot, M., & Child, J. 1996. From fiefs to clans and network capitalism: Explaining China's emerging economic order. ***Administrative Science Quarterly***, 41: 600-628.

Bonardi, J.-P., Hillman, A. J., & Keim, G. D. 2005. The attractiveness of political markets: Implications for firm strategy. ***Academy of Management Review***, 30: 397-413.
Bourdieu, P. 1985. The forms of capital. In J. G. Richardson (Ed.), ***Handbook of theory and research for the sociology of education*** (pp. 241-258). New York: Greenwood.
Bowman, E. H. 1974. Episcmology, corporate strategy, and academe. ***Sloan Management Review***, 15: 35-50.
Bremmer, I. 2005. Managing risk in an unstable world. ***Harvard Business Review***, June: 51-60.
Briggs, A. 1961. The welfare state in historical perspective. ***Archives of European Sociology***, 2: 221-259.
Brown, A. 1995. Organisational Culture. London: Pitman Publishing.
Brush, T. H., & Artz, K. W. 1999. Toward a contingent resource-based theory: The impact of information asymmetry on the value of capabilities in veterinary medicine. ***Strategic Management Journal***, 20: 223-250.
Bruton, G. D., & Lau, C. M. 2008. Asian management resarch: Status today and future outlook. ***Journal of Management Studies***, 45: 636-659.
Buono, A. F., & Bowditch, J. L. 1989. ***The human side of mergers and acquisitions***. San Francisco: Jossey-Bass.
Burt, R. S. 1997. The contingent value of social capital. ***Administrative Science Quarterly***, 42: 339-365.
Butler, R. J., McDonald, J. B., Nelson, R. D., & White, S. B. 1990. Robust and partially adaptive estimation of regression models. ***The Review of Economics and Statistics***, 72: 321-327.
Cai, H., Fan, H., & Xu, L. C. (2005). Eat, drink, firms and government: an inverstigation of corruption from entertainment and travel costs of Chinese firms. Unpublished Unpublished work.
Calhoun, C. 2003. ***The blackwell companion to major contemporary social theorists***. Malden, MA: Blackwell.
Cannella, A. A., & Holcomb, T. R. 2005. A multi-level analysis of the upper-echelons model. In F. J. Yammarino & F. Dansereau (Eds.), ***Research in multilevel issues: The many faces of multi-level issues*** (Vol. 4, pp. 197–238). Oxford, U.K.: JAI-Elsevier Science.
Capron, L., Dussauge, P., & Mitchell, W. 1998. Resource redepolyment following horizontal acquisitions in Europe and North America, 1988-1992. ***Strategic Management Journal***, 19: 631-661.
Capron, L., & Pistre, N. 2002. When do acquirers earn abnormal returns? ***Strategic Management Journal***, 23: 781-794.
Capron, L., & Shen, J.-C. 2007. Acquisitions of private vs. public firms: private information, target selection, and acquirer returns. ***Strategic Management Journal***, 28.
Cartwright, S. 2005. Mergers and acquisitions: An update and appraisal. In G. P. Hodgkinson & J. K. Ford (Eds.); ***International Review of Industrial and Organizational Psychology*** (Vol. 20, pp. 1–38). Chichester: John Wiley.
Cartwright, S., & Cooper, C. L. 1996. ***Managing mergers, acquisitions, and strategic alliance: Intergrating people and cultures***. Butterworth-Heinemann, Oxford.

Cartwright, S., & Schoenberg, R. 2006. Thirty years of mergers and acquisitions research: recent advances and future opportunities. ***British Journal of Management***, 17: S1-S5.

Chang, S. J., & Hong, J. 2002. How much does the business group matter in Korea? ***Strategic Management Journal***, 23: 265-274.

Chatterjee, S. 1986. Type of synergy and economic value: the impact of acquisitions on merging and rival firms. ***Strategic Management Journal***, 7: 119-139.

Chatterjee, S., Hadi, A. S., & Price, B. 2000. ***Regression analysis by example***. New York: Wiley.

Chatterjee, S., & Wernerfelt, B. 1991. The link between resources and type of diversification: theory and evidence. ***Strategic Management Journal***, 12: 33-48.

Che, J., & Qian, Y. 1998. Institutional environment, community government, and corporate governance: understanding China's township-village enterprises. ***Journal of Law, Economics and Organization***, 14: 1-23.

Chen, J., & She, D. (1988, April 29). Social groups are an important force for building , socialist democratic politics. ***Renmin Ribao***.

Cheng, J. L. C., & Kesner, I. F. 1997. Organizational slack and response to environmental shifts: the impact of resource allocation patterns. ***Journal of Management***, 23: 1-18.

Child, J., Pitkethly, R., & Faulkner, D. 1999. Changes in management practice and the post-acquisition performance achieved by direct investors in the UK. ***British Journal of Management***, 10: 185-198.

Child, J., & Tse, D. K. 2001. China's transition and its implications for international business. ***Journal of International Business Studies***, 32: 5-21.

Chiles, T. H., & McMackin, J. 1996. Integrating variable risk preferences, trust, and transaction cost economics. ***Academy of Management Reivew***, 21: 73-99.

ChinaSecuritiesRegulatoryCommission. 2009. ***M&A development report of Chinese listed companies***. Beijing: China Economic Publishing House.

Choi, Y. R., & Shepherd, D. A. 2004. Entrepreneurs' decisions to exploit opportunities. ***Journal of Management***, 30: 377-395.

Clercq, D. D., & Voronov, M. 2009. The role of cultural and symbolic capital in entrepreneurs' ability to meet expectations about conformity and innovation. ***Journal of Small Business Management***, 47: 398-420.

Coase, R. H. 1992. The institutional structure of production. ***American Economic Review***, 82: 713-719.

Cochran, P. L., & Robert, A. W. 1984. Corporate social responsibility and financial performance. ***Academy of Management Journal***, 27: 42-56.

Cohen, J., & Cohen, P. 2003. ***Applied multiple regression/correlation analysis for the behavioral sciences***. Hillsdale, NJ: Lawrence Erlbaum Associates.

Coleman, J. S. 1988. Social capital in the creation of human capital. ***American Journal of Sociology***, 94: 95-121.

Cook, P., & Kirkpatrick, C. 1988. Privitization in less developed countries: An overview. In P. Cook & C. Kirkpatrick (Eds.), ***Privitization in less developed countries*** (pp. 4-44). New York: St Martin's Press.

Cote, L., Langley, A., & Pasquero, J. 1999. Acquisition strategy and dominant logic in an engineering firm. ***Journal of Management Studies***, 36: 919-952.

Cowan, L. G. 1990. ***Privitization in the developing world***. New York: Greenwood Press.
Cragg, M. I., & Dyck, I. J. 1999. Management control and privatization in the United Kingdom. ***Rand Journal of Economics***, 30: 475-497.
D'Aveni, R. A. 1990. Top managerial prestige and organizational bankruptcy. ***Organization Science***, 1: 121-142.
Dacin, M. T., Goodstein, J., & Scott, W. R. 2002. Institutional theory and institutional change: introduction to the special research forum. ***Academy of Management Journal***, 45: 45–57.
Daft, R., L., & Lewin, A. Y. 1993. Where are the theories for the "new" organizational forms? An editorial essay. ***Organization Science***, 4: 1-6.
Davis, G. F., & Stout, S. K. 1992. Organization theory and the market for corporate-control- A dynamic analysis of the characteristics of large targets, 1980-1990. ***Administrative Science Quarterly***, 37: 605-633.
Davis, L., & North, D. 1971. ***Institutional change and American economic growth***. New York: Cambridge University Press.
Dawar, N., & Frost, T. 1999. Competing with giants: Survival strategies for local companies in emerging markets. ***Harvard Business Review***, 77: 119-129.
de Vaus, D. A. 2001. ***Research design in social research***. Thousand Oaks: Sage.
Deephouse, D. L. 1996. Does Isomorphism Legitimate? ***Academy of Management Journal***, 39: 1024-1039.
Delios, A., Zhou, N., & Xu, W. W. 2008. Ownership structure and the diversification and performance of publicly-listed companies in China. ***Business Horizons***, 51: 473-483.
Delmas, M. A., & Montes-Sancho, M. J. 2010. Voluntary agreements to improve environmental quality: symbolic and substantive cooperation. ***Strategic Management Journal***, 31: 575-601.
Deng, P. 2004. Outward investment by Chinese MNCs: motivations and implications. ***Business Horizons***, 47: 8-16.
Deng, P. 2007. Investing for strategic resources and its rationale: the case of outward FDI from Chinese firms. ***Business Horizons***, 50: 71-81.
Denrell, J., Fang, C., & Winter, S. G. 2003. The economics of strategic opportunity. ***Strategic Management Journal***, 24: 977-990.
Deutsch, Y., Keil, T., & Laamanen, T. 2007. Decision making in acquisitions: the effect of outside directors' compensation on acquisition patterns. ***Journal of Management***, 33: 30-56.
Devers, C., McNamara, G., Wiseman, R., & Arrfelt, M. 2008. Moving closer to the action: Examining compensation design effects on firm risk. ***Organization Science***, 19: 548-566.
Dharwadkar, R., George, G., & Brandes, P. 2000. Privatization in emerging economies: an agency theory perspective. ***Academy of management Reivew***, 25: 650-669.
DiMaggio, P. J., & Powell, W. W. 1991. Introduction. In P. J. DiMaggio & W. W. Powell (Eds.), ***The new institutionalism in organizational analysis*** (pp. 1-38). Chicago: University of Chicago Press.
Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. 2003. Courts. ***The Quarterly Journal of Economics***, 118: 453-517.
Doh, J. P., Howton, S. D., Howton, S. W., & Siegel, D. S. 2009. Does the market respond to

an endorsement of social responsibility? The role of institutions, information and legitimacy. ***Jounal of Management***, 20: 1-25.

Dollinger, M. J., Golden, P. A., & Saxton, T. 1997. The effect of reputation on the decision to joint venture. ***Strategic Management Journal***, 18: 127-140.

Dowling, G. R. 1986. Perceived risk: The concept and its measurement. ***Psychology and Marketing***, 3: 193-210.

Duckett, J. 2001. Bureaucrats in business, Chinese-style: the lessons of market reform and state entrepreneurialism in the People's Republic of China. ***World Development***, 29: 23-37.

Dunning, J. H. 1980. Toward an eclectic theory of international production: Some empirical tests. ***Journal of International Business Studies***, 11: 9-31.

Dunning, J. H. 1995. Reappraising the eclectic paradigm in an age of alliance capitalism. ***Journal of International Business Studies***, 26: 461–491.

Dutta, S. 1997. ***Family business in India***. New Delhi: Sage.

Easterbrook, F. H., & Fischel, D. R. 1981. The proper role of a target's management in responding to a tender offer. ***Harvard Law Review***, 94: 1161-1204.

Eggertsson, T. 1996. A note on the economics of institutions. In L. J. Alston (Ed.), ***Empirical studies in institutional change***. Cambridge: Cambridge University Press.

Eisenhardt, K. M., & Schoonhoven, C. B. 1996. Resource-based view of strategic alliance formation: strategic and social effects in entrepreneurial firms. ***Organization Science***, 7: 136-150.

Engers, M. 1987. Signaling with many signals. ***Econometrica***, 55: 663-674.

Etzioni, A. 1964. ***Modern organizations***. Englewood Cliffs, NJ: Prentice-Hall.

Eun, C. S., Kolodny, R., & Scheraga, C. 1996. Cross-border acquisitions and shareholder wealth: test of the synergy and internalization hypothesis. ***Journal of Banking and Finance***, 20: 1559–1582.

Faccio, M. 2006. Politically connected firms: Can they squeeze the state? ***American Ecnomoic Review***, 96: 369-386.

Faccio, M., & Masulis, R. W. 2005. The choice of payment method in European mergers and acquisitions. ***Journal of Finance***, 60: 1345-1388.

Faccio, M., Masulis, R. W., & McConnell, J. J. 2007. Political connections and corporate bailouts. ***Journal of Finance***, 61: 2597-2635.

Faccio, M., McConnell, J., & Stolin, D. 2006. Returns to acquirers of listed and unlisted targets. ***Journal of Financial and Quantitative Analysis***, 41: 197-220.

Fan, J., Wong, T. J., & Zhang, T. 2007. Politically connected CEOs, corporate governance and post-IPO performance of China's newly partially privatized firms. ***Journal of Financial Economics***, 84: 265–290.

Feigenbaum, H. B., & Henig, J. R. 1994. The political underpinings of privatization: a typology. ***World Politics***, 46: 185-208.

Festinger, L. 1954. A theory of social comparison processes. ***Human Relations***, 7: 117–140.

Finkelstein, S. 1992. Power in top management teams: dimensions, measurement, and validation. ***Academy of Management Journal***, 35: 505-538.

Finkelstein, S., & Haleblian, J. 2002. Understanding acquisition performance: the role of transfer effects. ***Organization Science***, 13: 36-47.

Fombrun, C. J. 1996. ***Reputation: Realizing value from the corporate image.*** MA: Harvard Business School Press.
Fombrun, C. J., & Ginsberg, A. 1990. Shifting gears: Enabling and disabling forces on change in corporate posture. ***Strategic Management Journal,*** 11: 297-308.
Fombrun, C. J., & Shanley, M. 1990. What's in a name? Reputation building and corporate strategy. ***Academy of Management Journal,*** 33: 233-258.
Foss, K., & Foss, N. J. 2005. Resources and transaction costs: how property rights economics furthers the resource-based view. ***Strategic Management Journal,*** 26: 541-553.
Freeman, R. E. 1984. ***Strategic management: A stakeholder approach***. Boston: Pitman Press.
Friedman, M., & Friedman, R. 1990/1979. ***Free to choose: A personal statement***. San Diego, CA: Harcourt Brace & Company.
Fuller, K., Netter, J., & Stegemoller, M. 2002. What do returns to acquiring firms tell us? Evidence from firms that make many acquisitions. ***The Journal of Finance,*** 57: 1763-1793.
Garcia-Canal, E., & Guillen, M. F. 2008. Risk and the strategy of foreign location choice in regulated industries. ***Strategic Management Journal,*** 29: 1097-1115.
Garnaut, R., Song, L., & Yao, Y. 2006. Impact and significance of state-owned enterprise restructuring in China. ***The China Journal***: 35-63.
Geletkanycz, M. A., Boyd, B. K., & Finkelstein, S. 2001. The strategic value of ceo external directorate networks: implications for CEO compensation. ***Strategic Management Journal,*** 22: 889-898.
Geletkanycz, M. A., & Hambrick, D. C. 1997. The external ties of top executives: Implications for strategic choice and performance. ***Administrative Science Quarterly,*** 42: 654-681.
Gerber, T. P. 2002. Structural change and post-socialist stratification: labor market transitions in contemporary Russia. ***American Sociological Review,*** 67: 629-659.
Gerber, T. P., & Hout, M. 1998. More shock than therapy: market transition, employment, and income in Russia, 1991-1995. ***American Journal of Sociology,*** 104: 1-50.
Ghemawat, P. 1991. ***Resources and strategy: An IO perspective***. Mimeo: Harvard Business School.
Graebner, M. E. 2009. Caveat venditor: Trust asymmetires in acquisitions of entreprenurial firms. ***Academy of Management Journal,*** 52: 435-472.
Graffin, S., & Ward, A. 2010. Certifications and Reputation: determining the standard of desirability amidst uncertainty. ***Organization Science,*** forthcoming.
GrantThorntonInternational. 2008. ***The International Business Report 2008***: Experian Business Strategies.
Green, S. B. 1991. How many subjects does it take to do a regression analysis? ***Multivariate Behavioral Research,*** 26: 499-510.
Guillén, M. F. 2000. Business groups in emerging economies: a resource-based view. ***Academy of Management Journal,*** 43: 362-380.
Gulati, R. 1995. Social structure and alliance formation pattern: a logitudinal analysis. ***Administrative Science Quarterly,*** 40: 619-652.
Gupta, A. K., & Lad, L. J. 1983. Industry self-regulation: an economic, organizational, and political analysis. ***Academy of Management Reivew,*** 8: 416-425.

Guriev, S., & Rachinsky, A. 2005. The role of oligarchs in Russian capitalism. ***Journal of Economic Perspectives***, 19: 131-150.
Haleblian, J., Devers, C. E., McNamara, G., Carpenter, M. A., & Davison, R. B. 2009. Taking stock of what we know about mergers and acquisitions: a review and research agenda. ***Journal of Management***, 35: 469-502.
Haleblian, J., & Finkelstein, S. 1999. The influence of organizational acquisition experience on acquisition performance: a behavioral learning perspective. ***Administrative Science Quarterly***, 44: 29-56.
Hambrick, D. C., & Finkelstein, S. 1987. Managerial discretion: a bridge between polar views on organizations. In L. L. Cummings & B. M. Staw (Eds.), ***Research in Organizational Behavior*** (Vol. 9, pp. 369-406). Greenwich, CT: JAI Press.
Hannan, M. T., & Freeman, J. 1984. Structural inertia and organizational change. ***American Sociological Review***, 49: 149-164.
Harriss, J., Hunter, J., & Lewis, C. M. 1995. ***The new institutional economics and third world development***. London: Routledge.
Haspeslagh, P. C., & Jemison, D. B. 1991. ***Managing acquisitions: Creating value through corporate renewal***. New York: Free Press.
Hatch, N. W., & Dyer, J. H. 2004. Human capital and learning as a source of sustainable competitive advantage. ***Strategic Management Journal***, 52: 1155-1178.
He, Y. 2009. ***Post-acquisition management in China***. Oxford: Chandos Publishing.
Heil, O., & Robertson, T. S. 1991. Toward a theory of competitive marekt signaling: a research agenda. ***Strategic Management Journal***, 12: 403-418.
Henisz, W. J. 2000. The institutional environment for multinational investment. ***Journal of Law, Economics and Organization***, 16: 334-364.
Henisz, W. J. 2003. The power of the Buckley and Casson thesis: the ability to manage institutional idiosyncrasies. ***Journal of International Business Studies***, 34: 173-184.
Heron, R., & Lie, E. 2002. Operating performance and the method of payment in takeovers. ***Journal of Financial and Quantitative Analysis***, 37: 137-155.
Hey, J. R., & Shleifer, A. 1998. Private enforcement of public laws: a theory of legal reform. ***American Economic Review***, 88: 398-403.
Higgins, M. C., & Gulati, R. 2006. Stacking the deck: the effects of top management backgrounds on investor decisions. ***Strategic Management Journal***, 27: 1-25.
Higgs, R. 1987. ***Crisis and Leviathan***. New York: Oxford University Press.
Hillman, A. J., & Hitt, M. A. 1999. Corporate political strategy formulation: a model of approach, participation, and strategy decisions. ***Academy of Management Review***, 24: 825-842.
Hillman, A. J., Keim, G. D., & Schuler, D. 2004. Corporate political activity: a review and research agenda. ***Journal of Management***, 30: 837-857.
Hillman, A. J., Zardkoohi, A., & Bierman, L. 1999. Corporate political strategies and firm performance: indications of firm-specific benefits from personal service in the US government. ***Strategic Management Journal***, 20: 67-81.
Hirsch, P. M., & Levin, D. Z. 1999. Umbrella advocates versus validity police: a life-cycle model. ***Organization Science***, 10: 199-121.
Hitt, M. A., Ahlstrom, D., Dacin, M. T., Levitas, E., & Svobodina, L. 2004. The institutional effects on strategic alliance partner selection in transition economies:

China vs. Russia. ***Organization Science***, 15: 173-185.

Hitt, M. A., Dacin, M. T., Levitas, E., Arregle, J.-L., & Borza, A. 2000. Partner selection in emerging and developed market contexts: Resource-based and organizational learning perspectives. ***Academy of Management Journal***, 43: 449-467.

Hitt, M. A., Harrison, J. S., & Ireland, R. D. 2001. ***Mergers and acquisitions: A guide to creating value for stakeholders***. US: Oxford University Press.

Hitt, M. A., Hoskisson, R. E., Johnson, R. A., & Moesel, D. D. 1996. The market for corporate control and firm Innovation. ***Academy of Management Journal***, 39: 1084-1119.

Hitt, M. A., Hoskisson, R. E., & Kim, H. 1997. International diversification: effects on innovation and firm performance in product-diversified. ***Academy of Management Journal***, 40: 767-798.

Hitt, M. A., Lee, H. U., & Yucel, E. 2002. The importance of social capital to the management of multinational enterprises: relational networks among Asian and Western firms. ***Asia Pacific Journal of Management***, 19: 353-372.

Holcomb, T. R., Holmes Jr, R. M., & Connelly, B. L. 2009. Making the most of what you have: managerial ability as a source of resource value creation. ***Strategic Management Journal***, 30: 457-485.

Hopkins, H. D. 1987. Acquisition strategy and the market position of acquiring firms. ***Strategic Management Journal***, 8: 535-547.

Hoskisson, R. E., Cannella, A., Tihanyi, L., & Faraci, R. 2004. Asset restructuring and business group affiliation in French civil law countries. ***Strategic Management Journal***, 25: 525–539.

Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. 2000. Strategies in emerging economies. ***Academy of Management Journal***, 43: 249-267.

Hoskisson, R. E., & Hitt, M. A. 1990. Antecedents and performance outcomes of diversification: a review and critique of theoretical performance. ***Journal of Management***, 16: 461-509.

Howell, R. A. 1970. Plan to integrate your acquisitions. ***Harvard Business Review***, 48: 66-76.

Ingram, P., & Sliverman, B. S. 2002. Introduction: The new institutionalism in strategic management. ***Advances in Strategic Management***, 19: 1-32.

Ivancevish, J. M., Schweiger, D. M., & Power, F. R. 1987. Strategies for managing human resources during mergers and acquisitions. ***Human Resource Planning***, 10: 19-35.

Jemison, D. B., & Sitkin, S. B. 1986. Corporate acquisitions: a process perspective. ***academy of management Reivew***, 11: 145-163.

Jensen, M. 1986. Agency costs of free cash flow, corporate finance, and takeovers. ***American Economic Review***, 76: 323–329.

Jensen, M., & Roeback, R. 1983. The market for corporate control: empirical evidence. ***Journal of Financial Economics***, 11: 5-50.

Jia, N. 2008. ***Political strategies in emerging economics***. Univeresity of Toronto, Toronto.

Kedia, B., Mukherjee, D., & Lahiri, S. 2006. Indian business groups: evolution and transformation. ***Asia Pacific Journal of Management***, 23: 559-577.

Kennedy, P. 1998. ***A guide to econometrics*** (4 ed.). Cambridge, MA: MIT Press.

Khanna, T., & Palepu, K. G. 1997. Why focused strategies may be wrong for emerging markets. ***Harvard Business Review***, 75: 41-51.

Khanna, T., & Palepu, K. G. 2000. Is group affiliation profitable in emerging markets? An analysis of diversified Indian business groups. ***Journal of Finance***, 55: 867-891.

Khanna, T., & Palepu, K. G. 2006. Emerging giants: building world-class companies in developing countries. ***Harvard Business Review***, 84: 2-10.

Khanna, T., Palepu, K. G., & Sinha, H. 2005. Strategies that fit emerging markets. ***Harvard Business Review***, June: 63-76.

Khanna, T., & Rivkin, J. W. 2001. Estimating the performance effects of business groups in emerging markets. ***Strategic Management Journal***, 22: 45-74.

Kihistrom, R. E., & Riordan, M. E. 1984. Advertising as a signal. ***Journal of Political Economy***, 92: 427-450.

Kim, J.-Y., & Finkelstein, S. 2009. The effects of strategic and market complementarity on acquisition performance: Evidence from the U.S. commerial banking industry, 1989-2001. ***Strategic Management Journal***, 30: 617-646.

King, D. R., Dalton, D. R., Daily, C. M., & Covin, J. G. 2004. Meta-analyses of post-acquisition performance: indications of unidentified moderators. ***Strategic Management Journal***, 25: 187-200.

Kirsch, D., Goldfarb, B., & Gera, A. 2009. Form or substance: the role of business plans in venture capital decision making. ***Strategic Management Journal***, 30: 487-515.

Klapper, L. F., & Love, I. 2004. Corporate governance, investor protection, and performance in emerging markets. ***Journal of Corporate Finance***, 10: 703-728.

Klein, B., Crawford, R., & Alchian, A. 1978. Vertical integration, appropriable rents, and the competitive contracting process. ***Journal of Law and Economics***, 21: 297-326.

Klein, B., & Leffler, K. 1981. The role of market forces in assuring contractual performance ***Journal of Political Economy***, 89: 615-641.

Knack, S., & Keefer, P. 1997. Does social capital have an economic pay off? A cross-country investigation. ***The Quarterly Journal of Economics***, 112.

Knight, J., & Yueh, L. 2008. The role of social capital in the labour market in China. ***Economics of Transition***, 16: 389-414.

Kogut, B., & Singh, H. 1988. The effect of national culture on the choice of entry mode. ***Journal of International Business Studies***, 19.

Kor, Y. Y. 2003. Experience-based top management team competence and sustained growth. ***Organization Science***, 14: 707–719.

Krishnan, H. A., Miller, A., & Judge, W. Q. 1997. Diversification and top management team complementarity: Is performance improved by merging similar or dissimilar teams? ***Strategic Management Journal***, 18: 361-374.

Laamanen, T., & Keil, T. 2008. Performance of serial acquirers: toward an acquisition program perspective. ***Strategic Management Journal***, 29: 663-672.

Lau, C. M. 2007. The first decade of the Asia Academy of Management. ***Asia Pacific Journal of Management***, 24: 401-410.

Lau, C. M. 2011. Team and organizational resources, strategic orientations, and firm performance in a transitional economy. ***Journal of Business Research***, In Press.

Law, K. S., Tse, D., & Zhou, N. 2003. Does human resource management matter in a transitional economy? China as an example. ***Journal of International Business Studies***, 34: 255-265.

Lee, G. K., & Lieberman, M. B. 2010. Acquisition vs. internal development as modes of market entry. ***Strategic Management Journal***, 31: 140-158.

Leung, K. 2007. The glory and tyranny of citation impact: an East Asian perspective. ***Academy of Management Journal***, 50.
Levitt, B., & March, J. G. 1988. Organizational learning. ***Annual Review of Sociology***, 14: 319-340.
Li, H., & Atuahene-Gima, K. 2000. The adoption of agency business activity, product innovation, and performance in Chinese technology ventures. ***Strategic Management Journal***, 23: 469–490.
Li, H., Meng, L., & Zhang, J. 2006. Why do entrepreneurs enter politics? Evidence from China. ***Economic Inquiry***, 44: 559-578.
Li, J. J. 2005. The formation of managerial networks of foreign firms in China: the effects of strategic orientations. ***Asia Pacific Journal of Management***, 22: 423-443.
Li, J. J., Zhou, K. Z., & Shao, A. T. 2009. Competitive position, managerial ties, and profitability of foreign firms in China: an interactive perspective. ***Journal of International Business Studies***, 40: 339-352.
Li, L., Lin, Z., & Arya, B. 2008. The turtle–hare race story revisited: social capital and resource accumulation for firms from emerging economies. ***Asia Pacific Journal of Management***, 25: 251-275.
Lieberthal, K. 1998. ***Governing China: From revolution through reform (Chinese version)***. Taipei: National Institute for Compliation and Translation.
Lin, J. Y., Cai, F., & Li, Z. 1998. Competition, policy burdens, and state-owned enterprise reform. ***American Economic Review***, 88: 422-427.
Lin, J. Y., Fang, C., & Zhou, L. 1996. Creating an environment for fair competition is the core of enterprise reform. In D. Xu & G. Wen (Eds.), ***Reform of state-owned enterprises in China***. Beijing: China Economics Press.
Lin, Z., Yang, H., & Arya, B. 2009. Alliance partners and firm peformance: resource complementarity and status association. ***Strategic Management Journal***, 30: 921-940.
Lins, K. V., & Servaes, H. 2002. Is corporate diversification beneficial in emerging markets? ***Financial Management***, 31: 5-31.
Lockett, A. 2005. Edith Penrose's legacy to the resource-based view. ***Managerial and Decision Economics***, 26: 83-98.
Lockett, A., & Thompson, S. 2001. The resource-based view and economics. ***Journal of Management***, 27: 723-754.
Lockett, A., Thompson, S., & Morgenstern, U. 2009. The development of the resource-based view of the firm: a critical appraisal. ***International Journal of Management Reviews***, 11: 9-28.
Logsdon, J. M. 1985. Organizational responses to environmental issues: Oil refining companies and air pollution. In L. Preston (Ed.), ***Research in corporate social performance and policy*** (Vol. 7, pp. 47-71). Greenwich, CT: JAI Press.
Loughran, T., & Vijh, A. M. 1997. Do long-term shareholders benefit from corporate acquisitions? ***Journal of Finance***, 52: 1765–1790.
Lounsbury, M., & Glynn, M. A. 2001. Cultural entrepreneurship: Stories, legitimacy, and the acquisition of resources. ***Strategic Management Journal***, 22.
Lubatkin, M. 1983. Merger and the performance of the acquiring firm. ***Academy of Management Review***, 8: 218-225.
Lubatkin, M., Schulze, W. S., Mainkar, A., & Cotterill, R. W. 2001. Ecological

investigation of firm effects in horizontal mergers. ***Strategic Management Journal***, 22: 335-357.

Luk, C.-L., Yau, O. H. M., Sin, L. Y. M., Tse, A. C. B., Chow, R. P. M., & Lee, J. S. Y. 2008. The effects of social capital and organizational innovativeness in different institutional contexts. ***Journal of International Business Studies***, 39: 589-612.

Luo, Y. 2002. Product diversification in international joint ventures: performance implications in an emerging market. ***Strategic Management Journal***, 23: 1-20.

Luo, Y. 2003. Industrial dynamics and managerial networking in an emerging market: the case of China. ***Strategic Management Journal***, 24: 1315-1327.

Luo, Y., & Peng, M. W. 1999. Learning to compete in a transition economy: experience, environment, and performance. ***Journal of International Business Studies***, 30: 269-296.

Mahon, J. 1989. Corporate political strategy. ***Business in the Contemporary World***, 2: 50-62.

Mahoney, J. T., & Pandian, J. R. 1992. The resource-based view within the conversation of strategic management. ***Strategic Management Journal***, 13: 363-380.

Maloney, M. T., McCormick, R. E., & Mitchel, M. L. 1993. Managerial decision making and capital structure. ***Journal of Business***, 66: 189-218.

Mantecon, T. 2008. An analysis of the implications of uncertainty and agency problems on the wealth effects to acquirers of private firms. ***Journal of Banking and Finance***, 32: 892-905.

Markides, C. C. 1995. Diversification, restructuring and economic performance. ***Strategic Management Journal***, 16: 101-118.

Markides, C. C., & Williamson, P. J. 1994. Related diversification, core competences and corporate performance. ***Strategic Management Journal***, 15: 149-165.

Markides, C. C., & Williamson, P. J. 1996. Corporate diversification and organizational structure: a resource-based view. ***Academy of Management Journal***, 39: 340-367.

Marks, M. L., & Mirvis, P. 1985. Merger syndrome: stress and uncertainty. ***Mergers and Acquisitions***, 20: 70-76.

Matsusaka, J. G. 1993. Takeover motives during the conglomerate merger wave. ***RAND Journal of Economics***, 24: 357-379.

Maurer, I., & Ebers, M. 2006. Dynamics of social capital and their performance implications: lessons from biotechnology start-ups. ***Administrative Science Quarterly***, 51: 262-292.

McDonald, M. L., & Westphal, J. D. 2003. Getting by with the advice of their friends: CEOs' advice networks and firms' strategic responses to poor performance. ***Administrative Science Quarterly***, 48: 1-32.

McDonald, M. L., Westphal, J. D., & Graenmer, M. E. 2008. What do they know? The effects of outside director acquisition expereince on firm acquisition performance. ***Strategic Management Journal***, 29: 1155-1177.

McMillan, H., & Woodruff, C. 1999. Dispute prevention without courts in Vietnam. ***Journal of Law, Economics and Organization***, 15: 637-658.

McMillan, J. 2002. ***Reinventing the bazaar***. New York: Norton.

McMillan, J. 2007. Market institutions. In L. Blume & S. Durlauf (Eds.), ***The New Palgrave Dictionary of Economics*** (2 ed.). London: Palgrave.

McNamara, G. M., Haleblian, J., & Dykes, B. J. 2008. The performance implications of

participating in an acquisition wave: early mover advantages, bandwagon effects, and the moderating influence of industry characteristics and acquirer tactics. ***Academy of Management Journal***, 51: 113-130.
Megginson, W. L., & Netter, J. M. 2001. From state to market: a survey of empirical studies on privatization. ***Journal of Economic Literature***, XXXIX: 321-389.
Meyer, K. E., & Peng, M. W. 2005. Probing theoretically into central and eastern Europe: transactions, resources, and institutions. ***Journal of International Business Studies***, 36: 600–621.
Michelson, E. 2007. Lawyers, political embeddedness, and institutional continuity in China's transition from socialism. ***American Journal of Sociology***, 113: 352-414.
Miller, D., & Shamsie, J. 1996. The resource-based view of the firm in two environments: The Hollywood film studios from 1936 to 1965. ***Academy of Management Journal***, 39: 519-543.
Mintzberg, H. 1973. ***The nature of managerial work***. New York: Harper & Row.
Mintzberg, H., Raisinghani, D., & Théorêt, A. 1976. The structure of unstructured decision processes. ***Administrative Science Quarterly***, 21: 246-275.
Mishina, Y., Pollock, T. G., & Porac, J. F. 2004. Are more resources always better for growth? Resource stickness in market and product expansion. ***Strategic Management Journal***, 25: 1179-1197.
Mitnick, B. 1993. Choosing agency & competition. In B. Mitnick (Ed.), ***Corporate political agency*** (pp. 1-12). Newbury Park, CA: Sage.
Montinola, G., Qian, Y., & Weingast, B. R. 1995. Federalism, Chinese style: the political basis for economic success in China. ***World Politics***, 48: 50-81.
Nahapiet, J., & Ghoshal, S. 1998. Social capital, intellectual capital, and the organizational advantage. ***Academy of Management Review***, 23: 242-266.
Nahavandi, A., & Malekzadeh, A. R. 1988. Acculturation in mergers and acquisitions. ***Academy of Management Reivew***, 13: 79-90.
Nee, V. 1992. Orgainzational dynamics of market transition: hybrid forms, property rights and mixed economy in China. ***Administrative Science Quarterly***, 37: 1-27.
Nee, V. 1996. The emergence of a market society: changing mechanisms of stratification in China. ***American Journal of Sociology***, 101: 908-949.
Nevitt, C. E. 1996. Private business associations in China: evidence of civil society or local state power. ***The China Quarterly***, 36.
North, D. C. 1990. ***Institutions, institutional change, and economic performance***. Cambridge: Cambridge Universty Press.
Nunnally, J. C. 1978. ***Psychometric theory*** (2 ed.). New York: McGraw Hill.
Oi, J. C. 1992. Fisical reform and the economic foundations of local state corporatism in China. ***World Politics***, 45: 99-126.
Oi, J. C. 1995. The role of the local state in China's transitional economy. ***The China Quarterly***, 144: 1132-1149.
Olie, R. 1994. Shades of culture and institutions in international mergers. ***Organization Studies***, 15: 381-405.
Oliver, C. 1991. Strategic responses to institutional processes. ***Academy of Management Review***, 16: 145-179.
Oliver, C. 1997. Sustainable competitive advantage: combining institutional and resource-based view. ***Strategic Management Journal***, 18: 697-713.

Orlitzky, M., Schmidt, F. L., & Rynes, S. L. 2003. Corporate social and financial performance: a meta-analysis. ***Organization Studies***, 24: 403-441.

Ozkaya, M., & Askari, H. 1999. Management of newly privitized companies: its importance and how little we know. ***World Development***, 27: 1097-1114.

Pablo, A. L. 1994. Determinants of acquisition integration level: a decision-making perspective. ***Academy of Management Journal***, 37: 803-836.

Pablo, A. L., Sitkin, S., & Jemison, D. B. 1996. Acquisition decision-making processes: the central role of risk. ***Journal of Management***, 22: 723-746.

Pagano, M., Panetta, F., & Zingales, L. 1998. Why do companies go public? An empirical analysis. ***Journal of Finance***, 53: 27-64.

Palepu, K. 1985. Diversification strategy, profit performance, and the entropy measure. ***Strategic Management Journal***, 6: 239-255.

Palich, L. E., Cardinal, L. B., & Miller, C. C. 2000. Curvilinearity in the diversification-performance linkage: an examination of over three decades of research. ***Strategic Management Journal***, 21: 155-174.

Parish, W. L., & Michelson, E. 1996. Politics and markets. ***American Journal of Sociology***, 101: 1041-1059.

Park, S. H., & Luo, Y. 2001. Guanxi and organizational dynamics: organizational networking in Chinese firms. ***Strategic Management Journal***, 22: 455-477.

Parvinen, P., & Tikkanen, H. 2007. Incentive asymmetries in the mergers and acquisitions process. ***Journal of Management Studies***, 44: 759-787.

Pearson, M. M. 1997. ***China's new business elites: The political consequences of economic reform***. Berkeley and Los Angeles, California: University of California Press.

Pedhazur, E. J., & Schmelkin, L. P. 1991. ***Measurement, design, and analysis: An integrated approach***. Hilsdale, NJ: Erlbaum.

Peng, M. W. 2001a. How entrepreneurs create wealth in transition economies. ***Academy of Management Executive***, 15: 95-110.

Peng, M. W. 2001b. The resource-based view and international business. ***Journal of Management***, 6: 803-829.

Peng, M. W. 2003. Institutional transitions and strategic choices. ***Academy of management Reivew***, 28: 275-296.

Peng, M. W. 2006a. ***Global strategy***. MA: Thomson.

Peng, M. W. 2006b. Making M&A fly in China. ***Harvard Business Review***, 84: 26-27.

Peng, M. W., & Heath, P. S. 1996. The growth of the firm in planned economies in transition: institutions, organizations, and strategic choice. ***Academy of Management Journal***, 21: 492-528.

Peng, M. W., Lee, S., & Wang, D. 2005. What determines the scope of the firm over time? A focus on institutional relatedness. ***Academy of Management Review***, 30: 622-633.

Peng, M. W., & Luo, Y. 2000. Managerial ties and firm performance in a transition economy: the nature of a micro-macro link. ***Academy of Management Journal***, 43: 486-501.

Peng, M. W., Sun, S. L., Pinkham, B., & Chen, H. 2009. The institution-based view as a third leg for a strategy tripod. ***Academy of Management Perspectives***, 23: 63-81.

Pennings, J. M., Lee, K., & van Witteloostuijn, A. 1998. Human capital, social capital, and

firm dissolution. ***Academy of Management Journal***, 41: 425-440.

Penrose, E. 1995. ***The theory of the growth of the firm***. Oxford: Oxford University Press.

Petersen, T., & Koput, K. W. 1991. Density dependence in organizational mortality: legitimacy or unobserved heterogeneity. ***American Sociological Review***, 56: 399–409.

Pfeffer, J. S. 1982. ***Organizations and organization theory***. Boston: Pitman.

Pfeffer, J. S., & Salancik, G. R. 1978. The external control of organizations: a resource dependence perspective. In M. J. Handel (Ed.), ***The sociology of organizations: classic, contemporary, and critical readings*** (pp. 1-19). New York: Harper & Row.

Podolny, J. M. 1994. Market uncertainty and the social character of economic exchange. ***Administrative Science Quarterly***, 39: 458–483.

Podolny, J. M., & Stuart, T. E. 1995. A role-based ecology of technological change. ***American Journal of Sociology***, 100.

Poppo, L., & Zenger, T. 2002. Do formal contracts and relational governance function as substitutes or complements? ***Strategic Management Journal***, 23: 707-725.

Porter, M. E. 1980. ***Competitive strategy: Techniques for analyzing industries and competitors***. New York: The Free Press.

Porter, M. E. 1996. What is strategy? ***Havard Business Review***, 74: 61-78.

Portes, A. 1998. Social capital: Its origins and applications in modern sociology. ***Annual Review of Sociology***, 24: 1-24.

Post, J. E. 1978. ***Corporate behavior and social change***. Reston, VA: Reston Publishing Co.

Potter, P. B. 1999. The Chinese legal system: continuing commitment to the primacy of state power. ***The China Quaterly***, 159: 673-683.

Potter, P. B. 2001. ***The Chinese legal system-Globalization and local legal culture***. London: Routledge.

Powell, W. W. 1990. Neither market nor hierarchy: Network forms of organization. In B. Staw & L. L. Cummings (Eds.), ***Research in organizational behavior*** (Vol. 12, pp. 295-336). Greenwich, CT: JAI Press.

Priem, R. L., & Butler, J. E. 2001. Is the resource-based "view" a useful perspective for strategic management research? ***Academy of Management Journal***, 26: 22-40.

Puffer, S. M., & McCarthy, D. J. 2007. Can Russia's statemanaged, network capitalism be competitive? Institutional pull versus institutional push. ***Journal of World Business***, 42: 1-13.

Qian, Y., & Roland, G. 1998. Federalism and the soft budget constraint. ***American Economic Review***, 88: 1143-1162.

Ramamurti, R. 1992. Why are developing countries privatizing? ***Journal of International Business Studies***, 23: 225-249.

Rao, H. 1994. The social construction of reputation: certification contests, legitimation, and the survival of organizations in the American automobile industry, 1895-1912. ***Strategic Management Journal***, 15: 29-44.

Rao, H. 1998. Caveat emptor: the construction of non-profit consumer watchdog organizations. ***American Journal of Sociology***, 103: 912-961.

Rao, H., Davis, G. F., & Ward, A. 2000. Embeddedness, social identity and mobility: Why firms leave the NASDAQ and join the New York Stock Exchange. ***Administrative Science Quarterly***, 45: 268-295.

Raymo, J. M., & Xie, Y. 2000. Income of the urban elderly in postreform China: political capital, human capital, and the state. ***Social Science Research***, 29: 1-24.
Reed, K. K., Srinivasan, N., & Doty, D. H. 2009. Adapting human and social capital to impact performance: some empirical findings from the U.S. personal banking sector. ***Journal of Managerial Issues***, 21: 36-57.
Reed, R., & DeFillippi, R. J. 1990. Causal ambiguity, barriers to imitation, and sustainable competitive advantage. ***Academy of Management Review***, 15: 88-102.
Reuer, J. J. 2005. Avoiding lemons in M&A deals. ***MIT Sloan Management Review***, 46: 14-17.
Reuer, J. J., Shenkar, O., & Ragozzino, R. 2004. Mitigating risk in international mergers and acquisitions: the role of contingent payouts. ***Journal of International Business Studies***, 35: 19-32.
Rindova, V. P., & Fombrun, C. J. 1999. Constructing competitive advantage: the role of firm-constituent interactions. ***Strategic Management Journal***, 20: 691-710.
Rindova, V. P., Pollock, T. L., & Hayward, M. 2006. Celebrity firms: the social constriction of market popularity. ***Academy of Management Review***, 31: 50-71.
Ring, P. S., Bigley, G., D'Aunno, T., & Khanna, T. 2005. Perspectives on how governments matter. ***Academy of Management Review***, 30: 308-320.
Ring, P. S., Lenway, S. A., & Govekar, M. 1990. Management of the political imperative in international business. ***Strategic Management Journal***, 11: 141-151.
Riordan, M. H., & Williamson, O. E. 1985. Asset specificity and economic organization. ***International Journal of Industrial Organization***, 3: 365-378.
Rona-Tas, A. 1994. The first shall be last? Entrepreneurship and communist cadres in the transition from Socialism. ***American Journal of Sociology***, 100: 40-69.
Roure, J. B., & Keeley, R. H. 1990. Predictors of success in new technology-based ventures. ***Journal of Business Venturing***, 5: 201-220.
Rui, H., & Yip, G. S. 2008. Foreign acquisitions by Chinese firms: a strategic intent perspective. ***Journal of World Business***, 43: 213-226.
Rumelt, R. P. 1974. ***Strategy, structure and economic performance***. Cambridge, MA: Harvard University Press.
Sanchez, R. A. 1995. Strategic flexibility in product competition. ***Strategic Management Journal***, 16: 135–159.
Saxton, T. 1997. The effects of partner and the relationship characteristics on alliance outcomes. ***Academy of Management Journal***, 40: 443-461.
Sayrs, L. W. 1989. ***Pooled time series analysis***. Newbury Park, CA: Sage.
Scherer, F. M. 1980. ***Industrial market structure and economic performance***. Boston, MA: Houghton Mifflin Company.
Schmalensee, R. 1985. Do markets differ much? ***American Economic Review***, 75: 341-351.
Schweiger, D. M., & DeNisi, A. S. 1991. Communication with employees following a merger: a longitudinal field experiment. ***Academy of Management Journal***, 34: 110-135.
Scott, W. R. 1995. ***Institutions and organizations***. Thousand Oaks, CA: Sage.
Scott, W. R. 2001. ***Institutions and organizations*** (2 ed.). Thousand Oaks, CA: Sage.
Seth, A. 1990. Value creation in acquisitions: a re-examination of performance issues. ***Strategic Management Journal***, 11: 99-116.

Shelton, L. M. 1988. Strategic business fits and corporate acquisition: empirical evidence. ***Strategic Management Journal***, 9: 279-287.
Shleifer, A., & Vishny, R. 1994. Politicians and firms. ***Quarterly Journal of Economics***, 109: 995-1025.
Shleifer, A., & Vishny, R. 1998. ***The grabbing hand: Government pathologies and their cures***. Cambridge, MA: Harvard University Press.
Shrivastava, P. 1986. Postmerger integration. ***Journal of Business Strategy***, 7: 65-76.
Siegel, D. S., & Simons, K. L. 2010. Assessing the effects of mergers and acquisitions on firm performance, plant productivity, and workers: new evidence from matched employer-employee data. ***Strategic Management Journal***, 31: 903-916.
Singh, H., & Montgomery, C. A. 1987. Corporate Acquisition Strategies and Economic Performance. ***Strategic Management Journal***, 8: 377-386.
Sirmon, D. G., Gove, S., & Hitt, M. A. 2008. Resource management in dyadic competitive rivalry: the effects of resource bundling and deployment. ***Academy of Management Journal***, 51: 919-935.
Sirmon, D. G., Hitt, M. A., & Ireland, R. D. 2007. Managing firm resources in dynamic environments to create value: Looking inside the black box. ***Academy of Management Reivew***, 32: 273-292.
Song, J. H. 1982. Diversification strategies and the experience of top executives of large firms. ***Strategy Management Journal***, 3: 377-380.
Spence, A. M. 1973. Job market signaling. ***Quarterly Journal of Economics***, 87: 355-379.
Stark, D. 1996. Recombinant property in east European capitalism. ***American Journal of Sociology***, 101: 993-1027.
Stigler, G. J. 1962. Information in the labor market. ***Journal of Political Economy***, 70: 49-73.
Sullivan, M. 1990. Measuring image spillovers in umbrella branded products. ***Journal of Business***, 63: 309-329.
Sun, Q., & Tong, W. H. S. 2003. China share issue privatization: the extent of its success. ***Jounal of Financial Economics***, 70: 183–222.
Sutton, R. I., & Callahan, A. L. 1987. The stigma of bankruptcy: spoiled organizational image and its management. ***Academy of Management Journal***, 30: 405-436.
Szelenyi, I., & Kostello, E. 1996. The market transition debate: toward a synthesis? ***American Journal of Sociology***, 101: 1082-1096.
Thomke, S., & Kuemmerle, W. 2002. Asset accumulation, interdependence and technological change: evidence from pharmaceutical drug discovery. ***Strategic Management Journal***, 23: 619-635.
Thomson-SDC. 2007. ***Thomson-Securities data corporation SDC platinum database***. New York.: Thomson Financial.
Thun, E. 2006. ***Changing lanes in China: Foreign direct investment, local governments, and auto sector development***. New York: Cambridge University Press.
Tian, Z., Gao, Y., & Wei, W. 2003. A study of political tactics and behavior of China's enterprises. ***Management World***, 12: 98-127.
Treadway, D. C., Adams, G. L., Ranft, A. L., & Ferris, G. R. 2009. A meso-level conceptualization of CEO celebrity effectiveness. ***The Leadership Quarterly***, 20: 554-570.
Tsai, W., & Ghoshal, S. 1998. Social capital and value creation: the role of intrafirm

networks. ***Academy of Management Journal***, 41: 464-476.
Tsui, A. S., Schoonhoven, C. B., Meyer, M. W., Lau, C. M., & Milkovich, G. T. 2004. Examining organizations and management in periods of societal transformation: The People's Republic of China. ***Organization Science***, 15: 133–144.
Uhlenbruck, K., Meyér, K. E., & Hitt, M. A. 2003. Organizational transformation in transition economies: resource-based and organizational learning perspectives. ***Journal of Management Studies***, 40: 257-283.
Uhlenbruck, N., & De Castro, J. 1998. Privatization from the acquirer's perspective: a mergers and acquisitions based framework. ***Journal of Management Studies***, 35: 619-640.
Uzzi, B. 1997. Social structure and competition in interfirm networks: the paradox of embeddedness. ***Administrative Science Quarterly***, 42: 35-67.
Vermeulen, F., & Barkema, H. 2002. Pace, rhythm, and scope: process dependence in building a profitable multinational corporation. ***Strategic Management Journal***, 23: 637–653.
Voss, G. B., Sirdeshmukh, D., & Voss, Z. G. 2008. The effects of slack resources and environmental threat on product exploration and exploitation. ***Academy of Management Journal***, 51: 147-164.
Wade, R. 2004. ***Governing the market: Economic theory and the role of government in East Asian industrialization***. Princeton, New Jersey: Princeton University Press.
Walder, A. G. 1995. Local government as industrial firms: an organizational analysis of China's transitional economy. ***American Journal of Sociology***, 101: 263-301.
Walder, A. G. 1996. Markets and inequality in transitional economics. ***American Journal of Sociology***, 101: 1061-1073.
Walder, A. G. 2003. Elite ppportunity in transitional economies. ***American Sociological Review***, 68: 899-916.
Walsh, J. P. 1988. Selectivity and selective perception: an investigation of managers' belief structures and information processing. ***Academy of Management Journal***, 31: 873-896.
Walter, A. A. 1987. Ownership and efficiency in urban buses. In S. H. Hanker (Ed.), ***Prospects for privatization*** (pp. 83-92). New York: Academy of Political Science.
Wan, W. P. 2005. Country resource environments, firm capabilities, and corporate diversification strategies. ***Journal of Management Studies***, 42: 161-182.
Washington, M., & Zajac, E. J. 2005. Status evolution and competition: theory and evidence. ***Academy of Management Journal***, 48: 282–296.
Wei, W. 2006. Corporate political resource, political strategy and political performance and their relationship in China. ***Management World***, 2: 95-109.
Wellman, B., Chen, W., & Dong, W. 2002. Networking guanxi. In T. Gold, D. Guthrie & D. Wank (Eds.), ***Social connections in China: Institutions, culture, and the changing nature of guanxi*** (pp. 221–241). New York, NY: Cambridge University Press.
Wernerfelt, B. 1984. A resource-based view of the firm. ***Strategic Management Journal***, 5 171-180.
Westphal, J. D. 1999. Collaboration in the boardroom: behavioral and performance consequences of CEO-board social tdies. ***Academy of Management Journal***, 42: 7-24.

Westphal, J. D., & Zajac, E. J. 1998. The symbolic management of stockholders: corporate governance reforms and shareholder reactions. ***Administrative Science Quarterly***, 43: 127-153.

Williamson, O. E. 1975. ***Markets and hierarchies: Analysis and antitrust implications***. New York: Free Press.

Williamson, O. E. 1981. The economics of organization: the transaction cost approach. ***American Journal of Sociology***, 87: 548-577.

Williamson, O. E. 1983. Credible commitments: using hostages to support exchange. ***American Economic Review***, 73: 519-540.

Williamson, O. E. 1985. ***The economic institutions of capitalism***. New York: Free Press.

Wilson, R. 1985. Reputations in games and markets. In A. E. Roth (Ed.), ***Game-theoretic models of bargaining*** (pp. 27-62). Cambridge, UK: Cambridge University Press.

Wright, M., Filatotchev, I., Hoskisson, R. E., & Peng, M. W. 2005. Guest editors' introduction strategy research in emerging economics: Challenging the conventional wisdom. ***Journal of Management Studies***, 42: 1-33.

Wright, M., Hoskisson, R. E., Filatotchev, I., & Buck, T. 1998. Revitalizing privatized Russian enterprises. ***Academy of Management Executive***, 12: 74-85.

Wu, W., Wu, C., & Liu, X. 2008. Political connection and market valuation: evidence from China individual-controlled listed firms. ***Economic Research Journal***, 7: 130-141.

Wu, X., & Xie, Y. 2003. Does the market pay off? Earnings returns to rducation in urban China. ***American Sociological Review***, 68: 425-442.

Xin, K., & Pearce, J. L. 1996. Guanxi: connections as substitutes for formal institutional support. ***Academy of Management Journal***, 39: 1461-1568.

Xu, D., Zhou, C. H., & Phan, P. H. 2010. A real options perspective on sequential acquisitions in China. ***Journal of International Business Studies***, 41: 166-174.

Yarrow, G. 1986. Privatization in theory and practice. ***Economic Policy***, 2: 324-377.

Yip, G. S. 1982. Diversification entry: internal development vs. acquisition. ***Strategic Management Journal***, 3: 331-345.

Yiu, D. W., & Lau, C. M. 2007. Corporate entrepreneurship as resource capital configuration in emerging market firms. ***Entrepreneurship Theory and Practice***, 32: 37-57.

Yoo, J. W., Reed, R., Shin, S. J., & Lemak, D. J. 2009. Strategic choice and performance in late movers: influence of the top management team's external ties. ***Journal of Management Studies***, 46: 308-335.

Zahra, S. A., Ireland, R. D., Gutierrez, I., & Hitt, M. A. 2000. Privitization and entrepreneurial transformation: emerging issues and a future research direction. ***Academy of Management Reivew***, 25: 509-524.

Zajac, E. J., & Westphal, J. D. 1995. Accounting for the explanations of CEO compensation: substance and symbolism. ***Administrative Science Quarterly***, 40: 283–308.

Zhou, X. 2000. Economic transformation and income inequality in urban China: evidence from panel data. ***American Journal of Sociology***, 105: 1135-1174.

Zollo, M., & Meier, D. 2008. What is M&A performance? ***Academy of Management Perspectives***, 22: 55-77.

Zott, C., & Huy, Q. N. 2007. How entrepreneurs use symbolic management to acquire resources. ***Administrative Science Quarterly***, 52: 70-105.