IMPACT OF INSTITUTIONAL ENVIRONMENT AND PYRAMIDAL LAYER ON COMPLETION OF CHINESE SOES' MIXED-OWNERSHIP TRANSACTIONS

Heng Yang

Panyapiwat Institute of Management, Nonthaburi, Thailand
University of Finance and Economics, Guizhou, China

Jianfeng Wu

University of International Business and Economics, Beijing, China

Bin Liu

University of International Relations, Beijing, China

This paper utilizes Chinese SOEs that undertake mixed-ownership transactions in 2019 as its research objects and discusses the impact of institutional environment (including the degree of marketization and governmental hierarchy) on the completion of mixed-ownership transactions. In addition, this study explores the moderating effect of pyramidal layer and the munificence of payment on the above relationships. The empirical results show that the main effect hypothesis is supported. Furthermore, pyramidal layer weakens the positive

Heng Yang

Ph.D. Candidate, Chinese Graduate School, Panyapiwat Institute of Management, Nonthaburi, Thailand

Research interest: strategic management

E-mail: 150165608@qq.com

Jianfeng Wu

Lecturer, Business School, University of International Business and Economics, Beijing, China

Research interest: strategic management

E-mail: 150165608@qq.com

Bin Liu

Lecturer, Department of International Economics, University of International Relations, Beijing, China

Research interest: strategic management

E-mail: 150165608@qq.com

correlation between the marketization and the completion of mixed-ownership transactions, and strengthens the negative correlation between governmental hierarchy and the completion of mixed-ownership transactions. The munificence of payment has no significant moderating effect on the relationship between marketization and completion of mixed-ownership transactions; however, it weakens the negative correlation between the governmental level and the completion of mixed-ownership transactions.

Keywords: degree of marketization; governmental hierarchy; pyramidal layer; mixed-ownership transactions

Introduction

Mixed-ownership reform of Chinese SOEs has attracted wide attention since 2017. For instance, China Unicom initiated mixed-ownership reforms with Baidu, Alibaba, Tencent, and JD.com, the Big Four strategic investors in Chinese Internet in 2017. Consequently, its revenues and profits have sharply increased, and the financial performance has been greatly improved. On the other hand, although Chinese central and local State-owned Assets Supervision and Administration Commissions (SASAC) have been pushing the mixed-ownership reform of SOEs in the recent years, since the real situation with these transactions is not satisfactory. According to a summary of China's 35 large state-owned equity exchanges in 2019, the completion of SOEs' mixed-ownership transactions accounted for only 50% of the total (Liu, 2019).

So how to improve the success probability of mixed-ownership reform of state-owned enterprises is a question worth investigating. This paper focuses on SOEs that undertake mixed-ownership transactions (as disclosed by China's four major property rights exchanges) in 2019, studying how SOEs can successfully attract private capital and achieve success in mixed-ownership reform transactions. Based on the institutional theory, the principal-agent theory and the transaction cost theory, it discusses the impact of institutional environment (including the degree of marketization and governmental hierarchy), pyramidal layer and the munificence of payment on the completion of mixed-ownership transactions.

Theoretical Basis & Hypothesis

After reviewing the relevant literature, this study notices that transaction completion is a commonly used dependent variable in the mergers and acquisitions (M&As) field (Dikova et al., 2010; Xie & Zhang, 2013; Zhang et al., 2011). This paper introduces this construct with the completion of mixed-ownership transactions as the dependent variable. At the SOE side, the mixed-ownership reform is about selling equity, and from the side of private capital- it is the acquisition of equity. This involves the related research of M&A. The relevant theoretical background from the perspectives of M&As and the mixed-ownership reform will be discussed as follows.

Completion of transaction in the M&A area

Till now, only a few studies have explored the issue of the mixed-ownership transactions completion in China. The existing literature mainly discusses the factors affecting the completion of M&A transactions. For instance, Nicolopoulos (2005) analyzed

IMPACT OF INSTITUTIONAL ENVIRONMENT

how national cultural differences affect the completion of cross-border M&As by analyzing the data from the Globe project of House et al. (2004). In general, scholars carry out research on the influencing factors behind M&A transaction completion based mainly on the institutional theory and the organizational learning theory (Dikova et al., 2010; Xie et al., 2013; Zhang et al., 2011; Li et al., 2017).

Dikova et al. (2010) found that formal and informal institutions can explain the completion of overseas M&As through their research on cross-border M&As in the service industry.

Marketization degree and completion of transactions

Regulation, norms and cognition are three institutional pillars proposed by (Scott, 1995). Among them, regulation provides clear guidelines for organizations through rules, controls, incentives and sanctions. And regulation is closely related to institutional pressure (Scott, 1995).

Based on this, Chinese scholars have carried out a series of studies on Chinese degree of marketization and SOEs' reforms. Chinese SOEs are distributed across geographic regions with varying degrees of marketization (Fan et al., 2011), which means that the mixed-ownership reform of SOEs may be affected by different degrees of marketization.

The studies have shown that the higher the degree of marketization in the region where SOEs are located, the weaker the motivation of government to intervene in SOEs (Cai & Zheng, 2018), and the more likely the government tends to give up absolute control over SOEs.

Thus, marketization boosts the mixed-ownership transaction process in a region, and facilitates the completion of mixed-ownership transactions. On the contrary, in the regions with low degree of marketization, local governments tend to internalize their own social goals and performance requirements into SOEs operations, which hinder the process of mixed-ownership reform of SOEs in the jurisdiction and reduce the possibility of smooth completion of such reforms. Based on the above reasoning, this study draws the following hypothesis:

H1 : The higher the degree of marketization in the region where SOEs are located, the greater the probability of the completion of mixed-ownership transactions.

Governmental hierarchy & completion of transactions

According to the institutional theory, firms operate in a specific institutional environment. In order to adapt to the institutional environment in which it is located, enterprises will make certain decisions and follow certain behaviors to achieve the purpose of seeking advantages and avoiding disadvantages (Suchman, 1995). Chinese SOEs tend to be subordinate to certain levels of government, which constitutes the specific institutional environment for them. The already existing studies have found that there are certain differences between the enterprises controlled by the central government and the local ones at different levels (Xia et al., 2007).

This paper holds that the higher the government level that a SOE is affiliated with, the more political demand and control imposed on the SOE, and the less incentive the private parties will have to participate in the reform. Therefore, higher government hierarchy reduces the probability of the completion of mixed-ownership transactions.

On the contrary, when a SOE is affiliated with a lower level of governments, such a government's economic appeal will outweigh its political appeal. Accordingly, this SOE is more likely to possess more authorization and decentralization, which attracts more private capital to participate in the mixed-ownership transactions and enhances the probability of transaction completion. Based on the above reasoning, this study draws the following hypothesis:

H2 : The higher level of government a SOE is affiliated with, the lower the probability of completion of mixed-ownership reform transaction.

The moderate effect of pyramidal layer

Pyramid ownership structure is common in Chinese SOEs, through which the government controls and influences all types of subordinate enterprises. Fan et al. (2013) believed that Chinese SOEs adopt pyramid structures in order to reduce government's intervention. In other words, there is a negative correlation between the motivation of China's government to intervene in SOEs and the pyramidal layer. The underlying logic is that pyramid ownership structure can help enterprises effectively isolate themselves from the government's control and intervention. However, with the increase of the pyramid hierarchy, the insider control problem of managers at the bottom enterprises is likely to emerge (He & Yu, 2010).

H1 proposes that the higher the degree of marketization in the region where the SOEs are located, the more likely the mixed-ownership transaction is to be achieved. This paper argues that the pyramidal layer has both the effects of reducing government intervention and that of strengthening insider controls.

When the layer of the pyramid is few, the effect of government intervention will be more prominent, and the supervision and control of insiders is relatively easy. Within such a context, as the degree of marketization increases, the probability of the completion of mixed-ownership transactions by SOEs will rise as well. On the other hand, when there are many layers in the pyramid, the bottom enterprises themselves have stronger market operation abilities and are less affected by government's intervention.

Subsequently, the degree of marketization of the external environment will not have a particularly obvious positive effect on the completion of transactions. In addition, the more levels in a pyramid structure, the more serious the insider control problem of the bottom enterprises will be, which hinders the completion of transactions. Based on the above reasoning, this study draws the following hypothesis:

H3 : Pyramidal layer weakens the positive relationship between the degree of marketization and the completion of mixed-ownership transactions.

H2 proposes that the higher the level of government, the lower the probability of the completion of mixed-ownership transactions. In other words, the completion rate of mixed-ownership transactions of SOEs under the central and provincial governments is low; meanwhile, completion of mixed-ownership transactions of SOEs under the municipal, county and lower, local governments is high. In this case, if SOEs have more layers of the pyramid, the bottom enterprises experience less government's interference, and more independent powers, which weakens the negative impact of the government level on the completion of transactions. On the contrary, if SOEs have fewer pyramid layers, the higher the government level is, the stronger the administrative intervention will be, which is not

IMPACT OF INSTITUTIONAL ENVIRONMENT

conducive to the completion of transactions. Based on the above reasoning, this study draws the following hypothesis:

H4 : The pyramid layer weakens the negative relationship between the government level and the completion of mixed-ownership transactions.

The moderate effect of the munificence of payment

The mixed-ownership transactions of SOEs are carried out through the equity exchange market, which generally requires cash payments for such transactions. Usually, when the transaction scale is large, and the payment method is restricted, the equity acquirer tends to bear high transaction costs.

Even if a firm's cash flow is relatively adequate and undertakes low costs and risks of financial debts, a large amount of immediate cash payout still leads to a reduction in other investments, and increases the opportunity costs of the enterprise. On the other hand, if the equity acquirer with a strong financing ability can collect enough cash through debt financing, it must bear the cost of interest and the potential risks.

Therefore, strict payment requirements reduce the probability of completion of the mixed-ownership transactions by SOEs. Given a fixed amount of transaction payments, if the equity acquirer is allowed to pay in installments (several times), it will be more convenient to prepare cash resources in advance. So the munificence of payment conditions will reduce transaction costs of the equity acquirer, thus improving the probability of completion of the mixed-ownership transactions. Based on the above reasoning, this study draws the following hypotheses:

H5 : The munificence of payment strengthens the positive relationship between the degree of marketization and the completion of mixed-ownership transactions.

H6 : The munificence of payment weakens the negative relationship between the governmental hierarchy and the completion of mixed-ownership transactions.

Based on the above assumptions, Fig. 1 summarizes this study's theoretical framework.

Figure 1 – Theoretical framework of the study
(made by the authors)

Research Design

Research Sample

This study has draws its sample from four major equity exchanges in China — Beijing, Shanghai, Tianjin and Chongqing. The data on SOEs that participated in mixed-ownership transactions disclosed in 2019 has been collected manually.

The total of 1237 equity transfer transactions was included in this study.

Measurement

Dependent Variables

The dependent variable in this paper is the completion of mixed-ownership transactions of SOEs, which is measured by a dummy variable (DONE), with 1 indicating that the mixed-ownership transaction of SOE was completed, and 0 indicating no completion.

Independent Variables

This paper measures the degree of marketization (MTI) by the index from the Report on Marketization Index of Chinese Provinces. Even though the report was published back in 2018, the index was rather stable over the recent years, so it is acceptable to use the 2018 data.

Relying on the categorization method by (Xia & Chen, 2007) and (Lu, 2014), SOEs directly under or subordinate to the central government, ministries and commissions were defined as the central enterprises, with the value of 4; SOEs directly under or subordinate to provincial governments are defined as provincial enterprises, with the value of 3; SOEs directly under or subordinate to municipal governments are defined as municipal enterprises, with the value of 2; SOEs affiliated with county level and below are measured as 1. GOVH stands for the governmental hierarchy in the table.

Moderating Variables

There are two moderators in this study: pyramidal layer (PYRH) and payment munificence (WAY). Pyramidal layer has been measured here by the number of corporate hierarchies between the ultimate controller and the SOE: the direct control is 1, and the highest level of a pyramidal layer is 11. Munificence of payment refers to the conditions required to pay the price after the agreement of mixed-ownership transaction is reached. For a one-time payment, WAY is measured as 0; for installment payment the value is 1; and the multiple payment is measured as 2.

Control Variables

The control variables in this study include the transferred shares of SOEs, premium, number of shareholders, firm's age, firm's size, and the location of equity exchanges (Beijing, Shanghai, Tianjin, or Chongqing). The formula of transaction premium is as follows:

$$\text{PREM} = (2018 \text{ net assets} \times \text{fraction of shares} - \text{transfer price}) / \text{transfer price}.$$

Number of shareholders in a SOE is disclosed by the four equity exchanges. Firm's age is operationalized as the difference between 2019 and the firm's founding year. Firm's size is

IMPACT OF INSTITUTIONAL ENVIRONMENT

calculated by the natural logarithm of the total assets of state-owned enterprises disclosed by equity exchanges. Considering the regional differences of the equity exchange, this study included three dummy variables: Beijing, Shanghai, and Tianjin. Chongqing Exchange is treated as the default value.

Data Analysis and Findings

Descriptive Statistics

Tab. 1 presents the descriptive statistical results of this study. As shown in Table 1, the average value of transaction completion is 0.508, with the standard deviation of 0.500. This indicates that 50.8% of the SOEs' mixed-ownership transactions were completed as listed in the four major equity exchanges in 2019. The descriptive results are basically consistent with those obtained in (Liu, 2019).

The average value of marketization degree of SOEs is 8.170, thus indicating that the sampled enterprises are located in the regions with a relatively higher degree of marketization.

They operate mainly in Beijing, Shanghai, Tianjin, Jiangsu, Zhejiang, Fujian, Guangdong and other highly market-oriented economic developed regions. The average value of hierarchy of the government is 3.645, with the standard deviation of 0.599, thus suggesting that the majority of SOEs are subsidiaries of central enterprises. The average value of a pyramidal layer is 4.814, with the standard deviation of 1.114. This shows that most SOEs are subordinate companies at the fifth layer of business groups.

Table 1 - Descriptive Statistics
(made by the authors)

Variable	N	Mean	SD	Min	Max
DONE	1,188	0.508	0.500	0.000	1.000
TMI	1,197	8.170	1.684	1.000	9.97
GOVH	1,187	3.645	0.599	1.000	4.000
PYRH	1,187	4.814	1.114	2.000	10.000
WAY	1,186	0.078	0.281	0.000	2.000
SHARET	1,198	0.409	0.287	0.00003	1.000
PREM	1,176	0.149	4.210	-97.433	47.927
NSHHOLDER	1,194	3.476	2.540	1.000	11.000
AGE	1,188	13.024	8.321	1.000	40.000
SIZE	1,034	9.138	2.361	1.770	19.280
BJEX	1,198	0.563	0.496	0.000	1.000
SHEX	1,198	0.277	0.448	0.000	1.000
TJEX	1,198	0.076	0.265	0.000	1.000

Correlation Analysis

Tab. 2 presents the correlation coefficients of the key variables in this study. As shown in Tab. 2, the completion of mixed-ownership transactions has a significant negative correlation with the fraction of shares, the age of SOEs and the Tianjin equity exchange. The regression model is further tested by the expansion factor VIF; the average inflation factor of all the variables is 1.595, thus indicating that there is no serious multicollinearity problem in the regression.

Table 2 - Correlation Analysis (1)
(made by the authors)

	DONE	TMI	GOVH	PYRH	WAY	SHARET	PREM
DONE	1.000						
TMI	0.106*	1.000					
GOVH	-0.047	-0.236*	1.000				
PYRH	-0.007	-0.051	0.155*	1.000			
WAY	0.011	-0.037	0.025	0.004	1.000		
SHARET	-0.101*	-0.148*	0.002	0.038	0.100*	1.000	
PREM	-0.046	0.019	0.026	-0.027	0.029	-0.009	1.000

*p<5%.

Table 3 - Correlation Analysis (2)
(made by the authors)

	NSHHOLDER	AGE	SIZE	BJEX	SHEX	TJEX
NSHHOLDER	1.000					
AGE	0.123*	1.000				
SIZE	0.209*	0.022	1.000			
BJEX	0.072*	-0.101	-0.089	1.000		
SHEX	0.151*	0.123*	0.101*	-0.702*	1.000	
TJEX	0.097	0.038	0.029	-0.325*	-0.178*	1.000

*p<5%.

Regression Analysis

STATA14.0 software has been used as the main analytical tool for logistic regression in this research. Table 3 lists the statistical results of the logistic regression with the completion of mixed-ownership transactions as the dependent variable. Among them, Model 1 is the basic model, which includes all control and moderating variables; Model 2 adds the degree of marketization of the region where state-owned enterprises are located, along with the governmental hierarchy.

As shown in Tab. 4, when the explanatory variables of marketization and government hierarchy are added, the explanatory power of the whole model has increased significantly (extraction of the square root 23.52, p<0.001).

IMPACT OF INSTITUTIONAL ENVIRONMENT

Thus, the degree of marketization and governmental hierarchy of SOEs can well explain the completion of mixed-ownership transactions.

In model 2, the regression coefficient of marketization degree is 0.169, which is significant at 0.01 level. This indicates that there is a significant positive correlation between the degree of marketization and the completion of mixed-ownership transactions.

Thus, H1 is supported by the empirical evidence. In other words, the more marketized the region where SOEs are located, the more developed the related product and factor markets, and the better enforcement of the legal system.

Accordingly, enterprises in the region, no matter whether they are state-owned or private, will try to follow the rule of market mechanisms. When SOEs attempt to introduce strategic investors to achieve the goal of mixed-ownership transactions, private enterprises are likely to participate actively, thus improving the completion probability.

The regression coefficient of the governmental hierarchy is -0.235, which is significant at the 0.05 level. This is consistent with the hypothesis, i.e., the governmental hierarchy is negatively correlated with the probability of completion. Therefore, H2 is also supported by the empirical evidence. This suggests that the higher the hierarchy of government a SOE belongs to, the more supervision and control it is subjected to, which is not conducive to its mixed reform.

As shown in Table 3, Model 3 adds the moderating effects of pyramidal layers and the munificence of payment on the relationship between the degree of marketization and the completion of mixed-ownership transactions respectively.

The regression coefficient of the interaction term between pyramidal layer and marketization degree is -0.078, which is significant at the 0.05 level. It indicates that a pyramidal layer weakens the positive relationship between the degree of marketization and the completion of mixed-ownership transactions. Therefore, H3 is empirically supported. As previously discussed in this paper, with the increase in the number of SOE pyramidal layers, although the government intervention is effectively isolated, the agency cost of insider control increases.

Therefore, the more layers of the pyramid, the less likely SOEs at the bottom of the pyramid are to complete a mixed-ownership transaction. The regression coefficient of the product of munificence of payment and the degree of marketization is -0.135, but not statistically significant. Thus, H5 is not supported by the empirical evidence. The latter shows that the decline of transaction costs caused by the munificence of payment does not moderate the relationship between the degree of marketization and the completion of mixed-ownership transactions.

Model 4 in Tab. 3 adds the moderating effects of pyramidal layers and the munificence of payment on the relationship between the governmental hierarchy and the completion of mixed-ownership transactions respectively. The regression coefficient of the interaction term between pyramidal layer and governmental hierarchy is 0.166, which is significant at the 0.1 level. This indicates that a pyramidal layer weakens the negative relationship between governmental hierarchy and the completion of mixed-ownership transactions.

In addition, the regression coefficient of the interaction term between the munificence of payment and the governmental hierarchy is 0.950, which is significant at the 0.05 level. Thus, the munificence of payment weakens the negative relationship between governmental hierarchy and the completion of mixed-ownership transactions.

In other words, the negative impact of government hierarchy on the completion of mixed reform transactions only exists when the terms of payment are very restrictive. On the contrary, when payment terms are relatively loose, the negative effect of government hierarchy on the completion of mixed-ownership transactions was significantly weakened. Therefore, H6 is supported by the empirical results.

Robustness

In order to assure the preciseness and stability of the research findings, this study carried out some additional robustness tests. The first method is to remove the 100% equity transfer cases, thus resulting in 931 samples.

Secondly, the selected samples were limited to the state-owned enterprises that participated in the mixed exchange only at Beijing equity exchange, then 567 samples were obtained.

Thirdly, the measure of the governmental hierarchy of SOEs is changed from the original 1-4 to a dummy variable measure, in which the central enterprise is 0 and the non-central enterprise is 1. The empirical results are relatively consistent with the original model. This shows that the statistical results of this research model are relatively stable.

Conclusions and Discussion

This study combines the perspectives from the institutional theory, agent theory and transaction cost theory to investigate the impact of institutional factors on the completion of SOEs' mixed-ownership transactions. Using SOE transactions listed by four Chinese major equity exchanges in 2019, it identifies a number of important factors affecting the process of mixed-ownership transactions. Through a series of empirical tests, all hypotheses, except H5, are thus supported. Therefore, this study derives three major conclusions as follows.

First, this study finds the impact of the degree of marketization and the government layer on the completion of mixed-ownership transactions. The higher the degree of marketization in the region where focal SOEs are located, the more likely it is to complete mixed-ownership transactions. This shows that SOEs in the eastern, central and western regions are located at different levels of marketization, the results and meanings of mixed-ownership transactions are different. In addition, this study has also found that the governmental hierarchy is negatively correlated with the completion of mixed-ownership transactions. Top-level government tends to control and interfere with their affiliated SOEs, creating obstacles for the completion of their transactions. In contrast, the lower the level of local government, such as municipal and county governments and even below, the more urgent desire there is to develop the local economy, and the higher enthusiasm there is to participate in the transactions.

Second, the pyramidal layer attenuates two main effects. This shows that SOE executives are another key factor in mixed-ownership transactions. The introduction of private shareholders in the mixed-ownership reform infers that current managers are likely to be replaced. If such reforms harm the vital interests of SOE executives, they are likely to become obstacles for the transactions, thus reducing the completion probability of the transactions.

IMPACT OF INSTITUTIONAL ENVIRONMENT

Table 4 - Regression of the impact on completion of mixed-ownership transactions
(made by the authors)

	Model 1	Model 2	Model 3	Model 4
TMI × PYRH	—	—	-0.078** (0.037)	—
TMI × WAY	—	—	-0.135 (0.147)	—
GOVH × PYRH	—	—	—	0.166* (0.101)
GOVH × WAY	—	—	—	0.950** (0.408)
TMI	—	0.169*** (0.043)	0.182*** (0.043)	0.166*** (0.043)
GOVH	—	-0.235** (0.118)	-0.212* (0.119)	-0.179 (0.125)
PYRH	0.010 (0.059)	0.031 (0.062)	0.036 (0.061)	0.028 (0.062)
WAY	0.074 (0.243)	0.094 (0.252)	0.065 (0.252)	0.029 (0.256)
SHARET	-1.056*** (0.273)	-0.912*** (0.280)	-0.910*** (0.281)	-0.951*** (0.282)
PREM	-0.024* (0.013)	-0.022 (0.014)	-0.022 (0.014)	-0.022 (0.014)
NSHHOLDER	-0.032 (0.031)	-0.035 (0.032)	-0.034 (0.033)	-0.033 (0.032)
AGE	-0.016* (0.008)	-0.016* (0.008)	-0.016* (0.008)	-0.017* (0.009)
SIZE	-0.071** (0.029)	-0.053* (0.030)	-0.048 (0.030)	-0.053* (0.030)
BJEX	0.405* (0.241)	0.529** (0.248)	0.502** (0.030)	0.615** (0.255)
SHEX	0.314 (0.258)	0.309 (0.262)	0.267 (-0.264)	0.369 (-0.267)
TJEX	-1.169*** (0.368)	-1.340*** (0.365)	-1.386*** (0.367)	-1.224*** (0.371)
Constant	1.148*** (0.405)	0.874** (0.413)	0.850** (0.412)	-0.803* (0.416)
Observations	1,016	1,016	1,016	1,016
Wald x2(d.f.)	54.37(10)	77.89(12)	83.13(14)	87.74(14)
Log likelihood	-672.060	-659.808	-657.312	-656.151

***p<1%; ** p<5%; * p<10%.

Third, the munificence of payment weakens the negative correlation between the governmental hierarchy and the completion of mixed-ownership transactions. It shows that relatively loose payment methods can reduce transaction costs and thus improve the probability of transactions completion. On the contrary, strict payment requirements increase the transaction costs and reduce the probability of the transactions completion.

Limitations and Prospects

There is a number of limitations associated with this study. This study has only been using the cross-sectional data as of 2019; future studies can extend the time frame, collecting data for several years. In addition, except for the equity exchange, SOEs can also carry out mixed-ownership reforms through initial public offerings or inviting strategic investors. Therefore, further study can focus on other methods of conducting mixed-ownership reforms.

References

- Cai, G. L. & Zheng, G.J. (2018). Decentralization and Mixed-ownership reform in China. *Economic Research Journal*, 53(09): 99-115.
- Dikova, D., Sahib, P.R. & Witteloostuijn, A. (2010). Cross-border Acquisition Abandonment and Completion: The Effect of Institutional Differences and Organizational Learning in the International Business Service Industry, 1981-2001. *Journal of International Business Studies*, 41(2): 223-245.
- Fan, J.P.H., Wong, T.J. & Zhang, T. (2013). Institutions and Organizational Structure: The Case of State-Owned Corporate Pyramid. *The Journal of Law, Economics, and Organization*, 29(6): 1217-1252.
- He, Q.Y. & Yu, W.C. (2017). Pyramid Hierarchy, Government Decentralization and Agency Costs of State-Owned Enterprises. *Contemporary Finance & Economics*, 08: 69-78.
- House, R.J., Hanges, P.J., Javidan, M., Dorfman, P.W. & Gupta, V. (Eds.). (2004). *Culture, leadership, and organizations: The GLOBE study of 62 societies*. Sage publications.
- Li, J., Xia, J. & Lin, Z.Y. (2017). Cross-border Acquisition by State-owned Firms: How Do legitimacy Concerns Affect the Completion and Duration of Their Acquisitions? *Strategic Management Journal*, 38: 1915–1934.
- Liu, B. (2019). *Characteristics and New Year Trend Outlook of the Mixed Reform of Chinese SOEs Enterprises in 2019*. Available online at: https://www.sohu.com/a/367339869_454096.
- Lu, D. (2014). Political Achievement Demands of Local Government, Government Control Right and Corporate Value. *Economic Research Journal*, 49: 56-69.
- Nicolopoulos, V. (2005). *National culture compatibility and merger and acquisition performance*. City University of New York.
- Scott, W.R. (1995). *Institutions and organizations*. Sage Publications, Thousands Oaks.

IMPACT OF INSTITUTIONAL ENVIRONMENT

- Suchman, M.C. (1995a). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20(3): 571-610.
- Suchman, M.C. (1995b). Localism and globalism in institutional analysis: the emergence of contractual norms in venture finance. In: W. R. Scott and S. Christensen (eds), *The institutional construction of organizations* (39-63). Thousands Oaks, CA: Sage.
- Xia, L.J. & Chen, X.Y., (2007). Marketization, SOE Reform Strategy, and Endogenously Determined Corporate Governance Structure. *Economic Research Journal*, 7: 82-95.
- Xie, Y., Yi, H.S., & Zhang, Y. (2013). The value of Big N target auditors in corporate takeovers. *Auditing: A Journal of Practice & Theory*, 32(3): 141-169.
- Zhang, J., Zhou, C., & Ebbers, H. (2011). Completion of Chinese overseas acquisitions: Institutional perspectives and evidence. *International Business Review*, 20(2): 226-238.

<i>Paper submitted</i>	<i>11 January 2021</i>
<i>Paper accepted for publishing</i>	<i>17 February 2021</i>
<i>Paper published online</i>	<i>30 September 2021</i>