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DOI: https://doi.org/10.5465/amj.2015.0698

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Citation
GREVE, Henrich R. and ZHANG, Cyndi Man. Institutional logics and power sources: Merger and acquisition decisions. (2017). *Academy of Management Journal*. 60, (2), 671-694. Research Collection Lee Kong Chian School Of Business.
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2017, Vol. 60, No. 2, 671–694.
https://doi.org/10.5465/amj.2015.0698

INSTITUTIONAL LOGICS AND POWER SOURCES: MERGER AND ACQUISITION DECISIONS

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Institutional theory has explained the greater prevalence of many strategic actions by increases in their legitimacy over time, but it has not explained how firms choose among actions backed by competing institutional logics. We address this topic by linking institutional logics with the theory of organizational coalitions and power to predict how such choices are affected both by external influence (through ownership) and by internal influence (through shared decision making). In particular, we analyze how the old state socialism logic and the new market capitalism logic competed to influence Chinese firms' mergers and acquisitions (M&As). We find that these institutional logics affected M&A decisions via the coalitions committed to each logic—coalitions whose balance of power reflected the external power source of ownership and the internal power source of board representation. We also find that each coalition's strength changed as the market capitalism logic became more established during China's economic transition, and that investors viewed M&As by firms with high state ownership skeptically.

INTRODUCTION

A firm's use of power to make choices is a common theme in the theory of decision making (Cyert & March, 1963; Pfeffer & Salancik, 1978). However, this theme is often countered by research emphasizing how the behavior of firms is driven by institutionalization in that uncertainty is resolved via mimetic behavior (DiMaggio & Powell, 1983). Such institutional effects on firms' decisions have been documented in merger waves (Haleblian, McNamara, Kolev, & Dykes, 2012; Stearns & Allan, 1996), technology adoption (Greve, 2011; Simon & Lieberman, 2010), and market entry (Ethiraj & Zhu, 2008; Haveman, 1993). Yet decision-making theory is still important because, even though institutions drive some behavior, they also enable firms to make different kinds of choices when actions that are discouraged by one institutional regime are more accepted or encouraged by another (Ahmadjian & Robinson, 2001; Peng, 2003; Thornton, 1995). Institutional change triggers the use of power in decision making precisely because established and new behaviors are in contention.

The increased recognition of the firm's options even in institutional environments has led to work that examines how firm goals (Lounsbury, 2007) and power structures (Durand & Jourdan, 2012) influence the adoption of a particular course of action. This issue is central to research on institutional logics, which are belief systems that provide rationales for organizational goals and actions and that help initiate such strategic actions as acquisitions (Friedland & Alford, 1991; Thornton, 1995; Thornton, Ocasio, & Lounsbury, 2012). It is not unusual for multiple institutional logics to coexist, in which case the firm is faced with conflicting goals and prescriptions for behavior. Thus firms often must not only adapt to a new institutional environment but also distinguish among the relative merits of multiple logics (Battilana & Dorado, 2010; Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011), each with unique consequences for firm strategy and actions. There is a need for theory to address firms' strategic choices in an environment characterized by multiple institutional logics (Kim, Kim, & Hoskisson, 2010; Yiu, Hoskisson, Bruton, & Lu, 2014). In this paper, we develop such theory and make three contributions: (1) we develop decision-making theory that incorporates choices among actions supported by contesting institutional logics; (2) we extend the theory of logics to consider the power sources of each contesting logic;

We thank Michael Lounsbury, Mauro Guillen, Laurence Capron, and seminar participants at INSEAD, the BPS Dissertation Consortium at the Academy of Management Annual Conference, three reviewers, and Laszlo Tihanyi for their helpful comments on this paper.

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and (3) we examine the power struggle among the coalitions involved in decision making as a driver of shifts in the firm's institutional logic.

When institutional environments enable multiple but conflicting actions, a key issue is how—in decision-making groups—the advocates of each action affect the decision that is made (e.g., Chin, Hambrick, & Treviño, 2013; Lounsbury, 2001). Resolving this issue is facilitated by viewing firm decision making as the result of management coalitions and power struggles. Many decisions are based on coalitions built from advocates of an action who agree on it for different reasons (Cyert & March, 1963), with the result that organizations become markets for influence and control in which internal coalitions are built to resolve the multiple incompatible demands of powerful external actors (Pfeffer & Salancik, 1978). This influence can be seen as a negotiation between, on the one hand, external stakeholders (with varying amounts of power) seeking to control management and, on the other hand, management seeking to maintain its control (Hill & Jones, 1992).

In this paper, we aim to predict firm behavior by linking institutional logics with arguments predicated on coalitions and their relative power. One advantage of this approach is that it leads directly to the questions of how best to identify: (1) the advocates of a logic who form a coalition; (2) the goals of each coalition; and (3) the power held by the coalition. These issues are seldom examined thoroughly by other theoretical viewpoints. For example, research that views firm behavior as determined by the institutional environment typically ignores decision making, and research that views decision making as driven mainly by cognitive factors usually fails to consider the sources and use of power (Wry, Cobb, & Aldrich, 2013). To predict the outcomes of contested decisions backed by coalition power, we examine certain strategic actions that—despite being encouraged and/or facilitated by institutional change—remain controversial because of conflict between followers of competing institutional logics (Friedland & Alford, 1991; Thornton & Ocasio, 1999). We predict the decisions that are ultimately made based on variables describing the strength of each coalition built by the advocates of one of the institutional logics.

The context we chose for our study is the transitional period of the Chinese enterprise system from state control (with societal goals) to increasing private control (with profitability goals). That period featured conflicting institutional logics advocated by various sources of power, and the contest of these logics evolved with the institutionalization of a more market-oriented economy (Yiu et al., 2014). This period has provided the context for many studies (Bruton, Peng, Ahlstrom, Stan, & Kehan, 2015) that focus on the behavior of state-owned enterprises (SOEs), but an important aspect of this economic transition that is often overlooked is the many privately-owned enterprises entering the economy while the SOEs were being (partially) privatized. In this environment, firms with a diverse governance structure were exposed to both of the contesting logics. This provides us with the opportunity to study the competing institutional logics of state socialism and market capitalism in both private enterprises (listed on the stock market and with no state ownership) and partially-privatized SOEs (listed but not entirely independent of state ownership).

This paper proceeds by first considering how a theory of coalitions in decision making can help predict firm-level behavior influenced by institutional logics. Institutional logics embody value judgments that affect the choice of goals; they can also connect a coalition of decision makers with sources of support that increase its power and thereby affect the firm's decisions (Thornton et al., 2012). After describing the empirical context and discussing in some depth institutional logics, we introduce our outcome variable—namely, mergers and acquisitions (M&As). That outcome was often in dispute because the decision not only was strategically important for the firm, but it also involved weighing societal against managerial goals. We then develop several hypotheses about the effect of coalition power on M&A rates and about the evolution of that effect during China's transitional period. We also predict how the stock market reacts differently to M&As by firms with different types of predominant coalitions. Our empirical analysis shows that institutional logics affected M&A decisions through the coalitions committed to each logic; those coalitions exhibited a strong tendency to reflect either the external power of ownership or the internal power of representation on the board of directors.

INSTITUTIONAL EFFECTS ON COALITIONS

A central assumption underlying this work is that the firm is neither completely independent nor completely governed by external influences (e.g., institutions); rather, firms are viewed as making choices in a complex environment that enables multiple actions, each favored by some groups but not others (Greenwood et al., 2011). The literature on

institutional logics holds that multiple logics often coexist—either in the form of an enduring accommodation or during the transition from an old to a new logic (Friedland & Alford, 1991; Lounsbury, 2007; Marquis & Lounsbury, 2007; Schneiberg & Soule, 2005). Each logic focuses attention on certain issues and solutions (Ocasio, 1997; Shipilov, Greve, & Rowley, 2010; Thornton & Ocasio, 1999), and the coexistence of multiple logics leads to external pressures on firms to choose actions that are consistent with one of them (Yiu et al., 2014). Firms must often make strategic decisions about whether or not to choose actions newly allowed by institutional change (Oliver, 1991; Peng, 2003).

An environment featuring many possible actions—as will be recommended by contesting logics—gives organizational decision making a prominent position in the theory, and if the logics in question make conflicting claims then the decision making that follows will be affected by the building and deployment of coalitions (Cyert & March, 1963). It is an essential insight of the power and coalition views of organizational decision making that both external and internal sources of power need to be considered (Wry et al., 2013). External sources of power are important because the organization depends on other actors for resources (Pfeffer & Salancik, 1978); internal sources of power are important because external actors have more influence when their views have internal backing (Hickson, Hinings, Lee, Schneck, & Pennings, 1971). This theory is well known, but it has not yet been extended to the case of choices involving contesting institutional logics. Our theoretical tasks are thus: (1) identifying the coalition most committed to each logic; (2) assessing their external power derived from supporters in the organizational environment; and (3) assessing their internal power within the key decision-making groups (Pfeffer & Salancik, 1978).

The existence of multiple institutional logics affects coalition dynamics and decision making in two ways. First, institutional logics incorporate assumptions, values, and beliefs (Thornton & Ocasio, 1999). This creates divergent views among decision makers subscribing to different—if not contradictory—goals and beliefs. As in any decision-making process, arguments will be used to promote the favored alternative; however, when pitted against others subscribing to a different institutional logic, such arguments will founder on the barrier that results from the conflicting assumptions and values embodied in the respective logics. When persuasion does not yield agreement, decision-making groups will likely resort to the use of power when seeking to resolve contested issues (Salancik & Pfeffer, 1974).

Second, an institutional logic exists because there are actors who share its assumptions and beliefs and who promote actions that are consistent with it. The powerful external actors backing institutional logics include the state (Greenwood, Díaz, Li, & Lorente, 2010) and investors (Durand & Jourdan, 2012; Shipilov et al., 2010). Internal decision makers (e.g., managers and directors) who subscribe to an institutional logic can invoke the support of those external backers as a source of power. Such power threats may be sufficient to settle a dispute, since most actors prefer resolutions that reflect their goals without triggering potentially harmful conflicts. Thus, the mechanism can be pressure from an external power source, the invoking of that power source by internal decision makers, or the actual use of power. Yet the expected result is the same: greater power backing an institutional logic makes actions compatible with that logic more likely to occur.

In particular, wielding power takes the form of assembling coalitions that include decision makers favoring the same logic and others who can be convinced (Emerson, 1962). The theory of decision-making coalitions was developed by Cyert and March (1963), who explain how the existence of multiple goals implies that decisions are not contests between fixed groupings (as in, for example, the case of contesting political parties). Instead, decisions in such circumstances involve alternatives that differ along several dimensions; in this case, then, coalitions can be formed by uniting decision makers who agree on a given alternative. Thus a key feature of the coalition perspective on decision making is its reluctance to assume that the parties responsible for the decision are clearly divided into opposing camps. Rather, each coalition is viewed as attempting to increase its influence by allying with a greater number of decision makers over a specific issue.

Many decisions are so complex that some decision makers favor one side and some the other even as some decision makers are sympathetic to both sides and others are uncommitted. Decision makers committed to a logic try to influence uncommitted and ambivalent members with their persuasion and arguments. This strategy is required because those committed to a specific logic—or, more specifically, to action(s) endorsed by that logic—do not always constitute the majority of a decision-making group and hence must gain allies in order to achieve their favored outcome (Emerson, 1962). Neutral or ambivalent decision makers are inclined to adopt the

view most commonly held by those who have chosen a side (Hastie & Kameda, 2005; Kuran & Sunstein, 1999; Mackie, 1986); this dynamic results in the chosen alternative being one that is favored by a large (though possibly still minority) coalition (Zhu, 2013). Thus, a greater commitment to a particular institutional logic by external sources of power or by internal decision-making parties should lead to a greater likelihood that the actions it advocates will be adopted.

Although the link between firm coalitions and institutional logics has not been emphasized in the literature, there is empirical work that has established some relevant findings. In the spreading new institutional logic of corporate board reform—which contested the older institutional logic of managerial control over the board—key drivers were firm ownership by reform-promoting investors affiliated with the organization and past adoption elsewhere of board reform practices (Shipilov et al., 2010). In the spread of a market finance logic in the French film industry, greater ownership of films by investment funds increased behaviors consistent with that logic (Durand & Jourdan, 2012). In transitional China, state-induced firm founding and state ownership hindered the adoption of strategic entrepreneurship in business groups (Yiu et al., 2014). This research suggests that institutional logics are most likely to penetrate a firm when they are backed by external power sources, such as ownership. Yet it is important to examine also the internal power sources that stem from the building of coalitions and increased representation in decision-making groups. There is evidence that a board structure consistent with the institutional logic of shareholder value is more likely to be adopted if the firm's board of directors favors this structure (Joseph, Ocasio, & McDonnell, 2014); similarly, a bank is more likely to follow the community banking logic if it is well represented in their founding team (Almandoz, 2014). In short, the external power of ownership and the internal power of board representation are both critical to any viable study of institutional logic penetration.

The specific decision outcome that we examine is M&As, which are seldom analyzed as a contest of institutional logics. The reason is that research on M&As typically examines market-based economies, where M&A activity is already viewed as being legitimate behavior—though less so in some industries than others (Thornton, 1995). Scholars have identified several drivers of M&As: economic motives (Montgomery, 1994; Teece, 1982), such as efficiently deploying resources (Anand & Singh, 1997; Capron, Dussauge, & Mitchell, 1998), or creating high returns (Capron & Pistre, 2002); and managers seeking to reduce their own employment risk (Amihud & Lev, 1981; Lane, Cannella, & Lubatkin, 1998). Exactly because M&As are economically crucial for firms, they are well suited to being analyzed as the consequence of coalition building and power use in decision making (e.g., Goranova, Dharwadkar, & Brandes, 2010). In the next section, we introduce the institutional logics of our study context, after which we develop theory-based hypotheses.

COMPETING LOGICS IN TRANSITIONAL CHINA

Since the 1980s, market reforms in China have changed the prevailing economic logic from state socialism—with societal goals pursued via state control and redistribution of resources—to market capitalism based on open markets and profit-seeking corporations (Nee, 1992; Peng & Heath, 1996). One of the principal reforms was reducing government control of the market through privatization of SOEs (Cuervo-Cazurra & Dau, 2009; Gupta, 2005), allowing the formation of partially-privatized firms and the entry of many private firms with no state involvement (García-Canal & Guillén, 2008; Hoskisson, Eden, Lau, & Wright, 2000). Although state ownership remains (Peng, 2003), the state has been transformed from sole owner to one shareholder among others in publicly-listed firms; nonetheless, the state retains substantial shareholdings and control (Fan, Wong, & Zhang, 2007; Peng, 2004). At the same time, rapid growth of the private sector and the increasing sophistication of such institutions as the stock market have spawned diverse ownership structures and organizational forms that are hosts to multiple institutional logics and power sources.

Despite the country's leadership seeking to leverage market mechanisms for purposes of economic development, the institutional logic of state socialism persists in part of the state. The state socialism logic is based on a redistributive economy (Szelenyi, 1978) whereby goods and services are channeled through firms to the state, which allocates resources back to firms and distributes output to consumers in line with its political and social objectives (Park, Li, & Tse, 2006). Under this logic, firms respond to central decisions made by government at the local, provincial, regional, and national levels. Firms are tasked with fulfilling government plans (Zhou, Tse, & Li, 2006), meeting production quotas in response to demand, and ensuring that the employment rate does not decline (Park & Ungson, 2001; Shleifer,

1998). So under state socialism, firms' strategic decisions are far from independent and are focused neither on profitability (Peng & Delios, 2006), innovation (Shleifer, 1998), nor competition (Shinkle & Kriauciunas, 2012); firm strategy instead reflects central planning and political connections (Shinkle & Kriauciunas, 2010). Even though this logic contradicts both the global trend toward a market orientation in emerging economies and China's post-1990 avowed goal of using market forces to strengthen its economy, there remain state actors who believe that state control and authority over firms are still necessary.

In contrast, the institutional logic of market capitalism regards firms as profit-maximizing entities that strive for economic efficiency through market exchange and competition. The firm is perceived as a bundle of assets whose true value is evaluated by the cash flows provided to shareholders—rather than by how much output it produces or how many workers it employs (Fligstein, 1990). Private ownership, property rights, and effective capital allocation are highly valued and protected. Shareholder interests are served by an established corporate governance and management system that has priority over the interests of other stakeholders (Davis & Stout, 1992). Under this logic, firms are entitled to make their own strategic choices and engage in market-based, arm's-length transactions (North, 1990; Peng, 2003). As compared with the case of state control, capitalist firms have more flexibility in dealing with demand and supply, are more empowered to search for market opportunities (Zhou et al., 2006), are far more likely to engage in entrepreneurial and innovative activities (Yiu et al., 2014), and make choices that are driven by market considerations (Peng & Heath, 1996).

Firms in China were initially dominated by state ownership (Hoskisson et al., 2000) as in state shares owned by central or provincial governments. These actors typically exercised power through the State-owned Assets Supervision and Administration Commission (SASAC).[1] The market transition led most firms to become partially privatized by offering so-called legal-person shares to private companies and (non-bank) financial institutions. During this transition, private firms entered the Chinese enterprise system in response to market capitalism's increasing prevalence in the state and in other firms. With the further refinement of financial institutions, both partially-privatized SOEs and private companies were allowed to be publicly listed on the stock market and to offer ordinary widely distributed shares to the general investment public. Because of differences in firm founding and privatization, listed firms can have either mixed state and private ownership or exclusive private ownership. The transition from the state socialism to the market capitalism institutional logic resulted in this duality of corporate governance, which needed to accommodate multiple coalitions that favored competing logics within the same firm and that contested for influence over firm decisions.

Firm ownership is a key source of power for each coalition advocating a contested institutional logic (Emerson, 1962; Xia, Ma, Lu, & Yiu, 2014). There are three main types of ownership: (1) state shares; (2) legal-person shares; and (3) ordinary shares. State shares are a remnant of the old state socialism logic and are controlled by entities and individuals less committed to market capitalism than are holders of the other two share types. That being said, one should not equate coalitions backing the state socialism logic with the state itself. This is because the state is not, in practice, a unified actor; it has plural and contradictory structures of authority with heterogeneous agencies and goals and hence the potential for internal conflict (Schneiberg & Bartley, 2001; Scott & Meyer, 1983). The state seeks both efficiency achieved via market action and the retention of state control, and different state actors prioritize these goals differently.

So on the one hand, the state employs market-based mechanisms to drive economic efficiency. Proponents of this logic initiate the shift in that direction while encouraging private investors to inject investment capital and to employ their financial and management expertise in the service of improving firm performance. On the other hand, the state retains its socialism logic of maintaining state control over the private sector. Proponents of this logic believe that firms should contribute to social welfare and should also maintain the balance of demand and supply in their respective industries. A coalition committed to these ideas will naturally seek to retain some control over firm decisions. Thus the state

[1] Since May 2003, state shares have been held by SASAC; this commission comprises several government agencies that mimic the Chinese administrative government's hierarchical structure across central, provincial, and local levels. SASAC was charged with establishing a "new state asset management system in which authority, duty, and responsibilities are united, and in which management of assets, personnel, and affairs is unified" (SASAC, 2006).

sector includes a coalition committed to state control and inclined to use the state shares for getting influence on firm decisions; it also includes a coalition committed to the logic of markets that promotes this viewpoint by allowing non-state shareholders, such as legal-person shareholders, to have an increased say in firm decisions by gaining share ownership. Hence higher remaining levels of state ownership indicate a more persistent state socialism institutional logic still existing in the firm whereas a high level of legal person ownership reflects greater acceptance of the market capitalism logic.

The depth of the market capitalism logic's penetration and the power of its proponent coalition are reflected by the firm's number of legal-person shares outstanding. These shares are owned by a limited set of private-sector actors—typically large block holders with a long-term strategic interest in the firm. These shareholders are committed to the market logic and are effective at monitoring firms and managerial activities; they can also coordinate to exert pressure. Legal persons are similar to the listed firms of more developed economies in how they are formed, governed, and managed (Delios & Wu, 2005), and they are well known for aligning the interests of management and shareholders while improving the governance process (D'Souza, Megginson, & Nash, 2005; Fan et al., 2007; Gupta, 2005). Yet because it was the state that created the possibility of legal-person shareholding, the involvement of such entities in a firm's ownership structure reflects not only the support of state socialism coalition actors who encourage market solutions but also the external power of coalition actors committed entirely to market institutions. Unlike the state, legal-person actors are not divided into two coalitions pursuing their respective logics; instead, their interests are fully aligned with the market logic. Finally, the third type of ownership is that granted by ordinary shares. Individuals who hold these shares generally have a relatively short-term interest in firm profitability; they are unable to pressure management by coordinating their interests, which means that they have the least power among all shareholder types.

Our hypotheses focus on the power of well-organized but opposing coalitions favoring either state socialism or market capitalism; those coalitions correspond to shares held by the state and by legal persons and their respective representation in the firm's internal decision making. These two shareholder groups can each be viewed as stakeholders that seek firm decisions in their favor. However, their ability to do so depends not only on the power due to ownership but also on their representation on the board of directors and their ability to turn that representation into the power to make decisions and monitor the firm (Hill & Jones, 1992). Yet it is important to recognize that management and board members who are not fully committed to either institutional logic also participate in the decision making—a condition that leads actors to influence decisions by building coalitions and using power (Cyert & March, 1963; Hill & Jones, 1992; Pfeffer & Salancik, 1978).

Contesting institutional logics have particular consequences for acquisitions. In the early stage of China's privatization process and stock market building, most M&As were initiated by the government and aimed at restructuring and enlarging the affected firms (Gaur, Malhotra, & Zhu, 2013). Such M&As were thus a form of coercive institutionalization (DiMaggio & Powell, 1983). M&As can be equated with the combination of two administrative units (firms) under state control; the goals of such activity include shedding unproductive assets, writing off debt, and gaining resources to strengthen firms for the privatization to follow. These practices were usually prescribed and supported by the state, which most often selected and matched both the acquirer and the target. Such state-initiated acquisitions fulfilled the state's objective of supervising the market and reconfiguring asset control so that the focal firms could thrive.

The Chinese stock market grew rapidly subsequent to enactment (on 1 July 1999) of the Securities Law, which formalized the issuance, listing, and trading of securities. The increasing influence of financial institutions and private investors pressured all listed firms to become more market oriented. As a result, state-initiated M&As gradually became less prominent among listed firms. Instead, market-oriented M&As driven by increasing influence of the market capitalism logic gained prominence and became common among listed firms. M&As were conducted both by listed partially-privatized SOEs and by listed private firms. Thus M&As under the market logic no longer represented a combination of units controlled by the state; instead they were instances of one firm seeking, as an independent actor, to acquire another firm and thus eliminate it. For the market capitalism coalition, M&As could be pursued for potential economic benefits and to cement the coalition power, as we will discuss later. During this stage of the transition, state-initiated acquisitions still occurred among listed firms owing to the

persistence of state control. These state-initiated acquisitions were excluded from our analysis because our paper's focus is on market-oriented M&As that reflect strategic decisions by firms—not state-initiated M&As that reflect the state's own objectives.

Market-oriented acquisitions are defined as acquisitions initiated by the firm. Their targets were firms believed to be capable of providing economic returns to the acquirer, and hence they are not motivated by state objectives, though they may still be done by partially-privatized SOEs. Much as in the context of a developed economy, these market-oriented M&As could result in the target's elimination as an independent firm and possibly in a reduction of employment (due to post-M&A integration) in both the acquiring and the target firm. M&As could also change a firm's competitive landscape, alter its operational efficiency, facilitate or disrupt synergy, and increase or decrease shareholder value—all depending on the quality of the M&A decision and implementation (Barney, 1988; Seth, 1990). The various possible outcomes of a market-oriented M&A make it a strategic and risky decision, so there can be a significant struggle between coalitions holding different logics and goals for the firm.

HYPOTHESES

The conflict in Chinese listed firms between decision makers committed to the state socialism and market capitalism logics triggers the use of power in M&A deliberations. Each coalition has its own goals, external sources of support, and internal participation in the decision making. As discussed previously, the friction between these coalitions forces decision makers to resolve conflicts through a combination of influence and power.

Goals of the State Socialism Logic

Two core goals dominate the agenda of the state socialism coalition, and both are integral to the corresponding institutional logic. The first goal is to preserve social and market stability (Frye & Shleifer, 1997; Nee, 1992), even though pursuing this goal may render the firm less profitable and may result in capital being used inefficiently (Wong, Opper, & Hu, 2004). The logic of socialism dictates that political control and stability must be unchallenged and that every individual economic gain must be weighed against the cost to other constituencies. The state socialism coalition cares mainly about political control of the country's economic lifelines. This goal is most prominent in strategic industries, which include the military, petroleum, telecommunications, and the construction of infrastructure; in these industries, the state socialism coalition typically retains formal ownership control and has the potential to strongly influence firm strategy (Du, Tang, & Young, 2012; Lenway & Murtha, 1994). Coalitions favoring state socialism also make sacrifices in efficiency to promote social welfare. For example, they pressure firms to maintain employment levels even if it means keeping redundant workers on the payroll (Boubakri, Cosset, & Saffar, 2008; Eden & Lenway, 2001; Scott, 2002; Walder, 1995). Proponents of the state socialism logic would rather execute M&As that are planned and administered by the state (Wang, 2014) than evaluate acquisition opportunities in the market, partly because of concerns about the possible negative effects of market-oriented M&As on local employment, on product market instability, and on the balance of relationships among major firms operating in related public and private sectors.[2] These concerns will lower the frequency of market-oriented M&As by firms with a higher level of state ownership, since those firms generally exhibit strong support for the institutional logic of state socialism.

The second core goal of a state socialism coalition is for the firm to contribute to increased gross domestic product (GDP) and thereby redistribute wealth for the benefit of the state's social welfare. As a corporate investment, M&As require strategic planning, evaluation of fit, risk assessment, deal execution, and integration. Yet coalitions that favor the state socialism logic seldom have much expertise in modern management theories or practice. So unless the state handles the matchmaking, it is difficult for that coalition to search for opportunities and to identify acquisition targets likely to increase revenue; this limitation discourages them from engaging in M&As that are not state initiated (Wang, 2014). The problems that M&As can create with respect to political and societal goals—when combined with a lack of experience in choosing market-oriented acquisition targets—make decision makers that subscribe to the state socialism logic skeptical of market-oriented M&As and less inclined to search actively for equity market opportunities or to consider them as strategic priorities. This reluctance does not entail an utter abandonment of market-oriented M&As, especially as such activity becomes a more accepted behavior (DiMaggio & Powell, 1983), but decision

[2] Recall that we omit state-initiated M&As from our data because they are not reflective of firm decision-making.

makers favoring the state socialism logic are much less likely to pursue such strategies.

Power of a State Socialism Coalition

An important aspect of a firm's decision making is that the group favoring a particular alternative will seek to build a coalition with other decision makers in order to extend the base of those subscribing to their views (Emerson, 1962; Xia et al., 2014). The power of a coalition favoring the state socialism logic derives from the remaining state ownership of the firm and the formal decision-making control that such ownership grants (Xia et al., 2014). Firms with high levels of state ownership are, as expected, more likely to reflect the logic of state socialism because their leadership includes individuals who are highly committed to that institutional logic and are aware of the power conferred by state ownership. For instance, the SASAC has the right to direct the strategy of affiliated firms and to approve major enterprise decisions. A state-appointed director of a listed firm with high state ownership put it this way:

> We don't just go and buy any firm. What if it doesn't work well? We have 300,000 employees nationwide to feed, a very heavy tax load, and now we are listed and subject to public observation. We don't want to spend a load of money to carry a burden home unless it is bridged by the government. That would be a different story. I would say we are more conservative in the equity market, because we have to be. [Translation of an interview conducted by C.M. Zhang.]

This statement well illustrates the values endorsed by proponents of the state socialism logic. It is both noteworthy and typical that this individual—a director of a firm owned in large part by the state—described the firm's view of M&As in a way that accords with the state socialism logic. We may speculate that the firm had other directors who subscribed to the logic of market capitalism, individuals who had different goals and who may well have been frustrated by their inability to pursue them in this environment. Even so, given state ownership as a power source we predict that firms with greater state ownership will be less likely to undertake M&As that are motivated by market considerations.

Hypothesis 1a. The higher a firm's proportion of state ownership, the less likely it is to engage in market-oriented M&As.

Ownership gives formal control rights over a firm, but exercising those external rights requires internal representation on the board of directors. The SASAC can appoint state employees to the boards of directors in its affiliated firms, but current state employees are not the only board members who have encountered or who advocate the state socialism logic; board members with past experience working for the state likewise allow the logic of state socialism to influence their decision making. This dynamic is complicated, however, by directors with state experience. Just as the state is beholden to conflicting logics, so too can directors be who are either former or current state employees. Previous research documents that even after leaving the state position, the exposure to the same ideology as state actors has a lingering effect on directors with state experience. For instance, Du et al. (2012: 1561) quote a SASAC official as follows: "Former governmental officials think like governmental officials even after joining boards of directors. They tend to approach questions from a macro-economic perspective, and from the industry-wide perspective. They understand to what extent the government wants to regulate the industry and why." Indeed, such personal attitude inertia is well known from other contexts (Kuran, 1988).

A second complication is the presence of directors with state experience in state-owned and private firms both; it is certainly possible that directors with state experience join the board of a listed private firm and continue to advocate the institutional logic of state socialism. These complications suggest that directors with state experience should not be viewed as promoting the state socialism logic only in firms with some degree of state ownership. After all, such directors may vary in their adherence to state socialism, and some may advocate applying it to the decisions of firms with no state ownership. In any event, it is probably safe to view directors with state experience as being more influenced by the logic of state socialism than other directors. Directors with state experience are especially powerful when they constitute a high proportion of the firm's board membership. Formally, we make the following prediction.

Hypothesis 1b. The higher a firm's proportion of board members with state experience, the less likely it is to engage in market-oriented M&As.

Goals of the Market Capitalism Logic

Two goals are essential to the market capitalism logic and hence to the decision makers that are committed to it. The first goal is value creation: firms

engage in long-term investment plans, search for alternative growth opportunities (Gaur et al., 2013), overcome barriers to market entry (Chang & Rosenzweig, 2001), seek to reduce the costs and risks associated with product development, and use M&A experiences to learn from other stakeholders. Such goals are consistent with market-oriented M&As, so these decision makers survey the marketplace for acquisition opportunities that could prove advantageous to the firm (Jemison & Sitkin, 1986). China's transition period offered ample opportunities in the form of firms with inefficient management practices but attractive product portfolios—an environment in which M&As are a promising strategy. Yet M&As are also risky, as documented in many studies that examine the considerable variance (and frequent decline) in post-merger performance (Moeller, Schlingemann, & Stulz, 2005; Seth, Song, & Pettit, 2002). A market capitalism coalition will advocate for market-oriented acquisitions whenever the opportunities seem to outweigh the risks.

The second goal of market capitalism is to exploit favorable momentum (Amburgey & Miner, 1992). Each M&A moves the firm toward an organizational structure that better fits the expertise of individuals subscribing to the market capitalism logic, thereby committing the firm to market capitalism via "contextual momentum" as subsequent M&As allow the firm to build on the experience gained from such activity (Amburgey & Miner, 1992; Haleblian, Kim, & Rajagopalan, 2006). A series of M&As will tend to increase the state coalition's dependence on the market coalition's financial and managerial expertise, which increases the latter's leverage in future power struggles with the former (Pfeffer & Salancik, 1978; Xia et al., 2014). Following an M&A, managers committed to the market capitalism logic tend to take leading roles in post-acquisition integration, and their resulting increased authority strengthens their influence on firm decisions and accelerates the firm's adoption of market capitalism as its preferred institutional logic. One board member representing legal person ownership in a partially-privatized SOE suggested that a prior market-oriented M&A had this effect, stating that "after the merger our firm has become more attractive for further financing and more impactful in the industry. The SASAC people on the board were also pleased by the success and offered a lot more discretion for our post-merger integration. The SASAC and our regional government would be happy to leave all the details to us without worrying about decline in GDP contribution by the firm."

Power of a Market Capitalism Coalition

The power backing the market capitalism logic also derives from formal ownership rights and board representation, but care must be taken when assessing the power of that institutional logic. Any owners (other than official state actors) could be committed to market capitalism, so this power could simply be the inverse of state ownership power. However, a more accurate view is that the non-state owners are of two distinct types. One group consists of small-fraction and short-term shareholders (e.g., individual investors), whose capacity to affect firm decisions is—just as in the United States and other developed economies—extremely limited. The other group of non-state owners consists of domestic institutions that own legal-person shares; it is these shareholders that are the main source of power for managers committed to the market capitalism logic. Legal-person shareholders (e.g., private industrial firms and investment funds) are committed advocates of the market capitalism logic. They search for value creation opportunities, even risky ones, and have the expertise to manage a post-merger organization. They also hold significant share positions and can coordinate to influence the firm, which makes them far more powerful than individual investors. M&As are clearly compatible with the goals of coalitions committed to the market capitalism logic, and their backing by legal persons increases their power. Thus we predict:

Hypothesis 2a. The higher a firm's proportion of legal-person ownership, the more likely it is to engage in market-oriented M&As.

The representation of market capitalism on a firm's board of directors serves as that coalition's internal source of power and influences M&A decisions. The market capitalism coalition can leverage its financial and managerial knowledge to frame each M&A proposal in terms that make it more acceptable to other board members. When recruiting board members who might be sympathetic to market capitalism, its advocates may present evidence that is strongly suggestive of possible synergies between the acquiring and the target firm and hence of the potential profits arising from an acquisition. The market capitalism coalition's managerial expertise and intentions to increase firm profitability need not determine the eventual outcome, but their advocacy might still persuade neutral or ambivalent board members or even some members of the state socialism coalition in the case of a particular M&A proposal—as when, for example, the acquisition

could be justified in terms of preserving jobs or increasing employment. Thus the likelihood of a favorable M&A decision depends both on the board's composition and on specific characteristics of the decision that affect the ease of recruiting additional board members to one coalition or the other.

The most secure signal of market capitalism being favored by board members is the proportion of them holding shares in the firm. We use this proportion to assess both the size and relative power of the coalition supporting the institutional logic of market capitalism. Stock market participation indicates acceptance of the market capitalism logic, and owning the focal firm gives long-term alignment of the board member interests with the interests of the firm as a market capitalism participant. Although shareholding board members may not be the only ones who advocate the logic of market capitalism, they will be its most reliable supporters. We make the following prediction:

Hypothesis 2b. The higher a firm's proportion of board members who own stock in the firm, the more likely it is to engage in market-oriented M&As.

Power Shifts over Time

In late twentieth-century China, the power of both institutional logics changed over time as market capitalism became more accepted and more ingrained in the national economy (DiMaggio & Powell, 1983). At the macro level, transitioning toward a market economy enabled a wider diffusion of the market capitalism logic, which was also facilitated by the refinement of such market features as shareholder protection laws and various corporate governance reforms. At the micro level, the growing number of market-oriented M&As had the effect of legitimizing that strategy for listed firms (DiMaggio & Powell, 1983) and, in turn, increasing the influence of market capitalism coalitions on firm decision making. The increasing frequency of such activities as market-oriented M&As also created more opportunities for market capitalism coalitions to employ their financial and managerial expertise. At the same time, the state socialism coalition's way of thinking became less in tune with the market transition's general trends, eroding the power of firm directors who clung to that logic. An official of the SASAC whom we interviewed noted that "the policy by the state council and the SASAC is putting more emphasis on relying on the growth of private enterprises to transform low efficiency industries, even at the expense of some underperforming SOEs"; this statement indicates that the state socialism coalition was receiving less state support than before. Another factor reducing the state socialism coalition's influence on firm decisions was its reliance on the market capitalism coalition's expertise, which was required to manage the more complex organizations resulting from M&As and a developing equity market. So even as political and societal concerns still motivated state socialism coalitions to delay the ongoing shift to market capitalism, their ability to do so was diminished—as reflected in the ever increasing number of market-oriented M&As. These considerations lead to our next two hypotheses:

Hypothesis 3. The negative effect of a state socialism coalition's power on the likelihood of market-oriented M&As decreases over time.

Hypothesis 4. The positive effect of a market capitalism coalition's power on the likelihood of market-oriented M&As increases over time.

Investor Reactions to Mergers and Acquisitions

Given the effects on M&A activity of institutional logics and coalition power that we have described, one might well suppose that ownership shares also affect investor reactions to such activity. The logic is as follows. Stock market returns represent the market's assessment of changes in firm value, so they also reflect whether investors believe that a firm's actions are beneficial (i.e., value-generating). These evaluations are not the same as long-term performance of M&As (e.g., King, Dalton, Daily, & Covin, 2004); more specifically, the former reflect investor assessments of each M&A decision. Shares of ownership are seen by investors as signals (albeit indirect ones) of management quality and the true intent of a strategic action (Filatotchev & Bishop, 2002). State ownership empowers coalitions committed to the state socialism logic, which is relatively unconcerned about economic efficiency. To the extent that such coalitions engage in M&As, they are likely to be perceived as following the state socialism practice of encouraging larger firms to take over smaller and/or troubled firms so as to maintain employment levels in areas where the former workers of failed firms would have difficulty finding new jobs—or of simply combining government matched firms with no efficiency promise. That M&A activity could be motivated by political or social objectives leads investors to suspect that those objectives may be fulfilled at the expense of other shareholders'

interests (Bai, Liu, Lu, Song, & Zhang, 2004; Dharwadkar, George, & Brandes, 2000). Indeed, traditional state practices are such that investors may believe the M&As pursued by a firm with substantial state ownership to be ill advised even when they are not; such skepticism, however well founded, would be detrimental to post-acquisition outcomes. This leads to the following hypothesis:

Hypothesis 5. The proportion of state ownership is negatively related to the firm's cumulative abnormal return following its announcement of a market-oriented M&A.

Legal-person ownership is a source of power for coalitions committed to the market capitalism logic and motivated to give the firm discretion in making acquisitions. Such coalitions are also motivated to increase the firm's returns and so will select acquisition targets that offer the potential to achieve that goal; promising firms may be in industries with growth potential, may be a good fit for the firm, and/or might be easy to turn around financially (e.g., Gaur et al., 2013). To the extent that a board with a strong market-oriented coalition makes decisions of which investors approve, its M&As have the potential to generate short-term gains in stock value. Yet even in such mature market economies as the United States, the stock market's response to acquisitions is often negative because of the uncertain consequences of M&As for firm value (Kaplan & Weisbach, 1992; Morck, Shleifer, & Vishny, 1990). How a stock market will react to the announcement of a market-oriented M&A in a context like China is thus an open empirical question, so we do not formulate a hypothesis, but we do include a variable for legal-person ownership in the analysis of investor reactions. Nor do we formulate hypotheses for board member proportions, which are less known and thus unlikely to have any effect (as confirmed in preliminary analysis).

METHODOLOGY

Data Sources

Our main sources of data were the China Stock Market and Accounting Research (CSMAR) database and the WIND database. The former is developed by Guo Tai An Information Technology (GTA) in collaboration with the University of Hong Kong and the China Accounting and Finance Research Center of Hong Kong Polytechnic University; this database covers the ownership, board of directors, and financial data of all listed firms in China since 1992. It has been widely used in finance and economics research (Li, Moshirian, Nguyen, & Tan, 2007; Lin & Su, 2008; Rousseau & Xiao, 2008). The WIND database is produced by WIND Information and provides detailed information on firm M&As, including the date of announcement, the acquisition target, and the nature of the acquisition (asset, equity, or both). Accounting information in the WIND database is similar to that in the CSMAR database, which enabled us to cross-check and patch our data for completeness. We merged the WIND database on acquisition announcements with one-year–lagged CSMAR ownership data, board data, and fiscal year performance data. The resulting data set included every M&A during the 2000–2012 period by nearly all listed Chinese firms across 84 3-digit industries as categorized by the China Securities and Regulatory Commission (CSRC). This time period is widely regarded as marking a new stage in the development of the Chinese stock market, a span during which that stock market and private sector began to be seen as integral to the economy (Jiang, Yue, & Zhao, 2009). During this period, firms' M&A decisions were affected both by state socialism coalitions and market capitalism coalitions.

To gain a better understanding of the divergent rationales behind these competing institutional logics, we conducted eight interviews with key insiders—namely, government officials at SASAC (representing state ownership) and senior managers in two prominent listed firms (representing legal-person ownership). In addition, we visited the websites of a random sample of 150 listed firms and reviewed press articles reporting on M&As (e.g., in the *China Economic Times*) to draw inferences concerning their principal economic activities. These qualitative data provided more detail about internal decision-making processes.

Estimation Method and Dependent Variables

We analyzed the rate of mergers and acquisitions and the merged entities' cumulative abnormal returns post-acquisition. The data allowed for a continuous-time event history analysis because they included the exact announcement date of each M&A event. Our research question focuses on the decision to undertake M&As, so we coded the announcement of one or multiple M&As at one time as an event irrespective of whether the announced acquisition was completed (95% of them were). The dependent variable was defined as deals that WIND classified as mergers or acquisitions through obtaining a controlling stake of more than 50% equity ownership (WIND also contains data on the acquisition of

minority shares). To restrict our sample to market-oriented transactions, we excluded announcements of M&As initiated and administered by the state. After missing data deletions, the sample consisted of 2,337 firms and 24,151 observations after splitting spells annually to update covariates. The data have 1,551 days on which a firm announced at least one M&A. Because acquisitions tend to occur in waves, we employed the flexible Cox proportional hazards model (Cox, 1972), which improves estimates of the effects of observed covariates. The formula for the hazard rate $h(t)$ in the Cox model is the product of a time-dependent term that is fit to the data, $h_i(t)$, and a regression function for the covariates:

$$h(t) = h_i(t)\exp[\beta X_{t-1}].$$

Using the event study methodology (e.g., King & Soule, 2007; Zajac & Westphal, 2004), for each M&A announcement we computed the cumulative abnormal return (CAR) using various time windows around the announcement day and ran linear regressions to assess the effect of different levels of state and legal-person ownership on the CAR. To avoid spurious effects of events that were not the object of our study, we used short event windows: [−1, 1], [−1, 2], [−1, 5], [0, 1], and [0, 2]; here the first and second number in each pair are, respectively, the window's starting and ending day relative to the event (announcement) day, which is day 0. Differences in the market reaction (as proxied by CAR) that are explained by ownership type constitute evidence that the market evaluates firms' future prospects as a function of that ownership. The CAR for each firm in the event window [t_1, t_2] around its M&A announcement q are calculated using the CAPM method, which accounts for the market movement as well as the focal stock's movement relative to the market—that is, its β coefficient (e.g., King & Soule, 2007).

Independent Variables

Ownership. To test our hypotheses about the external power of each coalition, we calculated the proportions of their shares. In order to capture the influence of coalitions committed to the state socialism logic, we summed the shares owned by government agencies and those owned by large SOEs to obtain state shares. We categorize any state-owned shareholder as part of a coalition that advocates the logic of state socialism. To identify shareholders that are part of a coalition advocating the logic of market capitalism, we summed the shares owned by private legal persons—that is, private-sector firms, non-bank financial institutions, and investment funds.

Board composition. We calculated the proportions of board members who had experience in state positions and who had ownership of shares in the focal firm. The proportion of directors with state experience was found via electronic search of board member résumé data from CSMAR, which indicated the agency at which the individual in question worked previously (or currently). We denoted an indicator for whether or not the individual had worked for the state in any capacity, since that definition best reflects our theoretical argument. The sum of these indicators is divided by the number of board members to yield the proportion of directors with state experience in each firm, which is the variable we use in the regressions. The variable for the proportion of directors owning stock is also based on CSMAR data and is calculated as the sum of indicators for whether or not an individual director holds any stock in the firm divided by the number of board members. The proportion of actual shares owned was also available and was tested in preliminary runs, but the results were no different than when we simply used the proportion of directors owning any shares.

Control variables. We controlled for industry effects and region effects by including indicator variables for 84 industries (at the 3-digit level) and 31 provinces. We also controlled for the age of the firm because older firms might have less need for M&As. A firm's size can affect M&A decisions (Montgomery, 1994) as well as risk-taking behavior more generally (Audia & Greve, 2006), so we controlled for (the logarithm of) a firm's total assets. In addition, we considered the effect of a firm's growth opportunities on M&As by controlling for its market-to-book ratio. We included debt-to-equity ratios to capture the effect (if any) of a firm's financial leverage on M&A decisions. Prior acquisition experience is positively related to the likelihood of subsequent acquisitions (Haleblian et al., 2006), so regressions incorporate the cumulative number of M&As by each firm. To control for the possibility that excess resources may drive firms to make inefficient investments (Iyer & Miller, 2008), we used Haleblian and Finkelstein's (1999) measure for the percentage of free cash flow. We included the firm's level of diversification—operationalized as the count of industries in which the firm engages—because diversification may affect the frequency of its M&As. We also included the proportion of foreign ownership in order to control for any effects of foreign owners on M&As. Finally, we created an indicator variable for whether or not

TABLE 1
Descriptive Statistics and Correlations[a]

	Mean	*SD*	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. M&A announcement	0.06	0.25	1													
2. Age	11.17	5.68	0.01	1												
3. Size	21.50	1.37	0.03	0.13	1											
4. Market to book	1.99	1.57	0.05	−0.13	−0.39	1										
5. Debt to equity	1.99	19.73	0.01	0.03	0.04	−0.03	1									
6. Free cash flow	1.77	7.92	0.00	0.04	0.03	−0.05	0.78	1								
7. Diversification level	2.01	1.45	0.01	0.23	0.10	−0.15	0.01	0.02	1							
8. Cumulative M&A experience	1.36	2.52	0.08	0.26	0.26	−0.08	0.01	0.02	0.16	1						
9. Foreign ownership	0.01	0.06	−0.09	−0.01	−0.01	0.07	−0.01	−0.01	−0.06	−0.02	1					
10. Financial misconduct	0.03	0.16	0.05	−0.10	0.00	0.04	0.00	0.00	0.00	−0.01	0.00	1				
11. State ownership	0.25	0.26	−0.08	−0.25	0.08	−0.09	−0.01	−0.01	−0.07	−0.15	−0.11	−0.01	1			
12. Legal-person ownership	0.16	0.22	0.02	−0.06	−0.22	0.09	−0.01	−0.02	−0.02	−0.06	0.28	0.03	−0.45	1		
13. Proportion of directors with state experience	0.38	0.24	−0.02	0.12	0.29	−0.16	0.02	0.02	0.06	0.05	−0.06	0.00	0.13	−0.20	1	
14. Proportion of directors owning stock	0.20	0.24	0.00	−0.19	−0.07	0.08	−0.03	−0.03	−0.08	−0.12	0.06	−0.04	0.02	−0.08	−0.15	1

[a] A total of 2,337 firms and 24,151 firm-year spells comprise the data. All correlations equal to or greater than 0.01 are significant at the 5% level.

the firm had been cited by the CSRC for financial statement misconduct within the past year; this was to control for effects of (detected) accounting misconduct on the ability to undertake M&As.

RESULTS

Descriptive statistics and correlations are reported in Table 1, which reveals that some correlations are high, but not enough to cause estimation problems. We also calculated variance inflation factors and found the highest to be 2.2, well below the value of 10 used to diagnose multicollinearity. Table 2 and Table 3 present the results of Cox models examining the possible drivers of M&A decisions. The testing is performed in stages. We first enter the ownership variables for Hypothesis 1a and Hypothesis 2a and the board variables for Hypothesis 1b and Hypothesis 2b separately before estimating a model with all these effects entered jointly. We also examine interactions between ownership and board membership. After completing these tests, we then check for whether the effects differ by time period; we let the last year of the "early" time period vary from 2006 to 2008, during which China experienced a significant increase in M&As (from 57 in 2007 to 182 in 2008). This test explores whether the increasing dominance of market capitalism in the "later" time period affected power dynamics such that its advocates gained power while the advocates of state socialism lost power (e.g., Thornton, 2001).

Model 1 of Table 2 includes only the control variables, and Model 2 tests Hypothesis 1a and Hypothesis 2a. Hypothesis 1a is supported by the negative and significant effect of state ownership on the M&A rate. Higher state ownership reduces market-oriented M&A activity, as would be preferred by a state-oriented coalition. Hypothesis 2a is supported by the positive and significant coefficient of legal-person ownership, confirming that the expected greater support of market-oriented coalitions increases M&A activity. Model 3 replaces the ownership variables with board variables to test Hypothesis 1b and Hypothesis 2b. The results are consistent with Model 2 and in line with our theory. A greater proportion of directors with state experience significantly reduces the M&A rate, while a greater proportion of directors owning stock significantly increases the M&A rate. Thus, all the variants of Hypotheses 1 and 2 are supported.

The regression results reported in Model 4 include all four variables for Hypotheses 1a/b and Hypotheses 2a/b simultaneously. This is a strict test because boards normally reflect the composition of ownership and thus should have less (or perhaps no) effect if owners fully exercise their formal power. In fact, all variables continue to yield significant effects, which supports our claim that decisions are influenced by both external and internal sources of power. Neither owner nor board effects are much reduced when the other is added to the model (note that the coefficients of hazard rate models can be compared directly across specifications). Moreover, the magnitude of these effects are fairly similar across these four variables (here the coefficients are comparable because all variables are scaled as fractions). In short, these results indicate that the external power of owners and the internal power of decision makers jointly determine strategic decisions. Models 5, 6, and 7 are robustness checks and will be discussed later.

We also explore whether the power of coalitions—as proxied by our variables for ownership and board membership—varies during the time period under study. In Table 3, Model 2 reports the results of an analysis in which the last year of the "early" period is set to 2007. That time split is arguably the most appropriate for our purposes because 2007 saw an increase in M&A activity but not to the stable high level of subsequent years. We remark that this specification doubles the number of coefficients to be estimated, which reduces the statistical power not only of each coefficient's estimate but also of the tests used to ascertain whether those estimated coefficients differ significantly from each other. This works against the hypothesis that these effects change over time.

Nevertheless, the implications of our estimates are quite clear. Board members who support the state socialism logic do not lose power over time, yet those supporting the market capitalism logic do gain power over time. This outcome is best seen by examining the χ^2 tests of whether the coefficients for early- and late-period estimates differ significantly from each other. We conclude that Hypothesis 3 is not supported but that Hypothesis 4 is supported. These findings are of interest because they confirm that firms are indeed converting to the market capitalism logic—a reflection of the external pressures to do so—even as coalitions that adhere to the logic of state socialism remain capable of delaying that transition. To test the robustness of this conclusion, in Table 3 we use a different cutoff year for Models 1, 2, and 3. The results are remarkably consistent across these specifications.

The effects of our control variables are strongly similar in all the regressions reported in Table 2 (and in Table 3, though not displayed). Firm age is negatively related to the likelihood of M&As. This

TABLE 2
Cox Model of Mergers and Acquisitions

Variables	Model 1[a]	Model 2[a]	Model 3[a]	Model 4[a]	Model 5[b]	Model 6[c]	Model 7[d]
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Region dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age	−0.029**	−0.030**	−0.025**	−0.025**	−0.028**	−0.022**	−0.023**
	(0.006)	(0.006)	(0.006)	(0.006)	(0.007)	(0.008)	(0.006)
Size	0.127**	0.151**	0.143**	0.160**	0.121**	0.167**	0.145**
	(0.027)	(0.028)	(0.028)	(0.028)	(0.033)	(0.043)	(0.027)
Market to book	0.090**	0.088**	0.090**	0.087**	0.070**	0.061*	0.082**
	(0.020)	(0.020)	(0.020)	(0.020)	(0.021)	(0.026)	(0.019)
Debt to equity	0.002	0.002	0.002	0.002	0.002	0.001	0.002
	(0.002)	(0.002)	(0.002)	(0.002)	(0.003)	(0.006)	(0.001)
Free cash flow	−0.003	−0.002	−0.002	−0.002	−0.011	−0.010	−0.002
	(0.005)	(0.005)	(0.005)	(0.005)	(0.009)	(0.013)	(0.004)
Diversification level	0.004	0.007	0.002	0.005	0.009	0.008	0.014
	(0.021)	(0.021)	(0.022)	(0.022)	(0.023)	(0.031)	(0.021)
Cumulative M&A experience	0.050**	0.048**	0.047**	0.046**	0.048**	0.020^{+}	0.044**
	(0.008)	(0.008)	(0.008)	(0.008)	(0.009)	(0.012)	(0.008)
Foreign ownership	0.512	0.112	0.587	0.175	0.114	0.099	0.217
	(0.359)	(0.385)	(0.361)	(0.385)	(0.395)	(0.411)	(0.386)
Financial misconduct	−0.049	−0.074	−0.040	−0.062	−0.016	−0.202	−0.019
	(0.174)	(0.174)	(0.174)	(0.174)	(0.177)	(0.216)	(0.159)
State ownership		−0.509**		−0.365*	−0.377*		−0.342*
		(0.153)		(0.156)	(0.182)		(0.150)
Legal-person ownership		0.344*		0.398**	0.388*	0.347*	0.334*
		(0.146)		(0.148)	(0.154)	(0.156)	(0.147)
Proportion of directors with state			−0.524**	−0.429**	−0.442**	−0.362*	−0.347**
experience			(0.120)	(0.122)	(0.134)	(0.170)	(0.118)
Proportion of directors owning			0.376**	0.386**	0.381**	0.213	0.412**
stock			(0.127)	(0.129)	(0.141)	(0.177)	(0.125)
State-initiated M&A							3.268**
							(0.100)
Likelihood ratio test χ^2	507.92**	538.94**	537.18**	561.06**	459.94**	298.26**	507.92**
Log-likelihood	−11,087.25	−11,071.74	−11,072.50	−11,060.56	−9,275.77	−5,945.77	−11,688.90
Bayesian Information Criterion	23,375.45	23,394.89	23,396.41	23,392.71	19,788.41	13,016.91	24,659.47

[a] Sample with all stock market listed firms. A total of 2,337 firms and 24,151 firm-year spells comprise the data.
[b] Sample with no SOEs controlled by the central SASAC; 19,828 firm-year spells.
[c] Sample with no SOEs; 10,945 firm-year spells.
[d] All M&As measured, including state-initiated M&As. Sample with all stock market listed firms; 24,151 firm-year spells.
$^{+}$ $p < 0.1$
* $p < 0.05$
** $p < 0.01$; two-sided hypothesis tests; robust standard errors grouped on firms as shown in parentheses.

TABLE 3
Cox Model of Mergers and Acquisitions[a]

	Time Split Models		
Last Year in Early Period	**Model 1 2006**	**Model 2 2007**	**Model 3 2008**
Industry dummies	Yes	Yes	Yes
Region dummies	Yes	Yes	Yes
Same controls as in Table 2			
Early state ownership	−0.587	−0.891**	−1.056**
	(0.393)	(0.330)	(0.268)
Late state ownership	−0.371*	−0.401*	−0.343
	(0.180)	(0.191)	(0.214)
–χ^2 test of difference	*0.26*	*1.72*	*4.55**
Early legal-person ownership	−0.067	−0.540	−0.598*
	(0.434)	(0.364)	(0.289)
Late legal-person ownership	0.533**	0.658**	0.783**
	(0.149)	(0.151)	(0.157)
–χ^2 test of difference	*1.74*	*9.40***	*18.02***
Early proportion of directors with state experience	−0.457	−0.304	−0.093
	(0.417)	(0.302)	(0.227)
Late proportion of directors with state experience	−0.407**	−0.416**	−0.545**
	(0.137)	(0.143)	(0.156)
–χ^2 test of difference	*0.01*	*0.12*	*2.81*[+]
Early proportion of directors owning stock	−0.093	−0.174	−0.158
	(0.227)	(0.212)	(0.191)
Late proportion of directors owning stock	0.598**	0.675**	0.778**
	(0.156)	(0.161)	(0.173)
–χ^2 test of difference	*6.37**	*10.35***	*13.57***
Likelihood ratio test χ^2	567.15**	578.12**	590.81**
Log-likelihood	−11,057.51	−11,052.03	−11,045.69
Bayesian Information Criterion	23,376.52	23,365.56	23,373.06

[a] A total of 2,337 firms and 24,151 firm-year spells comprise the data. Robust standard errors grouped on firm are in parentheses.
[+] $p < 0.1$
* $p < 0.05$
** $p < 0.01$; two-sided hypothesis tests.

result is expected given that, the longer it has been since a firm was founded, the more likely it is to have inherited a strong state socialism tradition; which inhibits firms from engaging in M&As. This negative correlation is consistent also with the state-oriented logic behind Hypothesis 1, though we do not consider firm age as a test of that hypothesis because age is related to so many other firm characteristics. That firm size increases the probability of M&As has been documented in previous empirical research (e.g., Iyer & Miller, 2008) and is confirmed by our analysis. Prior research underscores how experience with acquisitions provides firms with opportunities for learning and accumulating knowledge on how best to select an M&A target (Haleblian & Finkelstein, 1999; Zollo & Singh, 2004) and to restructure the firm post-acquisition (Capron & Guillen, 2009), and experience that reinforces the firm's routines for engaging in M&As. There is a positive relation between firms' market-to-book ratios and their frequency of M&A activity, which suggests that M&As are driven more by the availability of promising opportunities than by the presence of enterprise problems.

Our dataset includes additional variables that can be used in further explorations of how, over time, the institutional logics of state socialism and market capitalism gained support within firms. First, individuals acquire state experience through different state agencies, which are connected to firms in varying degrees. Testing with agency-level variables revealed that none had greater explanatory power than that of our variable for any kind of state experience. Second, directors could have state experience at either the central (national) or the provincial level, a distinction

that could lead to different effects on attitudes toward institutional logics. Indeed, provincial (as compared with central) state experience was associated with significantly greater hesitation to undertake M&As, as should be expected in light of the central state's initiation and advocacy of market-oriented reforms. Third, an alternative measure of belief in market capitalism is whether the focal board member attended a business school. This variable was significantly related to increased M&A activity, albeit less strongly than was stock ownership—though part of that difference is explained by such directors being less commonly encountered than shareholding directors. The results based on these variables are all consistent with the theory that we advance in this paper.

We performed three additional robustness checks because a key sampling issue is identifying exactly which firms and M&As to include. In our main analysis we included all listed firms—that is, partially privatized state-owned enterprises and also private firms with no state ownership—because the absence of state ownership does not prevent firms from appointing directors with state experience and so having a board with a state socialism coalition. In Table 2, Model 5 checks for whether our conclusions still hold when we omit SOEs controlled by the central SASAC,[3] since these firms are more heavily supervised by the state than are other partially-privatized SOEs; results for this smaller sample are the same as for the full sample. Model 6 eliminates all SOEs and thus leaves only private firms in the sample, yet all findings are again replicated except that director stock ownership loses significance (here the state ownership variable is omitted because its value is 0 for all firms). Finally, recall that the main analysis excluded all state-initiated M&As to ensure that our hypotheses were addressing strictly firm-level decisions. To see whether our theorizing remained valid for all M&As, in Model 7 we returned to our original sample of all listed firms and changed the dependent variable so that it included also those state-initiated M&As. We find that our hypotheses are fully supported with respect to this sample as well. In sum, our findings are robust to redefining both the sample and the measured outcome.

As a further robustness check, we tested the Cox proportionality assumption and found that it is violated with regard to firm size and firm age. We therefore estimated a Cox model that was stratified by size and age levels, and found that all hypotheses were supported, and the proportionality assumption held.

In Table 4 we present the results from analyzing the CAR of each stock around the time of each acquisition announcement. For this analysis, a full regression on the CAR associated with each window was specified using the same control variables as in Table 2. The reported values establish that a higher proportion of state ownership has a negative effect on CAR, which supports Hypothesis 5. However, higher levels of legal-person ownership have no significant effect on CAR. So even though investors are skeptical of M&As by firms with high state ownership, there is no (statistically significant) opposing effect of investors viewing M&As by firms with high legal-person ownership positively. These results echo the findings reported by scholars who examine market economies, in which the market response to acquisitions is highly variable and not generally positive. That being said, the contrast we find between the effects of state ownership and of legal-person ownership is consistent with our theory.

DISCUSSION AND CONCLUSION

How firms make strategic decisions is a central question that has been answered in terms of both environmental influences and internal characteristics. In this paper, we examine that question by investigating M&As during a period in which they became more common. We seek to explain firm decisions by showing how contested institutional logics were represented in the power structure of firms, which enabled those logics to affect strategic decisions. The evidence confirms our theoretical expectations in revealing the coexistence of competing logics—namely, state socialism versus market capitalism—within firms during an era of economic transition in China. These logics affected firms' M&A decisions via the coalition building by advocates of each logic, as reflected in the external power source of ownership and the internal power source of board representation. The effect of these coalitions was evident in the decision making of firms and in the financial market's response to those decisions. Finally, our analysis demonstrates that the institutional transition engineered by the Chinese state was not a straightforward story of one logic displacing another but rather a contest pitting adherents of the old, state socialism logic against those of the new, market capitalism logic. Ultimately the old logic's accommodation to the new, together with the new logic's penetration of the old, was a strategic process

[3] There are 112 SOEs controlled by the central SASAC, and these firms are widely considered to be the most important of China's state-owned enterprises.

TABLE 4
Ownership Effects on Cumulative Abnormal Returns[a]

Variables	Window [–1,1]	[–1,2]	[–1,5]	[0,1]	[0,2]
Industry dummies	Yes	Yes	Yes	Yes	Yes
Region dummies	Yes	Yes	Yes	Yes	Yes
Age	−0.001	−0.000	−0.001	−0.000	−0.000
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Size	−0.016**	−0.016**	−0.013*	−0.014**	−0.014**
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Market to book	0.001	0.001	0.000	0.001	0.001
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Log market value	0.000	0.000	0.001**	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Debt to equity	0.000	−0.000	−0.001	0.000	−0.000
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Free cash flow	0.001	0.000	0.004	0.001	0.001
	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)
Diversification level	0.001	0.000	−0.001	−0.000	−0.001
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Cumulative M&A experience	0.001	0.002	0.002	0.001	0.002
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Foreign ownership	−0.090	−0.074	−0.063	−0.098	−0.083
	(0.063)	(0.063)	(0.065)	(0.063)	(0.063)
Financial misconduct	−0.038	−0.031	−0.023	−0.035	−0.028
	(0.027)	(0.027)	(0.028)	(0.027)	(0.027)
State ownership	−0.059*	−0.058*	−0.059*	−0.057*	−0.055*
	(0.025)	(0.025)	(0.025)	(0.024)	(0.024)
Legal-person ownership	0.022	0.015	0.019	0.028	0.022
	(0.024)	(0.024)	(0.025)	(0.024)	(0.024)
F-test (120, 2315)	3.73**	3.81**	3.81**	3.83**	3.92**
R^2	0.16	0.16	0.16	0.17	0.17

[a] The chosen windows represent typical cutoffs for tests of short-term reactions to events. Robust standard errors clustered on firms in parentheses.
* $p < 0.05$
** $p < 0.01$; two-sided hypothesis tests.

in each firm whereby each coalition sought to increase or maintain its power.

The main theoretical implication of our work is the need to conduct research on the choices given to firms by competing institutional logics. Institutional logics have been viewed as engaging in field wide competition for prominence and as being driven by such major events as the founding of firms based on a new logic and the acquisition by firms of targets that embody a different logic (Marquis & Lounsbury, 2007; Thornton, 2001). Perhaps more importantly, and as we have investigated, institutional logics can contend within existing organizations (Durand & Jourdan, 2012; Shipilov et al., 2010). We describe how the theory of coalitions can be used to address the influence of institutional logics in specific firms, thereby generating new predictions. Our treatment specifies the effect not only of coalitions within decision-making groups but also of external power sources that are called upon to influence organizational decisions. We show that these effects are additive and that they change over time as the power of each logic evolves, thus lending support to the view that firms base their decisions—about the actions suggested by competing logics—on both the external prominence of each logic and the power backing it in the firm (e.g., Wry et al., 2013).

A closely related theoretical implication is the potential for institutional logics to coexist for an extended period of time. Unlike earlier studies of logic acceptance (Shipilov et al., 2010; Thornton, 2002; Thornton & Ocasio, 1999) or resistance (Fiss & Zajac, 2004; Kostova & Roth, 2002; Lounsbury, 2007; Marquis, Glynn, & Davis, 2007), our paper documents the coexistence of old and new institutional logics during China's period of economic transition and shows that the former could still sway decisions made by firms in which it held more power. Thus our results

run counter to studies that view institutional logics as being constant within a given firm or that view the industry-specific dominance of a particular logic as being driven by the founding and/or failure of firms in that industry. This implication is also distinct from the idea of "hybrid" logics (Battilana & Dorado, 2010), since rather than a melding of viewpoints we find that each coalition favors promoting its own agenda. Despite facing concerted resistance, market-oriented M&As were an increasingly frequent activity that reflected China's gradual transition to the market logic, and were also seen in firms with high state ownership. On the boards of firms across the spectrum of ownership types, coalitions coexisted and their associated directors jointly shaped firm decisions.

A practical implication is that the study underscores the central role of coalition building in determining key strategic actions, especially contested ones. Initiation of M&A strategies and the selection of targets is primarily a top management activity, and we built this study on the premise that top management would either form strategies that matched the preferences of the board, or see actions deviated from those preferences defeated often enough that the actual firm M&As would be predictable from board characteristics as well as firm ownership. As a result, board member experience influenced the coalition building. There is much research on how top management seeks to influence boards (Westphal & Bednar, 2008), but this should not lead researchers to overlook board decision-making and the role of power relations within the board (Ocasio, 1994).

A second practical implication of this work—with considerable theoretical interest as well— is the emphasis on differences in the institutional logics promoted by different types of firm owners. The variety of ownership groups in Chinese firms and their respective origins allowed us to: (1) observe closely how divergent interests representing different logics affect both goal selection and decision making; and (2) see a path leading to a more comprehensive examination of the goals held by different owners. Much research in the Western economic context treats owners as a homogeneous group and thus presumes that all owners share the same goal of maximizing shareholder value (Bagwell, 1991; Fiss & Zajac, 2004). However, research on family businesses and business groups often uncover evidence of owner conflicts (Chung & Luo, 2008; Miller, Breton-Miller, & Lester, 2010). Research on institutional owners is often phrased as a conflict between top management and owners (Shipilov et al., 2010; Westphal & Bednar, 2008), but it is also noteworthy—and often overlooked—that institutional owners have specific interests that may not overlap completely with those of other owners. Indeed, such conflicts of interest were highly prominent when researchers first started examining the actions of funds taking over firms to break them up, as such break-up takeovers were initially vilified also by many other owners, before gaining acceptance (Hirsch, 1986). The managerial implications of such work is clear from research that has examined the effect of different ownership when firms seek to pursue specific strategies such as adopting the multidivisional form (Palmer, Jennings, & Zhou, 1993) or engaging in M&As (Palmer, Barber, & Zhou, 1995). Top management choice of strategy is not only adapted to board member backgrounds, but also to ownership configurations (Ansari, Fiss, & Zajac, 2010; Davis & Stout, 1992; Palmer & Barber, 2001).

These theoretical and practical implications are of particular interest because they are drawn from a context involving environmental changes more radical and hence challenging for the firms than most work on institutional change. For example, the institutionalization of organizational structure (Tolbert & Zucker, 1983), the diffusion of new governance practices (Davis & Greve, 1997), and the adoption of governance reforms (Shipilov et al., 2010) are all adjustments that can be made without compromising the institutional logic of market capitalism. Yet China's institutional transition from state socialism to market capitalism was a revolution in both the economic and cultural sense. The emergence of various types of corporate ownership (state, private, and public) facilitates a greater understanding of how competing logics originate. The diverse interests and rationales that underlie these competing logics, when combined with the variance in firms' strategic decisions, allow us to account more accurately for how a transition in the external institutional environment is followed by firms' heterogeneous responses to that transition (Battilana & Dorado, 2010; Capron & Guillen, 2009; Peng, 2003).

In sum, we have shown how institutional change and competing institutional logics give firms the ability to choose between alternative strategic actions, but also entail competing pressures from the advocates of each action (Greenwood et al., 2011). Research that addresses this issue often invokes the theory of coalitions and power use (Cyert & March, 1963; Pfeffer & Salancik, 1978) in arguing that firm goals and behaviors are neither isomorphic across firms nor stable over time; rather, those factors vary

depending on the strength of the coalition supporting each action. In our research we observed variation in M&As across firms, and these variations followed the patterns predicted by the strength of coalition power sources in each firm. We also found temporal shifts as external acceptance of the new logic increased. These effects are unsurprising when the firm's decisions are viewed as being influenced by coalitions (built mainly by groups of managers) with different goals and different sources of power.

Looking at institutional logics from the firm point of view is a promising path for further research. Future work could follow our lead in examining the board of directors as a decision-making body in which owner configurations and personal experiences shape the formation of coalitions when making decisions. Different ownership types can be examined, and personal experiences can be investigated more specifically through following the work experience of each director (Fligstein, 1987). Similarly, top management teams vary in composition and experience, and influence both strategic and operational decisions (Hambrick, 2007). These influences can be revealed through research that sees experience as a source of commitment to logics, and coalition building as a central part of organizational decision-making. An even deeper investigation of coalition building would examine compromises made across agenda items and relations among managerial careers, participation, and power in decision making. Work along these lines will surely prove fruitful, and the evidence presented in this paper is a good first step toward examining coalitions in decision making when firms are faced with alternative actions backed by competing institutional logics.

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