Chinese MNE Acquisition of Unrelated Foreign Businesses:

The Role of Diversified Business Group Affiliation, Private Ownership and Strategic Asset Seeking

Abstract

While the acquisition by Chinese firms of unrelated foreign businesses has become quite common, it is a highly risky undertaking not fully explained by international business scholars. Using resource-based and institutional theory, we hypothesize that affiliation with a domestically diversified business group confers pre- and post-acquisition advantages and legitimacy, fostering unrelated foreign acquisitions. In addition, we argue that private ownership as well as a motive to seek strategic assets amplify this tendency among Chinese firms affiliated to diversified groups. Ordered logit modelling for 662 Chinese cross-border M&As over a 10-year period provides support for our hypotheses. Our findings shed new light on: the distinctive characteristics of Chinese MNEs; broader conceptual arguments regarding the strategy of emerging market MNEs; the apparent paradox of why Chinese MNEs have used international acquisitions to diversify at a time when many Western diversified conglomerates are divesting non-core businesses.

Key words: International diversification; relatedness; business groups; ownership; strategic asset seeking (SAS); China

1. Introduction

Scholars have argued that emerging market firms have fewer capabilities to support product market diversification in foreign markets compared with developed market firms (Lu et al., 2014; Ramamurti, 2012). Yet much anecdotal evidence, such as the cases of Midea Group's acquisition of Kuka (Germany), Fosun's acquisition of Club Med (France) and Wanda's acquisition of Sunseeker Yachts (UK), suggests some emerging market multinational enterprises (EMNEs) have a strong propensity for unrelated product diversification through foreign acquisition. Conventional wisdom would suggest this strategy to be extremely risky due to unrelatedness, the use of acquisition as an establishment mode, and the country of origin being an emerging market. Buckley et al. (2018:11), for example, commenting in a retrospective piece to their JIBS decade award winning article on Chinese outward FDI, refer to these as 'unusual investment behaviours'. They argue, furthermore, that better understanding 'the precise theoretical mechanism' behind them might mark 'an important step forward' (Buckley et al. 2018: 11). To date, however, research on the question of why EMNEs pursue *unrelated* product diversification through foreign acquisitions is practically non-existent.

To examine this question, we follow previous studies on the internationalization strategies of Chinese MNEs (Wang et al., 2012) and draw on both resource-based and institution-based views. We assert, among other things, that affiliation with diversified business groups[1] in the home country helps member firms tackle these risks via several mechanisms. Firstly, they provide diverse resources and know-how that allow unrelated foreign acquisitions to be

[1] Business groups are collections of legally independent firms bound by formal and informal linkages (Granovetter, 1995) with varied forms of common administrative and/or financial control (Cuervo-Cazurra, 2006). They facilitate group wide exchanges via mechanisms like internal financial, product and labor markets (Carney, 2008). Business groups vary in terms of how diversified they are; some operate in a narrow, specialized industry band, others operate a broad range of industries.

identified and evaluated pre-acquisition and subsequently integrated and exploited within both domestic and foreign markets (Amsden & Hikino, 1994; Popli et al., 2017). Secondly, they confer organizational legitimacy (Desai, 2008; Scott, 1987; Suchman, 1995) that helps buffer firms from the prospect of failure (Desai, 2008). We emphasize diversified business group affiliation (as opposed to specialized business group affiliation or simply being an unaffiliated, standalone firm) as playing an important part in determining unrelated foreign acquisitions. In doing so, we shed further light on conceptual debates regarding the potential differences between EMNEs and developed market MNEs (Hennart, 2012).

In addition, we argue that other legitimizing forces provide boundary conditions to the relationship between diversified business group affiliation and unrelated foreign business acquisition. Notably, private ownership of the acquiring firm, associated with high risk-propensity, profitability and re-investment (Bozeman & Kingsley, 1998; Cull & Xu, 2005; Dewenter & Malatesta, 2001), positively moderates the relationship between diversified business group affiliation and unrelated foreign business acquisition. A strategic asset seeking (SAS) deal orientation (i.e., an asset augmenting- as opposed to asset-exploiting strategy) (Dunning, 2000) – also amplifies the effects of being affiliated to a diversified business group. Extant research suggests that EMNEs commonly engage in SAS FDI in order to build upon limited ownership advantages (Buckley et al., 2018; Mathews, 2006, 2017) as well as to exploit their domestic market 'home court advantages' (Luo & Tung, 2007). We argue that it is more legitimate for firms affiliated with domestically diversified groups to acquire *unrelated* foreign strategic assets (i.e., technologies, brands) not only because of their greater ability (compared with non-affiliated firms) to exploit such assets in foreign markets (Castaldi et al., 2019) and

their ability to do so within their *domestic* market (Hennart, 2012), but also because of congruence with business group norms.

We test our hypotheses using a sample of 662 cross-border M&As completed by Chinese firms between 2006 and 2015. China is an appropriate context for this study owing to its unique institutions and the pervasiveness of diversified business groups (Li, Li, & Wang, 2019). Our findings indicate that firms affiliated to diversified business groups are more likely to acquire unrelated foreign businesses and that private ownership positively moderates this relationship, as do certain kinds of strategic asset seeking (particularly technology seeking). We extend classic diversification theory by firstly showing how a specific organizational form, namely the diversified business group, influences the extent to which an emerging market firm engages in unrelated diversification abroad (Capar & Kotabe, 2003; Kumar, 2009; Palich, Cardinal & Miller, 2000). We contribute to the literature on EMNEs by clarifying the role and influence of business group affiliation in *qualitatively* shaping EMNE outward FDI (Wang et al., 2015). This marks a step forward, as the business group literature to date has only identified impacts of affiliation on aspects such as volume and type of FDI (Aguilera et al., 2020; Chari, 2013; Yiu, 2011) as well as performance (Borda et al., 2017; Castaldi et al., 2019). Secondly, we expose boundary conditions: the moderating effect of firm ownership (state vs. private) as well as SAS orientation. Established theories of EMNE catch-up stress the importance of acquiring strategic assets for the purposes of developing firm-level capabilities (i.e., 'ownership advantages') (Child & Rodrigues, 2005; Luo & Tung, 2007; Matthews, 2006) but do not provide insights into boundary conditions that apply to how affiliation to a diversified business group impacts the likelihood of acquiring unrelated assets abroad. Thirdly, we contribute to

debates on the theory of internationalization of EMNEs (Hernandez & Guillén, 2018) by considering whether the acquisition of a broad portfolio of unrelated foreign businesses is consistent with newer theories, like that of 'spring-boarding' or 'link, leverage and learning' (i.e., LLL) (Luo & Tung, 2007, 2018; Mathews, 2006, 2017), that emphasize firm-level catch-up as motivating EMNE expansion. From a policy perspective, moreover, it is noteworthy that many of the world's largest international diversified conglomerates (Siemens, General Electric, Maersk) are downsizing and refocusing their activities. This era has been declared as the 'end of conglomerates' by activist financial investors driving divestment activity. Our findings shed light on why some types of MNEs are bucking this trend and how their strategies may be valid in the context of the particular institutional environments from which they are emerging (Khanna & Palepu, 1997).

Section 2 provides a background to the risks of unrelated diversification by foreign acquisition as well as business groups in emerging markets. Section 3 proceeds to develop novel direct and moderating effects hypotheses that draw on resource-based and institutional views to explain unrelated foreign business acquisition by Chinese firms. Sections 4 and 5 describe our method and results respectively, including interpretation of interaction effects. Section 6 discusses the results in light of recent work on internationalization of Chinese firms.

2. Background

Our principal interest relates to understanding unrelated product market diversification (Sakhartov & Folta, 2015) by EMNEs as they internationalize through acquisitions. A substantial body of literature has studied the antecedents and consequences of firm

diversification in both product markets and geographic markets (Capar & Kotabe, 2003; Datta, 1991; Kumar, 2009; Lu & Beamish, 2004; Palich et al., 2000; Sakhartov & Folta, 2015), highlighting the enormous risks involved. Unrelated product market diversification raises the prospect of additional costs and risks for firms beyond those attributable to internationalization[2]. Palich et al. (2000), in their review of three decades of research on the effect of diversification on performance, highlight costs associated with moving from related to unrelated diversification in product markets. These include strain on top management, increased shirking, inefficiencies, and even conflicting 'dominant logics' (Palich et al., 2000: 159). In addition, our focus on foreign acquisitions raises the prospect of adverse selection and moral hazard risks (Datar et al., 2001). Acquisitions can be notoriously difficult to integrate, particularly when there are fundamental differences between the acquiring firm and the target firm (Datta, 1991), as is the situation when EMNEs acquire developed market firms. On top of these problems related to product market diversification in foreign countries and the use of acquisitions, there are additional challenges faced by firms emanating from emerging markets. Ramamurti and Williamson (2019), for example, argue that EMNEs need to address their "*capability holes*[3]" to thrive in the global markets. In sum, EMNEs that seek product market expansion through acquisition in international markets face a particularly potent combination of risks.

Research shows how emerging market firms that are affiliated to business groups benefit from certain affiliation-related advantages, i.e., access to knowledge, technology and skills

[2] Lu and Beamish (2004), for instance, examined the links between multi-nationality and performance, highlighting increasing coordination costs as firms enter more foreign countries. This literature on costs and risks in internationalization tends not to consider simultaneous diversification in product markets.
[3] Ramamurti and Williamson (2019: 157-158) proposed "the concept of capability holes, which are key capabilities a firm needs to thrive globally but lacks."

available from within the business group (Chang et al., 2006; Popli et al., 2017; Yiu, 2011). Business group affiliation may play a key role in reducing the aforementioned risks. Indeed, a growing body of literature identifies the increasing importance of business groups in EMNE outward FDI (Holmes et al., 2018; Aguilera et al., 2020). This posits that business groups can provide explanations for various aspects of EMNE FDI (Tan & Meyer, 2010), including volumes (Yiu, 2011), type (Chari, 2013) and performance (Borda et al. 2017; Castaldi et al., 2019). We develop hypotheses below relating to how domestic affiliation to a *diversified* business group fosters unrelated foreign acquisitions by EMNEs.

3. Hypothesis development

3.1 Direct effect of diversified business group affiliation

It is well recognized that business groups help address informational, judicial and regulatory gaps in markets characterized by 'institutional voids' and high transactions costs (Khanna & Palepu, 1997). As a result of their role in lowering transactions costs, high levels of diversification are often present among affiliated firms. This is because standalone firms may join groups to access capital, product and labour markets - not because of complementarity in any specific product or service (Holmes et al., 2018). Such internal markets thus promote product diversification (Khanna & Palepu, 1997).

We argue that when business groups are diversified they can: (a) help performance in unrelated foreign acquisition via group support of fungible resources (Tan & Meyer 2010; Castaldi et al., 2019); and (b) leverage the firm specific advantages (FSAs) of unrelated foreign acquisitions for further exploitation in the home market (Hennart, 2012). As regards (a), while

the impacts of pooled resources have typically been studied within their domestic, emerging market contexts, often to explain diversification and performance impacts (Cheng & Yang, 2017; Guillén, 2000; Popli et al., 2017; Tan & Meyer, 2010), a growing body of literature demonstrates how group affiliated *foreign* subsidiaries may also benefit from group affiliation (Borda et al., 2017; Castaldi et al., 2019; Chari, 2013; Gaur et al. 2014). It is argued internal product, human resource and capital markets, shared between group affiliated firms (Carney et al., 2017; Chang et al., 2006), allow them to negotiate fickle, opaque and complex governmental regulation and associated institutional complexities abroad (Carney, 2008). This leads to financial outperformance of business group affiliated foreign subsidiaries compared with non-affiliated subsidiaries (Borda et al., 2017; Castaldi et al., 2019; Chari, 2013). Moreover, when the business group is diversified, there is a broader range of different types of knowledge, capability and technology within the group than would be available to an affiliated firm considering international expansion.

The logic for unrelated international acquisitions becomes more compelling when we consider point (b), the role of the home market. The domestically diversified business group has evolved, via market forces, to deal with complexities and challenges of its home market (including institutional voids and imperfect markets) (Khanna & Palepu, 1997). Recent EMNE theorizing, moreover, has stressed asymmetry in market access (i.e., 'home court' advantages for EMNEs in their domestic market (Luo & Tung, 2007)), noting the particular advantages of diversified groups in exploiting acquired foreign assets at home (Hennart, 2012; Petersen & Siefert, 2014). Some EMNE FDI, in this view, is undertaken as a way of bundling highly demanded strategic foreign assets (i.e., patented technologies) acquired in foreign markets with

their country specific advantages (CSAs) held domestically (Sutherland et al., 2020). Hennart's (2012) bundling model, for example, articulates this point explicitly by referring to emerging market 'location' advantages as being 'imperfect' (Dunning, 1979). Without domestic network resources, assets acquired abroad cannot be successfully 'bundled'. Diversified business groups, which possess more varied mechanisms for coping with domestic institutional voids, as well as shared resources for integrating foreign technology and know-how (Yiu, 2011), are well placed to benefit from unrelated foreign acquisitions. Shared group-wide resources can also help deal with adverse selection and moral hazard risks and enhance performance through effective integration, providing absorptive capacity for the integration of acquired targets (Cheng & Yang, 2017). Profits from the repatriation of strategic foreign assets can then be used to cross-subsidize unrelated foreign market acquisition, bolstering performance (e.g., Kuka, acquired by Midea Group, has seen a significant improvement in its sales of robotics equipment).

Diversified business group affiliation may also positively influence unrelated acquisitions in foreign markets because of inter-industry or inter-segment linkages within the group. An unrelated diversified group can leverage the differences across industries and spread costs and risks. Such linkages within the business group will help an unrelated foreign acquisition to be identified and evaluated in the first place, and then absorbed and exploited to its full potential following deal completion. When diverse resources and knowledge from within the diversified business group are available for identifying and evaluating unrelated targets, a legitimizing effect occurs (Scott, 1987; Desai, 2008); the affiliated firm undertaking the unrelated foreign acquisition will do so in response to the established norms and prevailing mindset within the

diversified business group. While the target may be unrelated from the acquiring firm's point of view, the risks noted above are countered through these legitimizing effects within the diversified group.

In sum, these arguments that domestic business group diversification influences international acquisitions of unrelated businesses use both resource-based and institution-based views. Diversified business group affiliation provides the broad knowledge and resources in (Popli et al., 2017) to deal with the myriad of risks involved (Datta, 1991; Palich et al., 2000) as well as legitimacy (Desai, 2008; Scott, 1987; Suchman, 1995[4]) for taking on these risks. Our baseline hypothesis is:

> **Hypothesis 1:** Affiliation to a diversified business group in the home country will have a positive impact on the propensity of an EMNE to acquire unrelated foreign businesses.

3.2 Moderating effects: private ownership and strategic asset seeking motive

State ownership has been prevalent in emerging economies; state-owned enterprises (SOEs) have led economic reforms (Peng, 2003). Chinese SOEs, for example, have supportive capital available to them from government-controlled banks and financial institutions (Buckley et al., 2007; Luo et al., 2010; Rui & Yip, 2008). SOEs have stronger resource-dependent relationships with home-country institutions (Lu et al., 2014), requiring government endorsement (Deng, 2009). SOE managers take party political considerations into account and can face problems establishing legitimacy in a foreign host country, even provoking "negative reactions" (Li et al., 2019: 304). Majocchi and Strange (2012) find that a firm's propensity for international

[4] Suchman (1995: 574) defines legitimacy as "a generalized perception that the actions of an entity are desirable, or appropriate within some socially constructed system of norms, values, beliefs, and definitions".

diversification reduces under state ownership, a consequence of more "inward-looking" strategies (p. 883). Indeed, Li et al. (2019) find completion rate of foreign acquisitions by Chinese SOE firms to be 14% lower than non-SOE firms. Given the uncertainties and costs noted above for the specific case of unrelated foreign acquisitions, the legitimacy concerns raised in this literature become more acute. SOEs are more likely to follow a more conservative strategy in diversifying, to have a greater tendency to support home country investment over unrelated foreign investment, and to emphasize honoring of domestic political ties.

Privately-owned enterprises (POEs), on the other hand, are less dependent on home country government involvement; they are associated with greater profitability (Dewenter & Malatesta, 2001), higher risk profiles and greater reinvestment of profits (Cull & Xu, 2005). When undertaking unrelated foreign acquisitions, this risk profile and reinvestment appetite will be important. POEs are more likely to take on business risks and have greater returns to invest from profit (Bozeman & Kingsley, 1998; Cull & Xu, 2005; Dewenter & Malatesta, 2001). In Bozeman and Kingsley's (1998: 110) terms: "risk-taking will be perceived as legitimate and less likely to meet with disapproval" under private ownership.

In line with this legitimacy argument (Li et al., 2019), we argue that private ownership will provide – rather than withdraw - legitimacy (Bozeman & Kingsley, 1998; Scott, 1987; Suchman, 1995) to an emerging market firm affiliated with a diversified business group. Private ownership will mean there will be lower levels of red-tape and bureaucracy (Bozeman & Kingsley, 1998). Following Li et al. (2019), there will be lower levels of opaqueness under private ownership, an important concern to overcome if the firm is affiliated to a diversified business group with operations in many different sectors in the emerging market. The actions

of the firm in the host country are more likely to be seen as proper, and even desirable, and the benefits of being acquired by a firm affiliated to a diversified business group will be clearer. Case study evidence supports this conjecture as large private diversified groups appear to be among the most aggressive acquirers of unrelated international assets. Fosun (Guo Guangchang), Wanda (Wang Jianlin) and Midea (He Xiangjian), stand out as diversified business groups founded and controlled by high profile Chinese entrepreneurs. We posit that:

> **Hypothesis 2:** Private ownership of the EMNE amplifies the positive relationship between diversified business group affiliation and the firm's acquisition of unrelated foreign businesses.

We argue that the tendency towards unrelated foreign acquisitions by firms affiliated to diversified business groups is also amplified when the target firm owns strategic assets such as novel technologies and brands (Luo & Tung, 2018; Matthews, 2006). In this case there will be greater congruence between the organizational system in the home country (i.e., being a part of a diversified business group) and the strategic intent of the firm (i.e., the motive to acquire unrelated assets abroad). Such congruence is at the heart of the legitimacy argument (Suchman, 1995).

EMNEs - as 'late-comers' aspiring to 'catch-up'- have been actively involved in SAS FDI in developed markets (Boisot & Meyer, 2008; Child & Rodrigues, 2005; Luo & Tung, 2007). They aim to rapidly fill their capability holes (Ramamurti & Williamson, 2019). This asset-augmentation arises because EMNEs are 'pushed' to achieve the competitive advantages they lack to compete with foreign entrants in their home country (Chari, 2013) and local firms in host countries (Buckley et al., 2016). Chinese firms have undertaken aggressive cross border acquisitions for technologies and well-known brands (for which there may be few domestic

substitutes) in developed countries (Deng, 2009; Luo & Tung, 2007; Mathews, 2006; Rui & Yip, 2008).

Domestically diversified business groups, as noted, are well-suited to functioning within institutionally weak domestic market environments. This gives them advantages over both foreign and non-group affiliated rivals when competing at home using acquired strategic assets. Asymmetric domestic market access combined with both favorable domestic demand and supply side conditions create powerful motives for firms affiliated to diversified groups to acquire foreign strategic assets on both demand and supply sides (Petersen & Siefert, 2014). On the demand side, there may be few domestic substitutes capable of competing with imported advanced developed market strategic assets (i.e., Kuka's sophisticated robotics systems acquired by Midea Group). On the supply side, it is the specific ability of diversified business groups to internalize foreign technologies, brands and know-how (sometimes referred to as enhanced 'project execution capabilities' (Amsden & Hikino, 1994)), shared internally within the diversified group, that increases their absorptive capacity of unrelated businesses (Yiu, 2011).

This suggests firms' motives for pursuing unrelated foreign acquisitions are guided by managerial recognition of demand and supply side considerations when affiliated to a diversified business group. It is not just a question of recognizing resource deficiencies or capability holes, but of recognition of the norms within the diversified business group with respect to demand conditions and supply capabilities. We argue that when the firm is affiliated to a diversified business group, having a motive to pursue strategic asset acquisition provides additional legitimacy for unrelated foreign acquisitions. There will be recognition and an

authorization (Scott, 1987; Suchman, 1995) by senior leaders of the firm that unrelated foreign acquisitions will help to satisfy domestic demand while also being successfully absorbed into the group. Hence:

> **Hypothesis 3**: A strategic-asset-seeking motive (i.e., acquiring novel technologies and recognized brands) in an EMNE amplifies the positive relationship between diversified business group affiliation and the firm's acquisition of unrelated foreign businesses.

Figure 1 shows our conceptual model.

Insert Figure 1

---

4. Methodology

4.1 Data collection

Our data were initially compiled from Thomson One Banker, identifying all completed international M&A deals from firms located in China with a Chinese ultimate owner (excluding foreign controlled firms) between 2006 and 2015. The database includes details of acquiring and target firm Standard Industrial Classification (SIC) codes, ownership percentage held after the deal and other related information. We excluded those acquirers involved in Finance, Insurance and Real Estate (SIC code ranges from 6000 to 6799), as well as tax haven related cases where it was not possible to ascertain the ultimate target firm. Following this, the acquisitions and targets were matched to the Orbis database (Bureau van Dijk) to gather a range of firm and group-level information, including: the target and acquiring firms' ages, financial performance, number of patents, trademarks, ultimate ownership information and the exact firms affiliated to the group. Orbis distinguishes between domestically owned and foreign firms

and provides ultimate owner details, including the largest independent shareholder[5]. Having cleaned the data we were left with 662 EMNEs that had completed foreign acquisitions in the 2006 to 2015 period. Appendix A provides detail on the steps we took to obtain the sample.

4.2 Dependent variable

SIC codes have previously been used to measure the extent of product diversification (Pitts & Hopkins, 1982). While the approach reduces the activities of an acquiring firm to a single industry grouping, it has been used extensively in previous related research (Wang & Zajac, 2007). We followed this approach to code our dependent variable (*UNRELATED_ACQ*). This took a four-point ordinal range, ranging from '0' (highly related, specialized deals) to '3' (highly unrelated deals). The scale was determined by the similarity of the target and acquirers' four-digit SIC codes. All deals in which the four-digit SIC codes of acquirer and target were identical were considered 'highly related/specialized' and were recorded with a '0' value. Those in which the first three digits were the same but last digit different were recorded with a value of '1'. Those deals where the first two SIC digits were identical and the last two different received a value of '2' (moderately unrelated/diversified). Those in which the first digit or first two digits were different were recorded as 3 (highly unrelated/diversified deals). Our dependent variable thus takes four values representing four levels of diversification.

To deal with forward and backward vertical linkages we followed the approach of Fan and Goyal (2006), based around the use of national commodity flow input/output tables. The challenge here is identifying backward and forward vertically related deals, which, while appearing to be unrelated, are in fact related. We manually checked all deals with a special

[5] If a largest shareholder is not independent, the ultimate owner is traced back again via the largest shareholder until an ultimate owner which is independent is finally identified.

focus on the industry segments that acquiring firms and their parent companies were involved in prior to the foreign M&A year. Moreover, we manually checked all acquiring firms' group affiliated subsidiaries' and target firms' industry codes and selected the four-digit SIC codes most closely aligned to those of the target firms to further explore whether the group as a whole possessed related firms.

4.3 Independent variables

Diversified business group *(DIVBG)* was the main independent variable. Determining affiliation to a diversified business group was based on several conditions. Firstly, we needed to establish group membership per se. In 1998, the State Administration for Industry & Commerce of the People's Republic of China launched the 'Interim Provisions on the Administration of Enterprise Group Registration' (SAMR, 2021[6]). According to this business law, any group's parent company must have a registered capital of $7.5 million and at least five subsidiaries (Wang et al., 2015). We drew from the Orbis database to identify the number of companies in the corporate group, following prior studies that checked whether the ultimate controlling entity owned more than five firms. Secondly, for cases where such information was not available, following previous studies (Xia et al., 2014), we also identified enterprise group information from editions of 'Large Corporations of China[7]', a list of groups provided by the State-Owned Assets Supervision and Administration Commission of the State Council (SASAC). Lastly, we double-checked this measure of business group affiliation by using further related secondary sources (such as corporate websites and media reports). This allowed

[6] SAMR = State Administration for Market Regulation.
[7] The definition of those business groups listed in 'Large Corporations of China' is also according to 'Interim Provisions on the Administration of Enterprise Group Registration'.

us to include a dummy variable (*BGA*) representing the ultimate acquirer being affiliated to a business group or not.

Next, to account for the level of diversification we used a measure based around the count of different two digit SIC codes. Diversified groups were distinguished from specialized ones by the breadth of their two-digit industry spreads when accounting for forward and backward vertical integration linkages (Fan & Goyal, 2006). Our variable for diversified groups (*DIVBG*) takes a value of 1 where the group is involved in *at least* two different two digit SIC code level groupings with no single group exceeding 80% of sales. We manually checked acquiring firms and their possible affiliated groups to check whether these Chinese acquiring firms were affiliated to a diversified business group before the deal year. We introduced a POE dummy variable *(PRIVATE)* based on the identity of the largest shareholder and the type of business the parent firm was registered as. Orbis identifies state-owned businesses. In addition, technology- and brand-based assets of the target firms were incorporated. Following prior studies (e.g., Nicholson & Salaber, 2013; Sutherland et al., 2018), two dummy variables to represent strategic assets were included: namely whether the target firms owned patent *(T_PAT)* or trademark *(T_TRADM)* based assets. This allowed us to explore Hypothesis 3 using two different types of strategic asset. Table 1 shows all variables' operationalization and information on data sources.

Insert Table 1

4.4 Control variables

We controlled for a wide range of additional factors that can determine relatedness in deal making. Log-transformed firm age *(AGE)* was included (Gaur & Delios, 2015; Sun et al., 2017);

younger firms may have fewer resources and less experience, and therefore less likely to acquire unrelated businesses abroad. Financial performance is a potential antecedent of diversification and may influence diversification strategy (Park, 2002). Profit margin *(PROFIT)* was therefore included. Economies of scale through size may influence international diversification (e.g., Gaur & Delios, 2015); log-transformed total assets *(TASSET)* was included. Two-digit industry controls and dummies for deal year were included. We used international experience *(EXPE)*, a dummy variable where '1' relates to the Chinese firm previously owning a foreign subsidiary prior to the deal year. Experience of operating abroad may lower costs (Zaheer, 1995). Unrelated diversification may require financial investment over a protracted period of time (Kochhart & Hitt, 1998). We added firms' public status *(PUBLIC)* as a control variable, whereby '1' denoted a publicly listed company before acquisition, and '0' otherwise. We also added acquiring firm ownership level *(OWNTRANS)* following the deal.

Finally, FDI may be seen as a means of diversifying risk (i.e., also a form of capital flight) and it may explain why some EMNEs move into unrelated sectors. Institutional arbitrage, whereby EMNEs look simply to 'escape' their home market, might further suggest unrelated diversification as a strategic option for EMNEs (Boisot & Meyer, 2008). Consequently, we incorporated institutional distance as a control variable. Institutional distance *(INSDIS)* was measured between China and target countries using a Euclidean distance calculation based on the World Governance Indicators from the World Bank (i.e., similar to that used in Kogut & Singh (1988) for calculating cultural distance):

$$\{\text{Institutional distance } ('INSDIS') = \sum_{i=1}^{n} [(I_k - I_c)^2 V_i]/_6\}$$

Where I_k refers to the institutional indicator[8] (I) for country k, I_c stands for the institutional indicator (I) for China (c), and V_i is the variance of indicator I.

4.5 Models and robustness

Following previous studies (Grøgaard et al., 2019; Muehlfeld, et al., 2012; Wang and Zajac, 2007), we pool the data to test the hypotheses using ordered logistic modelling of the form:

$$P(specialization = 0; related\ \ diversification = 1; somewhat\ \ related\ \ or\ \ unrelated\ \ diversification = 2; unrelated\ \ diversification = 3) = \mathbf{\Lambda}(\alpha + \beta^T X_i + \varepsilon_i)$$

Where, P represents the probability of pursuing a certain type of diversification. $\mathbf{\Lambda(z)}$ refers to the *Ordered logistic* function $e^z/(1+e^z)$. X_i indicates the group of independent variables, α is the intercept of vector, β expresses the vector of regression parameter, and ε_i is the error term.

The Breusch-Pagan (BP) test was used to identify the existence of heteroscedasticity and a variance inflation factor (VIF) test was added to uncover any multicollinearity problems. To address potential endogeneity problems, all relevant independent variables were lagged one year prior to the deal year in use. Given sample selection for business groups can be a specific form of endogeneity, we followed the conventional two-stage procedure (Heckman, 1979) to deal with potential selection bias. In the first stage, a probit regression was used to predict the probability of being selected as a business group using a function of firm age, size, public status and their prior international experience. The predicted value derived from the first stage was transformed into the inverse Mills ratio ('lambda'). This was included as a regressor (correction

[8] The Worldwide Governance Indicators (WGI) report six indicators including Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption.

variable) in the second stage model controlling for selection bias. Following Li, Li and Wang's (2019) approach, we also examined marginal effects in order to show changes in the probability of our sample firms pursuing unrelated foreign acquisitions based on different levels of the independent variables.

5. Results

Table 2 displays descriptive statistics and pairwise correlations for the variables used. 75% of the Chinese acquirers were affiliated to a business group and 54.8% of them were affiliated to a diversified business group. The low intercorrelations among variables suggest multicollinearity is not an issue. The correlation between *UNRELATED_ACQ* and *DIVBG* is 0.136, suggesting support for a positive link between diversified business group affiliation and unrelated foreign acquisitions. Since the dependent variable and main explanatory variables are categorical variables, we also examined Pearson chi square and Cramer's V coefficients, noting expected and significant values in each case (e.g., Pearson chi square = 31.09, $p<0.01$; Cramer's V = 0.21 for *UNRELATED_ACQ* and *DIVBG*).

Insert Table 2

The main ordered logistic regression results are shown in Table 3. In terms of control variables, the effects are largely as expected. We see that firm age negatively influences unrelated foreign acquisitions (β= -0.486, $p<0.01$ in Model 7). Having prior international experience means the firm is more likely to acquire unrelated foreign businesses (β=0.455, $p<0.05$ in Model 3). The effect of ownership level after the acquisition is significant but negative (β= -0.005, $p<0.05$ in Model 7). Industry can also determine unrelated foreign

acquisitions. Specifically, the agriculture sector has a positive effect while mining and services shy away from unrelated foreign acquisitions.

Models 1 and 2 test whether firms affiliated to a business group (*BGA*) are more likely to acquire unrelated foreign businesses. Model 1 is the baseline model. We added the self-correction term 'lambda' into Models 2-7. The results show that firms affiliated to business groups had a higher probability of acquiring unrelated foreign businesses. From Models 3-7, we test the effects of *DIVBG* on unrelated foreign deals. In Models 5-6, we added the three two-way interaction items ('*DIVBG_PRIVATE*', '*DIVBG_PAT*', and '*DIVBG_TRADM*') respectively. In Model 7, we added all three two-way interaction terms together. Table 4 presents marginal effects on Models 2-6. Plots for the moderating effects of '*PRIVATE*', '*T_PAT*' and '*T_TRADM*' are shown in Figures 2 and 3.

Insert Tables 3-4 and Figures 2-3

Comparing model fit, we find that the values of Wald chi2 and Pseudo R2 in Models 3-7 are all greater than in Models 1-2 and the values of Log pseudolikelihood in Models 3-7 are all less than in Models 1-2. This indicates the explanatory power of Models 3-7 is stronger when adding *DIVBG*, *DIVBG_PRIVATE*, *DIVBG_PAT*, and *DIVBG_TRADM* respectively. Also, the Akaike Information Criterion (AIC) values in Models 3-7 are all less than in Models 1-2, indicating that the model fit is improved despite the fact that the model grows in complexity (Wulff, 2015). In Model 3, the coefficient for *DIVBG* is 1.292; diversified business groups are more likely to acquire unrelated foreign businesses. The marginal effect for unrelated diversification in Model 3 (Table 4) indicates a 16.7% increase in the probability of pursuing

unrelated diversification compared with only a 9.1% increase in this probability for business groups in general. These findings support Hypothesis 1.

Model 4 tests for the moderating effect of *PRIVATE* on the *DIVBG – UNRELATED_ACQ* relationship. The coefficient of *DIVBG_PRIVATE* is 1.364; private ownership amplifies the positive relationship between diversified business group affiliation and unrelated foreign acquisitions. Table 4 shows there is a 21.7% higher probability of acquiring unrelated foreign businesses when the firm is privately-owned and affiliated to a diversified business group compared to when it is neither privately owned nor affiliated to a diversified business group, providing strong support for Hypothesis 2. Figure 2 shows these effects.

Models 5 and 6 test for the moderating effect of strategic asset seeking (*T_PAT* and *T_TRADM* respectively). The coefficient of the *DIVBG_PAT* interaction term is 0.981 and significant; patent seeking amplifies the positive relationship between diversified business group affiliation and unrelated foreign acquisitions. However, the coefficient for the *DIVBG_TRADM* interaction is not significant. As shown in Table 4, there is a 14.9% higher chance of acquiring unrelated foreign businesses when the firm is patent seeking and affiliated to a diversified business group compared to when it is neither patent seeking nor affiliated to a diversified business group. These results provide nuanced support for Hypothesis 3. Figure 3 illustrates the effect for patent seeking.

6. Discussion

Buckley et al. (2018) in their JIBS decade award prize retrospective argued that better understanding 'the precise theoretical mechanism' behind China's unrelated international

investments would mark ‘an important step forward’ in understanding EMNEs (Buckley et al., 2018: 11). They speculated that ‘market imperfections at home are the root cause’ for these ‘unusual investment strategies’ (Buckley et al., 2018: 11). In support of this, we have found that diversified business groups, organizational forms that have evolved to deal with domestic institutional voids, are associated with unrelated foreign acquisition by Chinese firms. Business groups are common in many emerging markets, leading scholars to ask whether - and how - such groups may influence EMNE internationalization (Holmes et al., 2018; Aguilera et al., 2020). Our central contribution is to show how the diversification of the business group to which a firm is affiliated in the home country – amplified by legitimizing forces in terms of private ownership and SAS motive - determines the propensity of the firm to make unrelated foreign acquisitions.

A recent literature review exploring the intersection between business groups and internationalization, identified a total of 106 articles on the topic in leading journals (Aguilera et al., 2020). The focus of this literature has been on subjects like: how FDI volumes are influenced by group affiliation (Chari, 2013); the relationship between R&D intensity and degree of internationalization of group affiliated firms (Purkayastha et al., 2015); how group affiliation influences FDI performance (Borda et al., 2017); how the host country institutional environment influences the relative performance of affiliated versus non-affiliated subsidiaries (Castaldi et al., 2019); how firms affiliated with business groups are more likely to progress from exporting to FDI (Gaur et al., 2014); and how managerial resources are shared across business groups to facilitate internationalization (Tan & Meyer, 2010). Our study adds to this literature on the links between business groups and internationalization, showing how *domestic*

diversification of a business group to which a firm is affiliated encourages unrelated foreign acquisitions.

Unlike these alternative studies, our view is that diversified business group affiliation provides both capability and legitimacy needed by emerging-market firms to take on higher levels of risk by pursuing unrelated acquisitions internationally than would otherwise be palatable. Moreover, we argue that private ownership and motive to seek strategic assets act as key sources of legitimacy that strengthen this relationship. Our findings are in line with previous assertions that business groups (in general) possess advantageous resources (i.e., internal product, labor and financial markets) and absorptive capacity that can encourage unrelated diversification deals (Cheng & Yang, 2017; Popli et al., 2017). However, our work is novel in showing how the *diversified* nature of the business group is actually the key driver. We argue this is because they help to minimize the enormous risks that are associated with unrelatedness when EMNEs internationalize into new areas (Capar & Kotabe, 2003; Kumar, 2009; Palich et al., 2000). They do so by: (a) supporting foreign target performance via use of a range of group wide resources; as well as (b) facilitating access to the large emerging market base.

Specifically, as regards (b) the acquisition of unrelated foreign businesses can be explained by favorable supply and demand side conditions, namely that diversified group affiliation affords member firms a stronger *domestic* market position compared to both domestic (non-group affiliated) and foreign rivals for highly sought after (in the home market) foreign strategic assets (i.e., technologies and brands)[9]. Indeed, scholars have explicitly incorporated arguments

[9] For example, China's Fosun Group exemplifies international diversification for the purposes of domestic

relating to domestic market superiority as an important plank in their explanations for EMNE FDI strategy (Hennart, 2012; Luo & Tung, 2018; Sutherland et al., 2020). Luo and Tung (2007, 2018), for example, stress the importance of 'home court advantages'. Hennart (2012) has more explicitly explained why EMNEs, and business groups in particular, are able to 'bundle' foreign acquired assets when locational advantages are 'imperfect' (i.e., not available to all firms equally). Diversified groups have superior access to a wide range of 'complementary local resources' (Hennart, 2012) and this makes acquisition of unrelated foreign strategic assets attractive to affiliated firms. Numerous examples, including groups like HNA, Wanda, Midea and Fosun, illustrate how unrelated international deals do lead to improved market access and performance.

6.1 Addressing the paradox of unrelated international diversification by EMNEs

Buckley et al. (2018) emphasized in particular the role of capital market imperfections as likely sources of unrelated acquisitions. Their reasoning follows the idea that easier access to capital, combined with poor corporate governance, might allow these 'perverse risk preferences' to prevail (Buckley et al., 2018). Our interpretation of what Buckley et al. (2018) refer to as 'unusual' FDI activities, however, is somewhat different to theirs. While domestic market imperfections may drive unrelated acquisitions, it is the ability of diversified business groups to address these imperfections and exploit complementary local resources (Hennart, 2012) that

market expansion. It has targeted the fast growing areas of 'health' (i.e., healthcare), 'wealth' (financial services, i.e., insurance), and 'happiness' (i.e., entertainment, luxury goods sectors) of China's growing middle classes. Its foreign acquisitions are specifically directed at firms which offer products or services that have potential markets in China.

matters. Strategic assets (such as Kuka's robotics technologies) are even more desirable for diversified groups, which can exploit their full potential domestically.

Benefiting from unrelated business acquisition in foreign markets and creating technological synergies might – paradoxically - seem somewhat improbable for EMNEs. Engaging in 'LLL' or 'springboard' type activities, according to established views, at least in the short term (Hennart, 2012), would seem inconsistent with risky unrelated acquisitions. For example, is Midea, with a background in household appliances (among other things), likely to promote Kuka's development of high-tech robotics? Or Wanda, with an original background in property development, likely to successfully help Sunseeker develop its luxury yacht portfolio? The orientation towards risky international acquisitions does seem, at face value, to sit uneasily with these 'catch-up' views. EMNEs are often considered different owing to their weak ownership advantages and strong asset augmenting focus. Yet, such asset augmentation strategies are also common in developed economy MNEs (Sutherland et al., 2018). Thus, in our view, an arguably more striking feature of EMNE internationalization is the tendency towards unrelated deal making abroad. While it may be antithetical to the ideas of long-term catch-up (LLL or springboard perspective), diversified business group affiliation does provide a new theoretical basis for understanding how emerging market firms thrive in the global economy (Ramamurti & Williamson, 2019).

6.2 Ownership and motives

Our study also highlights how private ownership and SAS motives provide additional legitimacy as emerging market firms affiliated to diversified business groups pursue unrelated

foreign acquisitions. These new findings add credence to an argument that it is not just about resources and knowledge from within a domestic business group that allows effective deal execution and integration in the post deal period. There is also a legitimizing effect (how the enterprise is owned and what its motives are) to engage in and conduct those highly risky deals in the first place. Since relatively early on in China's reforms, state-owned business groups have been discouraged from diversifying (Sutherland, 2003). The State Council took the view that leading state-controlled business groups should emulate their Western counterparts in this regard, not straying too widely into unrelated product areas (Sutherland, 2009). However, recent research does show how partially-owned SOEs can invest abroad in a similar way to POEs (Grøgaard et al., 2019). This is interesting because Chinese POEs are less dependent on home country government involvement and have been afforded far greater flexibility by Chinese government policies with regards to the sectors they enter. The reining in of state-owned groups with regards to diversification has afforded private sector groups windfall rents from the pent-up demand existing in many undersupplied markets in China (i.e., Fosun catering to the emerging mass foreign tourism market; Midea engaging in robotics manufacturing; Wanda in luxury yachts). Additionally, managerial recognition of resource deficiencies leads to an SAS orientation (Dunning, 2000) which provides extra legitimacy for unrelated asset-augmentation through foreign acquisition when the firm is affiliated to a diversified business group. The findings provide support for important legitimizing factors in the form of private ownership and SAS motives, amplifying the effect of diversified business group affiliation. This insight extends previous work that has only looked at direct effects of business group affiliation or has not considered boundary conditions relating to how firms are owned and what

their motives are (Chang et al., 2006; Chari, 2013; Castaldi et al., 2019; Popli et al., 2017; Yiu et al., 2013).

6.3 Policy and managerial implications

While undertaking unrelated foreign acquisitions may seem inappropriate in the minds of many developed market executives, it may not seem so to managers in emerging market businesses, especially those whose firms are affiliated to a diversified business group. Such strategies can potentially be justified in the context of asymmetric market access (facilitated by diversified business group membership). Such asymmetric market access, however, can be a hot political item (consider the trade war between the US and China). In Germany, for example, alarm at the loss of key industrial assets (such as Midea Group's acquisition of Kuka) has made investment openness a political issue. Developed market policy-makers interested in levelling the playing field may draw from our insights into the conditions under which such acquisitions occur. By doing so, opportunistic unrelated deal-making can be more accurately predicted and understood. From an emerging market perspective there may be a potential loss of competitiveness for some domestic (non-diversified) groups. On a positive note, however, increased competition may lead to greater focus in emerging market businesses in the longer term – and ultimately the development of internationally competitive firms, as opposed to domestic groups which lack the ability to innovate at the technological frontier. On the other hand, our findings suggest shareholders of developed economy MNEs may benefit from being acquired by an industrially unrelated EMNE, particularly one affiliated to a large diversified business group. For those emerging-market firms, managers need to understand the levels of diversification in their affiliated business group, how they are owned, and what their strategic

motives are, as factors that will influence how they engage in risky unrelated foreign deals.

6.4 Limitations and future research

We acknowledge limitations in the current study. We focused on one major emerging market, China, and recognize that results from different countries where business groups are prevalent could be different. We also acknowledge that our measures could have certain limitations. Differing with the entropy approach of measuring a firm's international diversification, we matched target and acquiring firms' four-digit primary SIC codes. However, we dealt with backward and forward vertically-related deals with a double manual check. We also used Heckman's (1979) two stage procedure to mitigate sample selection bias. While we used a dichotomous variable to capture private ownership of the EMNE, the recent work on how partially-owned SOEs behave in a similar way to POEs (Grøgaard et al., 2019) suggests a new line of research that could shed more light on hybrid ownership forms alongside different degrees of diversification of the business group.

Future research directions can also include the following. Firstly, extant literature has emphasized SAS and the notion that EMNEs undertake FDI with a view to 'catching-up' – particularly in terms of technology and innovation capabilities, as well as brand building and the development of intangible assets. Future work should examine whether unrelated deal-making really facilitates longer term technological catch-up and/or whether it is simply a way of exploiting access to domestic complementary local resources to improve short-term financial performance. Secondly, EMNE diversification stands in stark contrast to that of leading developed market MNEs, where specialization is increasingly rewarded in global capital markets. Future work can investigate whether it is even possible to be a world leading MNE

whilst also being active in unrelated foreign acquisitions and being affiliated to a highly diversified business group. Thirdly, we have shown that a foreign patent seeking motive (but not trademark seeking) amplifies the positive relationship between diversified business group affiliation and acquisition of unrelated foreign businesses. Future empirical studies might examine whether and how emerging market diversified business groups enhance subsequent innovation via different types of acquired assets and how they actually perform in terms of intangible strategic asset generation and growth.

ACKNOWLEDGEMENT

This research was supported by the International Postdoctoral Exchange Fellowship Program, National Postdoctoral Management Committee, China; the National Natural Science Foundation of China [Grant nos. 71872098; 71834006], and the Major Research Projects of Philosophy and Social Sciences of the Ministry of Education [Grant no. 17JZD018].

REFERENCES

Aguilera, R. V., Crespí-Cladera, R., Infantes, P. M., & Pascual-Fuster, B. (2020). Business groups and internationalization: effective identification and future agenda. *Journal of World Business*, 55(4), 101050.

Amsden, A. H., & Hikino, T. (1994). Project execution capability, organizational know-how and conglomerate corporate growth in late industrialization. *Industrial and Corporate Change*, 3(1), 111-147.

Boisot, M., & Meyer, M. W. (2008). Which way through the open door? Reflections on the internationalization of Chinese firms. *Management and Organization Review*, 4(3), 349-365.

Borda, A., Geleilate, J. M. G., Newburry, W., & Kundu, S. K. (2017). Firm internationalization, business group diversification and firm performance: the case of Latin American firms. *Journal of Business Research*, 72, 104–113.

Bozeman, B., & Kingsley, G. (1998). Risk culture in public and private organizations. *Public Administration Review*, 58(2), 109-118.

Buckley, P. J., Clegg, L. J., Cross, A. R., Liu, X., Voss, H., & Zheng, P. (2007). The determinants of Chinese outward foreign direct investment. *Journal of International Business Studies*, 38(4), 499–518.

Buckley, P. J., Clegg, L. J., Voss, H., Cross, A. R., Liu, X., & Zheng, P. (2018). A retrospective and agenda for future research on Chinese outward foreign direct investment. *Journal of International Business Studies*, 49(1), 4-23.

Buckley, P. J., Munjal, S., Enderwick, P., & Forsans, N. (2016). The role of experiential and non-experiential knowledge in cross-border acquisitions: the case of Indian multinational enterprises. *Journal of World Business*, 51(5), 675-685.

Capar, N., & Kotabe, M. (2003). The relationship between international diversification and performance in service firms. *Journal of International Business Studies*, 34(4), 345-355.

Carney, M. (2008). *Asian Business Groups: Context, Governance and Performance* (1st ed.). Chandos Publishing: Oxford.

Carney, M., Essen, M. V., Estrin, S., & Shapiro, D. (2017). Business group prevalence and impact across countries and over time: what can we learn from the literature? *Multinational Business Review*, 25(1), 52-76.

Castaldi, S., Gubbi, S. R., Kunst, V. E., & Beugelsdijk, S. (2019). Business group affiliation and foreign subsidiary performance. *Global Strategy Journal*, 9(4), 595–617.

Chang, S. J., Chung, C. N., & Mahmood, I. P. (2006). When and how does business group affiliation promote firm innovation? A tale of two emerging economies. *Organization Science*, 17(5), 637-656.

Chari, M. D. R. (2013). Business groups and foreign direct investments by developing country firms: an empirical test in India. *Journal of World Business*, 48(3), 349-359.

Cheng, C., & Yang, M. (2017). Enhancing performance of cross-border mergers and

acquisitions in developed markets: the role of business ties and technological innovation capability. *Journal of Business Research*, 81, 107-117.

Child, J., & Rodrigues, S. B. (2005). The internationalization of Chinese firms: a case for theoretical extension? *Management and Organization Review*, 1(3), 381–410.

Cuervo-Cazurra, A. (2006). Business groups and their types. *Asia Pacific Journal of Management*, 23(4), 419–437.

Cull, R., & Xu, L. C. (2005). Institutions, ownership, and finance: the determinants of profit reinvestment among Chinese firms. *Journal of Financial Economics*, 77(1), 117-146.

Datar, S., Frankel, R., & Wolfson, M. (2001). Earnouts: the effects of adverse selection and agency costs on acquisition techniques. *Journal of Law, Economics, and Organization*, 17(1), 201-238.

Datta, D. K. (1991). Organizational fit and acquisition performance: Effects of post-acquisition integration. *Strategic Management Journal*, 12(4), 281-297.

Deng, P. (2009). Why do Chinese firms tend to acquire strategic assets in international expansion? *Journal of World Business*, 44(1), 74-84.

Desai, V. M. (2008). Constrained growth: How experience, legitimacy, and age influence risk taking in organizations. *Organization Science*, 19(4), 594-608.

Dewenter, K. L., & Malatesta, P. H. (2001). State-owned and privately owned firms: an empirical analysis of profitability, leverage, and labor intensity. *American Economic Review*, 91(1), 320-334.

Dunning, J. H. (1979). Toward an eclectic theory of international production: some empirical tests. *Journal of International Business Studies*, 11(1), 9-31.

Dunning, J.H. (2000). The eclectic paradigm as an envelope for economic and business theories of MNE activity. *International Business Review*, 9(2), 163-190.

Fan, J. P. H., & Goyal, V. K. (2006). On the patterns and wealth effects of vertical mergers. *The Journal of Business*, 79(2), 877-902.

Gaur, A., & Delios, A. (2015). International diversification of emerging market firms: the role of ownership structure and group affiliation. *Management International Review*, 55(2), 235-253.

Gaur, A. S., Kumar, V., & Singh, D. (2014). Institutions, resources, and internationalization of emerging economy firms. *Journal of World Business*, 49(1), 12–20.

Granovetter, M. (1995). Coase revisited: business groups in the modern economy. *Industrial and Corporate Change*, 4(1), 93–130.

Grøgaard, B., Rygh, A., & Benito, G. R. G. (2019). Bringing corporate governance into internalization theory: state ownership and foreign entry strategies. *Journal of International Business Studies*, 50(8), 1310-1337.

Guillén, M. F. (2000). Business groups in emerging economies: a resource-based view. *Academy of Management Journal*, 43(3), 362-380.

Heckman, J. J. (1979). Sample selection bias as a specification error. *Econometrica*, 47(1), 153-161.

Hennart, J. F. (2012). Emerging market multinationals and the theory of the multinational enterprise. *Global Strategy Journal*, 2(3), 168-187.

Hernandez, E., & Guillén, M. F. (2018). What's theoretically novel about emerging-market multinationals? *Journal of International Business Studies*, 49(1), 24-33.

Holmes, R. M., Hoskisson, R. E., Kim, H., Wan, W. P., & Holcomb, T. R. (2018). International strategy and business groups: a review and future research agenda. *Journal of World Business*, 53(2), 134–150.

Khanna, T., & Palepu, K. (1997). Why focused strategies may be wrong for emerging markets. *Harvard Business Review*, *July-August*, 41–51.

Kochhart, R., & Hitt, M. A. (1998). Linking corporate strategy to capital structure. *Strategic Management Journal*, 19(6), 601-610.

Kogut, B., & Singh, H. (1988). The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, 19(3), 411-432.

Kumar, M. (2009). The relationship between product and international diversification: the effects of short-run constraints and endogeneity. *Strategic Management Journal*, 30(1), 99-116.

Li, J., Li, P., & Wang, B. (2019). The liability of opaqueness: state ownership and the likelihood of deal completion in international acquisitions by Chinese firms. *Strategic Management Journal*, 40(2), 303-327.

Lu, J., Liu, X., Filatotchev, I., & Wright, M. (2014). The impact of domestic diversification and top management teams on the international diversification of Chinese firms. *International Business Review*, 23(2), 455-467.

Lu, J. W., & Beamish, P. W. (2004). International diversification and firm performance: the S-curve hypothesis. *Academy of Management Journal*, 47(4), 598-609.

Luo, Y., & Tung, R. L. (2007). International expansion of emerging market enterprises: a springboard perspective. *Journal of International Business Studies*, 38, 481-498.

Luo, Y., & Tung, R. L. (2018). A general theory of springboard MNEs. *Journal of International Business Studies*, 49(2), 129-152.

Luo, Y., Xue, Q., & Han, B. (2010). How emerging market governments promote outward FDI: experience from China. *Journal of World Business*, 45(1), 68-79.

Majocchi, A., & Strange, R. (2012). International diversification: the impact of ownership structure, the market for corporate control and board independence. *Management International Review*, 52(6), 879-900.

Mathews, J. A. (2006). Dragon multinationals: new players in 21st century globalization. *Asia Pacific Journal of Management*, 23(1), 5-27.

Mathews, J. A. (2017). Dragon multinationals powered by linkage, leverage and learning: a

review and development. *Asia Pacific Journal of Management*, 34(4), 769-775.

Muehlfeld, K., Rao Sahib, P., & Van Witteloostuijn, A. (2012). A contextual theory of organizational learning from failures and successes: a study of acquisition completion in the global newspaper industry, 1981–2008. *Strategic Management Journal*, 33(8), 938–964.

Nicholson, R. R., & Salaber, J. (2013). The motives and performance of cross-border acquirers from emerging economies: comparison between Chinese and Indian firms. *International Business Review*, 22(6), 963-980.

Palich, L. E., Cardinal, L. B., & Miller, C. C. (2000). Curvilinearity in the diversification–performance linkage: an examination of over three decades of research. *Strategic Management Journal*, 21(2), 155-174.

Park, C. (2002). The effects of prior performance on the choice between related and unrelated acquisitions: implications for the performance consequences of diversification strategy. *Journal of Management Studies*, 39(7), 1003-1019.

Peng, M. W. (2003). Institutional transitions and strategic choices. *Academy of Management Review*, 28(2), 275-296.

Petersen, B. and Seifert, R.E. (2014). Strategic Asset Seeking by EMNEs: A Matter of Liabilities of Foreignness – or Outsidership?, *Multinational Enterprises, Markets and Institutional Diversity* (*Progress in International Business Research*, Vol. 9), Emerald Group Publishing Limited, pp. 375-398

Pitts, R. A., & Hopkins, H. D. (1982). Firm diversity: conceptualization and measurement. *Academy of Management Review*, 7(4), 620-629.

Popli, M., Ladkani, R. M., & Gaur, A. S. (2017). Business group affiliation and post-acquisition performance: an extended resource-based view. *Journal of Business Research*, 81, 21-30.

Purkayastha, S., Manolova, T. S., & Edelman, L. F. (2015). Business group effects on the R&D intensity-internationalization relationship: empirical evidence from India. *Journal of World Business*, 53(2), 104–117.

Ramamurti, R. (2012). What is really different about emerging market multinationals? *Global Strategy Journal*, 2(1), 41-47.

Ramamurti, R., & Williamson, P. J. (2019). Rivalry between emerging-market MNEs and developed-country MNEs: capability holes and the race to the future. *Business Horizons*, 62(2), 157-169.

Rui, H., & Yip, G. S. (2008). Foreign acquisitions by Chinese firms: a strategic intent perspective. *Journal of World Business*, 43(2), 213-226.

Sakhartov, A. V., & Folta, T. B. (2015). Getting beyond relatedness as a driver of corporate value. *Strategic Management Journal*, 36(13), 1939-1959.

SAMR (2021). *Interim Provisions on the Administration of Enterprise Group Registration*, available at: http://www.samr.gov.cn/djzcj/zcfg/gz/199804/t19980406_281794.html (Accessed: 14th February, 2021).

Scott, W. R. (1987). The adolescence of institutional theory. *Administrative Science Quarterly*, 32(4), 493-511.

Suchman, M. C. (1995). Managing legitimacy: strategic and institutional approaches. *Academy of Management Review*, 20(3), 571-610.

Sun, S. L., Peng, M. W., & Tan, W. (2017). Institutional relatedness behind product diversification and international diversification. *Asia Pacific Journal of Management*, 34(2), 339-366.

Sutherland, D. (2003). *China's large enterprises and the challenge of late industrialization*. RoutledgeCurzon: London.

Sutherland, D. (2009). Do China's "national team" business groups undertake strategic-asset-seeking OFDI?, *Chinese Management Studies*, 3(1), 11-24.

Sutherland, D., Anderson, J., & Hertenstein, P. (2018). Is the strategic asset seeking investment proclivity of Chinese MNEs different to that of developed market MNEs? A comparative analysis of location choice and orientation. *Management International Review*, 58(6), 911-933.

Sutherland, D., Anderson, J., & Hu, Z. (2020). A comparative analysis of location and non-location-bounded strategic asset seeking in emerging and developed market MNEs: an application of new internalization theory. *International Business Review*, 29(2), 101635.

Tan, D., & Meyer, K. E. (2010). Business groups' outward FDI: a managerial resources perspective. *Journal of International Management*, 16(2), 154–164.

Wang, C., Hong, J., Kafouros, M., & Wright, M. (2012). Exploring the role of government involvement in outward FDI from emerging economies. *Journal of International Business Studies*, 43(7), 655-676.

Wang, C., Yi, J., Kafouros, M., & Yan, Y. (2015). Under what institutional conditions do business groups enhance innovation performance? *Journal of Business Research*, 68(3), 694-702.

Wang, L., & Zajac, E. J. (2007). Alliance or acquisition? A dyadic perspective on interfirm resource combinations. *Strategic Management Journal*, 28(13), 1291-1317.

Wulff, J. N. (2015). Interpreting results from the multinomial logit model: demonstrated by foreign market entry. *Organizational Research Methods*, 18(2), 300–325.

Xia, J., Ma, X., Lu, J. W., & Yiu, D. W. (2014). Outward foreign direct investment by emerging market firms: a resource dependence logic. *Strategic Management Journal*, 35(9), 1343-1363.

Yiu, D. W. (2011). Multinational advantages of Chinese business groups: a theoretical exploration. *Management and Organization Review*, 7(2), 249-277.

Yiu, D. W., Ng, F. W., & Ma, X. (2013). Business group attributes and internationalization strategy in China. *Asian Business & Management*, 12(1), 14-36.

Zaheer, S. (1995). Overcoming the liability of foreignness. *Academy of Management Journal*, 38(2), 341-363.

TABLES

Table 1
Variable descriptions and data sources

Variables	Full name	Operationalization	Data source
UNRELATED_ACQ	Unrelated foreign acquisition	0=highly related; 1=moderately related; 2=moderately unrelated; 3=highly unrelated	Thomson One Banker; Orbis database
BGA	Business group affiliation in China	1=business group affiliated; 0 otherwise	Large Corporations of China 2008; ORBIS Database; Corporate websites
DIVBG	Diversified business group affiliation in China	1=diversified business group affiliated; 0 otherwise	Large Corporations of China 2010; ORBIS Database; Corporate websites
PRIVATE	Privately owned	1=privately owned; 0 otherwise	ORBIS Database
T_PAT	Target firms > one patent	1=target firm has 1 patent at least; 0 otherwise	ORBIS Database
T_TRADM	Target firms >one trademark	1=target firm has 1 trademark at least; 0 otherwise	ORBIS Database
AGE	Firm age	Logarithm of acquirer's age	ORBIS Database
PROFIT	Profit margin	Profit margin of acquirer	ORBIS Database
TASSET	Total asset	Logarithm of acquirer’s total assets	ORBIS Database
EXPE	International experience	International experience of acquirer’s prior M&As	ORBIS Database; Corporate websites
PUBLIC	Public company	1=acquirer is a public company; 0 otherwise	ORBIS Database
OWNTRANS	Ownership level	Acquirer's ownership level after M&A	Thomson One Banker
INSDIS	Institutional distance	Institutional distance between target firm’s country and China	World Governance Indicators (six) (World Bank)

Table 2

Descriptive statistics and pairwise correlations

	Variable	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13
1	UNRELATED_ACQ	1.05	1.19	1												
2	BGA	0.75	0.43	-0.09*	1											
3	DIVBG	0.55	0.50	0.14***	0.64***	1										
4	PRIVATE	0.51	0.50	0.28***	-0.49***	-0.31***	1									
5	T_PAT	0.24	0.42	-0.020	0.07	0.04	0.10*	1								
6	T_TRADM	0.25	0.44	0.04	0.02	0.01	0.12**	0.49***	1							
7	AGE	2.81	0.54	-0.16***	0.15***	0.08*	-0.20***	-0.04	-0.03	1						
8	PROFIT	7.38	22.86	0.10*	-0.01	-0.03	0.12**	0.09*	0.09*	-0.06	1					
9	TASSET	21.66	2.24	-0.24***	0.46***	0.28***	-0.45***	0.01	0.01	0.26***	0.08*	1				
10	EXPE	0.71	0.45	-0.02	0.12**	0.09*	-0.12**	-0.01	0.04	0.12**	-0.02	0.29***	1			
11	PUBLIC	0.56	0.50	0.09*	-0.13***	-0.06	0.10**	0.01	-0.02	-0.18***	-0.05	0.01	0.16***	1		
12	OWNTRANS	73.92	33.05	0.02	-0.05	-0.07	0.17***	0.01	0.01	-0.03	0.05	-0.15***	-0.07	0.04	1	
13	INSDIS	3.58	0.92	0.01	0.02	0.01	-0.04	0.05	0.04	-0.12**	-0.05	-0.07	-0.03	0.04	0.03	1

*p<0.05, **p<0.01, ***p<0.001

Table 3
Results of ordered logistic regression for unrelated foreign acquisitions

	Hypothesis	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
BGA		0.719*	0.715*					
		(0.301)	(0.306)					
DIVBG	H1			1.292***	0.607*	1.058***	1.149***	0.466+
				(0.196)	(0.243)	(0.220)	(0.224)	(0.260)
PRIVATE		0.522*	0.522*	0.608**	-0.263	0.650**	0.614**	-0.17
		(0.225)	(0.225)	(0.213)	(0.330)	(0.220)	(0.216)	(0.349)
T_PAT		-0.435*	-0.435*	-0.488*	-0.450*	-1.117**	-0.522*	-0.956*
		(0.208)	(0.208)	(0.204)	(0.207)	(0.374)	(0.207)	(0.376)
T_TRADM		0.224	0.223	0.259	0.251	0.216	-0.0374	0.21
		(0.202)	(0.203)	(0.201)	(0.202)	(0.203)	(0.329)	(0.332)
DIVBG_PRIVATE	H2				1.364***			1.265**
					(0.403)			(0.419)
DIVBG_PAT	H3					0.981*		0.795+
						(0.426)		(0.455)
DIVBG_TRADM	H3						0.504	0.009
							(0.388)	(0.418)
AGE		-0.434*	-0.436*	-0.440**	-0.490**	-0.442**	-0.436**	-0.486**
		(0.171)	(0.173)	(0.170)	(0.180)	(0.170)	(0.169)	(0.179)
PROFIT		0.006	0.006	0.006	0.005	0.007	0.006	0.006
		(0.004)	(0.004)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
TASSET		-0.179***	-0.186*	-0.165+	-0.138	-0.171+	-0.174+	-0.147
		(0.047)	(0.094)	(0.095)	(0.097)	(0.096)	(0.096)	(0.099)
EXPE		0.434*	0.433*	0.455*	0.449*	0.418+	0.448*	0.418+

	(0.215)	(0.216)	(0.212)	(0.214)	(0.215)	(0.211)	(0.217)
PUBLIC	0.345*	0.358	0.293	0.239	0.298	0.314	0.247
	(0.166)	(0.222)	(0.232)	(0.232)	(0.231)	(0.231)	(0.232)
OWNTRANS	-0.005*	-0.005*	-0.005*	-0.005*	-0.005*	-0.005*	-0.005*
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
INSDIS	0.008	0.007	0.018	0.019	0.026	0.025	0.023
	(0.085)	(0.085)	(0.089)	(0.089)	(0.088)	(0.089)	(0.088)
lambda		0.087	-0.328	-0.884	-0.240	-0.217	-0.770
		(1.081)	(1.085)	(1.117)	(1.094)	(1.092)	(1.131)
Year control	Included	Included	Included	Included	Included	Included	Included
Industry control	Included	Included	Included	Included	Included	Included	Included
cut1_cons	-5.129***	-5.224**	-5.054**	-5.380**	-5.191**	-5.205**	-5.485**
	(1.328)	(1.713)	(1.709)	(1.755)	(1.713)	(1.722)	(1.761)
cut2_cons	-4.008**	-4.103*	-3.862*	-4.166*	-3.990*	-4.010*	-4.266*
	(1.323)	(1.711)	(1.705)	(1.751)	(1.708)	(1.717)	(1.757)
cut3_cons	-3.391*	-3.485*	-3.209	-3.495*	-3.331	-3.355	-3.592*
	(1.322)	(1.710)	(1.705)	(1.751)	(1.708)	(1.716)	(1.756)
Observations	662	662	662	662	662	662	662
Wald chi2	113.16***	113.34***	151.83***	165.84***	157.62***	154.02***	168.90***
Pseudo R2	0.09	0.09	0.12	0.12	0.12	0.12	0.13
Log pseudolikelihood	-746.88	-746.87	-724.13	-717.31	-720.98	-723.18	-715.27
AIC	1555.8	1557.7	1512.3	1500.6	1508.0	1512.4	1500.5
Mean VIF	1.6	2.32	2.27	2.51	2.39	2.37	2.78

Note: Robust standard errors in parenthesis; +p<0.10, *p<0.05, **p<0.01, ***p<0.001

Table 4
Marginal effects

Term	Model in Table 3	Highly related	Moderately related	Moderately unrelated	Highly unrelated
BGA	Model 2	-0.146*	0.029*	0.027*	0.091*
		(0.059)	(0.015)	(0.011)	(0.035)
DIVBG	Model 3	-0.256***	0.042***	0.047***	0.167***
(Hypothesis 1)		(0.035)	(0.010)	(0.010)	(0.024)
DIVBG_PRIVATE	Model 4	-0.268***	0.004	0.047***	0.217**
(Hypothesis 2)		(0.071)	(0.014)	(0.012)	(0.072)
DIVBG_PAT	Model 5	-0.188*	0.008	0.030**	0.149*
(Hypothesis 3)		(0.074)	(0.008)	(0.010)	(0.072)
DIVBG_TRADM	Model 6	-0.100	0.010*	0.018	0.073
(Hypothesis 3)		(0.076)	(0.004)	(0.013)	(0.060)

Note: Robust standard errors in parenthesis; +p<0.10, *p<0.05, **p<0.01, ***p<0.001

FIGURES

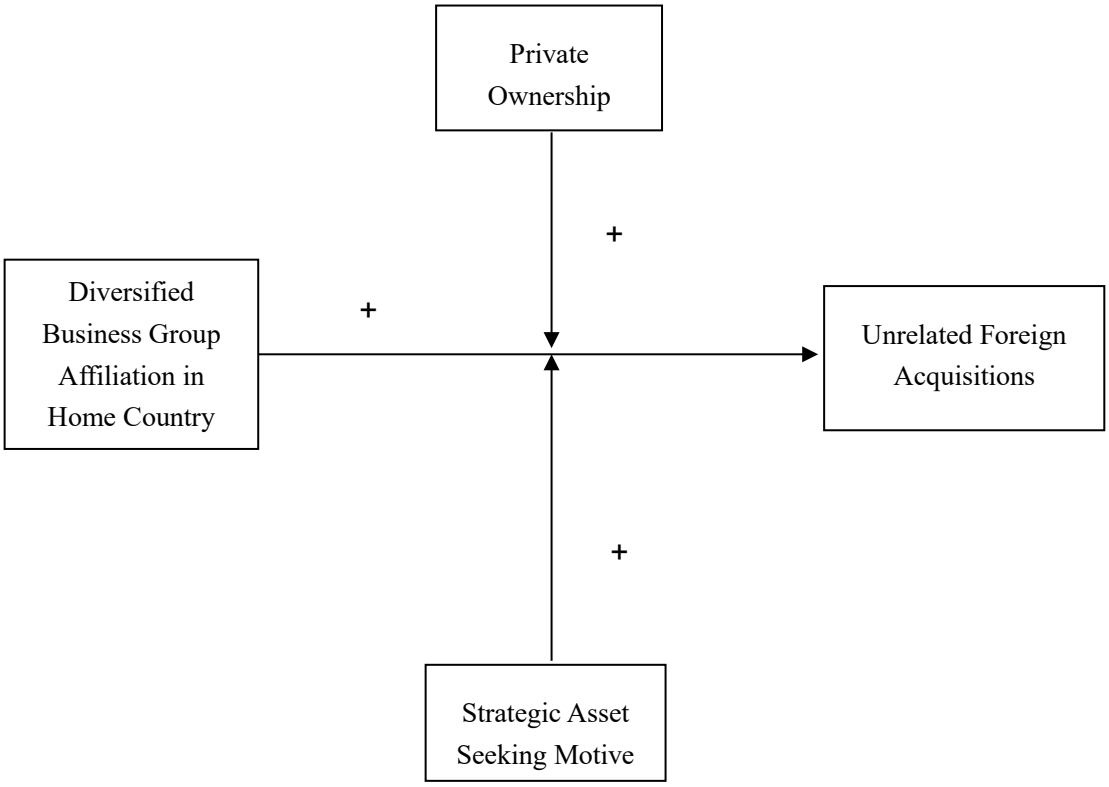

Fig 1. Conceptual model for unrelated foreign acquisitions by emerging market firms

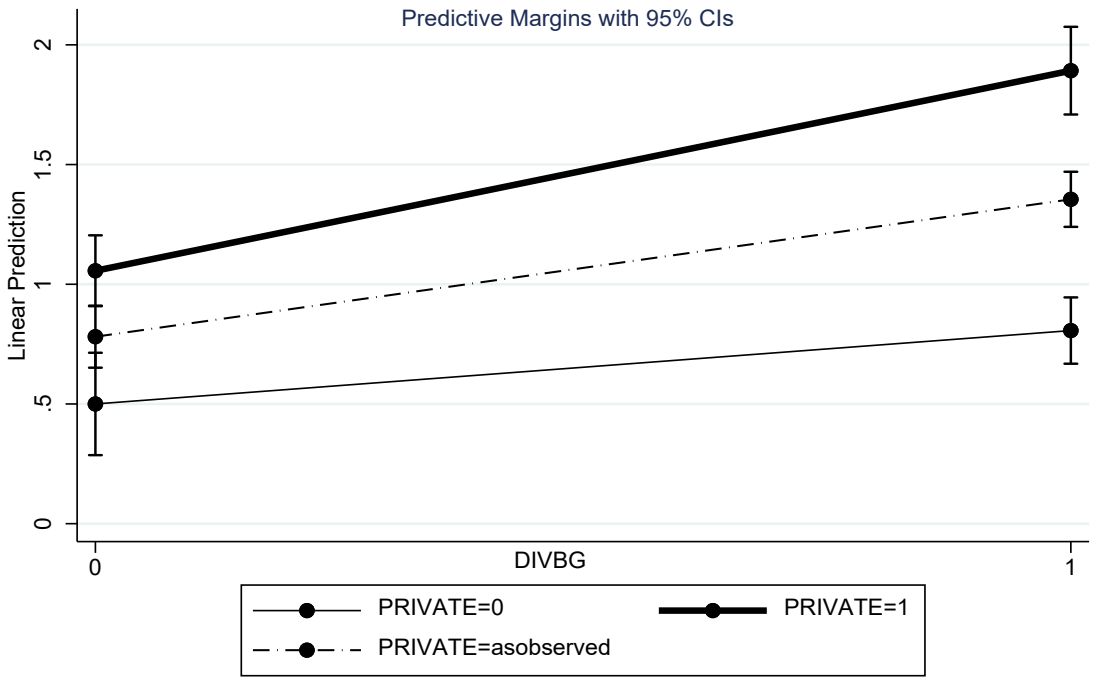

Fig 2. Interaction between diversified business group affiliation and private ownership

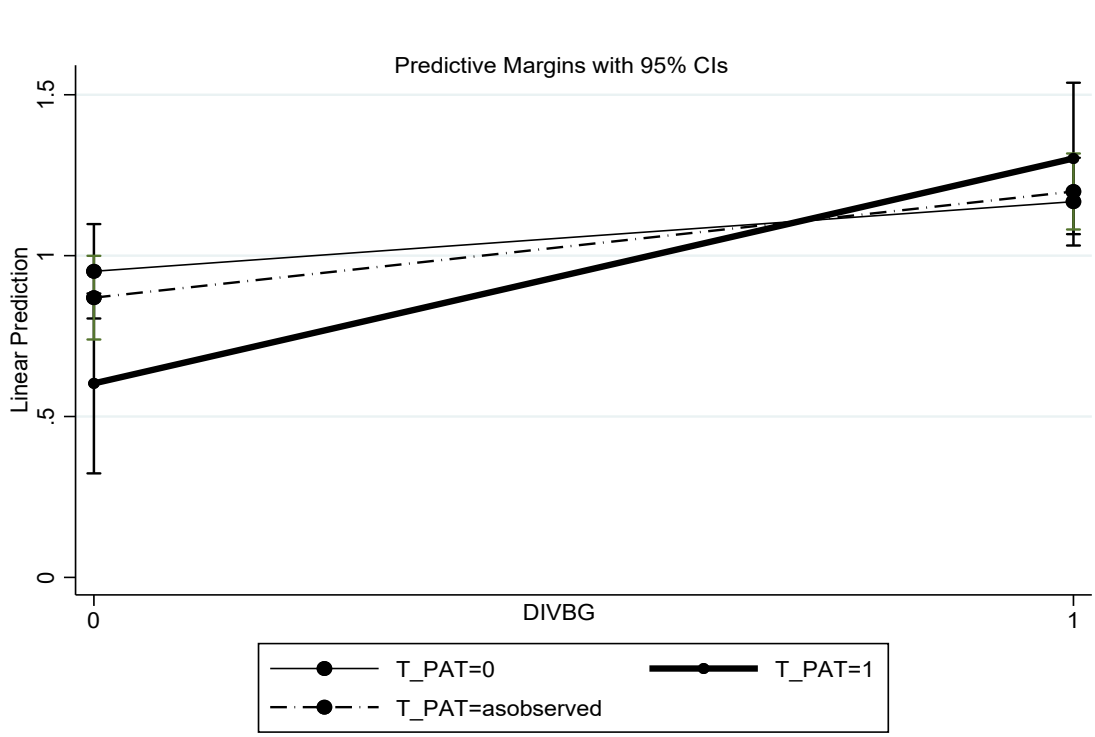

Fig 3. Interaction between diversified business group affiliation and patent-seeking

Appendix A

Four stages to building the sample

In the first stage, we obtained Chinese MNE cross border M&As (2006 to 2015) from the Thomson One Banker database. We had to ensure that all target firms were located outside of the mainland of China and all Chinese acquirers had to be firms originating from the mainland of China. We ensured that the acquirer's ultimate parent nation was China. According to the standard OECD/IMF definition of FDI, we placed one condition for each M&A deal that Chinese acquirers owned more than 10% ownership of target firms. In this stage, we achieved 1,736 such deals from 2006 to 2015.

In the second stage, we used the 'batch-search' function in Orbis to match each pair of firms. Through a manual check on each firm's details we discarded target firms that referred to land or physical property. We also removed target firms were originally from the mainland of China. These totaled 255. We abandoned target firms that are originally other Chinese foreign-based subsidiaries, not relevant for our research purpose. There were 25 repetitive M&A deals that were excluded. Another 89 target firms were simply part assets such as wind farms, oil, gold projects for which we could not find any actual company registration information. We also found five ineffective target observations for which there were no details in the Orbis database.

In the third stage, we checked acquirers. Firstly, we excluded 136 Chinese acquirers which had been dissolved according to the information given by Orbis. Secondly, checking acquirers' global ultimate ownership, we found 26 acquirers were not indigenous Chinese firms. Thirdly, we excluded another 92 Chinese acquirers because they consisted of individual investors. Finally, we double-checked the remaining sample based on above conditions, leaving 843 effective M&A deals.

In the fourth stage, in terms of ultimate ownership, we triple-checked all Chinese acquirers, excluding those ultimate owners or parent companies that were government-controlled banks or insurance companies, eliminating 58 deals. In terms of industry factors, we excluded those acquirers involved in Finance, Insurance and Real Estate (e.g., SIC code ranges from 6000 to 6799), which resulted in a further 80 M&As being removed.