



UvA-DARE (Digital Academic Repository)

Cross-border acquisitions by sovereign wealth funds: A legitimacy-based view

Murtinu, S.; Scalera, V.G.; Strange, R.

DOI

[10.1002/gsj.1496](https://doi.org/10.1002/gsj.1496)

Publication date

2023

Document Version

Final published version

Published in

Global strategy journal

License

CC BY

[Link to publication](#)

Citation for published version (APA):

Murtinu, S., Scalera, V. G., & Strange, R. (2023). Cross-border acquisitions by sovereign wealth funds: A legitimacy-based view. *Global strategy journal*, 13(4), 888-926. <https://doi.org/10.1002/gsj.1496>

General rights

It is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), other than for strictly personal, individual use, unless the work is under an open content license (like Creative Commons).

Disclaimer/Complaints regulations

If you believe that digital publication of certain material infringes any of your rights or (privacy) interests, please let the Library know, stating your reasons. In case of a legitimate complaint, the Library will make the material inaccessible and/or remove it from the website. Please Ask the Library: <https://uba.uva.nl/en/contact>, or a letter to: Library of the University of Amsterdam, Secretariat, Singel 425, 1012 WP Amsterdam, The Netherlands. You will be contacted as soon as possible.



Cross-border acquisitions by sovereign wealth funds: A legitimacy-based view

Samuele Murtinu¹ | Vittoria G. Scalera² | Roger Strange³

¹Utrecht University School of Economics, Utrecht University, Utrecht, The Netherlands

²Amsterdam Business School, University of Amsterdam, Amsterdam, The Netherlands

³Department of Strategy & Marketing, University of Sussex Business School, University of Sussex, Brighton, UK

Correspondence

Samuele Murtinu, Utrecht University School of Economics, Adam Smith Hall, Kriekenpitplein 21-22, 3584 EC Utrecht, The Netherlands.

Email: s.murtinu@uu.nl

Abstract

Research Summary: Drawing on institutional economics and the legitimacy-based view of political risk, we investigate the factors determining the realization of cross-border investments by sovereign wealth funds (SWFs), whose investments often suffer from a lack of legitimacy in host countries. Using matching models on all the realized and potential investments, we find that investments are more likely to materialize when the SWF home country and the host country enjoy cordial political relations or are involved in a trade agreement. Contrary to the theoretical predictions, SWF politicization does not per se represent an impediment to the realization of investments. Rather, it has a negative effect on the likelihood of an investment's realization only in the presence of trade agreements.

Managerial Summary: A recent trend in the global economy is the increasing cross-border investment activity undertaken by sovereign wealth funds (SWFs), large investment vehicles where financial and political goals often co-exist. On the grounds of possible financial or political destabilization, SWFs' cross-border investments attract scrutiny and suspicion in host countries, hindering their realization. We analyze SWF- and country-level factors that may determine the successful realization of SWFs' cross-border acquisitions. We suggest that managers *ex ante* select target firms and host countries by

This is an open access article under the terms of the [Creative Commons Attribution](https://creativecommons.org/licenses/by/4.0/) License, which permits use, distribution and reproduction in any medium, provided the original work is properly cited.

© 2023 The Authors. *Global Strategy Journal* published by John Wiley & Sons Ltd on behalf of Strategic Management Society.



considering their fund's governance and degree of independence from home-country politics in interaction with bilateral (home-host country) political and economic relations, so as to secure legitimacy for their investments and maximize the chances that cross-border investment strategies may materialize.

KEYWORDS

cross-border acquisitions, institutional economics, legitimacy-based view, political relations, politicization, sovereign wealth funds, trade agreements

1 | INTRODUCTION

An important phenomenon in the contemporary global economy is the increasing cross-border investment activity undertaken by state-owned enterprises (SOEs) and other government-affiliated organizations (Aguilera et al., 2016; Cuervo-Cazurra, Grosman, Megginson, 2023). Sovereign wealth funds (SWFs) fall in the latter category and are unique organizational forms where economic, financial, and political interests co-exist. They are government-related investment vehicles that channel public funds into assets denominated in both domestic and foreign currencies (Bernstein et al., 2013). SWFs have become major investors worldwide over the past 10 years (Murtinu & Scalera, 2016).¹ The value of SWF assets under management was estimated at over \$11 trillion in 2022, double the value of a decade earlier and a value that is larger than the assets of all private equity and hedge funds.²

The contemporary (and increasing) importance of SWFs in cross-border investments worldwide, coupled with their distinctive features, raises important theoretical and practical questions about the SWFs' cross-border investment behavior and the conditions under which their cross-border investment intentions are likely (or not) to be realized. Are SWFs passive (institutional) investors whose cross-border investments are subject to the same constraints as other foreign investors? According to this "benevolent view" of SWFs (Makhoul et al., 2020), SWFs consider the relative merits of alternative investment opportunities to maximize the financial returns for the benefit of long-term public policies at home (Bernstein et al., 2013), and should thus be an ideal source of capital for the investment targets.

The alternative "negative view" of SWFs (Makhoul et al., 2020) maintains that SWF investment behavior is often shaped by short-term political considerations at home, and/or by the pursuit of potential strategic gains overseas, with the high risk of financial or political destabilization (Bernstein et al., 2013; Chhaochharia & Laeven, 2009; Knill et al., 2012). In these circumstances, the cross-border investment initiatives of SWFs may well evince negative perceptions in potential host countries, resulting in some initiatives not being realized. These negative perceptions result from three factors. First, many SWF investments are typically large and very visible, thus attracting immediate scrutiny (Drezner, 2008). Second, many SWFs suffer from a lack of transparency about their investment strategies and objectives (Cuervo-Cazurra, Grosman, & Wood, 2023; Financial Times, 2007; Megginson et al., 2013). Third, there are often concerns about undue influence from home-country governments (Bernstein et al., 2013; Bortolotti et al., 2015).

In summary, there is enough *prima facie* evidence to suggest that SWFs are not typical institutional investors and may well not experience unqualified welcomes in many host countries due to a limited legitimacy perception in the host country (Johan et al., 2013; Li et al., 2017). Our research question in this paper thus considers which SWF-level and country-level factors determine the successful realization of SWFs' cross-border acquisitions (CBAs; i.e., the most common entry mode employed by SWFs). Drawing upon institutional economics (North, 1990) and the legitimacy-based view (LBV) of political risk (Stevens et al., 2016), we aim at understanding how the main determinants of the host-country legitimacy perception of SWFs cross-border acquisitions (at both SWF and country level) influence the realization of their CBAs. We hypothesize that CBAs are less likely to be realized when the investing SWFs are highly politicized, but more likely to materialize when the SWF's home country and the target's host country have strong political and economic relations. We further hypothesize that the effects of SWF-target country relations will moderate the negative effect of SWF politicization on the realization of cross-border investments. In particular, we suggest that the existence of cordial political ties should offset the negative perceptions of highly politicized SWFs, but that resistance from self-interested host country stakeholders will be exacerbated when the home and host countries are parties to a (bilateral or multilateral) trade agreement.

We test our hypotheses using a similar methodological approach to that adopted by Dushnitsky and Shaver (2009) and build matching models with all the realized and potential dyads between SWFs and foreign target companies.

This manuscript contributes to the theoretical and empirical literature at the intersection between global strategy, corporate governance, and finance. First, it extends the global strategy literature by considering the international investment strategies of SWFs, as a distinct form of government-affiliated investors that are not SOEs (Cuervo-Cazurra and Li, 2021; Cuervo-Cazurra et al., 2014; Duanmu, 2014). There is a small but growing literature on the cross-border investment strategies of SWFs (see, e.g., Calluzzo et al., 2017; Johan et al., 2013; Knill et al., 2012; Makhoul et al., 2020; Murtinu & Scalera, 2016), and this study builds on this research to consider how SWFs may secure legitimacy for their cross-border investments through the *ex ante* selection of their target firms and host countries. Second, the focus on SWFs' cross-border investment behavior links this study to the more general corporate governance and finance literature on how different forms of ownership impact international strategies (Cuervo-Cazurra, Grosman, & Wood, 2023; Johan et al., 2013; Strange, 2022). Third, the study adds to the literature on cross-border investments (particularly acquisitions) and international relations that has focused on how bilateral relationships between countries affect cross-border investments (e.g., Arikan & Shenkar, 2013; Li & Vaskchilko, 2010; Li et al., 2019; Wang et al., 2021). By considering both political and economic country relations, and their interactions with a critical organizational-level characteristic, such as the SWF politicization, we offer a more sophisticated conceptualization of international relations in CBAs and add original evidence to the inconclusive literature on country bilateral relations and foreign direct investments (FDI; Johan et al., 2013; Knill et al., 2012).

2 | THEORETICAL FRAMEWORK

2.1 | Institutional economics, global strategy, and the LBV

Institutional economics views country-level institutions as structures of regulations and norms that provide the "rules of the game" (North, 1990) and which constrain the behavior of firms

(and individuals). Formal institutions are the laws, policies, and legal directives which prescribe what can and what cannot be done, and how compliance is enforced. Informal institutions are the norms, values, and conventions underpinning social, political, and economic relationships. Good quality institutions lessen uncertainty, provide a clear framework for the interaction of firms, and hence reduce transaction costs.

Institutions (both at home and in host countries) shape the competitive strategies of organizations, as widely uncovered by the international business (IB) literature in several contexts (e.g., Dikova et al., 2010; Mudambi & Navarra, 2002; Peng et al., 2008). Numerous studies have shown that FDI flows are inversely related to the institutional distances between countries (Xu & Shenkar, 2002). The converse is also true, like in the case of SWFs' cross-border investments. Johan et al. (2013) provide evidence that SWFs are more likely to invest in culturally distant foreign countries, and Knill et al. (2012) challenge the traditional FDI and political relations literature by finding that SWFs cross-border investments are more likely to target host countries with weaker political relations with the home country. The global strategy literature accounts not only for the absolute distance between countries but also for the relative distance, that is, whether host countries have higher or lower quality institutions than the home country (Cuervo-Cazurra et al., 2019). If the host country has lower-quality institutions, then organizations may anticipate higher levels of uncertainty, lower efficacy of institutional constraints, and enhanced difficulties in conducting their business (Cuervo-Cazurra & Genc, 2011). On the other hand, the LBV suggests that organizations investing in host countries with higher-quality institutions may find it difficult to achieve organizational legitimacy.

Organizational legitimacy may be described (Suchman, 1995, p. 574) as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed systems of norms, values, beliefs, and definitions.” In the global strategy context, organizational legitimacy specifically refers to the acceptance of a firm by its environment, together with the local acceptance that the firm is authorized (both morally and legally) to invest and operate in a given host country (Stevens et al., 2016). All firms require legitimacy in their environments, as legitimacy facilitates the acquisition of requisite resources, influence and access to policymakers, and acceptance by other stakeholders (Boddeyn & Brewer, 1994). This is true for indigenous firms and organizations operating in their own home countries, but is even more the case for foreign-owned organizations operating in host countries. Legitimacy confers a “social license to operate” and its possession “can be a matter of life and death” for organizations (Bitektine, 2011, p. 152).

Governments are institutions necessarily playing a major role in conferring legitimacy, but governments do not operate in a vacuum: typically, they receive information and representations from various interest groups and stakeholders. They will weigh up these representations in formulating their views about the legitimacy of organizations. Legitimacy thus reflects a congruence between the behavior of the legitimated organization and the shared beliefs of selected influential stakeholders (Deephouse, 1996; Suddabtm et al., 2017). Stakeholders often view an “organization as valuable and worthy of support because its structural characteristics locate it within a morally favored taxonomic category [and because] structures” (Suchman, 1995, p. 581); but, the converse is also likely, that moral legitimacy may be withheld if an organization is located within a taxonomic category that is not favored. Examples of such undesirable categories might include all foreign organizations (giving rise to the *liability of foreignness, LOF*), organizations from specific foreign countries (giving rise to the *liability of home, LOH*), or state-owned organizations (giving rise to the *liability of stateness, LOS*).

The LOF concept is familiar in the global strategy literature (Zaheer, 1995). Kostova and Zaheer (1999) draw attention to various legitimacy-based complexities faced by organizations, and comment that higher legitimacy standards are applied in many countries to foreign organizations than to domestic ones. Furthermore, they suggest that the difficulties faced by foreign organizations in establishing and maintaining legitimacy are positively related to the institutional distance between the home country and the host country. Zaheer and Mosakowski (1997, p. 461) note that there “is an implicit, dynamic relationship between the liability of foreignness and the legitimacy of foreign firms in different cultural and institutional settings.” Additionally, it has been shown that larger and more visible organizations are more vulnerable to legitimacy attacks from interest groups in host countries.

Stevens and Shenkar (2012, p. 128) put forward their LOH concept, which they define as “the disadvantages borne by a firm investing in a foreign country due to the *friction* [emphasis added] caused by the attributes of its home country institutions.” Here the organization’s country-of-origin is emphasized, rather than a simple foreign versus local dichotomy from the viewpoint of the host country. As Stevens and Shenkar (2012, p. 135) note, when “the attributes of a firm’s home country interact with those of its host country in a way that generates friction, LOH becomes salient. [...] The firm’s home country gives a strong indication of the ‘*institutional baggage*’ [emphasis added] it brings with it—the laws that govern it, the norms that guide its actions and/or the cognitive frames through which its constituent actors perceive reality—and the reaction of others to it.” The liability of emergingness is a particular type of LOH associated with SWFs from emerging economies that may experience an additional disadvantage being from emerging (other than developed) economies (Madhok & Keyhani, 2012; Mukherjee et al., 2021; Zhang, 2022).

2.2 | LBV of foreign government ownership: The case of SWFs

The adverse stereotypes and stakeholder concerns in host countries about the institutional baggage of foreign investors are typically voiced more strongly, particularly in more market-oriented economies, when the investing organization has government ownership— as there is a potential LOS (Musacchio et al., 2015; Shi et al., 2016). In this regard, the global strategy literature has primarily studied SOEs and their internationalization strategies (e.g., Cui & Jiang, 2012; Li et al., 2017; Meyer et al., 2014). The suspicion is often that investment initiatives by SOEs may be motivated by noncommercial objectives, and that cross-border investments may be at best of questionable value to the host economies and may even impose unacceptable costs and political risks. In particular, it has been suggested that some investments, mainly in the case of acquisitions, may be targeted at securing critical natural resources and/or strategic assets located in foreign countries, and that the SOE affiliates may ultimately be seen as agents of (potentially unfriendly) foreign governments, thus raising concerns about national security, particularly when SOEs originate from autocratic countries (Cuervo-Cazurra et al., 2014; Cui & Jiang, 2012). Added to this, there are often anxieties about whether the newly-acquired affiliates will be managed efficiently given that their parent companies may enjoy soft budget constraints and that there may well be additional dislocations imposed on suppliers, employees, and lenders. From an institutional economics viewpoint, the legitimacy concerns may be justified by the consideration that SOEs can handle a higher level of risks in cross-border investments by leveraging governmental connections and institutional advantage (Benito et al., 2016). In this context, the LOH also plays an



important role, as SOEs from some countries suffer from weak legitimacy, and are thus subject to severe institutional pressures (Meyer et al., 2014).

The above considerations about the legitimacy of foreign investments apply particularly strongly to investments by SWFs given their size, visibility, lack of transparency, and provenance. First, the investments made by SWFs often attract significant scrutiny from various interest groups in host countries, typically because such investments are large and very visible, and potentially pursue political or strategic goals (Allen & Caruana, 2008; Cohen, 2009; Drezner, 2008). Second, evidence of political motivations related to SWF investments has been claimed by Bernstein et al. (2013) and by Chhaochharia and Laeven (2009). In the same vein, Dyck and Morse (2011) investigated SWFs' investment strategies and concluded that political motives were the main determinants for the variance within their investment patterns. Aguilera et al. (2016, p. 16) suggest that many SWFs play a large role as "active shareholders of listed companies worldwide. This incipient trend aligns well with a more active capitalism in which owners have greater influence in an investee company's strategic management." Third, many SWFs tend not to disclose their (investments') objectives and are often opaque in terms of their structure and behavior (Cuervo-Cazurra, Grosman, & Wood, 2023; Financial Times, 2007; Johan et al., 2013), making it difficult to understand the strategic rationale behind the SWF investments and thus reinforcing legitimacy-based concerns. Finally, many SWFs will suffer from a LOH, hence the legitimacy of their investments will depend upon their home country and institutional characteristics, and any friction generated by the interactions between the home and the host country institutions (Shenkar et al., 2008; Stevens & Shenkar, 2012), as prescribed by institutional economics.

The challenge for SWFs is that adverse stereotypes and negative perceptions about their home-country governments pursuing political interests and strategic gains (in addition or substitution to financial goals) may become taken-for-granted (Suchman, 1995), and their motives and activities may be misunderstood or misinterpreted (Ramachandran & Pant, 2010). Higher legitimacy standards are thus typically applied to SWFs because, as Clark et al. (2013, p. xiii) note, "their legitimacy is framed in terms of their domestic constituents as well as their role in international relations (and) there is a premium on the transparency of SWFs' investment decision-making as well as full disclosure of their motivations and intentions when investing beyond national borders." In the case of SWFs, the two main sources of legitimacy concerns in the host countries are related to the governmental ownership and the alignment between home and host country institutional characteristics. In other words, SWFs are likely to suffer from both an LOH and an LOS when acquiring target firms overseas, and these liabilities will reinforce and interact with each other in enhancing the difficulties of establishing organizational legitimacy in the host countries.

3 | HYPOTHESES DEVELOPMENT

The theoretical discussion above has highlighted the crucial importance to SWFs of being accorded legitimacy in the host countries of their cross-border investments, and how such legitimacy is largely determined by institutional considerations. Suchman (1995, pp. 586–588) suggests that organizations have three broad strategies for gaining legitimacy in new environments.³ First, they can *select* the environments in which they operate. Second, they can *conform* to their environments by adapting their structures, their activities, and/or their behavior to the norms of the institutional regime. Third, they can attempt to *manipulate* their new

environments to their advantage. Much of the literature on MNEs and legitimacy (e.g., Henisz & Zelner, 2005; Kostova & Zaheer, 1999; Luo, 2001; Meyer et al., 2014) focuses on how MNEs use conform or manipulate strategies *ex post* once they have made their investments in order to gain and maintain legitimacy. Here we focus instead on how SWFs may secure legitimacy for their investments through the *ex ante* strategic selection of target firms and host countries. In Suchman's (1995) terminology, we suggest that SWFs will carefully select the host countries (institutional environments) in which they operate, will choose countries in which they believe can easily attain legitimacy, and will shun countries where they anticipate political resistance. Considering the nature of SWFs and their investments, host governments represent the main actors responsible for forming the legitimacy of these government-related foreign investors as prescribed by the institutional economics literature (Bitektine, 2011). Barysch et al. (2008, p. 9) confirm that such *ex ante* selection does happen and report that "SWFs (and other state-connected foreign investors) often contact the relevant authorities in the target countries well before any review process is even triggered. When the government, parliament, or central bank of that country indicates that the investment may be unwelcome, the investor may retreat rather than risk a public showdown. SWFs know that politics ultimately trumps any legal review process."

3.1 | SWF politicization and CBAs

Aguilera et al. (2016) note that SWFs adopt a wide array of governance structures and that governmental influence on SWFs may be exerted either through the direct involvement of politicians in the management of the fund or through the appointment of an ad hoc board of directors. The involvement of politicians in the fund management accentuates and makes more visible the inherently political nature of such SWFs. The direct participation of politicians in the day-to-day management of SWF investments and operations can potentially lead to agency conflicts, as the interests of politicians may not be always in line with those of SWFs' professional (i.e., nonpolitician) managers, resulting in the lower investment performance of SWFs (Bernstein et al., 2013).

In highly politicized SWFs, the boundaries of governmental intervention appear particularly blurred, and the extent of the home country government's influence may well be uncertain. The presence of politicians within the SWF board may represent a concrete link between the fund's strategy and the government's political agenda contributing to the formation of a negative host-country stakeholders' perception of the SWF investments. This may enhance an LOS and raise concerns in potential host countries about the legitimacy of their cross-border investments, hindering the SWFs' "social license to operate" in the host country (Bitektine, 2011). On the one hand, the active presence of politicians might lead directly to a more politically oriented strategy in preference to a business-oriented strategy, with consequent adverse effects within host countries on the moral legitimacy of the SWF (Bernstein et al., 2013; Bortolotti et al., 2015). On the other hand, politically motivated investments are more likely to hinder the target company's post-acquisition performance as the professional managers are prevented from making appropriate strategic decisions if the latter are not aligned with the board's political agenda (Megginson & Netter, 2001; Shleifer & Vishny, 1994). Thus, cross-border investments undertaken by politicized SWFs may be perceived as less legitimate and riskier by the host country government or the foreign target firm, and are therefore more likely to encounter adverse political reactions in the host country (Financial Times, 2007; Gieve, 2008). Under these conditions,



the host government is more inclined to intervene and perform a more careful assessment of the investment, and as a result, the SWF will experience a higher level of scrutiny (Stevens et al., 2016). We expect this scrutiny to provide an impediment to the realization of the SWF investment as it may result in a negative legitimacy judgment (Bitektine, 2011). On the one hand, the extensive scrutiny by the host government may highlight potential threats, which a more superficial assessment might not have identified due to the opaqueness of SWF operations; on the other hand, the extensive scrutiny may compromise the commercial sensitivity of the SWF's political and investment strategies, and the SWF itself may consider this risk not worthwhile. Hence, we hypothesize that:

Hypothesis 1. (H1): SWF cross-border acquisitions are less likely to be realized when the SWF is highly politicized.

3.2 | Bilateral political relations and SWF cross-border acquisitions

Most cross-border investments involve enhanced systematic (political, cross-cultural, currency) risks for the investor, notwithstanding any reductions in unsystematic risks arising from the greater international diversification (Agmon & Lessard, 1977; Cooper & Kaplanis, 1994; Grauer & Hakansson, 1987). In particular, foreign investors often face various political risks in host countries, including inter alia political instability, discriminatory policies, abrupt and capricious policy changes, and possible nationalization and/or expropriation of assets (Kobrin, 1979). Many empirical studies (e.g., Busse & Hefeker, 2007) have demonstrated a negative empirical relationship between host country political risks and inward investment flows.

However, there may be countervailing conditions that reduce the (perception of) political risks faced by international investors. The political science literature has recognized that cordial political relations should favor trade, as it is less likely for those countries to be in conflict, and so the political risks related to business are relatively small (Morrow et al., 1998; Pollins, 1989a, 1989b). The global strategy literature (e.g., Li & Vaskchilko, 2010) has investigated how cordial political relations between nations promote investment flows with the positive effect being credited to the perception of a lower extent of political risk in the host country because established political relations reduce uncertainty and information asymmetries.

The effects of cordial political relations on SWF investments have been only indirectly examined in the literature and there is no consensus on the sign of such effects. Knill et al. (2012) show that political relations between countries are an important determinant in predicting aggregate investment flows by SWFs. Perhaps surprisingly, however, the authors find that SWFs are more likely to invest in host countries with which weaker political relations are in place. This finding contrasts with accepted wisdom in the finance and political science literature. For instance, Bertoni and Lugo (2014) show that the presence of bilateral political ties between SWF home countries and host countries reduces the risks perceived by the host country.

Drawing on the LBV considerations above, we argue that the presence of cordial political relations between the governments of the SWFs home country and the target firm's host country will mitigate the political risks perceived by the SWF (Duanmu, 2014). Cordial political relations reflect trust built up through past interactions (Pollins, 1989a). Such trust represents a perceived feature that will reduce the challenges of establishing moral legitimacy for the SWF in the host country and build the basis for favorable evaluation of the SWF investment as the

SWF country and the host country share common political views and objectives. This “common ground” makes it more likely that the foreign SWF investments are seen as legitimate in the local environment. Under these conditions, the host country government should have enough experience and information to assess the (trustworthy) behavior of the SWF, and thus the formation of a positive legitimacy judgment (Bitektine, 2011) is more likely. Cordial political relations also mitigate the negative effects deriving from any LOH, since such good relations allow possible frictions derived from the SWFs home country to be overcome. As a result, cordial political relations will help the SWF achieve legitimacy which, in turn, will reduce the likelihood that the host country's government will react adversely to the incoming investment and introduce discriminatory measures (Morrow et al., 1998). Such discriminatory measures might bring questionable benefits in the short term but would almost certainly invite retaliation and mutual antipathy in the long run, ultimately undermining the relations between countries. In contrast, the concerns of stakeholders and the host country government's reaction are likely to be exacerbated in cases where political relations are antagonistic, generating a negative perception of the SWF in the host country, notwithstanding the commercial and economic merits of any SWF investment. SWF investors may well doubt whether it will be possible to establish legitimacy in such host countries and may select investment targets elsewhere. We thus argue that cordial political relations are likely to drive a positive legitimacy judgment of the investing foreign SWF by the host-country government. Therefore, the alignment of political interests between the home and host countries increases the likelihood that an SWF investment materializes in the host country. Cordial political relations are likely to be particularly important for highly politicized SWFs as they seek to overcome their LOS and LOH. As Murtinu and Scalera (2016, p. 254) note, cordial political relations perform a bridging role that facilitates “the entrance of SWFs in foreign countries, mitigating the potential fear surrounding their investments”, and thus may curb the negative perception derived from highly politicized SWFs.

According to the legitimacy judgment formation (Bitektine, 2011), hostile political relations between the SWF home country and the potential host country may contribute to a negative perception of the SWF in the host country, and any adverse public impression about the SWF may well be thoroughly scrutinized and will rise with the extent of SWF politicization, as the latter increases suspicion in the host country's government and stakeholders. In these situations, SWFs may thus feel obliged to look elsewhere for potential acquisition targets. In contrast, cordial political relations are likely to both minimize any adverse host-country stakeholders' perception about the SWF investments and encourage host-country governments to overrule any concerns to avoid diplomatic incidents and maintain cordial relations. Foreign highly politicized SWFs are expressions of the home country government; when the host country is tied with cordial political relations with the SWF country, the alignment of the political agenda of the two countries prompts the host country to grant legitimacy to the SWF. In these circumstances, even highly politicized SWFs might enjoy enough legitimacy to acquire and operate in their selected targets due to the support of the host country's government. Given that cultural proximity does not seem to calm such reactions and ease the entry of SWFs in foreign countries (Johan et al., 2013), political relations may represent an effective visible solution to lower the host country's perceived threats to foreign investments by politicized SWFs. For their part, under cordial political relations, the SWFs will be under pressure not to deviate from accepted investment norms in the host countries (Johan et al., 2013). Therefore, we propose a set of hypotheses where the first⁴ is instrumental in introducing the second about the moderation effect of cordial political relations on the relationship between SWF politicization and the realization of SWF cross-border acquisitions:



Hypothesis 2a. (H2a): SWF cross-border acquisitions are more likely to be realized when there are cordial political relations between the SWF home country and the host country of the target firm.

Hypothesis 2b. (H2b): Cordial political relations between the SWF home country and the host country of the target firm will reduce the negative effects of SWF politicization on the realization of SWF cross-border acquisitions.

3.3 | Bilateral economic relations and SWF cross-border acquisitions

Close economic relations between the home and the host countries should favor the realization of SWF cross-border acquisitions. In practice, close economic relations are typically associated with preferential trade (either bilateral or multilateral) agreements (PTAs). PTAs improve the quality of economic relations among countries and allow them to maximize the gains from trade through the elimination of import tariffs and quotas. The existence of the PTA increases the size of the SWF's quasi-domestic market, to include not just the host country of the target firm but also the markets of the other countries that are parties to the agreement (Di Giovanni, 2005; Medvedev, 2012).

PTAs often go beyond trade and may align standards across countries regarding intellectual property rights, environment-related issues, health, and safety, as well as international investments (Rodrik, 2018). According to Limão (2016), “76 percent of existing preferential trade agreements covered at least some aspect of investment (such as free capital mobility).” PTAs thus enhance transparency, reduce uncertainties, and lower the perceived risk associated with the foreign investment, mitigating adverse stereotypes and legitimacy concerns faced by SWFs in the host country due to the institutional profile of their home country.

From the perspective of the SWF, there are important reasons to suggest that the attractiveness of a potential investment opportunity will be enhanced if the firm's host country is involved in a PTA with the SWF home country. First, many (if not all) PTAs include strong investment provisions involving principles of nondiscrimination and reciprocity (Baccini et al., 2011; Miroudot, 2011). Fernández and Portes (1998) suggest that countries, through trade agreements, commit themselves to free-market policies and limited intervention in the functioning of the domestic market (for instance, eschewing discriminatory policies against non-domestic players). These investment provisions are welcomed by all foreign investors (Büthe & Milner, 2008), but are particularly helpful in the context of SWF foreign investments due to their higher legitimacy standards that they are obliged to meet. Second, as Büthe and Milner (2008, p. 755) argue, “governments tend to sign only those international agreements that oblige them to do what they are already doing (or want to do) anyway.” Thus, PTAs are often simply reflecting the status quo, where trade links testify to mutual economic interdependence, and the political risks associated with foreign investments tend to be mitigated the closer the trade links between the home and host countries (Globerman & Shapiro, 2002). In short, we argue that close economic relations both facilitate and enhance the realization of a SWF cross-border acquisition.

However, host country governments may be more cautious about inward investments by highly politicized SWFs coming from countries with which they have signed PTAs. In principle, sovereign States have final authority over matters within their territorial jurisdiction, and this would include the enactment of rules and regulations governing the activities of (domestic and foreign) business enterprises and investors. The extent of this authority in the contemporary world economy has been called into question by various authors (see, e.g., Kobrin, 2001), but

nevertheless, States can and do attempt to regulate the activities of all enterprises and, most particularly, the activities of foreign organizations by various means (UNCTAD, 2012). These host country policies may include restrictions on equity ownership (including outright bans on foreign participation in strategic or otherwise sensitive sectors) and/or the imposition of postentry operating requirements (e.g., local content requirements, foreign exchange restrictions) on foreign affiliates. Furthermore, host country governments may opt to change *ex post* the terms of the deal with foreign organizations in line with the so-called obsolescing bargain model (Vachani, 1995). The renegotiation may involve demanding higher shares of profits and taxes, removing incentives, or even the expropriation of assets. This possibility of initiating renegotiations to approve SWF investments may well reassure governments in host countries that are not party to trade agreements, safe in the knowledge that the *ex ante* terms of entry of any particular SWF can be revised *ex post* if there is evidence of behavior contrary to national interests and/or undue dislocations imposed on employees or other stakeholders.

However, the scope for *ex post* renegotiations will be severely circumscribed when the SWF home country and the host country of the target firm are participants in a PTA, and thus the principles of nondiscrimination and reciprocity apply. Host country governments may act in self-interest and raise objections about the possible risks of anticompetitive behavior by the SWFs, impeding and/or imposing *ex ante* conditions upon the SWF foreign investor, possibly citing grounds of national security (Monk, 2009; Rose, 2017). These efforts will be all the stronger, the greater the degree of SWF politicization, as a more evident link with the home country government contributes to forming a negative perception, and thus increases the scrutiny of the foreign SWF. At best, these challenges will necessitate increased costs to the SWF to establish legitimacy, arising from a combination of bureaucratic wrangling, legal fees, and increased managerial effort and expense to convince public officials. At worst, host country antipathy may well dissuade foreign SWFs from their investment in their preferred target within the scope of the PTA and divert their attention to other potential targets.

In summary, we argue that close economic relations between the home and the host countries are expected to facilitate the realization of SWF cross-border acquisitions in the host country. Yet, the more politicized are the SWFs, the more they will elicit stronger opposition from the host country governments and stakeholders, which will lead to a reduction of the positive effect of the home-host countries' membership to the same trade agreement. Our final set of hypotheses is thus⁵:

Hypothesis 3a. (H3a): SWF cross-border acquisitions are more likely to be realized when there is a PTA between the SWF home country and the host country of the target firm.

Hypothesis 3b. (H3b): A PTA between the SWF home country and the host country of the target firm will strengthen the negative effects of SWF politicization on the realization of SWF cross-border acquisitions.

4 | DATA AND METHODOLOGY

4.1 | The sample of SWF cross-border acquisitions

The sample used in this work has been built and assembled following the step-procedure suggested by Murtinu and Scalera (2016). First, we compiled a comprehensive list of SWF



investments from the list of funds reported by the Sovereign Wealth Fund Institute, an authoritative reference source providing comprehensive data on SWF investments.

Second, we collected data on all the investments made by the above-identified SWFs where the SWFs are reported as “active.” In doing so, we can be more confident that SWFs actually make decisions over target companies’ strategies and investment policies⁶ (Murtinu & Scalera, 2016). Specifically, we accessed not only the two Bureau van Dijk commercial data sets (i.e., Zephyr and Orbis), but also Lexis Nexis and other information sources, including fund websites and the most reputable international news sources, newspapers, and magazines (e.g., the Financial Times, the New York Times, the Wall Street Journal, Gulf News, Associated Press, and Reuters). For a similar procedure see, for instance, Bortolotti et al. (2015), Dewenter et al. (2010), and Knill et al. (2012). We conducted the above search by means of all potential combinations of the fund names and the keywords “invest,” “stake,” and “acquire” (for a similar procedure see, for instance, Kotter & Lel, 2011). Our sample covers the 20-year time period from January 1, 2000 to December 31, 2019.

Third, deals with incomplete information about target companies and investment date are removed, as well as those where the names of the acquirer company or of the target company are “existing shareholders,” “investors,” “management,” “private investors,” “shareholders,” “strategic investors,” “consortium,” “directors,” “unnamed e-commerce group,” “investment funds,” “chemical joint venture,” and “undisclosed joint venture.”

Finally, we corrected all the misclassifications related to, for instance, the countries of the acquirer and target companies, duplicates in the names of SWFs, acquirer, and target companies, and multiple investments.

In the case of target companies that are joint ventures between a firm located in the SWF country and another firm operating in another country, we considered such target companies as domestic companies (i.e., located in the SWF country). As regards multiple investments by a focal SWF in the same target company in the same year, by means of the items *acquired stake* and *final stake* (and by analyzing the text of the deal headlines) in Zephyr we calculated the equity stake held by the SWF at December 31. Instead, multiple investments in the same target company made by different SWFs have been classified as independent investments (for a similar criterion, see Dewenter et al., 2010).

The final sample includes all the 614 realized cross-border investments made by 23 SWFs from 15 home countries over the period 2000–2019 (see Table 1). The sample is comparable in terms of size with the samples used in previous studies on SWFs (Bortolotti et al., 2015; Dewenter et al., 2010; Johan et al., 2013; Knill et al., 2012; Kotter & Lel, 2011; Wang et al., 2021).

4.2 | Model specification

The objective of this study is to model the likelihood that a CBA between a SWF and a foreign target company is actually realized, among all the possible combinations. Following Dushnitsky and Shaver (2009), our empirical methodology involves the estimation of a matching model where the SWFs are assumed to “screen” the market and “select” target companies from all the possible alternatives. When “screening” and “selecting” target companies, SWFs exercise their ability to pick better target companies in the presence of information asymmetries between (i) SWFs and potential target companies; and/or (ii) SWFs and foreign countries’ governments.⁷ To control for the unobserved screening/selection effects in the matching process between SWFs and target companies, we exploit the market interactions among all SWFs and all target companies, and thus consider both the realized and the potential-but-not-realized dyads. Specifically, we assumed that every SWF could potentially have invested in every target company in

TABLE 1 SWFs included in the final sample.

SWF acquirer	Home country
Abu Dhabi Investment Authority	United Arab Emirates
Abu Dhabi Investment Council	United Arab Emirates
Alaska Permanent Fund	The United States
Bahrain Mumtalakat Holding Company	Bahrain
China Investment Corporation	China
Dubai International Capital	United Arab Emirates
Government of Singapore Investment Corporation	Singapore
Government Pension Fund – Global	Norway
International Petroleum Investment Company	United Arab Emirates
Investment Corporation of Dubai	United Arab Emirates
Ireland Strategic Investment Fund	Ireland
Istithmar World	United Arab Emirates
Khazanah Nasional	Malaysia
Korea Investment Corporation	Korea
Kuwait Investment Authority	Kuwait
Mubadala Development Company	United Arab Emirates
National Pensions Reserve Fund	Ireland
Qatar Investment Authority	Qatar
Russian Direct Investment Fund	Russia
Samruk-Kazyna	Kazakhstan
State General Reserve Fund	Oman
Superannuation Fund	New Zealand
Temasek Holdings	Singapore

each sample year. Therefore, we built all the potential dyads between SWFs and target companies in each year and identified the realized ones.⁸ Suppose, for instance, that two SWFs (A and B) invested in at least one target company in year t , and that they invested in three target companies (a, b, and c). There are thus six potential dyads (Aa, Ab, Ac, Ba, Bb, and Bc). Other SWFs (e.g., C) that made investments in other years are assumed to be “out of the market” in year t . Hence, using a linear probability model on both realized and potential-but-not-realized dyads between SWFs and target companies, we estimate the likelihood that the i th SWF will invest in the j th foreign target company at time t —see Equation (1). The dataset used to estimate the model thus included all 9338 possible dyadic combinations of SWFs and target companies: some of these SWF-target dyads were actually realized, while other dyads were not.

$$Realized_{ijt} = f \left(SWF\ Politicization_{it}, Political\ Relations_{ijt}, Trade\ Agreement_{ijt}, Controls \right). \quad (1)$$

This model specification reflects the real-world market dynamics of SWF investments (Aguilera et al., 2016; Johan et al., 2013), especially when SWFs target private companies (Bernstein



et al., 2013; Cumming & Walz, 2010; Dahlquist & Robertsson, 2001) and foreign countries (e.g., Buckley & Casson, 1998).

4.3 | Definition of variables

4.3.1 | The dependent variable

The dependent variable is *Realized_{ij}*, which is a dummy variable that equals one if the *i*th SWF realizes the acquisition of the *j*th foreign target company, and zero otherwise (i.e., for the potential-but-not-realized dyads).

We follow an approach rather common in the existing literature that investigates investment outcomes in terms of completion (for a similar approach see, for instance, Dikova et al., 2010; Li et al., 2017; Muehlfeld et al., 2012). Considering that many announced SWF cross-border investments were not completed because of the considerable negative perception and high levels of concern surrounding SWF foreign investments, we are interested in theorizing why, and explaining how, important institutional factors surrounding SWF investments may determine their completion or their failure after their public announcement. Indeed, it is rather common that SWF cross-border investments do not materialize. Data from BvD Zephyr shows that SWFs still abandon up to 35% of their investment attempts, and this percentage is not only high in absolute terms but also in relative terms compared to the case of private firms (see, for instance, Dikova et al., 2010).

4.3.2 | The independent variables

The three independent variables on which we posit the research hypotheses—see Equation (1)—are the following. First, *SWF Politicization* is measured by the metric proposed by Bortolotti et al. (2015), with the only difference being that we built a time-varying variable. We resort to the policy briefs of the Peterson Institute for International Economics, which provide data for the years 2007, 2009, 2012, 2015, and 2019. More specifically, it is a variable whose values range from 0 to 3, and is equal to three minus the sum of the scores related to the three questions in the above policy briefs accounting for the level of independence from political interference. For instance, the three questions in the 2012 policy brief (Bagnall & Truman, 2013) are question nine (*Is the role of the government in setting the investment strategy of the SWF clearly established?*), question eleven (*Is the role of the managers in executing the investment strategy clearly established?*), and question twelve (*Are decisions on specific investments made by the managers?*). Values closer to three represent a higher degree of fund politicization.

Second, *Political Relations* is a proxy of the cordiality of the political relations between the SWF home country and the host country of the target firm. Following the approach of Johan et al. (2013) and Knill et al. (2012), our measure is based on the United Nations voting records, which is the most updated and complete source of data—as provided by Voeten (2013) and Bailey et al. (2017).⁹ As explained by Knill et al. (2012, p. 110): *The motivation for this proxy is that nations with more (less) closely related votes in the UN General Assembly are likely to have stronger (weaker) political relations.* In particular, *Political Relations* is similar to the Gartzke's “S” indicator (Gartzke, 1998), and has been built using the following formula:

$$\text{Political Relations} = 1 - \left[2 * \frac{d}{d_{\max}} \right]$$

where “ d is the sum of the distance between votes for a given bilateral pair and year, and d_{\max} is the maximum possible distance between votes for a given bilateral pair and year” (Knill et al., 2012, p. 110). Categorizing “Yes” votes as equal to one and “No” votes as equal to zero, for each vote the distance is computed as the absolute value of the difference in votes. Therefore, *Political Relations* is a variable whose values range from -1 (when all votes are different) to $+1$ (in case votes are exactly the same). Values closer to $+1$ reflect more cordial political relations.

Third, *Trade Agreement* is a dichotomous variable that equals one if the SWF home country and the host country of the target firm are involved in a (bilateral or multilateral) preferential or regional trade agreement at the end of the year t , and zero otherwise. We consider both bilateral trade agreements between the home and host countries, and multilateral agreements (including preferential trade agreements) in which both countries are participants. The sources are the Regional Trade Agreements (RTAs) Database and the Database on Preferential Trade Arrangements, both provided by the World Trade Organization (WTO).

4.3.3 | Control variables

We control for several factors that may influence the likelihood that an investment between a SWF and a foreign target company is realized. The first group of control variables includes fund-level variables. First, opacity about the objectives and operations of the SWF is likely to have a negative impact on the realization of the investment because of the higher perceived risks associated with the investment by the host country (Financial Times, 2007; Gieve, 2008). Such opacity may be assessed using the accountability and transparency scores in the policy briefs of the Peterson Institute for International Economics, which provide data for the years 2007, 2009, 2012, 2015, and 2019 (for an example, see Bagnall & Truman, 2013: Table 2). The scoreboard contains 33 elements grouped into four categories, that is, structure of the fund (including its objectives, fiscal treatment, and whether it is separate from the country's international reserves), governance of the fund, accountability and transparency of the fund in its investment strategy, and behavior of the fund in managing its portfolio and in the use of leverage and derivatives. We calculate the time-varying average score reported by the above policy briefs, and we then define *SWF Opacity* as a dummy variable that equals one if a SWF has a score lower than (or equal to) the average score at time t ; hence, a value of zero suggests less opacity and a value of one suggests greater opacity.

Second, *SWF Internationalization* is a measure of fund internationalization. We resort to the above policy briefs of the Peterson Institute for International Economics and we calculate the ratio of foreign assets to total assets. Then, we build a dummy variable that equals one if a SWF has a ratio of foreign assets to total assets higher than 50%. It is likely that the international exposure of the SWF may help to legitimize its investment in the foreign country. The greater the deployment of assets in foreign countries, the higher the chances that the SWF has the capability to properly manage international transactions, thus reassuring the host country's government about the viability of the investment.

Third, *SWF Strategic Goal* is a dichotomous variable that equals one if the SWF is a strategic fund. We adopt the same logic used by Bernstein et al. (2013, p. 224), where the authors define a SWF as “strategic if its stated investment goals are the management of the government's physical assets, the acquisition of strategic assets, or domestic development”, and as “nonstrategic if its

TABLE 2 Descriptions and definitions of the variables.

Variable	Definition
<i>Dependent variable</i>	
Realized	Likelihood that a particular SWF-target investment will be realized
<i>Independent variables</i>	
SWF Politicization	Range is [0, 3]. High values indicate greater politicization
Political Relations	Range is [-1, +1]. More positive values indicate more cordial relations
Trade Agreement	Dummy variable = 1 if SWF home country and target host country have a trade agreement; = 0 otherwise
<i>Control variables</i>	
SWF Opacity	Dummy variable = 1 if SWF "accountability and transparency" score \leq mean of SWFs; = 0 otherwise. SWF Opacity = 1 suggests high opacity
SWF internationalization	Dummy variable = 1 if SWF foreign assets over total assets $>50\%$
SWF Strategic Goal	Dummy variable = 1 if SWF has explicit strategic goals; = 0 otherwise
SWF Size	Value of assets under management (US\$ trillion)
Listed	Dummy variable = 1 if target firm is listed; = 0 otherwise
Institutional Distance	Absolute difference in mean of six World Bank Worldwide Governance Indicators
Religious Distance	Psychic distance taken from Dow and Karunaratna (2006)
Border	Dummy variable = 1 if the SWF home country and the target firm host country are contiguous, that is, they share a common border; = 0 otherwise
SWF Financial Development	Market capitalization as percentage of GDP (%)
SWF GDP	Gross domestic product in constant (2015) US\$ trillion
SWF GDP Growth	Growth of GDP over previous year (%)
Rule of Law	World Bank Worldwide Governance Indicator for <i>Rule of Law</i> . Range = [-2.5, +2.5]
Target Financial Development	Market capitalization as percentage of GDP (%)
Target GDP	Gross domestic product in constant (2015) US\$ trillion
Target GDP Growth	Growth of GDP over previous year (%)

stated goals are investment of oil/commodity revenues, currency reserve management, or pension funding." In line with Murtinu and Scalera (2016), we used the information included in the SWF profiles provided by the report of J.P. Morgan (Fernandez & Eschweiler, 2008) and then classified each fund accordingly. The expected association between *Strategic Goal* and the likelihood that the foreign investment materializes is difficult to predict a priori (Bernstein et al., 2013). On the one hand, SWFs motivated by strategic reasons may be more eager to finalize the transaction, even at the expense of less (financially) favorable contractual agreements; on the other hand, the host country may be more skeptical about the focal investment because the strategic goals might be perceived as inconsistent with national interests.

Fourth, *SWF Size* represents the assets under management of the SWF (as measured in US\$ billion). The expected association between fund size and the likelihood that the foreign

investment materializes is not obvious. In principle, larger SWFs have more resources and thus are more likely to monitor the behavior of managers within target companies (Chen et al., 2007; Ferreira & Matos, 2008; Shleifer & Vishny, 1986); however, the political nature of SWFs may prevent them from maximizing shareholder value (Megginson & Netter, 2001; Shleifer & Vishny, 1994), and thus larger funds may face higher obstacles when investing internationally. The larger the fund size, the greater the fear about a possible political agenda of the SWF home country in the host country (Cohen, 2009).

The second group of variables controls for the type of target company. Our dataset includes investments not only in publically listed companies but also in private firms. Investments in publically listed companies are more visible than those in private firms and are more likely to attract political and media attention in the host country. Thus, investments in listed companies may make it difficult for SWF home country governments to shape the target company's strategy, and align it to any political agenda. Legitimacy-based obstacles may be overcome through a "stealth entry mode" by targeting private firms. We consider these issues by including a dummy (*Listed*) controlling for investments in publically-listed companies.

The third group of control variables is about country pair-level determinants. First, *Institutional Distance* is the absolute value of the difference in the quality of institutions between the SWF home country and the host country of the target firm. We calculated the mean of the six Worldwide Governance Indicators (WGI) provided by the World Bank, namely, voice and accountability (VA), political stability and absence of violence/terrorism (PS), government effectiveness (GE), regulatory quality (RQ), rule of law (RL), and control of corruption (CC). As is well accepted in the IB literature, institutional distance leads to higher costs of doing business when investing in distant countries characterized by formal and informal institutions that are different from those in the home country in terms of cognitive, normative, and regulatory characteristics (Xu & Shenkar, 2002). However, as argued by Salomon and Wu (2012), foreign firms may limit the above costs by, for instance, imitating the business practices of domestic firms (i.e., engaging in local isomorphism). As regards SWFs, Aguilera et al. (2016) argue that SWFs have strong incentives and "developed-in-house" capabilities to reduce the institutional distance toward their target companies. Given the macro-level negative halo surrounding SWF investments, SWFs need—at least—to reduce the investment-specific risk by closely monitoring target companies, thus reducing moral hazard issues (Al-Kharusi et al., 2014). However, as explained above, such monitoring may be driven by the political agenda of the SWF home country government. In sum, the likely association between the institutional distance and the likelihood that the foreign investment is realized is difficult to predict.

Second, the psychic distance between the SWF home country and the host country of the target firm is proxied by *Religious Distance*. The data for these variables were obtained from Dow's psychic distance measures (see <https://sites.google.com/site/ddowresearch/home/scales>), as published in Dow and Karunaratna (2006). The greater the religious distance between the home and the host country, the stronger the difference in terms of belief systems and customs, and therefore, the less legitimate the foreign organization will tend to be perceived in the host country (Nachum, 2003; Slangen, 2013).

Third, *Border* is a dummy that equals one whether the SWF country and the target country share a border (Ascani et al., 2016). This variable captures discontinuities in the geographical space. A common border should reduce the perceived risk of the investment, and therefore it is expected to be positively associated with the investment realization.

The fourth group of control variables includes time-varying SWF country-level determinants. We include GDP in constant 2015 US\$ (*SWF GDP*),¹⁰ GDP growth (*SWF GDP Growth*),



and the financial development in the SWF home country. *SWF Financial Development* refers to the development of the financial market in the SWF country and is proxied by the market capitalization to GDP ratio in the SWF home country in the year t . The higher the financial development in the SWF country, the greater the resource endowment to be invested in international markets. Indeed, more investment opportunities at home actually increase the probability that cross-border investments will be realized.

The fifth group relates to time-varying target country-level variables, that is, GDP in constant 2015 US\$ (*Target GDP*), GDP growth (*Target GDP Growth*), and the financial development in the target country, as well as its quality of institutions. As regards financial development, *Target Financial Development* is measured by the target country's market capitalization as a percentage of the GDP in the year t . The higher the financial development in the target country, the greater the willingness of the SWF to invest in that country because of better investment (and exit) opportunities and outside options (Rajan & Zingales, 2004; Wurgler, 2000). We also control for the possibility that SWF cross-border investments may be influenced by the quality of institutions in the target host country, and not just by the institutional distance from the SWF home country. We thus include the variable *Rule of Law* described above.

Finally, we add to the model specification in Equation (1) year dummies, target company fixed effects, SWF fixed effects, SWF country fixed effects, and interactions between target industries and target country fixed effects. Year dummies control for macro-shocks in the likelihood that SWFs invest in foreign countries in a given year; even though such shocks are likely SWF-neutral, a lack of control for these shocks may bias our estimates whereas the time distribution of investments is not comparable across SWFs. Target-company fixed effects likely control for the quality of investment targets. SWF fixed effects control for fund-specific characteristics that may affect our findings. For instance, Vasudeva (2013, p. 1601) reports that the Norwegian government instituted “an ethical council that publicly censors and certifies the cross-border investments of the Norwegian sovereign wealth fund, contributes to the professionalization of responsible investment principles and thus plays a normative role in shaping firms' investments.” This explicit government policy to direct the Norwegian SWF (and other Norwegian government-affiliated organizations) toward responsible investments and to engage in institutional isomorphism in foreign markets may well negate any estimated effects due to SWF politicization and the other hypothesized variables in our analysis. In other words, the likelihood that the Norwegian SWF realizes a foreign investment may be explained by the home government's ethical principles, which are allegedly perceived by the target country's government as a lack of political willingness to influence the SWF-backed company's management, pursue strategic gains and/or destabilize the target country. SWF country fixed effects control for time-unvarying home country characteristics in terms of, for instance, institutions and culture. Finally, the interactions between target industries and target country fixed effects control for shocks in the attractiveness of specific industries in specific countries.

Table 2 provides detailed descriptions and definitions of the variables included in the analysis.

5 | RESULTS

5.1 | Descriptive statistics and preliminary evidence

In Table 3, descriptive statistics on the dependent, independent, and control variables are reported. Out of all 9338 potential dyads between SWFs and target companies, 6.58% of them

TABLE 3 Descriptive statistics.

Variable	Mean	Median	SD	Min	Max
Realized	0.0658	0	0.2479	0	1
SWF Politicization	0.8058	0	1.0559	0	3
Political Relations	0.3693	0.4009	0.3936	-1	1
Trade Agreement	0.3254	0	0.4686	0	1
SWF Opacity	0.4745	0	0.4994	0	1
SWF Internationalization	0.6856	1	0.4643	0	1
SWF Strategic Goal	0.5664	1	0.4956	0	1
SWF Size	183.209	82	216.8074	8	888
Listed	0.3983	0	0.4896	0	1
Religious Distance	0.5469	0.7582	0.7260	-1.5510	1.5279
Border	0.0286	0	0.1667	0	1
SWF Financial Development	98.1737	60.1921	73.6745	11.0838	297.9832
SWF GDP	1.0491	0.2975	2.8126	0.0303	18.9271
SWF GDP Growth	4.1164	3.6613	3.9383	-5.2429	25.1762
Rule of Law	1.0332	1.5145	0.8494	-1.0493	2.0290
Target Financial Development	108.6935	100.2696	100.8533	11.4076	1254.465
Target GDP	5.8420	1.9478	6.9683	0.0148	19.9254
Target GDP Growth	3.2300	2.5933	3.2402	-5.6938	25.1762

are actually realized. Around 32% of the dyads show a preferential or regional trade agreement between the SWF home country and the host country. In line with Bernstein et al. (2013) and Murtinu and Scalera (2016), most of the SWFs are not highly politicized. The degree of internationalization of the SWFs is fairly high: SWFs whose foreign assets represent the majority of their assets under management are more than 68%. Almost 57% of the dyads include a strategic fund.

In Table 4, we show the correlation matrix including the dependent variable, the independent variables, and the controls. Even though no issues of multicollinearity seem to appear (with the exception of the relatively high correlation between *SWF Politicization* and *SWF Opacity*), we calculated the common variance inflation factors (VIFs). These VIFs confirmed the absence of multicollinearity in our data: the mean VIF was 1.67, and the maximum VIF was 2.79, both markedly lower than the commonly used threshold of 10 (Xu et al., 2004).

5.2 | Main results

The results from the estimation of Equation (1) are reported in Table 5. In column (1), we show the baseline results and test hypotheses H1, H2a, and H3a. In column (2), we add the interaction term between *Political Relations* and *SWF Politicization* to test H2b. In column (3), we add the interaction term between *Trade Agreement* and *SWF Politicization* to test H3b. Finally, in column (4), we include both interaction terms.



TABLE 4 Correlation matrix.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	
(1) Realized	1																			
(2) SWF Politicization	-0.09	1																		
(3) Political Relations	-0.01	0.12	1																	
(4) Trade Agreement	0.17	-0.29	0.09	1																
(5) SWF Opacity	-0.04	0.61	0.05	-0.23	1															
(6) SWF Internationalization	0.11	0.02	0.04	0.13	0.02	1														
(7) SWF Strategic Goal	-0.00	0.07	-0.06	-0.08	-0.08	-0.46	1													
(8) SWF Size	0.03	-0.37	-0.10	0.04	-0.04	0.35	-0.13	1												
(9) Listed	-0.01	0.03	0.08	-0.03	-0.00	0.00	0.02	-0.01	1											
(10) Institutional Distance	-0.03	-0.09	-0.06	0.05	-0.11	0.08	0.11	0.25	-0.00	1										
(11) Religious Distance	0.06	0.16	0.09	-0.07	0.25	0.04	-0.01	-0.01	-0.01	-0.17	1									
(12) Border	-0.02	0.05	0.17	0.13	0.02	-0.10	0.08	-0.03	-0.01	0.00	-0.15	1								
(13) SWF Financial Development	0.23	-0.31	-0.10	0.26	-0.17	0.20	0.05	0.01	-0.01	-0.07	0.21	0.01	1							
(14) SWF GDP	-0.04	-0.18	-0.08	-0.00	-0.11	-0.35	0.18	-0.02	0.01	-0.03	-0.07	0.10	-0.00	1						
(15) SWF GDP Growth	-0.00	-0.05	0.02	0.03	-0.02	-0.17	-0.01	-0.09	0.00	-0.05	0.09	0.04	0.17	0.09	1					
(16) Rule of Law	-0.06	0.04	-0.44	-0.23	0.02	-0.01	0.02	-0.01	0.05	0.00	-0.18	-0.13	-0.01	-0.01	0.03	1				
(17) Target Financial Development	-0.00	0.03	-0.05	-0.07	0.01	0.01	-0.01	-0.01	0.02	-0.00	-0.09	-0.02	0.00	-0.03	-0.02	0.30	1			
(18) Target GDP	0.06	-0.04	-0.45	0.04	0.01	0.02	-0.04	0.05	-0.15	0.01	-0.04	-0.06	-0.02	-0.08	-0.06	0.13	0.08	1		
(19) Target GDP Growth	0.05	-0.03	0.21	0.21	0.01	0.00	-0.01	0.03	-0.05	-0.00	0.15	0.10	0.03	-0.00	0.17	-0.54	-0.08	-0.03	1	

TABLE 5 Regression results for the basic models.

	(1)	(2)	(3)	(4)
SWF Politicization	0.0011 (0.8623)	0.0002 (0.9763)	0.0045 (0.4779)	0.0040 (0.5793)
Political Relations	0.0223* (0.0616)	0.0217* (0.0758)	0.0209* (0.0811)	0.0205* (0.0938)
Trade Agreement	0.0412*** (0.0000)	0.0414*** (0.0000)	0.0483*** (0.0000)	0.0484*** (0.0000)
Political Relations × SWF Politicization		0.0021 (0.7855)		0.0013 (0.8641)
Trade Agreement × SWF Politicization			−0.0150** (0.0386)	−0.0149** (0.0396)
SWF Opacity	0.0003 (0.9805)	0.0002 (0.9862)	0.0004 (0.9745)	0.0003 (0.9781)
SWF Internationalization	0.0561** (0.0462)	0.0557** (0.0477)	0.0571** (0.0425)	0.0569** (0.0434)
SWF Strategic Goal	0.0606** (0.0320)	0.0605** (0.0322)	0.0649** (0.0220)	0.0648** (0.0222)
SWF size	0.0000 (0.9405)	0.0000 (0.9338)	0.0000 (0.9393)	0.0000 (0.9351)
Listed	−0.8524*** (0.0005)	−0.8521*** (0.0005)	−0.8461*** (0.0006)	−0.8459*** (0.0006)
Institutional Distance	−0.0000 (0.1205)	−0.0000 (0.1194)	−0.0000 (0.1228)	−0.0000 (0.1221)
Religious Distance	−0.0276*** (0.0000)	−0.0274*** (0.0000)	−0.0288*** (0.0000)	−0.0287*** (0.0000)
Border	−0.0376** (0.0325)	−0.0379** (0.0315)	−0.0341* (0.0535)	−0.0343* (0.0527)
SWF Financial Development	−0.0010*** (0.0000)	−0.0010*** (0.0000)	−0.0010*** (0.0000)	−0.0010*** (0.0000)
SWF GDP	0.0007 (0.9087)	0.0007 (0.9135)	0.0010 (0.8835)	0.0009 (0.8866)
SWF GDP Growth	−0.0003 (0.7722)	−0.0003 (0.7588)	−0.0002 (0.8238)	−0.0003 (0.8150)
Rule of Law	−0.1324 (0.5388)	−0.1316 (0.5415)	−0.1290 (0.5492)	−0.1285 (0.5509)
Target Financial Development	0.0005 (0.5947)	0.0005 (0.5959)	0.0005 (0.5881)	0.0005 (0.5889)
Target GDP	0.0394	0.0394	0.0388	0.0388



TABLE 5 (Continued)

	(1)	(2)	(3)	(4)
	(0.2208)	(0.2206)	(0.2275)	(0.2274)
Target GDP Growth	0.0011	0.0010	0.0010	0.0010
	(0.8599)	(0.8628)	(0.8649)	(0.8668)
Year fixed effects	Y	Y	Y	Y
Target company fixed effects	Y	Y	Y	Y
SWF fixed effects	Y	Y	Y	Y
SWF country fixed effects	Y	Y	Y	Y
Target industry × Target country fixed effects	Y	Y	Y	Y
Number of observations	9338	9338	9338	9338
R ²	0.1731	0.1731	0.1736	0.1736

Note: The dependent variable is *Realized*. Models in columns (1)–(4) are estimated by means of linear probability regressions. All models include an intercept. Exact *p* values are in round brackets.

Focusing on the full model in the fourth column, our results firstly show that highly politicized SWFs do not seem to be negatively associated with the likelihood that a cross-border investment materializes. The 95% confidence interval of the average marginal effect of *SWF Politicization* ranges from -1% to $+1.8\%$. These findings do not support H1. Second, cordial political relations between the SWF home country and the target host country are positively associated with the likelihood that a cross-border investment materializes. The coefficient of the variable *Political Relations* is positive, and the magnitude of the associated average marginal effect is $+2.04\%$ (with its 95% confidence interval ranging from -0.3% to $+4.44\%$). Our H2a is supported. Third, the presence of trade agreements between the SWF home country and the target host country is positively associated with the likelihood that a cross-border investment is realized. The coefficient of *Trade Agreement* is positive, and the magnitude of the associated average marginal effect is $+4.84\%$ (with its 95% confidence interval ranging from $+3.22\%$ to $+6.46\%$). Our Hypothesis 3a is supported.

Turning to the moderation effect of *SWF Politicization*, our H2b does not seem supported: the 95% confidence interval of the average marginal effect of *Political Relations***SWF Politicization* ranges from -1.36% to $+1.63\%$). Thus, cordial political relations between the SWF home country and the target firm's host country do not seem to affect the relationship between SWF politicization and the likelihood that an investment will materialize. As further proof of this finding, it is worth noting that the addition of the interaction term between *Political Relations* and *SWF Politicization* leads to no improvement in the R² moving from column (1) to column (2).

In contrast, the addition of the interaction term between *Trade Agreement* and *SWF Politicization* leads to a sizeable improvement in the R² when moving from column (1) to column (3). The presence of trade agreements between the SWF home country and the target host country seems to decrease the likelihood that a politicized SWF investment will materialize. The coefficient of *Trade agreement* * *SWF Politicization* is negative, and the magnitude of the associated average marginal effect is -1.49% (with its 95% confidence interval ranging from -2.91% to -0.07%). Thus, H3b is supported.

TABLE 6 Robustness checks.

	(1) With SPRFs	(2) No tax havens	(3) All Dow's distances	(4) Bilateral trade agreements	(5) Test on UAE SWFs
SWF Politicization	−0.0006 (0.9238)	0.0056 (0.4420)	0.0048 (0.5024)	0.0057 (0.4100)	0.0049 (0.5653)
Political Relations	0.0100 (0.2535)	0.0230* (0.0664)	0.0218* (0.0759)	0.0303** (0.0130)	0.0205* (0.0983)
Trade Agreement	0.0499*** (0.0000)	0.0494*** (0.0000)	0.0484*** (0.0000)		0.0466*** (0.0000)
Bilateral Trade Agreement				0.0723*** (0.0000)	
Political Relations × SWF Politicization	0.0056 (0.4246)	0.0002 (0.9823)	−0.0000 (0.9983)	−0.0076 (0.3227)	−0.0014 (0.8910)
Trade Agreement × SWF Politicization	−0.0171*** (0.0096)	−0.0181** (0.0176)	−0.0166** (0.0230)		−0.0237*** (0.0053)
Bilateral Trade Agreement × SWF Politicization				−0.0403*** (0.0012)	
SWF Opacity	0.0014 (0.8955)	−0.0003 (0.9819)	0.0005 (0.9627)	0.0032 (0.7785)	−0.0007 (0.9539)
SWF Internationalization	0.0659 (0.5657)	0.0589** (0.0412)	−0.0726 (0.6313)	0.0460 (0.1020)	
SWF Strategic Goal	0.0234 (0.3770)	0.0625** (0.0315)	−0.0473 (0.7517)	0.0587** (0.0374)	
SWF Size	0.0000 (0.5815)	0.0000 (0.8618)	0.0000 (0.9484)	0.0000 (0.8312)	−0.0000 (0.8804)
Listed	−0.8531*** (0.0003)	−0.8378*** (0.0007)	−0.8419*** (0.0006)	−0.8297*** (0.0007)	−0.8423*** (0.0006)
Institutional Distance	−0.0000* (0.0605)	−0.0000 (0.1287)	−0.0000 (0.1317)	−0.0000 (0.1091)	−0.0000 (0.1154)
Religious Distance	−0.0272*** (0.0000)	−0.0267*** (0.0000)	−0.0249*** (0.0000)	−0.0260*** (0.0000)	−0.0276*** (0.0000)
Linguistic Distance			−0.0072* (0.0587)		
Industrial Development Distance			0.4472* (0.0730)		
Education Distance			−0.3069**		



TABLE 6 (Continued)

	(1) With SPRFs	(2) No tax havens	(3) All Dow's distances	(4) Bilateral trade agreements	(5) Test on UAE SWFs
			(0.0468)		
Political Systems (Democracy) Distance			0.1549		
			(0.1235)		
Border	-0.0264** (0.0332)	-0.0327* (0.0749)	-0.0393** (0.0282)	-0.0173 (0.3236)	-0.0281 (0.1178)
SWF Financial Development	-0.0007*** (0.0000)	-0.0009*** (0.0000)	-0.0010*** (0.0000)	-0.0009*** (0.0000)	-0.0009*** (0.0000)
SWF GDP	0.0034 (0.5689)	0.0008 (0.9087)	0.0013 (0.8430)	0.0004 (0.9545)	0.0009 (0.8881)
SWF GDP Growth	-0.0003 (0.7351)	-0.0002 (0.8913)	-0.0003 (0.7819)	-0.0002 (0.8875)	-0.0002 (0.8607)
Rule of Law	-0.0585 (0.7530)	-0.1270 (0.5761)	-0.1286 (0.5505)	-0.1388 (0.5192)	-0.1227 (0.5690)
Target Financial Development	0.0004 (0.6153)	0.0005 (0.5959)	0.0005 (0.5844)	0.0005 (0.5737)	0.0005 (0.5782)
Target GDP	0.0246 (0.3736)	0.0387 (0.2323)	0.0394 (0.2210)	0.0344 (0.2853)	0.0382 (0.2343)
Target GDP Growth	0.0000 (0.9965)	0.0010 (0.8724)	0.0010 (0.8696)	0.0014 (0.8238)	0.0009 (0.8761)
SPRF	0.0012 (0.9709)				
SWF Politicization × UAE					0.0102 (0.4547)
Political Relations × UAE					0.0096 (0.7196)
Trade Agreement × UAE					0.0259 (0.4563)
Political Relations × SWF Politicization × UAE					-0.0027 (0.8762)
Trade agreement × SWF Politicization × UAE					0.0278 (0.1557)
Year fixed effects	Y	Y	Y	Y	Y

(Continues)

TABLE 6 (Continued)

	(1) With SPRFs	(2) No tax havens	(3) All Dow's distances	(4) Bilateral trade agreements	(5) Test on UAE SWFs
Target company fixed effects	Y	Y	Y	Y	Y
SWF fixed effects	Y	Y	Y	Y	Y
SWF country fixed effects	Y	Y	Y	Y	N
Target industry × Target country fixed effects	Y	Y	Y	Y	Y
Number of observations	11,640	8983	9338	9338	9338
R ²	0.1405	0.1751	0.1742	0.1745	0.1746
Pseudo R ²					

Note: The dependent variable is *Realized*. Models in columns (1)–(5) are estimated by means of linear probability regressions. All models include an intercept. Exact *p* values are in round brackets.

These empirical results are robust across all model specifications. As regards the control variables, both *SWF Internationalization* and *SWF Strategic Goal* have a positive effect on the realization of cross-border investments: average marginal effects are +5.69% and +6.48%, respectively. SWFs seem less likely to acquire listed foreign companies (compared to unlisted ones); being that, everything else being equal, listed companies are more strategic and valuable assets for a host market, the likelihood of negative interference by the local governments will be higher, thus leading to fewer chances of investment completion. When considering the dyadic home-host country measures, a one standard deviation increase in the religious distance produces, on average, a decrease in the likelihood of realization by 0.08 standard deviations. On the other hand, SWFs are less likely to realize an acquisition in a contiguous country; this is coherent with the SWFs' investment strategies that aim to diversify their portfolio of foreign assets and maximize financial gains. To do so, when investing abroad, SWFs tend to look for nonregional opportunities. Finally, when considering the home country characteristics, we find that the level of financial development in the SWF's country negatively influences the realization of CBAs, as SWFs will be more likely to search and find investment opportunities in their home markets when these latter are more efficient.

5.3 | Robustness checks

We performed several checks to test the robustness of the main findings shown in Table 5.

First, we excluded pension funds from our baseline analysis because some authors (e.g., Blundell-Wignall et al., 2008) have suggested that SWFs may differ from pension funds in terms of objectives, disclosure requirements, target asset classes, and funding.¹¹ However, other authors (e.g., Megginson et al., 2013) argue that SWFs and pension funds, particularly Sovereign Pension Reserve Funds (SPRFs), are fundamentally similar international investment vehicles. SPRFs are directly set up and managed by the government and their capital is almost entirely committed by governmental sources, thus they seem comparable to SWFs. Thus, we re-estimated our baseline model including all realized and potential-but-not-realized dyads by SPRFs and adding a dummy control variable (*SPRF*) that equals one for SPRF investments—see



Table 6, column (1). Interestingly, the inclusion of these data and the additional control variable does reduce the magnitude of *Political Relations*, leaving largely unaltered the magnitude of the other hypothesized variables.

Second, our dataset includes inter alia SWF investments in tax havens.¹⁵ If the goal of these investments is purely financial (for instance, to avoid paying taxes) and political/economic relationships play a minimal role, then the inclusion of these investments in our analysis may bias the estimated effects of our main hypothesized variables. We thus re-estimated the model in Table 5 [column (4)] excluding all realized and potential-but-not-realized dyads involving target companies in tax havens—see Table 6, column (2). The exclusion of these data does not change the signs and magnitude of our findings.

Third, in our main model specifications in Table 5, we use *Religious Distance* to proxy the psychic distance between the SWF country and the target country. However, there are other attributes provided by Dow and Karunaratna (2006) to measure a composite index of psychic distance, namely country-level distances in terms of language, industrial development, education, and political systems.¹⁶ Several studies in the global strategy literature have adopted these measures (e.g., Baack et al., 2015; Blomkvist & Drogendijk, 2013; Dow et al., 2020). In Table 6 (column (3)), we augment the model specification in Table 5 (column (4)) with the other four measures of psychic distance, and our results hold. Interestingly, while distances in education and language exhibit a negative sign as in the case of religious distance, country differences in industrial development seem to increase the chances that an acquisition materializes. This may be explained, for instance, with SWFs' goal to support and execute the industrial and technological catching-up strategy of their home governments.

Fourth, our independent variable *Trade Agreement* includes both bilateral and multilateral trade agreements. As compared with multilateral trade agreements, a bilateral trade agreement may be perceived as a stronger signal of trust between countries. In Table 6 (column (4)), we then substitute *Trade Agreement* (and its interaction with *SWF Politicization*) with the dummy variable *Bilateral Trade Agreement* (and its interaction with *SWF Politicization*). *Bilateral Trade Agreement* equals one if a bilateral trade agreement is in place between country *i* and country *j* at time *t* (i.e., the year of the realized or potential deal). Our main results hold and, as expected, size effects are stronger.

Fifth, in our data there might be a possible over-representation of United Arab Emirates (UAE)-based SWFs. Indeed, our sample includes 23 SWFs, with seven of them being located in the UAE. In terms of observations (i.e., realized and potential deals), UAE-based SWFs' investments account for 2490/9338 deals (around 25% of observations); if we consider realized deals only, the proportion of UAE-based deals on the total is 82/614 (13.3%). In order to reassure the reader that this possible over-representation of UAE-based SWFs in our sample does not affect our findings, we implement the following empirical strategy. As shown in Table 6 (column (5)), we extend the baseline model specification in Table 5 (column (4)) by interacting the UAE SWF-country dummy with all our five hypothesized variables. It is worth noting that fund fixed effects in our model specification account for possible heterogeneity among UAE-based SWFs (i.e., UAE, as some other countries, has multiple SWFs that might achieve different aims for the country) that may affect the slope coefficient of our hypothesized variables. Our main findings are fully confirmed, and importantly all the five interaction terms with the UAE SWF-country dummy turn out to be not statistically significant. These latter five statistical tests provide evidence that the estimated effects related to our variables of interest are not stronger or weaker for UAE-based SWFs.

Finally, we perform two other robustness checks. First, we re-estimated our main model specification (Table 5, column (4)) by means of probit. We remove fixed effects to avoid the typical incidental parameters problem: namely, using probit with fixed effects may give inconsistent estimates and standard errors due to the low number of data points to estimate the coefficient of (some) fixed effects. For instance, some countries and some SWFs might display a relatively low number of deals. Second, we re-estimated our main model specification (Table 5, column (4)) by using double-clustered error terms (by SWF country and target country; Petersen, 2009). All main findings hold in terms of both sign and magnitude.

6 | ADDITIONAL EVIDENCE

In this section, we inquire whether possible nonlinearities in the data may explain the lack of support for H1 and H3. Our model assumes a linear relationship between dependent and independent variables; however, a certain value in the distribution of an independent variable may represent a “switch” point, that is, a threshold where the slope of the relationship between the dependent and the independent variable changes. With regard to H1, the exact “location” of a possible threshold in the distribution of *SWF Politicization* cannot be known a priori (i.e., the threshold is endogenous), and thus arbitrary sample splits, even when supported by descriptive statistics or graphical analyses, fail to identify the threshold value. In other words, the possible presence of a switch point

TABLE 7 Additional evidence on SWFs' politicization.

	Coeff. whole sample	Switch point	Coeff. before the switch point	Coeff. after the switch point
SWF Politicization	0.0011 (0.8623)	0.5	0.0532 (0.1664)	0.0100 (0.2521)
Political Relations		0.0224* (0.0918)		
Trade Agreement		0.0384*** (0.0000)		
Control variables		Y		
Year fixed effects		Y		
Target company fixed effects		Y		
SWF fixed effects		Y		
SWF country fixed effects		Y		
Target industry × Target country fixed effects		Y		
AIC		-22804		
BIC		-5135		
HQIC		-16803		
SSR		478		
Number of observations		9338		

Note: The dependent variable is *Realized*. The model includes an intercept. Exact *p* values are in round brackets.

calls for the estimation of an endogenous threshold regression (Hansen, 2000), which estimates separate coefficients before and after the endogenously estimated switch point.

Following the procedure recently proposed by Arin et al. (2022), in Table 7 we estimate an endogenous threshold regression. Namely, we re-estimate our main model in Table 5 (column (1)), as many times as there are possible switch points in the distribution of *SWF Politicization*. After each estimation, the sum of squared errors (SSR) is estimated, and the value of *SWF Politicization* that makes SSR the smallest possible represents the threshold value. Thus, we now estimate the same set of coefficients as in Table 5 (column (1)) except for *SWF Politicization*, for which the endogenous threshold regression estimates two coefficients, one before and one after the estimated threshold. As shown in Table 7, the estimated threshold value is 0.5.

In Table 7, the first column shows the coefficient of *SWF Politicization* in Table 5 (column (1)), the second column shows the endogenously estimated threshold for *SWF Politicization*, and the last two columns show the estimated coefficients of *SWF Politicization* before and after the threshold. Threshold regression estimates do not seem to detect nonlinearity in the data; indeed, the result in Table 5 (column (1))—that is, the not statistically significant coefficient of *SWF Politicization*—holds both before and after the estimated threshold.

With regard to H3, being that it is tested by means of an interaction term between a continuously bounded variable *Political Relations* and *SWF Politicization*, there is no theoretical motivation for using a threshold regression. However, following Arin et al. (2022) we test whether there is any discontinuity in the distribution of *Political Relations * SWF Politicization* that might explain the lack of support for H3. Namely, we plot the data points to see if we visualize some possible discontinuities in the distribution of *Political Relations * SWF Politicization*. Then, we follow Cattaneo et al. (2019) and we employ a graphical test to detect jumps or

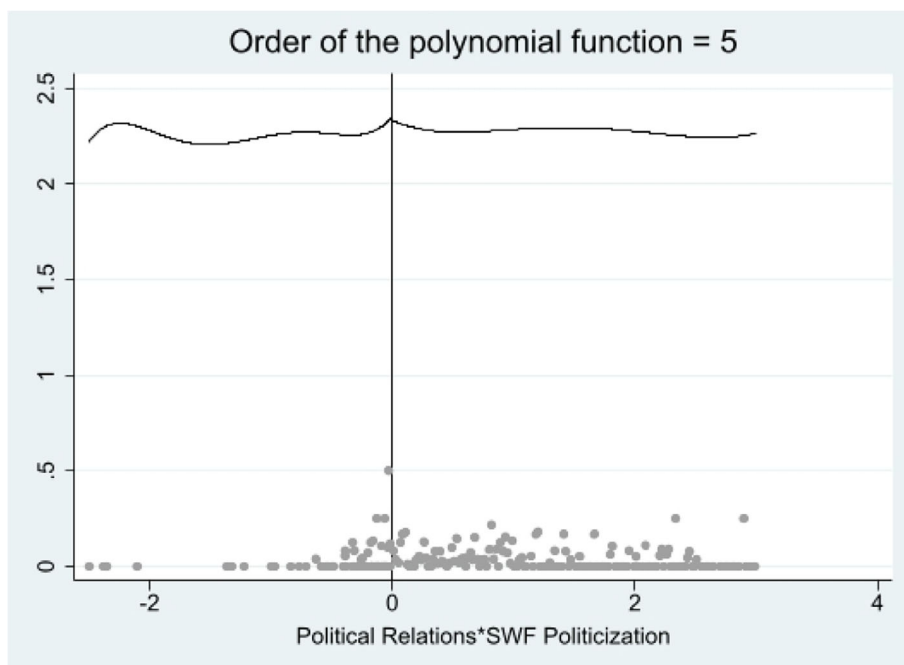


FIGURE 1 Graphical inspection of the presence of discontinuities in the distribution of *Political Relations × SWF Politicization*.

discontinuities at different values of *Political Relations * SWF Politicization*. As an example, in Figure 1 we show this graphical test at the value zero, where we display two smoothed fifth-order polynomial approximations fitting the relationship between the dependent variable and *Political Relations * SWF Politicization*, before and after the value zero. Across the values of *Political Relations * SWF Politicization*, we did not detect any discontinuity.

7 | DISCUSSION AND CONCLUSIONS

SWFs represent key investors in the contemporary global economy, where State intervention is increasingly multi-faceted ranging from wholly owned SOEs to strategic subsidies to private local champions (Bruton et al., 2015). SWFs' organization and strategies are distinctive due to their size, resources, and connections with their home countries' political agendas and related investment goals, thus representing a clear example of the interaction between economic and political interests (Aguilera et al., 2016; Bernstein et al., 2013).

In this work, we draw upon institutional economics and the LBV of political risk to investigate the determinants of the successful realization of SWF cross-border acquisitions. SWF investments are often viewed with suspicion and political resistance in host countries (Bernstein et al., 2013; Chhaochharia & Laeven, 2009) on account of the "institutional baggage" they are perceived to bring, and suffer accordingly from a lack of organizational legitimacy. We suggest that this lack of legitimacy may be exacerbated in cases where the SWFs are highly politicized, but this effect may be moderated when the SWF's home country and the target firm's host country have strong political and economic relations (as evidenced by the existence of cordial political ties and trade agreements).

Contrary to our theoretical predictions, and interestingly enough to represent a relevant addition to the existing empirical evidence (e.g., Gieve, 2008; Knill et al., 2012), our empirical results show that SWF politicization does not represent per se an impediment to the realization of CBAs. A twofold explanation is that fund politicization is neither necessarily negatively correlated with the reputation of the fund, as perceived in the host country, nor linked to the strategic nature of the investment. On the one hand, foreign investments can be used by highly politicized SWFs as a "state legitimizing tool" (Aguilera et al., 2016). On the other hand, highly politicized SWFs potentially engaging in portfolio (rather than strategic) investments might use foreign investments as a strategic escape from the political pressure faced at home. From an institutional economics perspective, the SWF politicization and the strong connection with the home-country government can be seen as an advantage of stateness (Benito et al., 2016), which provides the SWFs with abundant financial and nonmarket resources reducing the risk of failure of their CBAs.

The paper also offers interesting results about the role of bilateral relations and their interaction with the SWF politicization. Cordial political ties between the SWF home country and the target host country and the common participation in a trade agreement both favor the realization of cross-border investments. However, the SWF politicization shows a significant negative moderating effect only in the presence of trade agreements, but not in the presence of cordial political ties. This can be consistent with the reduced scope for the host country to renegotiate ex post investment conditions when a trade agreement is in place while instead political similarities between the two countries set the common ground and ease the convergence toward common goals.



7.1 | Implications

Our work contributes to three streams of literature that encompass global strategy, corporate governance, and finance. First, by considering the international strategies of SWFs we contribute to the less-studied literature on cross-border investments by a distinct type of financial and government-affiliated investor, other than SOEs (e.g., Calluzzo et al., 2017; Knill et al., 2012; Murtinu & Scalera, 2016), whose role in the target companies can go beyond that of the typical passive investor and turn into an active shareholder with governance capacity (Aguilera et al., 2016). Our empirical results contribute to the global strategy literature investigating *how* SWFs internationalize their activities (Makhoul et al., 2020; Murtinu & Scalera, 2016), complementing the studies focusing on the motivations of SWFs' investments (e.g., Calluzzo et al., 2017; Johan et al., 2013; Knill et al., 2012) or on the effects of the SWF investments on target firm value (e.g., Bortolotti et al., 2015; Chhaochharia & Laeven, 2009; Dewenter et al., 2010). We do so by showing that the SWF politicization alone does not represent a key feature for investment decisions, though geopolitics and bilateral relations are key. Different from what was argued by the existing literature, the completion of foreign SWF investments does not seem sensitive to the political influence in the fund management, while the political affinities between country dyads have a direct and positive effect on the likelihood of the realization of a SWF investment. This evidence has implications for the role of political connections (Faccio, 2006; Faccio et al., 2006) in the global strategy literature linked to the LBV literature (Bitektine, 2011; DiMaggio & Powell, 1991; Suchman, 1995), and extends previous evidence on the importance of connections at firm-level (Sojli & Tham, 2017). Second, our study sheds new light on the corporate governance and (international) finance literature that has more recently focused on studying the impact of alternative forms of ownership and the financial analysis of related cross-border investments (Bertoni & Lugo, 2014; Bortolotti et al., 2015; Cuervo-Cazurra, Grosman, & Wood, 2023; Strange, 2022). Our study offers contextual insights to interpret SWFs' international decision-making by providing a novel strategic analysis, complementary to the more traditional financial analysis (Mudambi, 1998). Third, we contribute to the global strategy literature about international relations in cross-border investments (e.g., Arikan & Shenkar, 2013; Li et al., 2019; Li & Vaskchilko, 2010). Our results that comprise both political and economic country relations as different types of bilateral international relations may guide scholars in complementing more traditional home-host country measures like cultural distance, institutional distance, or colonial ties. Our results offer new evidence on the inconsistent debate in the literature, and, contrary to Knill et al. (2012), find support for the global strategy and IB literature theorizing that better relations foster FDI (Moons & van Bergeijk, 2017). The role of the political distance between countries has been analyzed only to a limited extent by the global strategy literature, but it can provide opportunities to create an alternative measure of cross-country political risk, which assumes particular relevance in the context of global strategic decisions involving government-affiliated organizations.

Our findings also provide relevant policy implications. First, the current debate in SWF research is focusing on the funds' level of politicization and their home countries' institutional profile (within the broader concept of state capitalism) as major determinants of both SWFs' ability to invest abroad, and the LOH and scrutiny experienced by foreign SWFs in host countries (Cuervo-Cazurra, Grosman, & Wood, 2023). Namely, SWFs' politicization helps host countries infer the political agenda behind foreign SWF investments, and their goals and monitoring style in local target companies, so as to design proper protection measures to regulate foreign SWF investments. We add to this literature by showing that politicization per se is not an

impediment to the realization of cross-border SWF acquisitions; instead, politicization turns into an obstacle to the realization of foreign SWF activities only when the SWFs and the host countries are tied with PTAs. This has important implications for the choice of potential host countries for highly politicized SWFs. Second, related to this latter point, blocking a foreign SWF acquisition on the grounds of nonadjustable ex post unwanted outcomes may represent a loss of value for the host country. Thus, host country governments may design governance structures that monitor foreign SWFs' behavior in target companies on their behalf. For instance, in the case of foreign SWF acquisitions that generate strong opposition in the host country but that, at the same time, are potentially valuable for the host economy, host country governments may force the appointment of host government representatives in the board of the targeted companies, so as to monitor the foreign SWF's directors. Moreover, these board representatives of the host government may be empowered with special control rights, such as golden shares or similia. Finally, to prevent their local economies from losing foreign investment opportunities, host country governments may design policies fostering syndication between foreign SWFs and local investors. On the one hand, the presence of prominent local investors aimed at maximizing returns from their investment in the target company prevents (or, at least, limits) the foreign SWF from extracting private value from the target company, and more generally negatively impacting the host country's welfare. On the other hand, the presence of a prominent local investor ensures a social defense for the target company. Indeed, being that the local investor aims to maximize the target company's value, her presence does not allow the foreign SWF to put forward its home country's political agenda, which may be detrimental to the target company's value and performance.

7.2 | Limitations and future research developments

Our main contribution has been to consider the internationalization strategies of SWFs—an important yet under-researched form of government-affiliated organization. Notwithstanding the increased attention to SOEs in the IB literature (Cuervo-Cazurra, 2018), there have been few theoretical or empirical studies focusing on SWFs and this work addresses this shortcoming. Future studies may extend the current research in various ways. First, most of the SWF literature (e.g., Aguilera et al., 2016; Bernstein et al., 2013; Calluzzo et al., 2017; Knill et al., 2012), including the present work, speculates on the hidden political motives underpinning SWF investments. New research should assess how political influence is exercised within SWFs (e.g., via the appointment of government representatives in board or management positions; through specific compensation terms), and understand how this differently affects the strategies regarding domestic and foreign investments. For instance, the way through which the SWF is influenced by home-country politicians may influence the negotiations with potential syndication partners and the terms upon which the SWF and its syndication partners will invest in target companies. A massive political influence may include restrictions on the (i) use of the target company's assets, (ii) co-investment, (iii) geography of investments, and (iv) public disclosure of the investment performance, among others. These restrictions may affect agency costs horizontally (between the SWF and syndication partners) and vertically (between the SWF and the target company; Lugo & Murtinu, 2023). This might require the collection (perhaps through qualitative research) of fine-grained information about board members and composition, executive compensation, contracts with the target companies and syndicate partners, and direct relationships with the State.



Second, the presence of strategic and political goals may not necessarily be only at the fund level, but also at the investment level. In the present study, we only account for the former dimension; however, it would be relevant to include also the latter in the picture and analyze the interaction between the two. While collecting information on the strategic nature of an investment from a SWF's point of view may be almost impossible due to the high level of tacitness of the relevant information (even through a qualitative research design), future works may focus on host country perceptions and use text mining techniques to analyze public announcements by host governments regarding announced foreign SWF investments. In doing so, future studies should analyze how SWFs' investment decisions are influenced *ex-ante* (and *ex post*) by the negative reactions of social and political stakeholders in host countries, in order to assess whether these effects are comparable to those affecting privately owned MNEs (Dorobantu et al., 2016).

Third, SWFs and SOEs both involve home country government influence to some degree, and both evoke reactions from political actors in host countries. While in this work we only focus on SWFs, it would be useful to find out whether home country governments exert their influence in different ways and to different degrees, and how this differential influence affects the motives, strategies, and timing of SWFs and SOEs. In comparative terms, the corporate nature of SOEs may, on the one hand, make host country stakeholders perceive the SOEs investments as less risky than the SWFs ones because of a less speculative investment goal. On the other hand, in the case of host country strategic assets, the operational activism of SOEs may increase the perceived riskiness of the investment in the host country because of the higher likelihood for SOEs to steal key technologies, human capital, and industrial secrets.

Fourth, this work provides new evidence on the effects of the dyadic country relations on the realization of CBAs. While we propose arguments that are specific to SWFs and assume that those arguments make the hypothesized effects stronger for SWFs, we would need to extend our dataset to include non-SWF investments to provide a final answer. This is beyond the scope of the present work, but a comparison of the impact of political and economic relations on SWF and non-SWF cross-border acquisitions ranks high in our research agenda.

Finally, our results suggest some ways in which home country governments may facilitate SWF investments. In particular, developing strong political and economic relations with potential host countries only represents an option. However, future studies should dig deeper into the role of the home country governments in helping the domestic SWF to establish legitimacy in foreign countries. Also, from the perspective of the host country, further work should focus on the optimal level of scrutiny the host countries need to exert to better assess the motives/strategies of SWF investments (both in advance of the investments and subsequently) without hindering their potentially beneficial backlash. This may also lead to establishing more efficient screening procedures for government-related foreign investments.

ACKNOWLEDGEMENTS

For useful comments and suggestions, we thank seminar participants at the Utrecht University School of Economics, Henley Business School University of Reading, University of Pavia, and Academy of International Business (AIB) 2017 Annual Meeting. A previous version of the paper titled "Sovereign wealth funds' international investments: The role of politicization and bilateral relations" was awarded the Temple/AIB Best Paper prize at the 2017 AIB Annual Meeting in Dubai. We are indebted to Chris Zonneville for his assistance with the data collection.

ENDNOTES

- ¹ There is no universally accepted definition of SWFs, but we follow Murtinu & Scalera (2016, p. 251) who define SWFs as *investment funds owned and controlled by national (or sub-national) governments, with no explicit liabilities*. SWFs are often classified by the sources of the capital committed to their investments. While *commodity* SWFs (such as those located in Alaska, Norway, and in the MENA region) mainly use proceeds from exporting commodities and natural resources, *non-commodity* SWFs (such as those located in Australia, China, Korea, Malaysia, and Singapore) finance their investments through foreign currency reserves and/or fiscal surpluses. For excellent surveys of recent SWF research see Megginson and Fotak (2015), Megginson and Gao (2020), and Cuervo-Cazurra et al. (2022).
- ² Source: <https://www.swfinstitute.org/fund-rankings/sovereign-wealth-fund>.
- ³ Cuervo-Cazurra et al. (2019, pp. 163–164) refer to avoidance, adaptation, and appeal strategies.
- ⁴ It can reasonably be argued that H2a should hold for other types of cross-border investments, and not just for those made by SWFs. However, this hypothesis positions itself in an ongoing debate offering inconsistent evidence on country dyadic political relations and FDI (Li & Vashchilko, 2010; Nigh, 1985; for SWF, see Knill et al., 2012). Our assumption is that the positive impact of cordial political relations is likely to be stronger for SWFs given their unique characteristics of size, visibility, lack of transparency about motives, and potential government influence.
- ⁵ As in the case of H2a, it can reasonably be argued that H3a should hold for other types of cross-border acquisitions, and not just for those made by SWFs. The same assumption introduced above can reasonably hold for the stronger effect of PTA for SWFs.
- ⁶ As regards the Norwegian SWF “Government Pension Fund—Global”, Murtinu and Scalera (2016, p. 255) explained why a further step is necessary, namely *Given that the deals related to such a fund were assigned to the company Norges Bank Investment Management—which manages the SWF on the behalf of the Ministry of Finance—we had to disentangle between the deals made by the SWF and those made by other entities managed by Norges Bank Investment Management. To this extent, we crosschecked the annual reports released by the Norges Bank Investment Management (source: <http://www.nbim.no/en/the-fund/holdings/>) with our dataset to exclude all the deals where the SWF had no involvement*. In this work, we follow the same procedure.
- ⁷ In principle, we could have used a sorting model à la Sørensen (2007). Translating Sørensen’s (2007) arguments in our context, there may be a sorting effect in the matching process between SWFs and target companies, where “better” SWFs pick “better” target companies in a full information market (for the difference between “sorting” and “screening/selection” see, for instance, Chemmanur et al., 2011 and Croce et al., 2013). In our setting, even if we assume full information, we cannot use a sorting model; indeed, while in the venture capital markets, private funds may—at least theoretically—target the best companies for their portfolio, SWFs may not maximize their portfolio allocation because of political frictions.
- ⁸ This assumption rests on the fact that SWFs are global players, that is, their portfolio of assets allows them to have a global presence (Butt et al., 2008). Thus, SWFs are likely to be alert to target opportunities on a global scale through, for instance, local market information about promising target companies channeled to SWFs by their subsidiaries.
- ⁹ For more details, see <https://dataverse.harvard.edu/dataset.xhtml?persistentId=hdl:1902.1/12379>.
- ¹⁰ In unreported regressions, we also control for the geographic distance between the SWF home country and the host country of the target firm. Results are unchanged.
- ¹¹ World Bank data use 2015 as the reference year.
- ¹² The results hold with other proxy measures of investment opportunities in the SWF home country such as GDP per capita, exports/GDP, imports/GDP, inward FDI/GDP, outward FDI/GDP, gross capital formation/GDP, trade/GDP, or combinations of such measures. These results are available upon request from the authors.
- ¹³ In unreported regressions (available upon request), we re-ran our models by excluding interactions between target industries and target country fixed effects. The inclusion of all the three sets of fixed effects (company, industry, country) may lead to computational and/or multicollinearity issues. As regards this latter point is important to mention that the presence of multicollinearity (which does not seem present in our data) would make our model specification a more conservative test of the investigated effects in that the standard errors

for covariates would become larger (and not smaller; Lindner et al.,). Moreover, we also re-ran our models by substituting year dummies with year-industry interactions to control for the potential time-varying attractiveness of target industries. Both these robustness checks confirm our baseline findings.

¹⁴ See also <https://www.swfinstitute.org/statistics-research/difference-in-sovereign-vehicles/>.

¹⁵ In our sample, tax havens include Bahrain, Bermuda, the Cayman Islands, Hong Kong, Jordan, Kuwait, Maldives, Qatar, and the United Arab Emirates. For more details on tax havens and tax-related issues, see Foss et al. (2019) and <http://www.europarl.europa.eu/cmsdata/147404/7%20-%20001%20EPRS-Briefing-621872-Listing-tax-havens-by-the-EU-FINAL.PDF>.

¹⁶ Source: http://dow.net.au/?page_id=29.

REFERENCES

- Agmon, T., & Lessard, D. R. (1977). Investor recognition of corporate international diversification. *Journal of Finance*, 32(4), 1049–1055.
- Aguilera, R. V., Capapé, J., & Santiso, J. (2016). Sovereign wealth funds: A strategic governance view. *Academy of Management Perspectives*, 30(1), 5–23.
- Al-Kharusi, Q., Dixon, A. D., & Monk, A. H. B. (2014). Getting closer to the action: why pension and sovereign funds are expanding geographically (January 16, 2014). <https://ssrn.com/abstract=2380277>
- Allen, M., & Caruana, J. (2008). *Sovereign wealth funds: A work agenda*. International Monetary Fund <https://www.imf.org/external/np/pp/eng/2008/022908.pdf>
- Arikan, I., & Shenkar, O. (2013). National animosity and cross-border alliances. *Academy of Management Journal*, 56(6), 1516–1544.
- Arin, P., Minniti, M., Murtinu, S., & Spagnolo, N. (2022). Inflection points, kinks, and jumps: A statistical approach to detecting nonlinearities. *Organizational Research Methods*, 25(4), 786–814.
- Ascani, A., Crescenzi, R., & Iammarino, S. (2016). Economic institutions and the location strategies of European multinationals in their geographic neighborhood. *Economic Geography*, 92(4), 401–429.
- Baack, D. W., Dow, D., Parente, R., & Bacon, D. R. (2015). Confirmation bias in individual-level perceptions of psychic distance: An experimental investigation. *Journal of International Business Studies*, 46, 938–959.
- Baccini, L., Dür, A., Elsig, M., & Milewicz, K. (2011). The design of preferential trade agreements: A new dataset in the making. Staff Working Paper ERSD-2011-10. World Trade Organization, Economic Research and Statistics Division.
- Bagnall, A. E., & Truman, E. M. (2013). *Progress on sovereign wealth fund transparency and accountability: An updated SWF scoreboard, Policy Brief no.13-19*. Peterson Institute for International Economics.
- Bailey, M. A., Strezhnev, A., & Voeten, E. (2017). Estimating dynamic state preferences from United Nations voting data. *Journal of Conflict Resolution*, 61(2), 430–456.
- Barysch, K., Tilford, S., & Whyte, P. (2008). *State, money and rules: An EU policy for sovereign investments*. Centre for European Reform.
- Benito, G. R., Rygh, A., & Lunnan, R. (2016). The benefits of internationalization for state-owned enterprises. *Global Strategy Journal*, 6(4), 269–288.
- Bernstein, S., Lerner, J., & Schoar, A. (2013). The investment strategies of sovereign wealth funds. *Journal of Economic Perspectives*, 27(2), 219–237.
- Bertoni, F., & Lugo, S. (2014). The effect of sovereign wealth funds on the credit risk of their portfolio companies. *Journal of Corporate Finance*, 27, 21–35.
- Bitektine, A. (2011). Toward a theory of social judgments of organizations: The case of legitimacy, reputation, and status. *Academy of Management Review*, 36(1), 151–179.
- Blomkvist, K., & Drogendijk, R. (2013). The impact of psychic distance on Chinese outward foreign direct investments. *Management International Review*, 53, 659–686.
- Blundell-Wignall, A., Hu, Y.-W., & Yermo, J. (2008). Sovereign wealth and pension fund issues. OECD working papers on insurance and private pensions no. 14.
- Boddewyn, J. J., & Brewer, T. L. (1994). International-business political behavior: New theoretical directions. *Academy of Management Review*, 19(1), 119–143.

- Bortolotti, B., Fotak, V., & Megginson, W. L. (2015). The sovereign wealth fund discount: Evidence from public equity investments. *Review of Financial Studies*, 28(11), 2993–3035.
- Bruton, G. D., Peng, M. W., Ahlstrom, D., Stan, C., & Xu, K. (2015). State-owned enterprises around the world as hybrid organizations. *Academy of Management Perspectives*, 29(1), 92–114.
- Buckley, P. J., & Casson, M. C. (1998). Analyzing foreign market entry strategies: Extending the internalization approach. *Journal of International Business Studies*, 29(3), 539–561.
- Busse, M., & Hefeker, C. (2007). Political risk, institutions and foreign direct investment. *European Journal of Political Economy*, 23(2), 397–415.
- Büthe, T., & Milner, H. V. (2008). The politics of foreign direct investment into developing countries: Increasing FDI through international trade agreements? *American Journal of Political Science*, 52(4), 741–762.
- Butt, S., Shivdasani, A., Stendevad, C., & Wyman, A. (2008). Sovereign wealth funds: A growing global force in corporate finance. *Journal of Applied Corporate Finance*, 20(1), 73–83.
- Calluzzo, P., Dong, G. N., & Godsell, D. (2017). Sovereign wealth fund investments and the US political process. *Journal of International Business Studies*, 48(2), 222–243.
- Cattaneo, M. D., Idrobo, N., & Titiunik, R. (2019). *A practical introduction to regression discontinuity designs: Foundations*. Cambridge University Press.
- Chemmanur, T. J., Krishnan, K., & Nandy, D. K. (2011). How does venture capital financing improve efficiency in private firms? A look beneath the surface. *Review of Financial Studies*, 24(12), 4037–4090.
- Chen, X., Harford, J., & Li, K. (2007). Monitoring: Which institutions matter? *Journal of Financial Economics*, 86(2), 279–305.
- Chhaochharia, V., & Laeven, L. (2009). The investment allocation of sovereign wealth funds. SSRN Working Paper no. 1262383.
- Clark, G. L., Dixon, A. D., & Monk, A. H. (2013). *Sovereign wealth funds: Legitimacy, governance, and global power*. Princeton University Press.
- Cohen, B. J. (2009). Sovereign wealth funds and national security: The great tradeoff. *International Affairs*, 85(4), 713–731.
- Cooper, I., & Kaplanis, E. (1994). Home bias in equity portfolios, inflation hedging, and international capital market equilibrium. *Review of Financial Studies*, 7(1), 45–60.
- Croce, A., Marti, J., & Murtinu, S. (2013). The impact of venture capital on the productivity growth of European entrepreneurial firms: ‘Screening’ or ‘value added’ effect? *Journal of Business Venturing*, 28(4), 489–510.
- Cuervo-Cazurra, A. (2018). Thanks but no thanks: State-owned multinationals from emerging markets and host-country policies. *Journal of International Business Policy*, 1, 128–156.
- Cuervo-Cazurra, A., Grosman, A., & Megginson, W. L. (2023). A review of the internationalization of state-owned firms and sovereign wealth funds: governments’ non-business objectives and discreet power. *Journal of International Business Studies*, 54(1), 78–106.
- Cuervo-Cazurra, A., & Genc, M. E. (2011). Obligating, pressuring, and supporting dimensions of the environment and the non-market advantages of developing-country multinational companies. *Journal of management studies*, 48(2), 441–455.
- Cuervo-Cazurra, A., Grosman, A., & Wood, G. T. (2023). Cross-country variations in sovereign wealth funds’ transparency. *Journal of International Business Policy*, 6, 306–329.
- Cuervo-Cazurra, A., Inkpen, A., Musacchio, A., & Ramaswamy, K. (2014). Governments as owners: State-owned multinational companies. *Journal of International Business Studies*, 45(8), 919–942.
- Cuervo-Cazurra, A., Mudambi, R., & Pedersen, T. (2019). Clarifying the relationships between institutions and global strategy. *Global Strategy Journal*, 9(2), 151–175.
- Cuervo-Cazurra, A., & Li, C. (2021). State ownership and internationalization: The advantage and disadvantage of stateness. *Journal of World Business*, 56(1), 101112.
- Cui, L., & Jiang, F. (2012). State ownership effect on firms’ FDI ownership decisions under institutional pressure: A study on Chinese outward-investing firms. *Journal of International Business Studies*, 43(3), 264–284.
- Cumming, D., & Walz, U. (2010). Private equity returns and disclosure around the world. *Journal of International Business Studies*, 41(4), 727–754.
- Dahlquist, M., & Robertsson, G. (2001). Direct foreign ownership, institutional investors, and firm characteristics. *Journal of Financial Economics*, 59(3), 413–440.
- Deephouse, D. L. (1996). Does isomorphism legitimate? *Academy of Management Journal*, 39(4), 1024–1039.

- Dewenter, K. L., Han, X., & Malatesta, P. H. (2010). Firm values and sovereign wealth fund investments. *Journal of Financial Economics*, 98(2), 256–278.
- di Giovanni, J. (2005). What drives capital flows? The case of cross-border M&A activity and financial deepening. *Journal of International Economics*, 65(1), 127–149.
- Dikova, D., Sahib, P. R., & Van Witteloostuijn, A. (2010). Cross-border acquisition abandonment and completion: The effect of institutional differences and organizational learning in the international business service industry, 1981–2001. *Journal of International Business Studies*, 41(2), 223–245.
- DiMaggio, P. J., & Powell, W. W. (1991). Introduction. In W. W. Powell & P. J. DiMaggio (Eds.), *The new institutionalism in organizational analysis* (pp. 1–38). University of Chicago Press.
- Dorobantu, S., Henisz, W. J., & Nartey, L. (2016). Not all sparks light a fire: Stakeholder and shareholder reactions to critical events in contested markets. *Administrative Science Quarterly*, 62(3), 561–597.
- Dow, D., Baack, D., & Parente, R. (2020). The role of psychic distance in entry mode decisions: Magnifying the threat of opportunism or increasing the need for local knowledge? *Global Strategy Journal*, 10(2), 309–334.
- Dow, D., & Karunaratna, A. (2006). Developing a multidimensional instrument to measure psychic distance stimuli. *Journal of International Business Studies*, 37(5), 578–602.
- Drezner, D. W. (2008). Sovereign wealth funds and the (in) security of global finance. *Journal of International Affairs*, 62(1), 115–130.
- Duanmu, J.-L. (2014). State-owned MNCs and host country expropriation risk: The role of home state soft power and economic gunboat diplomacy. *Journal of International Business Studies*, 45(8), 1044–1060.
- Dushnitsky, G., & Shaver, J. M. (2009). Limitations to interorganizational knowledge acquisition: The paradox of corporate venture capital. *Strategic Management Journal*, 30(10), 1045–1064.
- Dyck, I. J., & Morse, A. (2011). Sovereign wealth fund portfolios. Chicago Booth Research Paper no.11-15; MFI Working Paper no. 2011-003; Rotman School of Management Working Paper no. 1792850. <https://ssrn.com/abstract=1792850>
- Faccio, M. (2006). Politically connected firms. *American Economic Review*, 96(1), 369–386.
- Faccio, M., Masulis, R. W., & McConnell, J. J. (2006). Political connections and corporate bailouts. *The Journal of Finance*, 61(6), 2597–2635.
- Fernandez, D. G., & Eschweiler, B. (2008). *Sovereign wealth funds: A bottom-up primer*. JPMorgan Chase Bank.
- Fernandez, R., & Portes, J. (1998). Returns to regionalism: An analysis of nontraditional gains from regional trade agreements. *The World Bank Economic Review*, 12(2), 197–220.
- Ferreira, M. A., & Matos, P. (2008). The colors of investors' money: The role of institutional investors around the world. *Journal of Financial Economics*, 88(3), 499–533.
- Financial Times. (2007, July 29). Funds that shake capitalist logic. *Financial Times*.
- Foss, N. J., Mudambi, R., & Murtinu, S. (2019). Taxing the multinational enterprise: On the forced redesign of global value chains and other inefficiencies. *Journal of International Business Studies*, 50, 1644–1655.
- Gartzke, E. (1998). Kant we all just get along? Opportunity, willingness, and the origins of the democratic peace. *American Journal of Political Science*, 42(1), 1–27.
- Gieve, S. J. (2008). Sovereign wealth funds and global imbalances. *Bank of England Quarterly Bulletin*, Q2, 195–202.
- Globerman, S., & Shapiro, D. (2002). Global foreign direct investment flows: The role of governance infrastructure. *World Development*, 30(11), 1899–1919.
- Grauer, R. R., & Hakansson, N. H. (1987). Gains from international diversification: 1968–85 returns on portfolios of stocks and bonds. *Journal of Finance*, 42(3), 721–739.
- Hansen, B. E. (2000). Sample splitting and threshold estimation. *Econometrica*, 68(3), 575–603.
- Henisz, W. J., & Zelner, B. A. (2005). Legitimacy, interest group pressures, and change in emergent institutions: The case of foreign investors and host country governments. *Academy of Management Review*, 30(2), 361–382.
- Johan, S. A., Knill, A., & Mauck, N. (2013). Determinants of sovereign wealth fund investment in private equity vs public equity. *Journal of International Business Studies*, 44(2), 155–172.
- Knill, A., Lee, B. S., & Mauck, N. (2012). Bilateral political relations and sovereign wealth fund investment. *Journal of Corporate Finance*, 18(1), 108–123.
- Kobrin, S. J. (1979). Political risk: A review and reconsideration. *Journal of International Business Studies*, 10(1), 67–80.

- Kobrin, S. J. (2001). Sovereignty @ bay: Globalization, multinational enterprise, and the international political system. In A. M. Rugman & T. L. Brewer (Eds.), *The Oxford handbook of international business* (pp. 181–205). Oxford University Press.
- Kostova, T., & Zaheer, S. (1999). Organizational legitimacy under conditions of complexity: The case of the multinational enterprise. *Academy of Management Review*, 24(1), 64–81.
- Kotter, J., & Lel, U. (2011). Friends or foes? Target selection decisions of sovereign wealth funds and their consequences. *Journal of Financial Economics*, 101(2), 360–381.
- Li, C., Arikan, I., Shenkar, O., & Arikan, A. (2019). The impact of country-dyadic military conflicts on market reaction to cross-border acquisitions. *Journal of International Business Studies*, 51, 299–325.
- Li, J., Xia, J., & Lin, Z. (2017). Cross-border acquisitions by state-owned firms: How do legitimacy concerns affect the completion and duration of their acquisitions? *Strategic Management Journal*, 38(9), 1915–1934.
- Li, Q., & Vaskchilko, T. (2010). Dyadic military conflict, security alliances, and bilateral FDI flows. *Journal of International Business Studies*, 41(5), 765–782.
- Limão, N. (2016). Preferential trade agreements. NBER working paper 22138.
- Lugo, S., & Murtinu, S. (2023). Agency issues in managing sovereign wealth funds. In H. K. Baker, J. H. Harris, & G. Nakshbendi (Eds.), *The Palgrave Handbook on Sovereign Wealth Funds*. Palgrave Macmillan.
- Luo, Y. (2001). Toward a cooperative view of MNC-host government relations: Building blocks and performance implications. *Journal of International Business Studies*, 32(3), 401–419.
- Madhok, A., & Keyhani, M. (2012). Acquisitions as entrepreneurship: Asymmetries, opportunities, and the internationalization of multinationals from emerging economies. *Global Strategy Journal*, 2(1), 26–40.
- Makhoul, P., Musacchio, A., & Lazzarini, S. (2020). Going the distance: The foreign investment strategies of sovereign wealth funds. *Strategy Science*, 5(1), 1–70.
- Medvedev, D. (2012). Beyond trade: The impact of preferential trade agreements on FDI inflows. *World Development*, 40(1), 49–61.
- Megginson, W. L., & Fotak, V. (2015). Rise of the fiduciary state: A survey of sovereign wealth fund research. *Journal of Economic Surveys*, 29(4), 733–778.
- Megginson, W. L., & Gao, X. (2020). The state of research on sovereign wealth funds. *Global Finance Journal*, 44, 100466.
- Megginson, W. L., & Netter, J. M. (2001). From state to market: A survey of empirical studies on privatization. *Journal of Economic Literature*, 39(2), 321–389.
- Megginson, W. L., You, M., & Han, L. (2013). Determinants of sovereign wealth fund cross-border investments. *Financial Review*, 48(4), 539–572.
- Meyer, K. E., Ding, Y., Li, J., & Zhang, H. (2014). Overcoming distrust: How state-owned enterprises adapt their foreign entries to institutional pressures abroad. *Journal of International Business Studies*, 45(8), 1005–1028.
- Monk, A. (2009). Recasting the sovereign wealth fund debate: trust, legitimacy, and governance. *New Political Economy*, 14(4), 451–468.
- Miroudot, S. (2011). Investment. In J. P. Chauffour & J. C. Maur (Eds.), *Preferential trade agreement policies for development: A handbook* (pp. 307–326). World Bank.
- Moons, S. J. V., & van Bergeijk, P. A. (2017). Does economic diplomacy work? A meta-analysis of its impact on trade and investment. *The World Economy*, 40(2), 336–368.
- Morrow, J. D., Siverson, R. M., & Tabares, T. E. (1998). The political determinants of international trade: The major powers, 1907–1990. *American Political Science Review*, 92(3), 649–661.
- Mudambi, R. (1998). International financial management. *Journal of Finance*, 53(3), 1194–1197.
- Mudambi, R., & Navarra, P. (2002). Institutions and international business: A theoretical overview. *International Business Review*, 11(6), 635–646.
- 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.
- Mukherjee, D., Makarius, E. E., & Stevens, C. E. (2021). A reputation transfer perspective on the internationalization of emerging market firms. *Journal of Business Research*, 123, 568–579.
- Murtinu, S., & Scalera, V. G. (2016). Sovereign wealth funds' internationalization strategies: The use of investment vehicles. *Journal of International Management*, 22(3), 249–264.
- Musacchio, A., Lazzarini, S. G., & Aguilera, R. V. (2015). New varieties of state capitalism: Strategic and governance implications. *Academy of Management Perspectives*, 29(1), 115–131.



- Nachum, L. (2003). Liability of foreignness in global competition? Financial service affiliates in the city of London. *Strategic Management Journal*, 24(12), 1187–1208.
- Nigh, D. (1985). The effect of political events on United States direct foreign investment: A pooled time-series cross-sectional analysis. *Journal of International Business Studies*, 16(1), 1–17.
- North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge University Press.
- Peng, M. W., Wang, D. Y., & Jiang, Y. (2008). An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, 39, 920–936.
- Petersen, M. A. (2009). Estimating standard errors in finance panel data sets: Comparing approaches. *The Review of Financial Studies*, 22(1), 435–480.
- Pollins, B. M. (1989a). Does trade still follow the flag? *American Political Science Review*, 33(2), 465–480.
- Pollins, B. M. (1989b). Conflict, cooperation, and commerce: The effect of international political interactions on bilateral trade flows. *American Journal of Political Science*, 33(3), 737–761.
- Rajan, R. G., & Zingales, L. (2004). *Saving capitalism from the capitalists: Unleashing the power of financial markets to create wealth and spread opportunity*. Princeton University Press.
- Ramachandran, J., & Pant, A. (2010). The liabilities of origin: An emerging economy perspective on the costs of doing business abroad. In T. Devinney, T. Pedersen, & L. Tihanyi (Eds.), *The past, present and future of international business and management. Advances in International Management* (Vol. 23, pp. 231–265). Emerald.
- Rodrik, D. (2018). What do trade agreements really do? *Journal of Economic Perspectives*, 32(2), 73–90.
- Rose, P. (2017). Sovereign wealth funds and domestic political risk. In D. Cumming, G. E. Wood, I. Filatotchev, & J. Reinecke (Eds.), *The Oxford handbook of sovereign wealth funds* (pp. 159–181). Oxford University Press.
- Salomon, R., & Wu, Z. (2012). Institutional distance and local isomorphism strategy. *Journal of International Business Studies*, 43(4), 343–367.
- Shenkar, O., Luo, Y., & Yeheskel, O. (2008). From “distance” to “friction”: Substituting metaphors and redirecting intercultural research. *Academy of Management Review*, 33(4), 905–923.
- Shi, W., Hoskisson, R. E., & Zhang, Y. A. (2016). A geopolitical perspective into the opposition to globalizing state-owned enterprises in target states. *Global Strategy Journal*, 6(1), 13–30.
- Shleifer, A., & Vishny, R. W. (1986). Large shareholders and corporate control. *Journal of Political Economy*, 94(3, Part 1), 461–488.
- Shleifer, A., & Vishny, R. W. (1994). Politicians and firms. *Quarterly Journal of Economics*, 109(4), 995–1025.
- Slangen, A. H. (2013). Greenfield or acquisition entry? The roles of policy uncertainty and MNE legitimacy in host countries. *Global Strategy Journal*, 3(3), 262–280.
- Sojli, E., & Tham, W. W. (2017). Foreign political connections. *Journal of International Business Studies*, 48(2), 244–266.
- Sørensen, M. (2007). How smart is smart money? A two-sided matching model of venture capital. *Journal of Finance*, 62(6), 2725–2762.
- Stevens, C. E., & Shenkar, O. (2012). The liability of home: Institutional friction and firm disadvantage abroad. In L. Tihanyi, T. M. Devinney, & T. Pedersen (Eds.), *Institutional theory in international business and management. Advances in International Management* (Vol. 25, pp. 127–148). Emerald.
- Stevens, C. E., Xie, E., & Peng, M. W. (2016). Toward a legitimacy-based view of political risk: The case of Google and Yahoo in China. *Strategic Management Journal*, 37(5), 945–963.
- Strange, R. (2022). Corporate governance and the multinational enterprise. In M. Hitt (Ed.), *Oxford research Encyclopaedia of business and management*. Oxford University Press.
- Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20(3), 571–610.
- Suddabtm, R., Bitektine, A., & Haack, P. (2017). Legitimacy. *Academy of Management Annals*, 11(1), 451–478.
- UNCTAD. (2012). *World Investment Report 2012: Towards a new generation of investment policies*. UNCTAD.
- Vachani, S. (1995). Enhancing the obsolescing bargain theory: A longitudinal study of foreign ownership of US and European transnationals. *Journal of International Business Studies*, 26(1), 159–180.
- Vasudeva, G. (2013). Weaving together the normative and regulative roles of government: How the Norwegian sovereign wealth fund’s responsible conduct is shaping firms’ cross-border investments. *Organization Science*, 24(6), 1662–1682.
- Voeten, E. (2013). Data and analyses of voting in the UN General Assembly. In B. Reinalda (Ed.), *Routledge handbook of international organization*. Routledge.

- Wang, D., Weiner, R. J., Li, Q., & Jandhyala, S. (2021). Leviathan as foreign investor: Geopolitics and sovereign wealth funds. *Journal of International Business Studies*, 52(x), 1238–1255.
- Wurgler, J. (2000). Financial markets and the allocation of capital. *Journal of Financial Economics*, 58(1–2), 187–214.
- Xu, D., Pan, Y., & Beamish, P. W. (2004). The effect of regulative and normative distances on MNE ownership and expatriate strategies. *Management International Review*, 44(3), 285–307.
- Xu, D., & Shenkar, O. (2002). Institutional distance and the multinational enterprise. *Academy of Management Review*, 27(4), 608–618.
- Zaheer, S. (1995). Overcoming the liability of foreignness. *Academy of Management Journal*, 38(2), 341–363.
- Zaheer, S., & Mosakowski, E. (1997). The dynamics of the liability of foreignness: A global study of survival in financial services. *Strategic Management Journal*, 18(6), 439–463.
- Zhang, J. (2022). Liability of emergingness and EMNEs' cross-border acquisition completion: A legitimacy perspective. *International Business Review*, 31(2), 101951.

How to cite this article: Murtinu, S., Scalera, V. G., & Strange, R. (2023). Cross-border acquisitions by sovereign wealth funds: A legitimacy-based view. *Global Strategy Journal*, 13(4), 888–926. <https://doi.org/10.1002/gsj.1496>