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# Local political corruption and M&As

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**Abstract:** We examine the relation between local political corruption and firms' cross-province M&As using provincial-level data on corruption in China. The results show that firms in more corrupt regions are less likely to engage in cross-province M&As. Further analyses reveal that the effects of local corruption on the probability of cross-province M&As are stronger when corrupt officers have greater impeding benefits or lower impeding costs. Meanwhile, Both ex-ante intervention and ex-post punishment are important channels through which corrupt officers hinder firms' cross-province M&As. Moreover, informal institutions, such as social capital and informal networks can help to alleviate the negative impact of political corruption on firms' cross-province M&As. Our findings show that in the context of highly government intervention, cross-province M&As not only cannot be an effective channel to shield from expropriation, but are themselves highly distorted and lead to significant economic efficiency losses.

**Keywords:** Political corruption, Anti-corruption campaign, M&As

## Introduction

In recent years, political corruption has become more intense globally.<sup>1</sup> In 2018, corruption scandals involved a large number of resigning heads of state and government, such as Sarkozy, former President of France; Lula, former President of Brazil; Cristina Kirchner, former President of Argentina; Najib, former Prime Minister of Malaysia; and Lee Myung-bak and Park Geun-hye, two former presidents of South Korea. There is basic consensus around the world on the consequences of political corruption. For instance, in 2006, the G8 Summit in St. Petersburg issued a joint declaration stating that political corruption is a common issue threatening global safety and stability, market access, free trade, economic prosperity, and rule of law. Former UN Secretary-General Ban Ki-moon also pointed out that peace, development, and human rights will not flourish in corrupt regions.

Political corruption is always a focus for economists and policy makers (e.g., Butler, Fauver, & Mortal, 2009; Mauro, 1995). However, extant literature rarely discusses the relationship between political corruption and firms' M&A decisions. Early studies mainly exploit the cross-country M&A setting and investigate the relation between the level of target country's political corruption and the bid premiums (Di Guardo, Marrocu, & Paci, 2016; Weitzel & Berns, 2006). More recently, Nguyen, Phan, & Simpson, 2020 provide the first country-

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<sup>1</sup> Following Shleifer and Vishny (1993), we define political corruption as the misuse of entrusted power by government officials for illegitimate private gain.

specific evidence.<sup>2</sup> Focusing on the cross-state M&As in the U.S., [Nguyen, Phan, & Simpson, 2020](#) mitigate the problem that cross-country findings are subjected to different socio-economic conditions across countries. Specifically, [Nguyen, Phan, & Simpson, 2020](#) find local corruption increases firm acquisitiveness and facilitates cross-state M&As in that corruption motivates acquiring firms to relocate assets from the high to low corruption areas, thereby shielding their liquid assets from expropriation by local officials. However, their conclusions derived from the developed capital market might not be generalized to the emerging markets with high level of government intervention. Facing the “visible hand” and corrupt officials with almost unconstrained power, it is less likely for the local firms to successfully escape from the expropriation.

Therefore, aiming to add different evidence and mechanisms sourcing from different institutional background, we revisit the relationship between political corruption and firms’ cross-province M&A behavior using Chinese data. China presents a unique and useful setting for three reasons. First, political corruption is pervasive in China. According to the Corruption Perceptions Index 2002–2016 by Transparency International, China has ranked around 70th in the world for corruption for a long time. In China, cases of unscrupulous officials and abuse of power are surprisingly common.<sup>3</sup> Second, as the world’s second largest economy and the largest emerging market, China is a country where the government heavily intervenes in the activities of microeconomic entities, sharply contrasting to the U.S. Third, a globally influential anti-corruption campaign conducted by the central government of China has been in place since November 2012. Therefore, we can use this quasi-natural experiment to reduce endogenous problems by using difference-in-differences (DID hereafter) method and further verify the causal relationship between political corruption and firms’ cross-province M&A behavior.

Some anecdotal evidence shows that Chinese corrupt officials won’t let the companies located in their jurisdictions engage in cross-province M&As and get rid of the expropriation that easily, known as “shut the dogs up and beat them”. One of the most famous cases is Huachen Holding Group. In 2001, Huachen, originally registered in Shenyang City, Liaoning Province, proposed to acquire the leading British automobile manufacturer Rover and planned to relocate its manufacturing base to Ningbo City, Zhejiang Province when the merger is completed. In the meantime, Chinese automobile industry was at a turning point. Geely Holding Group, the most promising automobile manufacturer in Zhejiang Province, had just obtained the “sedan production license”.<sup>4</sup> Concurrently, Huachen and FAW, who is the undoubted industry leader, are competing intensively. Given the competitive landscape, the acquisition is very crucial for Huachen to survive the challenging stage. Unfortunately, the acquisition fails to complete due to the strong interventions and impediment from the Liaoning Provincial government and the Shenyang Municipal government.<sup>5</sup> Sixteen years later, Geely has developed into a large-scale automobile manufacturer which has been ranked among the world’s top 500 for many years. In contrast, Huachen filed for bankruptcy in 2020.

Consistent with the above anecdote, using the full sample of proposed acquisitions by firms listed on China’s two mainland stock exchanges (i.e., Shanghai and Shenzhen) from 2007 to 2016, we find that the level of local corruption is negatively associated with the probability of cross-province M&As, which contradicts [Nguyen, Phan, & Simpson, 2020](#)’s findings. Specifically, our DID test shows that firms in provinces highly affected by anti-corruption campaigns (i.e., more corrupt provinces) have experienced a greater increase in cross-province M&As than those in less corrupt region. This result indicate that corrupt officers set less hurdles for cross-province M&As as the anti-corruption campaign unfolds and consequently, firms’ tendency to acquiring cross-province targets suppressed by local political corruption previously are largely released. The result holds after we control for firms’ exposure to the cross-province business operation as well as including year, province and firm fixed effects at the same time. Furthermore, we conduct a series of

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<sup>2</sup> Using 29 cases of corrupt bureaucrats at or above the provincial level in China from 2005 to 2011 as a natural experiment, Liu et al. (2016) examines how the loss of political connection impacts corporate M&A decisions and performance. But they does not (or does not attempt to) establish a relationship between corruption and M&As. Since the underlying logic is the loss of political connection, the same conclusion can be reached whenever an official is departed unexpectedly, regardless of whether the official is corrupt or not, or in what way the official is departed unexpectedly (e.g., traffic accidents).

<sup>3</sup> Related cases are everywhere. For example, in the 2017 bribery case of an environmental protection system in Shenzhen City, Guangdong Province, China, even a junior public official received diversified bribes from firms within the jurisdiction, and the annual amount of those bribes was up to hundreds of thousands of RMB. Another example comes from Legal Weekly, a newspaper sponsored by the Political and Legal Affairs Committee of the Central Committee of the CPC. It once disclosed the “gift list” of a central state-owned firm in Nanjing, Jiangsu province. The list showed that for each project, a central-state-owned firm directly affiliated with the State-owned Assets Supervision and Administration Commission of the State Council sent Spring Festival gifts valued near RMB100,000 to local officers in charge of project approval.

<sup>4</sup> Back to late 1990s, automobile manufacturing was restricted to central-government-controlled entities in China. Until early 2000s, the auto market is gradually opening up to private enterprises who have the “production license” granted by the government.

<sup>5</sup> In fact, before that, Huachen was committed to achieving cross-province M&As. For example, Huachen planned to establish Zhongxing Automobile Manufacturing Co., Ltd. in Hebei Province through a merger in 1999, to acquire Minfu Machinery Co., Ltd. in Zhejiang Province by its subsidiary in 2000, and to acquire Sanjiang Renault Automobile Co., Ltd. in Hubei Province through a multi-layer shareholding design in 2001, but all were unsuccessful in the end. At that time, officials in Shenyang were so corrupt that Muma case, which had an impact comparable to the Xiamen Yuanhua case, exposed in 2001. Municipal Party Secretary Mu Suixin and Executive Vice Mayor Ma Xiangdong fell, involving a total of more than 100 officials at all levels. Huachen was at the top of the list of companies suspected of funneling benefits to Mu and Ma over a long period of time. Then, Yang Rong, Huachen’s CEO, fled to the United States. While Qi Yumin was handpicked to take over Huachen by Liu Guoqiang, then vice governor of Liaoning Province. In 2020, Liu Guoqiang and Qi Yumin were investigated by the Commission for Discipline Inspection. According to media reports, a major reason why Qi Yumin, who has been retired for 2 years, was involved is that he has been using Huachen as a platform to channel benefits to Liu Guoqiang, his leader in charge. It can be seen that the game between enterprises and local officials around cross-provincial M&As is very exciting and complicated.

robustness checks. First, we validate the parallel assumption of our DID tests and also perform the placebo analysis. Second, to further help mitigate the unobservable province-level omitted variables concerns, we rerun our baseline test using the subsample firms whose headquarters are located near the borders of neighboring provinces. Third, we enlarge our sample to all A-share listed companies regardless of whether they are engaged in an acquisition and use logit/probit model to reexamine our results. Altogether, the findings remain unchanged in these robustness analyses.

To shed some light on the potential mechanisms of how political corruption affects corporate cross-province M&As, we first explore a set of cross-sectional heterogeneity. If the political corruption indeed reduces the likelihood of cross-province acquisitions, we predict the effect be more pronounced when corrupt officers' impeding benefits (costs) are higher (lower). That is, in our DID framework, we expect to observe firms who have higher capacity to pay bribes (i.e., more impeding benefits for the corrupt officials) or lower ability to deter rent-seeking (i.e., less impeding costs for the corrupt officials) will experience a relative larger increase in cross-province M&A probability afterwards. We use firms' growth opportunities and bankruptcy risk as proxies for corrupt officers' impeding benefits. To capture corrupt officers' impeding costs, we rely on the dependence degree of corporate economic activities on local government, such as the nature of property rights and marketization degree of acquirer's headquarters. The results of cross-sectional analyses are consistent with our conjecture that the increase of cross-province M&A probability are larger for firms with higher growth opportunities (*Tobin's Q*), firms with lower bankruptcy risk (*Altman Z*), state-owned firms (*SOE*) and firms registered in regions that are less economically developed (*Marketization*). These results confirm the importance of corrupt officers' impeding incentive in shaping the negative relation of corruption on the probability of cross-province M&As.

We further discuss the channels for corrupt officers to impede cross-province M&As. On the one hand, we find a significant decrease in the time required to complete M&As (*Time*) and the risk of M&As (*M&A risk*) as well as a significant increase in the performance of M&As (*M&A Perf*) after the anti-corruption campaign. Such effects are especially stronger for the non-local M&As compared to the local M&As. On the other hand, we show that, after a successfully completed cross-province M&A, the acquiring firms are exposed to significantly increased tax burden and remarkably decreased bank loans and government subsidies. Such effects are especially stronger in the high-corruption regions compared to the low-corruption regions. These results suggest corrupt officers impede cross-province M&As through both ex-ante intervention and ex-post punishment. As for the ex-ante intervention, the investigations or the tacit approvals from multiple government departments are the essential premise for the non-local M&As in China. Therefore, corrupt officials can intentionally extend the acquisition completion time by "buck passing" and this will largely increase the risks and uncertainty of cross-province M&As as well as dampening the M&A performance, which consequently discouraging companies located in their jurisdictions to propose cross-province M&As. With respect to the ex-post punishment, because the Chinese government has a handful of economic resources needed for business operations, the purposely resource reduction towards cross-province acquiring firms consists of a strong deterrent to the rest of companies who may want to engage in non-local M&As in the future.

At last, we exclude some potential alternative explanations, namely the unwilling to leave hypothesis and the promotion pressure hypothesis. More importantly, we further explore the role of informal institutions on the relationship between political corruption and the probability of cross-province M&As. We find that the probability of cross-province M&As increase relatively less when firms are registered in regions with high social capital (i.e., the social trust and clan) and when firms have informal social networks (i.e., the nonlocal independent director). These findings imply that the cross-province M&A demands of these companies are relatively less depressed by political corruption, and the informal institution can make up for the weakness of the formal institution to a certain extent and help companies to achieve long-term development.

Our paper contributes to the literature from three perspectives. First, our findings add on to the literature studying the relationship between political corruption and firms' M&A activities. Prior research are mainly cross-country studies and focus on the effects of the local corruption on firm targetiveness. We differ from these studies by providing country-specific evidence and focusing on the impact of the acquiring firm's local corruption level on its cross-region M&A decisions. The closest paper to ours is [Nguyen, Phan, & Simpson, 2020](#), who provide the country-specific evidence of the relationship between political corruption and cross-region M&As for the first time, using data of the cross-state M&As in the U.S. However, we alleviate the potential endogenous concern by taking advantage of the external shock brought out by the anti-corruption campaign in China. More importantly, our findings are opposite to [Nguyen, Phan, & Simpson, 2020](#), thus emphasizes the role of different institutions on the mechanisms and directions of the relationship between political corruption and cross-region M&As. This paper therefore complements to [Nguyen, Phan, & Simpson, 2020](#), as well as serving as a valuable reference point to China, and other emerging markets and transition economies in which the institution is different from that of the US where the market dominates.

Second, we provide and test the mechanisms of political corruption and cross-province M&As. On the one hand, we provide extensive cross-sectional evidence, showing that the net benefits grabbed by corrupt officials constitute an important factor on the negative relationship between political corruption and cross-province M&As. On the other hand, we explicitly point out the mechanisms of how corrupt officials obstruct cross-province M&As from the perspectives of ex-ante intervention and ex-post punishment. Therefore, we extend the literature on the role of political corruption in cross-province M&As.

Third, we discuss the roles of social capital and informal social network. The "China Miracle" occurred in the context of imperfect formal institution, and the informal institution is regarded as a great contributing factor to this success. To this regard, this discussion not only is helpful for understanding the role of informal institution in the economic transition in China, but also provides important lessons to other emerging markets and transition economies which also lack perfect formal institution.

The rest of this paper is organized as follows. Section 2 develops two competing hypotheses. Section 3 describes the data, sample, and variable construction. The main results are presented in Section 4. Additional tests are reported in Section 5. Section 6 concludes the paper.

## 2. Hypothesis development

In China, many administrative approvals are required, and there is a great deal of administrative supervision of the factor and production markets. Thus, local public officials in China possess strong control over the distribution of economic resources.<sup>6</sup> Furthermore, because of the prevalence of selective and excessive enforcement, corrupt officials can easily wield their power to extort firms and solicit bribes. For example, Bohe Chen was the director of the Environmental Protection Bureau of Qingcheng District in Qingyuan, which is a third-tier city in Guangdong Province. In an accidentally recorded conversation which was exposed by the media, he claimed that “a typical factory here is worth more than 100 million yuan, but all I want is just one or two million.” He also said, “All I need to do is to find a company and play Mahjong with its managers, and they will give me the money tamely, because it only takes minutes for me to destroy a company.”

However, the ability and benefits of corrupt officials to solicit bribes can be weakened by firms' Cross-province M&As. On the one hand, firms can shield themselves from expropriation by transferring assets from more corrupt regions to less corrupt regions through the Cross-province M&As (Nguyen, Phan, & Simpson, 2020). On the other hand, even if a firm does not change the location of its main business, the ability and benefits of corrupt officials to solicit bribes can also be weakened by firms' Cross-province M&As for the following three reasons.

First, cross-province M&As may reduce firms' ability to pay bribes and improve their refusal power. After a cross-province M&A, a firm may face new rent-extracting payment demands by corrupt officers in the target's headquarters province. However, it takes a long time to achieve synergy and increase revenue from a cross-province M&A, and the firm inevitably fails to meet the rent-extracting demands of both the new and old corrupt officials. Then, due to a decrease in ability to pay bribes, the income of corrupt officers in the acquirer's headquarters province will be severely diluted in the short term. At the same time, cross-province M&As can also substantially intensify refusal power. First, cross-province M&A makes acquirer a new investor to the target's location province. The cross-province M&A deal itself and subsequent operations both constitute an increase in GDP for the target's location province. Therefore, the target's location province will give acquirer multiple preferential policies. Firms can carry out economic activities at less cost due to such preferential treatment; therefore, the rational choice of enterprises is to transfer part of and even all economic activities to the target's location province. As a result, the rent-seeking income of corrupt officers in the acquirer's headquarters province will abruptly decline, perhaps to zero. This forces corrupt officers to decrease their rent demands.

Second, even if firms are not granted preferential treatment from the target's location province, the geographical expansion of the business resulting from a cross-province M&A creates the possibility of selecting a region for rent payment. In other words, it is possible for an enterprise to minimize rent payments by changing the province of its principal economic activities. Under such constraint, corrupt officers can no longer charge exorbitant prices. The maximum rent of corrupt officers in the acquirer's headquarters province is the sum of rent charged by corrupt officers in the target's location province and the cost to transfer the firms' main economic activities to that province.

Third, the geographical diversity caused by cross-province M&As also enriches firms' means of self-protection and further thwarts corrupt officers. In China, newspapers, television, and other mainstream media are controlled by local governments through their ownership structure, resulting in a somewhat weakened supervision function (You, Zhang, & Zhang, 2018). Although corrupt officers may affect local media reports, it is difficult for them to control non-local media. After cross-province M&As, geographical diversity helps firms establish relatively close cooperative relationships with newspapers, television, and local media in the target's location province. Due to a fear of media supervision, the negotiating power of corrupt officers in an acquirer's headquarters province is weakened during the rent-setting and rent-extracting processes.

Cross-province M&As are likely to be impeded by the corrupt local officials, since such activities seriously threaten corrupt officials' existing interests, and given that the government can deeply intervene micro economic agents' activities. In China, cross-province M&As are hard to complete, as it involves the interests of multiple parties. Han Weiwen, the managing partner of Bain & Company's Greater China offices, mentioned that cross-province M&As in China are very complex, even compared to cross-country M&As. It is well known that, if the M&A activity of Chinese listed firms is deemed as material asset reorganization, it requires the approval from the Listed Company Merger and Reorganization Examination Committee of China Securities Regulatory Commission (CSRC). Apart from that, de facto, numerous other kinds of approvals are needed to complete cross-province M&As. For SOEs, it is usually required to submit their M&A deals to State-owned Assets Supervision and Administration Commission (SASAC). The emphases of SASAC are different from those of CSRC who mainly focuses on affiliate transactions, insider trading, implications for competition, and de facto reverse takeover. SASAC reviews and ensures the deal is within the annual quota of SOEs' external investment plan, checks the asset appraisal of the target firm, conducts comprehensive censuses of the compliance with the government's plan, industrial policies, and the projected structure of SOEs, and examines its implication for the main business. For private enterprises, it is a common practice to informally inform the local government to obtain its endorsement or acquiescence in advance, in order to continue enjoying the

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<sup>6</sup> Relatively strict governmental regulation still exists in many areas, such as the factor market, product access, and industry access. For example, in China, to enter the food industry, in addition to a business license, organization code certificate, and tax registration certificate, a firm must also obtain a hygiene license, health license, food production license, and food business license and apply for approval of its environmental impact assessment. Each license application requires huge time and energy. In addition, administrative supervision facilitates corrupt behavior by officials because the Chinese legal system is relatively weak, and administrative procedures lack clear process specifications. Therefore, regulatory departments have great power to choose a regulatory object and the intensity of supervision. To avoid becoming regulatory objects or to reduce the intensity of supervision, firms passively accept the predatory behavior of corrupt officials.

preferential policies in terms of taxation, bank loan, and subsidies.

In such situation, it is not difficult for corrupt officials to obstruct cross-province mergers and acquisitions, but simply to “pass the buck to each other”. That is, government departments use each other’s approval results as a prerequisite to accept approval applications. The “negative closed-loop of nursing home approval” graphically illustrates the above situation. Specifically, in China, the investment of a nursing home by an individual requires the approval of three departments: the Development and Reform Commission (DRC), the Civil Affairs Bureau(CAB) and the Housing and Urban Development Bureau(HUDB). The requirement for the DRC to approve is that the investor has obtained a private non-enterprise certificate from the CAB, and the CAB needs the relevant premises have been constructed, while the construction of the relevant premises must first obtain the approval of the HUDB, but the basic condition for the HUDB to approve is that the investment of a nursing home has been approved by the DRC. In this way, it is clear that no matter which department investors start to seek approval from, they will eventually find that they are actually walking into a dead-end cycle.

Cross-province M&A by Chinese firms involves many more government departments than investing a nursing home. For example, Dragon Gate Action (No. 35 of 2018) issued by the Xi’an municipal government is a plan to promote the listing and M&A of local firms. In the section on promoting M&A, it is clearly stated that although the lead unit is the local SASAC, it also requires the cooperation and support of at least 18 other departments, including the Development and Reform Commission, the Investment Commission, the Finance Office, the Banking Supervision Bureau, and the Science and Technology Bureau, etc. Therefore, due to the complexity of Cross-province M&As, so many government departments are involved, corrupt officials do not even necessarily need to take the legal, administrative or public opinion risks of refusing approval, but simply tacitly push the firm go through the various departments repeatedly.

By lengthening the completion time, corrupt officials will greatly discourage firms from Cross-province M&A. On the one hand, the longer it takes to complete a Cross-province M&A, the greater the uncertainty and the less likely it is that the firm will be able to obtain

**Table 1**  
Sample distribution over time and across industries.

<i>Panel A: Distribution of firms by year</i>		
Year	Number of firms	Percentage(%)
2007	253	6.27
2008	365	9.04
2009	310	7.68
2010	406	10.06
2011	449	11.12
2012	292	7.23
2013	247	6.12
2014	471	11.67
2015	562	13.92
2016	681	16.87
Total	4036	100.00

  

<i>Panel B: Distribution of firms by industry</i>		
Industry	Number of firms	Percentage (%)
Agriculture, forestry, and fishing	45	1.11
Mining	112	2.78
Manufacturing	2122	52.58
Electricity, heat, gas, water	228	5.65
Construction	101	2.50
Wholesale and retail	288	7.14
Transportation, storage, and postal	98	2.43
Accommodation and catering	15	0.37
Information, software, and information technology	353	8.75
Real estate	411	10.18
Leasing and business services	44	1.09
Scientific research and technical services	30	0.74
Water conservancy, environment, and public facilities management	31	0.77
Residential services, repairs and other services	2	0.05
Health and social work	11	0.27
Culture, sports, and entertainment	84	2.08
Conglomerates	61	1.51
Total	4036	100.00

This table reports sample distribution over time and across industries. Panel A reports the distribution of sample firms by fiscal year. Panel B reports the distribution of sample firms across industries according to *the Industry Classification of Listed Companies*, issued in 2012 by the Chinese Securities Regulatory Commission (CSRC).

the optimal target. On the other hand, even if the optimal target company can be obtained, the uncertainty will change the bargaining position of both parties and greatly increase the bargaining power of the target (Bonaime, Gulen, & Ion, 2018). This can leave huge pitfalls in the integration process after a firm completes the Cross-province M&A. E.g., if the M&A arrangement contains more anti-layoff or anti-technology sharing terms in favor of the target, it will increase the uncertainty of the successful realization of synergies from the Cross-province M&A and thus reduce the M&A performance.

The ability of corrupt officials to intervene, however, is limited. On the one hand, Chinese central government has been constantly emphasized to build up a harmonious society. Thus, abusing the power exaggeratedly is likely to ruin the officials' own political career. On the other hand, some firms might be very good at dealing with the relationship with local officials with different interests, to escape from the intervention of certain corrupt officials. However, the corrupt officials can punish firms who conduct cross-province M&As by cutting down the resources allocated to the firm drastically, e.g., bank loans, tax incentives, and government subsidies, given that generally local officials have great control over the allocation of resources. Such ex-post punishments also serve as examples for other firms who also intend to conduct cross-province M&As. The increase in the costs of cross-province M&As enforces firms to reduce their cross-province M&As activities.

Collectively, we expect that firms in more corrupt regions are less likely to conduct cross-province M&As, given that the government in China can intervene the micro agents' behaviours to a great extent. Corrupt officials' intention and ability to impede cross-province M&As, however, are significantly lowered due to the external shock caused by the anti-corruption campaign led by President Xi Jinping, who stressed it should be "cracking down on both tigers and flies." Therefore, the depressed cross-province M&As demands are released by more in more corrupt regions after the anti-corruption campaign. This leads us to the hypothesis:

**Hypothesis 1.** After the anti-corruption campaign, the probability of cross-province M&As experiences a larger increase in high-corruption regions than in low-corruption regions.

### 3. Data, variables, and summary statistics

#### 3.1. Data and sample selection

Our sample includes all of the M&As initiated by Chinese A-share listed firms from 2007 to 2016. Following the literature (Ahern, Daminelli, & Fracassi, 2015; Dessaint, Golubov, & Volpin, 2017; Field & Mkrtchyan, 2017; John, Knyazeva, & Knyazeva, 2015), we exclude deals in which the acquirer is in the financial industry or has purposes of privatization, reverse merger, MBO, or stock repurchase. We also exclude small transactions with a value of less than CNY 1 million. There are 4036 deals that meet these restrictions and become our final sample. Table 1 shows the sample distribution by year and industry.

#### 3.2. Baseline model and summary statistics

We estimate the regression as the following DID model:

$$NonLocalMA = \beta_0 + \beta_1 \times Treat \times Post + \beta_i \times Control + \beta_j \sum Year + \beta_k \sum Province + \beta_L \sum Firm + \varepsilon, \quad (1)$$

where *NonLocalMA* is a dummy variable that equals one if the headquarters location of the acquirer and target are in different provinces and zero otherwise. *Treat* and *Post* are also dummy variables. *Post* equals one if a firm-year observation is in 2012 or later and zero otherwise. *Treat* equals one if the degree of corruption in the acquirer's location is higher than the median value of the sample one year before the start of study period (i.e., 2006) and zero otherwise. We match acquirers to regions according to their headquarters location and assign them regional levels of political corruption. Specifically, following recent studies (e.g., Butler et al., 2009; Glaeser & Saks, 2006; Smith, 2016), we measure province-level political corruption as the number of corruption cases involving local government officials investigated by local procuratorates per 10,000 population in each province each year. We manually collect the number of investigated cases from the *Procuratorial Yearbook of China*, and we standardize the number of investigated cases using provincial population from the *China Population and Employment Statistics Yearbook*, compiled by the Department of Population and Employment Statistics of the National Bureau of Statistic of China.

Following prior studies (e.g., Ahern et al., 2015; Cai, Kim, Park, & White, 2016; Dessaint et al., 2017; Dhaliwal, Lamoreaux, Litov, & Neyland, 2016; Field & Mkrtchyan, 2017; Jenter & Lewellen, 2015; John et al., 2015; Sun, Zhao, He, & Zhang, 2019), a set of control variables that have been shown to affect firms' M&A decisions are also included in Eq. (1), represented by *Control*. Specifically, *Control* comprises three categories: characteristics of the acquirer, including firm size (*Size*), *Leverage*, growth(*MB*), profitability(*ROA*), operating efficiency(*ATO*), and *SOE*; characteristics of the M&A deal, including *Dealvalue*, *Cashonly*, whether it is a related transaction (*Related*), and whether the target is publicly listed (*Public*); characteristics of the province, including *GDPgrowth*, *Unemployment rate (UE)*, and the index of financial market development(*FMD*). In addition, year, province, and firm fixed effects are included in Eq. (1), and the standard errors of the estimated coefficients are clustered by firm. Since the year and province fixed effects are included, we no longer include *Treat* and *Post* separately in Eq. (1). Because the *Treat*×*Post* in Eq. (1) captures the differences in the probability of cross-province M&As between companies in high- and low-corruption areas before and after the anti-corruption campaign, we are most interested in the coefficient of  $\beta_1$  and anticipate it to be significantly positive.

Appendix A describes the definitions and measurements of all the variables involved in this paper, Appendix B provides their

descriptive statistics. We can see that the average market value of equity of the acquirer is about CNY 7.4 billion. The means of *Leverage* and *ROA* are, respectively, 46.8% and 4.6%. Of all 4036 M&A deals, 58.5% are related transaction, 80.8% are pure cash payment, and only 1.1% are deal with a publicly listed target.

## 4. Main results

### 4.1. Baseline results

Our baseline regression results are presented in Table 2. In column (1), we do not include any control variables except for year and province fixed effects. And we obtain a significantly positive relationship between the anti-corruption campaign and the probability of cross-province M&As, which is consistent with our hypothesis. In column (2), we incorporate the aforementioned three types of control variables, characterizing the basic features of acquirer, M&A transaction, and the province where the acquirer is located, respectively. In column (3), we additionally include the number of non-local subsidiaries (*Nonlocalsub*) of the acquirer to exclude the effect on the results of whether and to what extent the firm operates across provinces. In column (4), we estimate the full model of Eq. (1), which contains firm fixed effects to further alleviate the potential omitted variables issues. As shown, the coefficients of *Treat*×*Post* in all these three regressions are still significantly positive at the 1% level.

### 4.2. Timing approach and placebo test

Next, following Bertrand and Mullainathan (2003), Cornaggia, Mao, Tian, and Wolfe (2015), and Chen, Hung, and Wang (2018), we conduct three robustness tests for the DID model. The results are presented in Table 3. All of the regressions in Table 3 include year, province, firm fixed effects, and full set of control variables. For brevity, we tabulate only the coefficients of most interested. Specifically, the first robustness check is a parallel trend test using timing approach. We use the year before the event year (−1 years) as a

**Table 2**  
The effect of anti-corruption campaign on the probability of cross-province M&As.

	Dependent variable = <i>NonLocalMA</i>			
	(1)	(2)	(3)	(4)
<i>Treat</i> × <i>Post</i>	0.173*** (0.05)	0.179*** (0.05)	0.161*** (0.04)	0.133*** (0.05)
<i>Size</i>		0.051*** (0.02)	0.042** (0.02)	0.030 (0.03)
<i>Leverage</i>		−0.001 (0.07)	−0.019 (0.06)	0.070 (0.11)
<i>MB</i>		−0.001 (0.00)	0.001 (0.00)	0.003 (0.00)
<i>ROA</i>		−0.467 (0.31)	−0.521* (0.30)	−0.016 (0.40)
<i>ATO</i>		0.010 (0.02)	0.013 (0.02)	0.087* (0.04)
<i>SOE</i>		−0.151*** (0.03)	−0.130*** (0.03)	0.111 (0.10)
<i>GDPgrowth</i>		−0.314 (0.45)	−0.339 (0.43)	0.254 (0.43)
<i>UE</i>		4.562 (16.10)	5.786 (14.65)	4.246 (16.02)
<i>FMD</i>		0.037 (0.02)	0.036 (0.02)	0.007 (0.03)
<i>Dealvalue</i>		0.000 (0.00)	0.000* (0.00)	0.000 (0.00)
<i>Public</i>		0.018 (0.09)	0.024 (0.09)	0.159* (0.09)
<i>Related</i>		−0.151*** (0.02)	−0.146*** (0.02)	−0.131*** (0.02)
<i>Cashonly</i>		−0.023 (0.03)	−0.026 (0.03)	0.013 (0.03)
<i>Nonlocalsub</i>			0.077*** (0.01)	0.065** (0.03)
<i>Year FE</i>	Yes	Yes	Yes	Yes
<i>Province FE</i>	Yes	Yes	Yes	Yes
<i>Firm FE</i>	No	No	No	Yes
<i>N</i>	4036	4036	4036	4036
<i>Adj R</i> <sup>2</sup>	0.056	0.101	0.119	0.354

This table reports regression results of the effect of anti-corruption campaign on the probability of cross-province M&As. All variables are defined in Appendix A. Robust standard errors in parentheses are clustered by firm. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.



**Table 3**  
Timing approach and placebo test.

	Dependent variable = <i>NonLocalMA</i>		
	(1)	(2)	(3)
	Timing Approach	Dele 2012	Placebo[2008–2011]
<i>Treat</i> × <i>Year</i> <sup>2007–2008</sup>	0.022 (0.07)		
<i>Treat</i> × <i>Year</i> <sup>2009–2010</sup>	–0.109 (0.07)		
<i>Treat</i> × <i>Year</i> <sup>2012–2013</sup>	0.052 (0.07)		
<i>Treat</i> × <i>Year</i> <sup>2014–2016</sup>	0.117* (0.07)		
<i>Treat</i> × <i>Post</i>		0.130** (0.05)	
<i>Treat</i> × <i>Post</i> × <i>Placebo</i>			–0.057 (0.07)
<i>Controls</i>	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes
<i>Province FE</i>	Yes	Yes	Yes
<i>Firm FE</i>	Yes	Yes	Yes
<i>N</i>	4036	3699	1310
Adj <i>R</i> <sup>2</sup>	0.355	0.354	0.357

This table reports the results of robust tests specifically for the DID model. There are varying degrees of reduction in sample size of column (2) and (3), that is because we allow the *reghdfe* package automatically drops singletons to avoid overstate statistical significance and lead to incorrect inference in case of fixed effects are nested within clusters. The same below and we will not repeat for brevity. All variables are defined in Appendix A. Robust standard errors in parentheses are clustered by firm. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

**Table 4**  
Robustness checks.

Panel A: Only using firms located near the borders of neighboring provinces		
	Dependent variable = <i>NonLocalMA</i>	
	(1)	(2)
	Within 50 km	Within 25 km
<i>Treat</i> × <i>Post</i>	0.192*** (0.05)	0.388** (0.14)
<i>Controls</i>	Yes	Yes
<i>Year FE</i>	Yes	Yes
<i>Province FE</i>	Yes	Yes
<i>Firm FE</i>	Yes	Yes
<i>N</i>	799	178
Adj <i>R</i> <sup>2</sup>	0.130	0.106

  

Panel B: Other robustness checks			
	Dependent variable = <i>NonLocalMA</i>		
	(1)	(2)	(3)
	Logit	Probit	Full Sample
<i>Treat</i> × <i>Post</i>	0.767*** (0.21)	0.471*** (0.13)	0.028*** (0.01)
<i>Controls</i>	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes
<i>Province FE</i>	Yes	Yes	Yes
<i>Firm FE</i>	Yes	Yes	Yes
<i>N</i>	4030	4030	22,546
Adj <i>R</i> <sup>2</sup> / <i>Pse R</i> <sup>2</sup>	0.100	0.100	0.221

This table reports the results of additional robustness checks. Panel A presents the results of only using firms located near the borders of neighboring provinces to further alleviate potential endogeneity issues. Panel B presents the results of using Logit model, Probit model, and full sample which includes firms not involved in any M&As. All variables are defined in Appendix A. Robust standard errors in parentheses are clustered by firm. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

benchmark and generate four dummy variables:  $Year^{2007-2008}$ ,  $Year^{2009-2010}$ ,  $Year^{2012-2013}$ , and  $Year^{2014-2016}$ .  $Year^{2007-2008}$  ( $Year^{2009-2010}$ ,  $Year^{2012-2013}$ , and  $Year^{2014-2016}$ ) equals one if a firm-year observation is during the period of 2007–2008 (2009–2010, 2012–2013, 2014–2016) and zero otherwise. We then use the four dummy variables to interact with  $Treat$  and replace the interaction term  $Treat \times Post$  in Eq. (1). Finally, we reestimate the regression. Column (1) of Table 3 presents the results. As shown, the coefficients of  $Treat \times Year^{2007-2008}$  and  $Treat \times Year^{2009-2010}$  are both insignificant. These results show that our DID estimation has no obvious ext ante tendency and meets the parallel trend assumption.

The second robustness check is the re-estimation of Eq. (1) after deleting M&As in the event year, i.e., 2012, from our sample. In Column (2), the coefficient on  $Treat \times Post$  is significantly positive again. The third robustness check is a placebo test. We assume 2010 is the event year and restrict our sample period from 2008 to 2011 for eliminating the impact of the anti-corruption campaign. If the results in Table 2 are indeed caused by the anti-corruption campaign, the coefficient on  $Treat \times Post$  is expected to be insignificant using an artificial event year. Column (3) shows no evidence of changes in the probability of cross-province M&As subsequent to 2010, the pseudo anti-corruption campaign year.

#### 4.3. Robustness checks

In addition to tests for the DID model, we performed three robustness checks. First, although variables GDP growth ( $GDPgrowth$ ), unemployment rate ( $UE$ ), financial market development ( $FMD$ ), and province fixed effects are included in Table 2 results, possibly, some omitted variables rather than the difference in the level of corruption drive our results. To address this concern, we restrict the sample to firms located near the boundary of neighboring provinces and then re-run our analysis. Compared with the full sample, the restricted sample size reduces drastically. However, it alleviates the concern regarding omitted variables at the province level to a great extent because we take advantage of the similarities in political, cultural, and economic environments between neighboring provinces. Table 4 Panel A reports the results. Column (1) displays the result that using firms located within 50 km of the boundary between two neighboring provinces while Column (2) displays the result using firms located within 25 km of the boundary. Both coefficients on  $Treat \times Post$  are still significantly positive, indicating that our results are robust to the potential omitted variables at the province level.

Second, consistent with recent studies (Benmelech & Frydman, 2015; Dessaint et al., 2017; John et al., 2015; Li, Liu, & Wu, 2018),

**Table 5**

Cross-sectional heterogeneity.

Panel A: The impact of corrupt officials' benefits					
	Dependent variable = $NonLocalMA$				
	Tobin's Q		Altman Z		
	(1) High	(2) Low	(3) High	(4) Low	
$Treat \times Post$	0.287*** (0.09)	0.040 (0.07)	0.192** (0.08)	0.025 (0.07)	
Difference in coeff.	0.247***		0.167***		
P-value	0.00		0.00		
Controls	Yes	Yes	Yes	Yes	
Year FE	Yes	Yes	Yes	Yes	
Province FE	Yes	Yes	Yes	Yes	
Firm FE	Yes	Yes	Yes	Yes	
N	1822	1942	1828	1920	
Adj R <sup>2</sup>	0.310	0.400	0.323	0.413	

  

Panel B: The impact of corrupt officials' cost						
	Dependent variable = $NonLocalMA$					
	Marketization		Ownership			
	(1) Low	(2) High	(3) SOE	(4) NonSOE	(5) Central	(6) Local
$Treat \times Post$	0.174** (0.09)	0.078 (0.06)	0.193*** (0.06)	0.085 (0.06)	0.134* (0.08)	0.396*** (0.11)
Difference in coeff.	0.096**		0.108**		-0.262**	
P-value	0.05		0.02		0.01	
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Province FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
N	1533	2429	1590	2424	584	1006
Adj R <sup>2</sup>	0.385	0.334	0.445	0.272	0.470	0.301

This table reports the results of cross-sectional heterogeneity. In Panel A, we examine the impact of corrupt officials' benefit of impeding cross-province M&As. In Panel B, we examine the impact of corrupt officials' cost of impeding cross-province M&As. All variables are defined in Appendix A. Robust standard errors in parentheses are clustered by firm. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

we estimate a linear probability model in our baseline tests. Based on the assertive distribution assumption (Firth & Bennett, 1998; Freedman, 2008; Hausman, 2001; Wooldridge, 2007), logit and probit models may impose bias and inconsistency on the coefficients. The main drawback of LPM is relatively large heteroskedasticity. Although t-statistics are adjusted for heteroskedasticity in the regressions above, we estimate the logit and probit model to address possible interference from heteroskedasticity, and report the results in Columns (1) and (2), respectively, in Panel B of Table 4. As shown in the results, the coefficients on  $Treat \times Post$  are still positive and significant, which means that our results are robust to various model specifications.

Third, with the purpose to observe different types of M&A deals initiated by A-share listed firms, i.e., local M&As or cross-province M&As, our sample excludes firms that do not engage in M&As. The advantage is that all sample firms have a certain demand for M&As, which contributes to reducing inherent differences between the treatment and the control group greatly and thereby alleviating the potential concern regarding omitted variables at the firm level. However, sample selection bias may emerge simultaneously. Therefore, we re-run our analyses in Table 2 using the sample with all the A-share listed firms and then report the results in Column (3) of Table 4 Panel B. As shown, the coefficient on  $Treat \times Post$  is still significantly positive, mitigating the concern regarding potential sample selection bias.

## 5. Further analysis

### 5.1. Cross-sectional heterogeneity

We first analyze whether corrupt officers' net income from impeding affects the relationship between the anti-corruption campaign and the change of the probability of cross-province M&As. Focus on this question not only provides insight into the mechanism of the relationship between local political corruption and firms' cross-province M&As, but also further confirm the causality. Specifically, Svensson (2003) models bribes paid as the outcome of a bargaining process between a firm and a rent-maximizing public official and identifies two firm-specific characteristics that explain the considerable variation in reported bribes across firms: the ability to pay bribes and refusal power. Svensson (2003) finds that the more a firm can pay in bribes, the more it must pay, and the stronger the refusal power a firm has, the less it must pay. Therefore, we should observe that the more a firm can pay in bribes (the higher impeding income of corrupt officers) and the weaker the refusal power a firm has (the lower impeding cost of corrupt officers), the greater increase in the probability of cross-province M&As after the anti-corruption campaign.

Panels A and B of Table 5 present the results of testing the impeding income and cost of corrupt officers, respectively. On the one hand, because good firms can bear higher rent and have more ability to pay and more sustainability, the income of corrupt officers from hindering these companies' cross-province M&As is greater. Therefore, in Panel A, we measure the income of corrupt officers gained from impeding cross-province M&As by two variables: (1) the acquirer's growth (*Tobin's Q*), (2) the acquirer's *Altman Z* index. Columns (1) and (2) present the results of subsamples formed by a median split based on *Tobin's Q* annually. The coefficient on  $Treat \times Post$  is only significantly positive in the high growth subsample ( $Tobin's Q > median$ ), and the positive association is stronger than in the low growth subsample ( $Tobin's Q < median$ ) at the 1% level. Columns (3) and (4) present the results of subsamples formed by a median split based on *Altman Z* index annually. The coefficient on  $Treat \times Post$  is only significantly positive in the subsample high *Altman Z* index ( $Altman Z > median$ ) subsample (in other words, low bankruptcy risk subsample), and the positive association is also stronger than in the low *Altman Z* index ( $Altman Z < median$ ) subsample at the 1% level. All the results are in line with our expectations - the more a firm can pay in bribes (the higher impeding income of corrupt officers), the greater increase in the probability of cross-province M&As after the anti-corruption campaign.

On the other hand, because the more the firm's business depends on the local government, the lower the cost for corrupt officers to hinder the firm's cross-province M&As is, we measure the cost of corrupt officers impeding the firm's cross-province M&As by two following variables: (1) The degree of marketization in the acquirer's location (*Marketization*). Data are from the *Marketization Index of China's Provinces: NERI Report* compiled by Wang, Fan, and Yu (2016). A smaller value of *Marketization* means the government has stronger control over economic resources and the company's business activities depend to a greater extent on the local government. (2) The acquirer's ownership (*SOE*). *SOE* equals one if a firm's ultimate controller is the government or a government agency and zero otherwise. Because the M&A behavior of state-owned enterprises must be formally approved by the State-owned Assets Supervision and Administration Commission and the local government, it is easier for corrupt officers to hinder the cross-province M&As of state-owned enterprises. What's more, as state-owned enterprises generally operate in regulated industries with more approval and supervision, their economic activities are supposed to be more dependent on the local government. Columns (1)–(2) of Panel B present the results of subsamples constructed by a median split based on *Marketization* annually. As expected, the significantly positive coefficient on  $Treat \times Post$  is only observed in the subsample of firms locating in the province with low degree of marketization ( $Marketization < median$ ), and the positive association is stronger than in the subsample of firms locating in the province with high degree of marketization ( $Marketization > median$ ) at the 5% level. Columns (3)–(4) of Panel B report the results of subsamples formed by the *SOE* dummy at the end of each year. The coefficient on  $Treat \times Post$  is only observed significantly positive in the subsample of state-owned enterprises, and the positive association is stronger than in the subsample of non-state-owned enterprises at the 5% level. We further separate the *SOE* sample into central *SOEs* and local *SOEs* subsamples and rerun the regression, Columns (5)–(6) of Panel B report the results. Although the coefficients on  $Treat \times Post$  are both significantly positive, the positive association is stronger in the local *SOEs* subsample at the 5% level, as the cost for corrupt officers to hinder the local *SOEs*' cross-province M&As is again lower than the central *SOEs*. All the results are still consistent with our expectations - the weaker the refusal power a firm has (the lower impeding cost of corrupt officers), the more pronounced increase in the probability of cross-province M&As after the anti-corruption campaign.

## 5.2. Channel: Ex-ante intervention

Next, we focus on exploring the specific channels through which the corrupt officials hinder the firm from conducting cross-province M&As. In China, because cross-province M&As involve multi-stakeholders' interests and must gain formal or informal approval from many government departments, it is not difficult for corrupt officials to obstruct cross-province M&As, but simply to "pass the buck to each other". In this situation, lengthening the completion time is supposed to be an important channel for corrupt officials to hinder firms' cross-province M&As. To test this, we estimate the following DID regression:

$$Time = \beta_0 + \beta_1 \times Treat \times Post + \beta_i \times Control + \beta_j \sum Year + \beta_k \sum Province + \beta_L \sum Firm + \varepsilon, \quad (2)$$

where except for the dependent variable *Time*, the variables are defined and measured the same as in Eq. (1). *Time* represents the time spent on M&As, measured by the number of days from announcement to completion of the M&A divided by 360. If lengthening the completion time is indeed an important channel, we should observe that the time spent on firms' cross-province M&As is significantly shortened after the anti-corruption campaign. Table 6 Panel A reports the results. Column (1) shows the result using full sample while

**Table 6**  
Channel: ex-ante intervention.

Panel A: The time required to complete M&As			
	Dependent variable = <i>Time</i>		
	(1)all M&As	(2) nonlocal M&As	(3) local M&As
<i>Treat</i> × <i>Post</i>	-0.136** (0.07)	-0.168* (0.10)	-0.082 (0.09)
<i>Difference in coeff.</i>		-0.086*	
<i>P-value</i>		0.09	
<i>Controls</i>	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes
<i>Province FE</i>	Yes	Yes	Yes
<i>Firm FE</i>	Yes	Yes	Yes
<i>N</i>	4036	1770	1761
<i>Adj R</i> <sup>2</sup>	0.335	0.326	0.368
Panel B: The risk of M&As			
	Dependent variable = <i>M&amp;ARisk</i>		
	(1)all M&As	(2) nonlocal M&As	(3) local M&As
<i>Treat</i> × <i>Post</i>	-0.010* (0.01)	-0.025** (0.01)	-0.013* (0.01)
<i>Difference in coeff.</i>		-0.012**	
<i>P-value</i>		0.03	
<i>Controls</i>	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes
<i>Province FE</i>	Yes	Yes	Yes
<i>Firm FE</i>	Yes	Yes	Yes
<i>N</i>	787	382	271
<i>Adj R</i> <sup>2</sup>	0.492	0.510	0.613
Panel C: The performance of M&As			
	Dependent variable = <i>M&amp;APerf</i>		
	(1)all M&As	(2) nonlocal M&As	(3) local M&As
<i>Treat</i> × <i>Post</i>	0.199** (0.08)	0.218** (0.11)	0.083 (0.10)
<i>Difference in coeff.</i>		0.135**	
<i>P-value</i>		0.05	
<i>Controls</i>	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes
<i>Province FE</i>	Yes	Yes	Yes
<i>Firm FE</i>	Yes	Yes	Yes
<i>N</i>	2084	959	869
<i>Adj R</i> <sup>2</sup>	0.693	0.781	0.671

This table reports the results of exploring the channel through which corrupt officials ex-ante impede the cross-province M&As. In Panel A, we examine the impact of corrupt officials on the time required to complete M&As. In Panel B, we examine the impact of corrupt officials on the risk of M&As. In Panel C, we examine the impact of corrupt officials on the performance of M&As. The definitions of all variables are in Appendix A. Robust standard errors in parentheses are clustered by firm. \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% level, respectively.

Columns (2)–(3) show the results using nonlocal M&As subsample (i.e., only include cross-province M&As) and local M&As subsample (i.e., only include local M&As), respectively. The coefficients on  $Treat \times Post$  are significantly negative in Columns (1) and (2) while insignificant in Columns (3). Overall, time spent on firms' cross-province M&As is indeed shortened after the anti-corruption campaign overall, but this negative effect only exists in nonlocal M&As subsample. All the results lead to support the argument that lengthening the completion time is an important channel for corrupt officials to hinder firms' cross-province M&As.

Lengthening the completion time would cause at least two predictable economic consequences: i) increasing M&A risk and ii) reducing M&A performance. Therefore, after the anti-corruption campaign, Besides the aforementioned phenomenon about shortening the completion time, we should observe two outcomes- reducing risk and improving performance of cross-province M&As. To this end, we examine the impact of the anti-corruption campaign on the M&A risk and M&A performance. Specifically, we re-estimate Eq. (2) using M&A risk ( $Risk$ ) and M&A performance ( $Perf$ ) instead of  $Time$  as the dependent variable. Referring to the existing literature (Agrawal & Mandelker, 1987; Kravet, 2014), we measure  $Risk$  by the difference between the standard deviation of abnormal returns for the period [+11,+70] days after the completion of the M&A and [-121,-60] days before it's announcement, and we measure  $Perf$  by the average of CFO divided by sales over three years following the completion of M&A. Table 6 Panel B reports the results using  $Risk$  as the dependent variable while Panel C reports the results using  $Perf$  as the dependent variable. The same as Panel A, In Panels B and C, Column (1) displays the result using full sample while Columns (2)–(3) display the results using nonlocal M&As

**Table 7**

Channel: ex-post punishment.

Panel A: Changes in bank loans before and after M&A				
	Dependent variable = $\Delta Loans$			
	High-corruption		Low-corruption	
	(1) nonlocal	(2) local	(3) nonlocal	(4) local
<i>M&amp;A</i>	-0.005* (0.00)	-0.002 (0.01)	-0.005 (0.00)	-0.003 (0.00)
<i>Controls</i>	Yes	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes	Yes
<i>Province FE</i>	Yes	Yes	Yes	Yes
<i>Firm FE</i>	Yes	Yes	Yes	Yes
<i>N</i>	1063	805	1891	1506
<i>Adj R<sup>2</sup></i>	0.239	0.167	0.183	0.203

  

Panel B: Changes in tax burden before and after M&A				
	Dependent variable = $Taxburden$			
	High-corruption		Low-corruption	
	(1) nonlocal	(2) local	(3) nonlocal	(4) local
<i>M&amp;A</i>	0.031** (0.01)	-0.003 (0.02)	-0.016 (0.03)	-0.384*** (0.09)
<i>Controls</i>	Yes	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes	Yes
<i>Province FE</i>	Yes	Yes	Yes	Yes
<i>Firm FE</i>	Yes	Yes	Yes	Yes
<i>N</i>	964	767	1658	1353
<i>Adj R<sup>2</sup></i>	0.300	0.275	0.309	0.414

  

Panel C: Changes in government subsidies before and after M&A				
	Dependent variable = $Subsidy$			
	High-corruption		Low-corruption	
	(1) nonlocal	(2) local	(3) nonlocal	(4) local
<i>M&amp;A</i>	-0.341 (0.49)	0.401** (0.17)	0.199** (0.09)	0.288* (0.14)
<i>Controls</i>	Yes	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes	Yes
<i>Province FE</i>	Yes	Yes	Yes	Yes
<i>Firm FE</i>	Yes	Yes	Yes	Yes
<i>N</i>	1046	797	1871	1482
<i>Adj R<sup>2</sup></i>	0.720	0.713	0.763	0.509

This table reports the results of exploring the channel through which corrupt officials ex-post punish the cross-province M&As. In Panel A, we examine the changes in bank loans before and after M&A. In Panel B, we examine the changes in tax burden before and after M&A. In Panel C, we examine the changes in government subsidies before and after M&A. The definitions of all variables are in Appendix A. Robust standard errors in parentheses are clustered by firm. \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% level, respectively.

subsample and local M&As subsample, respectively. As shown in Panel B, column (1), the coefficient on  $Treat \times Post$  is significant and negative, indicating that cross-province M&A risk is indeed reduced after the anti-corruption campaign overall. And the negative relation is more pronounced in the nonlocal M&As subsample than in the local M&As subsample at the 5% level. Similar to Panel A, in Panel C, the coefficients on  $Treat \times Post$  are significantly negative in Columns (1) and (2) while insignificant in Columns (3). Overall, M&A performance is indeed improved after the anti-corruption campaign, but this positive effect only exists in nonlocal M&As subsample. In summary, Table 6 provides strong evidence in supporting the argument that ex-ante intervention (i.e., lengthening the completion time, and further increasing risk and reducing performance of cross-province M&As) is the possibly important channel for corrupt officials to hinder firms' cross-province M&As.

### 5.3. Channel: Ex-post punishment

Besides ex-ante intervention, because China's local officials have strong power in controlling over resources allocation, they may impose ex-post punishment on firms completing cross-province M&As through drastically reducing those firms' economic resources allocation, e.g., bank loans, tax incentives, and government subsidies, in order to set a deterrent to other firms. To test this, we estimate the following DID regression:

$$\Delta Loans(Taxburden, Subsidy) = \beta_0 + \beta_1 \times M\&A + \beta_i \times Control + \beta_j \sum Year + \beta_k \sum Province + \beta_L \sum Firm + \varepsilon, \quad (3)$$

Where the independent variable  $M\&A$  is a dummy variable that equals one if an observation is in the three-year period after the completion of the M&A and zero if in the three-year period before its completion. The dependent variables  $\Delta Loan$ ,  $TaxBurden$ , and  $Subsidy$  indicate firms' new loans, tax burden, and government subsidy, respectively.  $\Delta Loan$  is measured by the change in bank loans for the year divided by total assets at the end of the fiscal year.  $TaxBurden$  is measured by annual income tax divided by earnings before taxes minus the average of firms with the same level of assets and in the same industry.  $Subsidy$  is measured by annual government subsidy amount divided by 10 million. Other variables are defined and measured the same as in Eq. (1). In this sense, the coefficient on  $M\&A$  represents the changes in new loans, tax burdens, and government subsidies, before and after the M&A. Table 7 Panels A, B and C

**Table 8**  
Alternative explanations.

	Dependent variable = <i>NonLocalMA</i>					
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Treat</i> × <i>Post</i>	0.006 (0.08)	0.163** (0.08)	-0.011 (0.10)	0.123** (0.05)	0.112** (0.05)	0.128*** (0.05)
<i>PC</i>	0.267 (0.56)					
<i>Treat</i> × <i>Post</i> × <i>PC</i>	2.179*** (0.72)					
<i>GDPgrowth</i>		0.323 (0.46)				0.239 (0.44)
<i>Treat</i> × <i>Post</i> × <i>GDPgrowth</i>		-0.361 (0.79)				
<i>UE</i>			2.387 (16.06)			-2.004 (17.00)
<i>Treat</i> × <i>Post</i> × <i>UE</i>			18.586 (12.14)			
<i>OlderPSOP</i>				-0.007 (0.03)		0.015 (0.03)
<i>Treat</i> × <i>Post</i> × <i>OlderPSOP</i>				0.052 (0.06)		
<i>LowerEduPSOP</i>					-0.036 (0.03)	-0.033 (0.03)
<i>Treat</i> × <i>Post</i> × <i>LowerEduPSOP</i>					0.007 (0.07)	
<i>FemalePSOP</i>						0.163 (0.12)
<i>CPBPSOP</i>						-0.022 (0.04)
<i>Controls</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Province FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Firm FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>N</i>	1997	4036	4036	4030	4030	4030
<i>Adj R</i> <sup>2</sup>	0.270	0.354	0.355	0.353	0.353	0.354

This table reports the results of testing two possible alternative explanations. In column(1), we test the *unwilling to leave* hypothesis. In column(2)–(6), we test the *promotion pressure* hypothesis. The definitions of all variables are in Appendix A. Robust standard errors in parentheses are clustered by firm. \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% level, respectively.

report the results with dependent variables  $\Delta Loan$ ,  $TaxBurden$  and  $Subsidy$ , respectively. To explore the impact of political corruption and the types of the M&A, for each dependent variable, we separate the sample first by the level of corruption (i.e., high-corruption and low-corruption) and second by the types of the M&A (i.e., nonlocal M&As and local M&As), and run Eq. (3) with four subsamples, respectively. As expected, in Panels A and B, the significant reduction in new bank loans and the significant increase in tax burden only can be observed in the subsample of cross-province M&As in high-corruption regions. Interestingly, in Panel C, the significant increase in government subsidies disappears in the subsample of cross-province M&As in high-corruption regions. Taking all the results into consideration, Table 7 reveals that ex-post punishment, i.e., reducing bank loans, increasing tax burdens, and cutting government subsidies, is supposed to be an important channel for corrupt officials to hinder firms' cross-province M&As.

#### 5.4. Alternative explanations

There are another two possible explanations for the negative relation between local political corruption and cross-province M&As. The first is that firms are unwilling rather than unable to conduct cross-province M&As. Given the rent-seeking convenience in highly corrupt provinces, firms closely related to local governments may be disinclined to go out of their comfort zone for cross-province development. In this sense, the first alternative explanation for our findings is the unwilling hypothesis: firms are unwilling to conduct cross-province M&As in highly corrupt regions.

If this alternative explanation is true, then the more the firm is closely related to local government, the weaker increase in the probability of cross-province M&As after the anti-corruption campaign. That is, we should observe the following two results. First, compared with non-state-owned enterprises, the increase in the probability of cross-province M&As of state-owned enterprises after the anti-corruption campaign should be less pronounced, which contradicts to results in Table 5. Second, for non-state-owned enterprises, the increase in the probability of cross-province M&As after the anti-corruption campaign should be weaker in those with political connections. Column (1) in Table 8 presents the results. Specifically, we use variable  $PC$  to measure the political connection of non-state-owned enterprises.  $PC$  is calculated as the number of directors, supervisors, and officers who have worked for the government or government agencies divided by the total number of directors, supervisors, and officers at the end of the fiscal year. The unwilling hypothesis is violated because of the significantly positive coefficient on  $Treat \times Post \times PC$ .

The second alternative explanation is the promotion pressure hypothesis. Because the promotion of Chinese officials is based on a tournament system, the greater the pressure for promotion, the less they want local companies to operate in other regions. If officers in highly corrupt provinces have greater promotion pressure, we also can observe a negative relationship between political corruption and cross-province M&As. That is, our main results may be caused by promotion pressure rather than political corruption.

If the promotion pressure hypothesis is true, we should observe that the impact of the anti-corruption campaign on cross-province M&As is less pronounced for firms located in provinces where officials face greater promotion pressure. Therefore, we examine the sign and significance of the coefficients on the interaction terms between  $GDPgrowth$  and  $Treat \times Post$ , unemployment rate ( $UE$ ) and  $Treat \times Post$ , respectively. Columns (2) and (3) of Table 8 present the results. In line with the promotion pressure hypothesis, the coefficient on  $Treat \times Post \times GDPgrowth$  is expected to be significantly positive and the coefficient on  $Treat \times Post \times UE$  is expected to be

**Table 9**  
The role of informal institutions.

	Dependent variable = <i>NonLocalMA</i>			
	(1)	(2)	(3)	(4)
<i>Treat</i> × <i>Post</i>	0.281*** (0.08)	0.277*** (0.08)	0.177** (0.06)	0.266*** (0.08)
<i>Trust</i>	-0.093 (0.15)			
<i>Treat</i> × <i>Post</i> × <i>Trust</i>	-0.068** (0.03)	-0.069** (0.03)		
<i>Clan</i>			-0.011 (0.01)	
<i>Treat</i> × <i>Post</i> × <i>Clan</i>			-0.097* (0.04)	
<i>Nonlocaldirector</i>				0.074 (0.05)
<i>Treat</i> × <i>Post</i> × <i>Nonlocaldirector</i>				-0.153* (0.08)
<i>Controls</i>	Yes	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes	Yes
<i>Province FE</i>	No	Yes	Yes	Yes
<i>Firm FE</i>	Yes	Yes	Yes	Yes
<i>N</i>	4000	4000	3838	4036
<i>Adj R</i> <sup>2</sup>	0.353	0.353	0.348	0.355

This table reports the results of exploring the role of informal institutions on the relationship between political corruption and the probability of cross-province M&As. In column(1) and column (2), we examine the role of trust and clan, i.e., the impact of social capital. In column(3), we examine the role of nonlocal independent director, i.e., the impact of informal social networks. The definitions of all variables are in Appendix A. Robust standard errors in parentheses are clustered by firm. \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% level, respectively.

significantly negative, because the lower the GDP growth and the higher the unemployment rate, the greater the promotion pressure of officials. However, both coefficients are insignificant and even the signs are contrary to the expectations. Furthermore, we also use the age and academic background of provincial party secretaries (*OlderSOP* and *LowerEduSOP*) to proxy their promotion pressure. The older and less educated provincial party secretary has higher promotion pressure. Columns (4) and (5) of [Table 8](#) present the results. As shown, The coefficients on *Treat*×*Post*×*OlderSOP* and *Treat*×*Post*×*LowerEduSOP* are both insignificant and of the wrong sign. At last, we also consider the solution of controlling the promotion pressure directly. In addition to controlling the *GDPgrowth*, *UE*, *OlderSOP* and *LowerEduSOP* mentioned before, we also control the gender of provincial party secretaries (*FemaleSOP*) and the actual promotion outcome (*CPBSOP*, which equals one if up to now the provincial party secretary once entered the Central Political bureau and zero otherwise). Columns (6) of [Table 8](#) present the result. As shown, the coefficient on *Treat*×*Post* is still significantly positive. In summary, neither the unwilling hypothesis nor the promotion pressure hypothesis can explain our empirical results and have little impact on our findings.

### 5.5. The role of informal institutions

Finally, we consider the role of informal institutions. It is generally believed that China’s economic growth miracle is based on imperfect formal systems, which is balanced by informal institutions, e.g., social capital and informal networks, to a certain extent. Therefore, if this is true, the increase of probability of cross-province M&As after anti-corruption campaign should be less pronounced for firms with more social capital or informal networks. To test this, we estimate the following DDD regression:

$$\begin{aligned} NonLocalMA = & \beta_0 + \beta_1 \times Treat \times Post + \beta_2 \times Informal + \beta_3 \times Treat \times Post \times Informal \\ & + \beta_i \times Control + \beta_j \sum Year + \beta_k \sum Province + \beta_l \sum Firm + \varepsilon, \end{aligned} \quad (4)$$

Where *Informal* represents informal institutions. We use the degree of trust (*Trust*) and clan culture (*Clan*) in the acquirer’s location to capture its social capital level, and measure informal social networks by considering whether the firm has nonlocal independent director (*nonlocaldirector*) (Liu, Li, & Sun, 2015; Zhang, 2020; Zhang & Ke, 2002). We are interested in the sign and significance of the coefficients on the interaction terms between *Informal* (i.e., *Trust*, *Clan*, *nonlocaldirector*) and *Treat*×*Post*. [Table 9](#) presents the results. Columns (1)–(2) are tests for *Trust* and Columns (3) and (4) display the results for *Clan* and *nonlocaldirector*, respectively. Because *Trust* is a time-invariant variable at the province level, it won’t work when controlling the province fixed effects. Therefore, in Column (1), we don’t control the province fixed effects, while in Column (2) we exclude *Trust* item but controlling the province fixed effects. As shown in [Table 9](#), the coefficients on interaction items are significantly negative, providing evidence that informal institutions, e.g., social capital and informal networks, indeed compensate for the shortcoming of formal systems to a certain extent and significantly alleviate the negative impact of political corruption on firms’ cross-province M&As.

## 6. Conclusion

Using the recent anti-corruption campaign in China as a quasi-natural experiment, we show that after the anti-corruption campaign began, firms in more corrupt provinces experience a greater increase in cross-province M&As, which indicates local political corruption significantly impedes cross-province M&As in China. Our results are robust to a variety of tests on model specifications, endogeneity issues, and alternative explanations. Additional analyses reveal that the effects of political corruption on the probability of cross-province M&As are stronger when corrupt officers have greater impeding benefit or lower impeding cost. Meanwhile, both ex-ante intervention and ex-post punishment are important channel through which corrupt officers hinder firms’ cross-province M&As, while informal institutions, such as social capital and informal networks can help to alleviate the negative impact of political corruption on firms’ cross-province M&As.

Collectively, our findings are opposite to Nguyen, Phan, & Simpson, 2020. By revealing the negative relationship and mechanism between political corruption and cross-province M&As in China, we show that in the context of highly government intervention, cross-province M&As not only cannot be an effective channel to shield from expropriation, but are themselves highly distorted. As such, we stress the role of different institutions on the mechanisms and directions of the relationship between political corruption and cross-region M&As. Although our study is performed in Chinese context, the problem of corruption and government intervention is certainly not unique to China. Therefore, our research may have important implications for many other countries that facing political corruption and government intervention issues similar as China.

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## Appendix A. Variable definition

Variable	Definition
<i>NonLocalMA</i>	Equals one if the headquarters location of the acquirer and the target are in different provinces and zero otherwise. Data source: CNRDS Database.
<i>Treat</i>	Equals one if the degree of corruption in the acquirer's location is higher than the median value of the sample one year before the start of study period (i.e., 2006) and zero otherwise. Data source: the <i>Procuratorial Yearbook of China</i> , the <i>China Population and Employment Statistics Yearbook</i> .
<i>Post</i>	Equals one if a firm-year observation is in 2012 or later and zero otherwise. Data source: CNRDS Database.
<i>Size</i>	Logarithm of market value of equity at the end of the fiscal year. Data source: WIND Database.
<i>Leverage</i>	Book value of total debt divided by total assets. Data source: WIND Database.
<i>MB</i>	Market value of equity divided by book value of equity. Data source: WIND Database.
<i>ROA</i>	Earnings divided by total assets. Data source: WIND Database.
<i>ATO</i>	Sales divided by average of total assets at the beginning and the end of the fiscal year. Data source: WIND Database.
<i>SOE</i>	Equals one if the ultimate shareholders are either the government or government agencies and zero otherwise. Data source: WIND Database.
<i>GDPgrowth</i>	Annual GDP growth at the province level. Data source: WIND Database.
<i>UE</i>	Annual unemployment rate at the province level. Data source: WIND Database.
<i>FMD</i>	Financial industry competition index at the province level. Data source: Data source: the <i>Marketization Index of China's Provinces:NERI Report</i> .
<i>Dealvalue</i>	Logarithm of total amount of the M&A deal. Data source: CNRDS Database.
<i>Public</i>	Equals one if the target is a listed firms and zero otherwise. Data source: CNRDS Database.
<i>Related</i>	Equals one if the M&A is a related transaction and zero otherwise. Data source: CNRDS Database.
<i>Cashonly</i>	Equals one if the payment of M&A is purely cash and zero otherwise. Data source: CNRDS Database.
<i>Nonlocalsub</i>	Logarithm of the total number of nonlocal subsidiaries plus one. Data source: CSMAR Database.
<i>Tobin's Q</i>	Market value of equity plus book value of total debt divided by total assets. Data source: WIND Database.
<i>Altman Z</i>	Firm's likelihood of bankruptcy measured by the Altman Z-score. Data source: WIND Database.
<i>Marketization</i>	Index of the extent to which economic resources are allocated by the market at the province level. Data source: the <i>Marketization Index of China's Provinces:NERI Report</i> .
<i>Time</i>	Number of days from announcement to completion of the M&A divided by 360. Data source: CNRDS Database.
<i>M&amp;ARisk</i>	Difference between the standard deviation of abnormal returns for the period [+11,+70] days after the completion of the M&A and [-121,-60] days before it's announcement. Data source: CNRDS Database, CSMAR Database.
<i>M&amp;APerf</i>	Average of CFO divided by sales over three years following the completion of M&A. Data source: CNRDS Database, WIND Database.
$\Delta$ <i>Loans</i>	Change in bank loans for the year divided by total assets at the end of the fiscal year. Data source: WIND Database.
<i>Taxburden</i>	Annual income tax divided by earnings before taxes minus the average of firms with the same level of assets and in the same industry. Data source: WIND Database.
<i>Subsidy</i>	Annual government subsidy amount divided by 10 million. Data source: CNRDS Database.
<i>PC</i>	The number of directors, supervisors, and officers who have worked for the government or government agencies divided by the total number of directors, supervisors, and officers at the end of the fiscal year. Data source: CSMAR Database.
<i>OlderSOP</i>	Equals one if the age of the provincial party secretary is beyond the sample median and zero otherwise. Data source: collect manually via the internet.
<i>LowerEduSOP</i>	Equals one if the academic background of the provincial party secretary is below graduate level and zero otherwise. Data source: collect manually via the internet.
<i>FemaleSOP</i>	Equals one if the provincial party secretary is a woman and zero otherwise. Data source: collect manually via the internet.
<i>CPBSOP</i>	Equals one if up to now the provincial party secretary once entered the Central Political bureau and zero otherwise. Data source: collect manually via the internet.
<i>Trust</i>	Logarithm of the trust in locals plus one. Data source: <a href="#">Zhang and Ke (2002)</a> .
<i>Clan</i>	Number of genealogies per 10,000 households between 1912 and 1990 at the city level. Data source: the <i>General Catalog of Chinese Genealogy</i> .
<i>Nonlocaldirector</i>	Equals one if firm at least have one independent director from another province at the end of the fiscal year and zero otherwise. Data source: CNRDS Database.

## Appendix B. Summary statistics

This table reports the summary statistics of all variables involved in this paper. Where *Tobin's Q*, *Altman Z*, and *Marketization* has already been converted to dummy variables, which equals one if above the annual median of corresponding variable and zero otherwise.

	Mean	1st quartile	Median	3rd quartile	Standard deviation
<i>NonLocalMA</i>	0.501	0.000	1.000	1.000	0.500
<i>Treat</i> × <i>Post</i>	0.177	0.000	0.000	0.000	0.382
<i>Size</i>	22.689	22.025	22.657	23.384	0.946
<i>Leverage</i>	0.468	0.301	0.473	0.631	0.208
<i>MB</i>	4.339	2.125	3.330	5.298	3.452
<i>ROA</i>	0.046	0.020	0.041	0.065	0.042
<i>ATO</i>	0.672	0.345	0.540	0.822	0.503
<i>SOE</i>	0.396	0.000	0.000	1.000	0.489
<i>GDPgrowth</i>	0.125	0.079	0.110	0.166	0.058
<i>UE</i>	0.006	0.004	0.005	0.007	0.003
<i>FMD</i>	9.352	8.580	9.530	10.220	1.483

(continued on next page)

(continued)

	Mean	1st quartile	Median	3rd quartile	Standard deviation
Dealvalue	22.904	16.678	18.275	20.326	12.150
Public	0.011	0.000	0.000	0.000	0.105
Related	0.585	0.000	1.000	1.000	0.493
Cashonly	0.808	1.000	1.000	1.000	0.394
Nonlocalsub	0.679	0.000	0.000	1.386	0.949
Tobin's Q	0.489	0.000	0.000	1.000	0.500
Altman Z	0.490	0.000	0.000	1.000	0.500
Marketization	0.612	0.000	1.000	1.000	0.488
Time	0.516	0.119	0.422	0.726	0.520
M&ARisk	-0.002	-0.009	-0.001	0.007	0.029
M&APerf	-0.032	-0.086	-0.013	0.057	0.268
△Loans	0.013	-0.021	0.001	0.048	0.075
Taxburden	0.007	-0.043	0.001	0.052	0.285
Subsidy	2.620	0.282	0.870	2.322	5.369
PC	0.040	0.000	0.000	0.067	0.055
OlderSOP	0.406	0.000	0.000	1.000	0.491
LowerEduSOP	0.402	0.000	0.000	1.000	0.490
FemaleSOP	0.009	0.000	0.000	0.000	0.095
CPBSOP	0.539	0.000	1.000	1.000	0.499
Trust	2.882	2.389	3.367	4.031	1.254
Clan	1.230	0.096	0.405	1.862	1.977
Nonlocaldirector	0.501	0.000	1.000	1.000	0.500

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