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Key Finding

Firm acquisition decisions require internal and external sources of power to build coalitions and determine strategies.

Business Application

Look inside and outside a firm to tell what acquisitions it will make. The board of directors has experience and connections that shape its decisions.

Chinese firms have undergone reforms, including critical elements like allowing easier founding and development of privately owned firms (i.e. with no state ownership), privatising state-owned companies, and setting market goals for all types of firms. This represented a research opportunity for me, as it meant that firm decisions could be studied in a complex and fast-changing environment.

In one paper, I looked at how firm acquisitions changed as the economy was restructured. Before the market reforms, acquisitions were mainly directed by the state and used to reorganise industries; however, market reform was supposed to introduce market-oriented acquisitions to serve firm strategies. I examined how firms with different ownership and board membership acted, and found that the state policy of a more market-oriented economy had a surprising enemy: the state. Firms with greater state ownership made fewer market-oriented acquisitions. Firms with more directors with state experience made fewer market-oriented acquisitions. This is because acquisitions promise not only rewards but also risk, and will always be controversial decisions that require some level of agreement at board level. Directors with state backgrounds are torn between the policy of market orientation and the experience of following state instructions, and as a result are more critical of acquisition proposals. They may believe that they are serving the market goal of high returns and low risk, but in fact they are just slowing down the pace of acquisition.

In another paper, I looked at how firms decide on the target firm to acquire. Again, there was a clear effect of board composition, with directors much more likely to favour acquisition targets that matched their individual experience. Directors with state experience sought out the traditional type of state-directed acquisitions, while directors with market experience led the move towards market-oriented acquisitions. Interestingly, the boards of directors also had members with neither type of experience or both, and these turned out to be undecided and potential allies for either the state or market faction of the board. In further research I examine these processes in more detail.

Read more: Greve, H. R. and Zhang, C. M., (2017). "Institutional Logics and Power Sources: Merger and Acquisition Decisions", *Academy of Management Journal*, 6 (2): 671–694.



Cyndi Man Zhang is Assistant Professor of Strategy at Lee Kong Chian School of Business, Singapore Management University. She has done groundbreaking research on firm M&A strategies during China's economic transition. To know more, visit her [website](#).

Research interests: coalition decision making; power sources; mergers and acquisitions; China; economic transition.