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Article

# Research on control allocation, legality and acquisition performance of cross-border M&A based on stakeholder theory

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**Abstract:** As the involvement of Chinese enterprises in cross-border mergers and acquisitions (M&A) increases, on the one hand, it can drive enterprises to integrate with the international community and accelerate their transformation and upgrading, continuously enhancing their international competitiveness; on the other hand, it will also cause enterprises to experience more setbacks and challenges, especially the "weak acquisition of the strong" reverse cross-border acquisitions, which makes enterprises face a higher risk of failure. Reasonable control rights allocation can fully utilize the competitive advantages of enterprises, achieve synergistic cooperation among shareholders, board of directors, and management, promote the realization of enterprises' cross-border acquisition goals, and thus enhance the value creation of acquisitions. There is a positive correlation between internal legitimacy and acquisition performance; the relevant assumptions about the distribution of shareholder control rights are invalid; the control rights at the board of directors level are negatively correlated with internal legitimacy and acquisition performance, and internal legitimacy has a mediating effect between the control rights at the board of directors level and acquisition performance, but the moderating effect of the acquisition mode is not significant; the control rights at the management level are negatively correlated with internal legitimacy and acquisition performance, and internal legitimacy has a mediating effect between the control rights at the management level and acquisition performance, and the acquisition mode negatively moderates the relationship between the control rights at the management level and internal legitimacy. This study takes the post-acquisition control rights allocation as the entry point, and examines the cross-border acquisition activities of Chinese enterprises from the perspective of stakeholders. The research results not only can enrich existing acquisition theory, but also can provide theoretical guidance for Chinese enterprise managers on allocation of control of target enterprises, and provide a theoretical basis for the state to formulate and optimize the system and policies of enterprises' cross-border acquisitions.

**Keywords:** stakeholder theory; control allocation; legality; M&A performance

## 1. Introduction

Chinese enterprises have become a crucial force in facilitating global economic integration. However, their deeper involvement in the world economy brings increased competition and heightened pressure from international markets. Consequently, improving international competitiveness is essential for the survival and development of these enterprises, and cross-border M&A represent one of the main strategies for enhancing this competitiveness. With the rapid advancement of globalization, an increasing number of companies are turning to cross-border M&A to acquire resources such as technology and management expertise, facilitating their transformation and upgrade while bolstering their core competitiveness. Nevertheless, cross-border M&A

also presents numerous challenges. This is largely due to the fact that Chinese enterprises usually engage in M&A under relatively disadvantageous conditions, seeking to obtain external complementary high-end strategic resources this can be seen as a unique form of "acquiring the strong while being the weak". The configuration of control rights post-acquisition involves the redistribution of power, a complex process that spans various departments, levels, and even firms, which entails dismantling and reorganizing existing powers. The decisions made regarding this allocation of rights will fundamentally shape the company's future direction in terms of decision-making, operation, and development an aspect that significantly influences M&A performance. A suitable allocation of control rights is vital for M&A success, ensuring that the target company remains strategically aligned with the acquiring company, thus enhancing the latter's competitive advantage, while also minimizing the risk of losing competitive benefits to partners or competitors (Jin and Wang, 2021). Moreover, the distribution of control rights reflects the distribution of interests; thus, achieving effective coordination among shareholders, the board of directors, management, and various departments is crucial. This coordination is essential for ensuring the unity of responsibilities and rights and for achieving fair and equitable distribution of profits key aspects of corporate governance and a focal point in the establishment of governance mechanisms (Ashraf et al., 2021).

The allocation of control rights represents the distribution of authority within a corporation, and its proper arrangement is essential for mitigating self-serving behaviors associated with control rights, which significantly impacts corporate governance. Nelson (2022) indicates that this allocation is closely tied to the owners of key resources within a firm, who are entitled to corresponding control rights. Dou et al. (2016) assert that the sources of control rights stem from both resource allocation (such as knowledge and networks) and institutional frameworks (which include relevant regulations). Kim and Kwon (2024) emphasize that achieving an optimal distribution of control rights necessitates consideration of their types and characteristics. Wu (2018) contends that human capital owners who generate wealth for the enterprise ought to possess control rights, asserting that when profit distributions favor these wealth creators, they gain effective control over non-human capital. Building on previous studies. Lu and Wang (2021) argue that the fundamental nature of control rights involves a negotiation among stakeholders; the variety of theoretical perspectives along with the complexities of reality complicate the attainment of optimal control rights allocation. They stress that the distribution of control rights should be assessed based on the contributions of stakeholders' resources to the enterprise, with the overarching goal of maximizing corporate value. Wang (2021) states that parent companies should exert control over their multinational subsidiaries through means of equity, finance, personnel management, and organizational structure to fulfill their multinational operational objectives. In terms of the relationship between control rights allocation and M&A performance, current scholarship has investigated factors such as the attributes of controlling parties, shareholding ratios of significant shareholders, and institutional holdings, which all contribute to understanding how post-merger control rights allocation influences performance outcomes. Nonetheless, there is a notable deficiency in research focusing on the interplay between control rights allocation and corporate performance.

Furthermore, the mechanisms underlying control rights allocation and M&A performance in the context of cross-border mergers diverge significantly from those observed in conventional corporate environments. Thus, in order for companies to effectively engage in cross-border mergers, it is crucial to deepen the investigation into the relationship between post-merger control rights allocation and subsequent M&A performance.

The control after the merger is different from the control of the multinational parent company over the subsidiary, and also different from the internal hierarchical control of the enterprise, but the control of the main and main enterprise over the target enterprise, that is, an independent enterprise is incorporated into another enterprise that has no "relationship" (ownership or control relationship) before. Therefore, M&A can not only acquire new resources and new skills, but will also be embedded in the institutional environment of the target enterprise, including its relationships with all stakeholders (Lan and Qi, 2012). Enterprises will face different institutional environments when carrying out cross-border M&A, and the legitimacy of M&A is easy to be challenged, which affects the value creation after M&A, and the control of target enterprises will also encounter crisis (Zhang, 2022).

This study examines corporate governance, legitimacy, and acquisition performance from a stakeholder perspective. According to stakeholder theory, corporations comprise a diverse set of stakeholders (Nguyen et al., 2020), and thus, businesses should not focus exclusively on shareholder interests. Instead, control should also reflect the interests of human capital stakeholders and other relevant parties (Jawahar and McLaughlin, 2001). Therefore, when identifying stakeholders that contribute to the organizational development, the associated risks should align with corporate interests, and corporate strategies should strive to satisfy stakeholder needs as much as possible (Jiang and Kim, 2020). In this research, if the distribution of control in international M&A fails to adequately consider stakeholder interests and merely pursues the maximization of one party's benefits, it is likely to generate dissatisfaction among other stakeholders regarding control allocations. This could lead to negative sentiments, a perceived lack of organizational legitimacy, and potentially result in the failure of the acquisition process.

## 2. Research hypothesis and model

### 2.1. Control right configuration and internal legitimacy

The allocation of control rights in this study refers to the allocation of control rights to shareholders, board of directors and managers on the basis of formulating relevant institutional regulations in order to realize the effective allocation of enterprise resources. To put it simply, it is to share the control right, to allocate the control right to different power subjects, and at the same time, the coordination, mutual restriction and supervision between different power subjects should be guaranteed, so as to form a good comprehensive balance system.

#### 2.1.1. Shareholders' control right allocation and internal legitimacy

Shareholders decide the strategic direction of the enterprise, and acquire control through the acquisition of equity in the merger and acquisition. The main parallel enterprise shall obtain the controlling stake of the target enterprise in order to implement its own will in the selection of management and business development. Change of the control of the shareholders after the merger and the increase of the control of the dominant enterprise may cause the concern of internal stakeholders and reduce the internal legitimacy of the merger and acquisition. Different stakeholders form enterprise contracts through contract. After merger, the enterprise replaces the original shareholders, the contract is broken, the balance system is unbalanced, and the internal recognition is reduced. The increase of the proportion of acquired equity enhances employee control (Lan and Qi, 2012), leading to the increase of conflicts between employees and the main and the enterprise, the decline of corporate culture recognition, and the reduction of the internal legitimacy of the merger. The dominant enterprises join the destruction of the balance and profit distribution pattern, the control of major shareholders is enhanced, the voice of minority shareholders is reduced, the risk of interest damage is increased by (Zhang, 2022), the recognition of minority shareholders to the dominant enterprises is reduced, reducing the internal legitimacy of M&A. Thus, the following assumptions are proposed:

**H1:** There is a negative correlation between the control right of the shareholders' layer and the internal legitimacy.

### 2.1.2. Control allocation and internal legitimacy of the board level

The board of directors represents the interests of investors and supervises the management decisions (Nguyen et al., 2020). The chaotic allocation of control and inefficiency will affect investors' interests and supervision effect. The vote of the board of directors shall prevail on the majority of personnel (Jawahar, 2001), and the proportion of the main enterprise directors is the large control. The Board ensures stakeholder interests (Jiang, 2020), monitors managers to reduce self-interest behavior and reduces conflicts of interest (Fossats-Vasselin, 2021). After cross-border M&A, the directors of the main company join the target enterprise, with a large proportion of large control. The control conference raises internal stakeholders' doubts about fairness and efficiency and reduces recognition. The new directors are not familiar with the target enterprise, the consultation quality and supervision effect are reduced, and the recognition of internal stakeholders is reduced. Thus, the following assumptions are proposed:

**H2:** There is a negative correlation between the control right of the board layer and the internal legitimacy.

### 2.1.3. Manager control allocation and internal legitimacy

Managers with control means that they can control the behavior of employees, that is, the actual control of the enterprise, and can control the direction and degree of resolution implementation (Suryaningrum et al., 2023). From a managerial perspective, replacing the original management of a target company presents two significant psychological challenges: first, concerns about collaboration due to personnel changes; and second, anxieties regarding alterations in the internal environment, such as salary and promotion structures (Faisal et al., 2020). Effective team collaboration is vital for organizational development, and the introduction of new managers has the potential to disrupt the existing team's complementarity (Almashhadani et al., 2022). Therefore, following a merger, an increase in the number of managers from the target company correlates with heightened resistance towards the original company's managers. From an employee's perspective, corporate culture is essential for enterprise development and is closely tied to managerial leadership styles. Leadership changes, particularly a change in the CEO, can undermine corporate culture and lead to employee resistance. Employees tend to rely heavily on their leaders, which creates a tacit relationship; thus, changes in leadership can disrupt this dynamic, potentially resulting in resistance to the new leadership. From the perspective of shareholders, professional managers possess distinct advantages in corporate management and governance. Nevertheless, despite the presence of agency problems and opportunistic risks, shareholders still expect managers to act in their best interests. One of the primary concerns for shareholders is the turnover of senior executives within the company. As the acquiring company strengthens its control over the management team, there is a risk that original executives may be replaced, which could incite anxiety among shareholders. If control of the company is completely transferred, this may result in the misappropriation of interests, ultimately harming the interests of the original shareholders and diminishing their support for M&A. Consequently, this could adversely impact the internal legitimacy of the M&A process. Thus, the following assumptions are proposed:

**H3:** There is a negative correlation between management control rights and internal legitimacy.

## 2.2. Internal legitimacy and M&A performance

Because the main and enterprise belong to outsiders, unable to fully understand the enterprise quickly, so need to reduce the information asymmetry caused by the risk of uncertainty perception, and improve the legitimacy of stakeholders, so as to improve the legitimacy of the enterprise as a whole, through the legitimacy to get the support of stakeholders, realize the sustainable and healthy development of enterprise (Hörisch et al., 2020). From the perspective of shareholders, the recognition of the original shareholders will provide resource support for the optimization and adjustment of the enterprise business, which will become the strong backing for the enterprise to expand the market and improve the acquisition performance (Chen and Lai, 2023); When the legitimacy of the shareholders is missing, the resources required for the production and operation of the enterprise are limited, which will lead to contradictions and conflicts after merger, affect the integration effect after merger, and then reduce the (Bourgoin et al., 2020). From the point of management, the higher the level of recognition, the original manager is more willing to own management experience, information, knowledge sharing (Faifman et al., 2024), thus reduce coordination cost and increase enterprise output, and increase the value creation of the enterprise, make the enterprise technology, employees, market information timely upward, increase the decision-making scientific, reduce the decision-making mistakes, at the same time, improve the performance of M&A. From the perspective of employees, organizational behavior theory indicates that employee recognition of the enterprise enhances informal communication and knowledge sharing, thus improving organizational learning and corporate strategic benefits. During M&A, high levels of employee recognition and acceptance facilitate communication, cooperation, sharing, and learning, leading to a consensus in accepting the culture and values of the acquiring company. As a result, employees are more inclined to integrate into the acquiring organization, collaboratively achieve strategic goals, confront challenges, maintain cultural stability, and promote sustainable development. Conversely, if employees resist cooperating with the integration process, it may generate resistance, complicating the integration efforts and potentially triggering conflicts, which can adversely affect corporate performance. Thus, the following assumptions are proposed:

**H4:** There is a positive correlation between internal legitimacy and M&A performance.

## 2.3. The mediation effect of internal legitimacy

### 2.3.1. Intermediation effect of internal legitimacy on the control right of shareholders and M&A performance

The owner that becomes the controlling shareholder will have the right more than its own equity and become the actual controller. In the absence of effective supervision, in order to maximize its own interests, the encroachment on the interests of minority shareholders will occur, which will have an adverse impact on the performance of M&A (Liu et al., 2021). In addition, the main and enterprise as a new shareholder, after M&A will take measures to expand the scale, promote industrial transformation and optimize the product structure, but due to the deal just completed, the implementation of relevant measures to system integration and production process, so the enterprise profitability will appear downward trend, thus affect the enterprise M&A performance. The increase of the shareholders control and the enterprise gradually become the controlling shareholder, the damage to the interests of minority shareholders is gradually increasing (Lan, 2007), small and medium-sized shareholders appear distrust, recognition will decline, namely the internal legitimacy of M&A will reduce, which may lead to enterprise decision-making and operational efficiency, limited resource support, leading to M&A performance. Thus, the following assumptions are proposed:

**H5a:** There is a negative correlation between shareholders' control rights and M&A performance.

**H5b:** Internal legitimacy plays an intermediary role between the control of shareholders and merger and acquisition performance.

### 2.3.2. Intermediation effect of internal legitimacy on the control of the board and M&A performance

In cross-border M&A, the increased number of seats on the board of directors, representing the main body of corporate control, allows both the board and the company to gain more influence. New shareholders, including major shareholders, expect enhanced protection of their interests. This dynamic may hinder the ability of other board members to effectively safeguard shareholder interests, thereby adversely impacting the company's daily operations and diminishing M&A performance (Erel et al., 2012). Additionally, disparities in control can create conflicts of interest and compromise fairness for minority shareholders and board representatives, resulting in decreased legitimacy and recognition among other shareholders and relevant directors.

This reduction in legitimacy may exacerbate the interests of major shareholders and their representatives, as well as minority shareholders, leading to inefficient corporate governance practices and negatively affecting post-merger integration, ultimately impairing M&A performance (Stefko et al., 2022). Moreover, the new directors may lack sufficient and detailed information regarding the company, significantly undermining the supervisory function of the board manager. If board oversight is unable to be effectively executed, this will cast doubt on the board's role, further diminish internal legitimacy, and lead managers, particularly former managers, to question board decisions. Consequently, this could hinder the efficient implementation of related resolutions, exposing the company to serious operational challenges and even paralysis, which will negatively affect the M&A progress. Thus, the following assumptions are proposed:

**H5c:** There is a negative correlation between the control right of the board level and the M&A performance.

**H5d:** Internal legitimacy plays an intermediary role between the control right of the board level and the merger and acquisition performance.

#### 2.3.3. Intermediation effect of internal legitimacy on management control and M&A performance

Following cross-border M&A, companies tend to replace their existing management. As new managers take over, there is an increasing control exerted over them. Original managers may experience anxiety regarding potential dismissals, leading to diminished job motivation and prompting them to seek new employment opportunities, thereby increasing turnover rates among managers. This situation poses a dual challenge: on one hand, the company must invest considerable time and resources to recruit new managers, raising operational costs; on the other hand, managerial conduct can have a direct effect on employees. As management changes occur, employees might disengage from the company's normal operations and developmental activities, which can ultimately harm acquisition performance (Paudyal K et al., 2021). Additionally, administrative changes can disrupt established protocols and adversely affect both formal and informal relationships within the organization. Such disruptions may give rise to conflicts and contradictions, undermining the internal legitimacy of the company. A decline in internal legitimacy often results in a negative organizational atmosphere, which can lead to detrimental work behaviors among both managers and employees. This negativity can further hinder effective decision-making, diminish output efficiency, and disrupt normal operational productivity, ultimately resulting in decreased performance in M&A (Chandrika et al., 2022). Thus, the following assumptions are proposed:

**H5e:** There is a negative correlation between management control rights and M&A performance.

**H5f:** Internal legitimacy plays an intermediary role between the management control right and the M&A performance.

### 2.4. Adjustment effect of M&A mode

The institutional quality of the host country and the parent country is the key to the formulation and implementation of the internationalization strategy of enterprises in developing countries. The system of the parent country can be regarded as the external resources of the enterprise, while the institutional quality of the host country will restrict the cross-border M&A of enterprises, and restrict all domestic enterprises in the host country to under the same game rules (Crossley et al., 2021).

From the perspective of transaction costs, when the institutional quality of the host country is high, factors like property rights protection significantly reduce market uncertainty, facilitate transactions, enhance corporate trustworthiness, lower transaction costs, and ensure the successful implementation of M&A. Conversely, when institutional quality is low, factors such as inadequate legal frameworks result in high transaction costs, escalate risks, and may lead to failure in M&A. From an operational perspective, when market uncertainty is low, upward cross-border M&A can create a stable environment. This stability helps to avoid political turmoil, reduces information asymmetry and market failures, and lowers operational costs. Conversely, in regions with high institutional quality, powerful industry unions may have a negative impact on contract enforcement and overall operational efficiency, which in turn can diminish shareholder returns and affect control over business operations, complicating the efficient allocation of resources. In contrast, during downward trends in cross-border M&A, low institutional quality in the host country may heighten operational costs and exacerbate information asymmetry. This situation necessitates that the acquiring company allocate more resources to gather necessary information, thereby increasing operational uncertainty.

#### 2.4.1. The adjustment effect of the M&A mode on the control right and internal legitimacy of the shareholders

As dominant corporations progressively evolve into controlling shareholders, they will benefit from privately managed earnings. This situation intensifies the agency conflicts between major and minority shareholders, leading to increased incentives for major shareholders to misappropriate corporate resources. Consequently, the quality of corporate information disclosure deteriorates, and internal legitimacy suffers. In response to institutional pressures, firms will adjust their ownership ratios in M&A to satisfy legitimacy demands. Compared to the institutional pressures associated with downward and upward cross-border M&A, companies will adopt strategies to decrease their acquisition ratios to obtain recognition and support from internal stakeholders. Thus, when achieving equal internal legitimacy (Yu et al., 2022), the ownership stakes in upward cross-border M&A are comparatively smaller, particularly in relation to shareholder control and internal legitimacy in both downward and upward cross-border M&A. Thus, the following assumptions are proposed:

**H6a:** The M&A mode negatively regulates the relationship between the shareholders' control and the internal legitimacy, that is, compared with the downward cross-border M and acquisition, the upward cross-border M&A and acquisition have a greater impact on the negative relationship between the shareholder control and the internal legitimacy.

### 2.4.2. The adjustment effect of the M&A mode on the control right and internal legitimacy of the board of directors

The host country system is challenged by poor-quality downward cross-border M&A, where the corporate governance structure exhibits limitations, particularly in the limited supervisory role of the board of directors. Even with increased control by the target company over the board, effective supervision remains unachievable, which has a negligible impact on the recognition and support from internal stakeholders. Conversely, the high-quality standards of the home country system address upstream cross-border M&A, with the board of directors playing a crucial role in corporate governance. As the board's control expands, it increasingly represents a broader range of owners' and enterprise interests, resulting in a diminished supervisory role for the board and subsequently a reduction in recognition and support from internal stakeholders (Yang et al., 2016). The weaknesses of the host country system manifest again in its corporate governance structure, where even increased control by the target company does not enhance effective supervision, leading to minimal effects on stakeholder recognition and support. In contrast, in upstream cross-border M&A, the board remains pivotal within the home country system, yet an increase in its control leads to a diminished supervisory capacity, causing a decline in recognition and support from internal stakeholders. Thus, the following assumptions are proposed:

**H6b:** The M&A mode negatively regulates the relationship between the control of the board and the internal legitimacy, that is, compared with the downward cross-border M&A, the upward cross-border M&A have a greater impact on the negative relationship between the control of the board and the internal legitimacy.

### 2.4.3. The adjustment effect of the M&A mode on the control right and internal legitimacy of the managers

Following the downward cross-border M&A of target companies, the management control of the principal enterprise experiences certain shifts. On one hand, government intervention is likely to affect the daily operations of the enterprise. The heightened emphasis on interpersonal relationships during these downward M&As alleviates original managers' concerns about a potential weakening of their authority, enabling them to better utilize their unique values. Consequently, the changes in management control do not have a significant impact on the internal legitimacy of the enterprise. On the other hand, in contrast to upward cross-border M&As, the lack of transparency regarding information in downstream cross-border M&As results in a slower response from internal stakeholders to changes in management control. This sluggish response can diminish the effects of management control changes on internal legitimacy (He and Padrón-Hernández, 2024). Additionally, the overall development level of cross-border M&As in the financial market is relatively low. Provision of high-quality accounting information can mitigate informational asymmetry between investors and managers, thereby enhancing the monitoring role of investors and reducing opportunistic behaviors among managers. Thus, compared to upward cross-border M&As, enhanced managerial control in downward cross-border M&As may lead to a reduction in managerial opportunism and improve the support and recognition from internal stakeholders, ultimately lessening the influence of management control on internal legitimacy. Thus, the following assumptions are proposed:

**H6c:** The M&A mode negatively regulates the relationship between the management control and the internal legitimacy, compared with the downward cross-border M and acquisition, the upward cross-border M&A and acquisition have a greater impact on the negative relationship between the management control and the internal legitimacy.

### 2.5 The study model

The conceptual model of this study is shown in **Figure 1**.

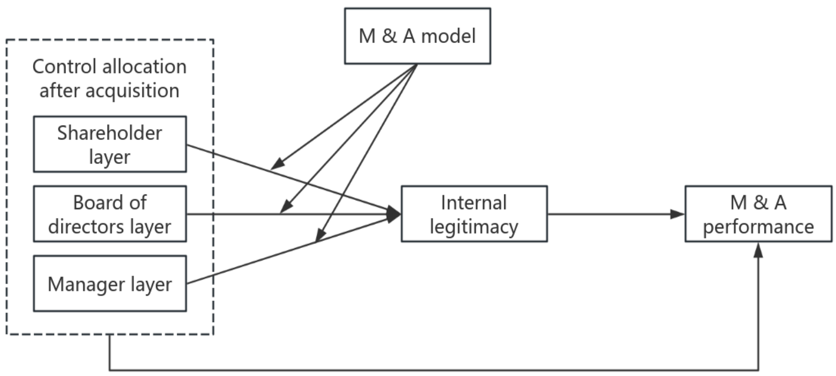


**Figure 1.** Study conceptual model.

## 3. Study design and study results

This section may be divided by subheadings. It should provide a concise and precise description of the experimental results, their interpretation, as well as the experimental conclusions that can be drawn.

### 3.1. Sample selection and data source

Samples of this study mainly from our country launched cross-border M&A of manufacturing enterprises, considering the control configuration, legitimacy and merger and acquisition performance variables cannot be directly measured, so the study questionnaire for primary data acquisition and using secondary data to measure, relevant data from the WGI released by the world bank. A questionnaire survey was conducted among top executives of 173 manufacturing companies in China that have participated in cross-border M&A. The questionnaires were distributed and collected through both online and offline methods to maximize the collection of valid data. Additionally, all responses were collected anonymously, with a commitment that the data would solely be used for academic research, thereby alleviating respondents' concerns regarding any potential repercussions of their responses. The accuracy and validity of the data were ensured. In total, 165 valid responses were retrieved from the 208 questionnaires returned, resulting in a response rate of 79.33%.

## 3.2. Variable measurement

In order to ensure the reliability and validity of the data, the questionnaire items were set based on the existing research results. Except for the objective variables, the 5-point Likert scale was used for measurement.

### 3.2.1. Independent variables

The independent variable is the control right configuration after the acquisition. The allocation of control after merger is measured from three aspects: shareholders, board of directors and managers (Liu and Ma, 2014). Among them, the shareholder level is mainly measured by the proportion of equity obtained by the target enterprise; the board level is mainly measured by the proportion of the main enterprise in the board of directors of the target enterprise; and the manager level is mainly measured by the proportion of the number of original managers replaced by the target enterprise in the managers.

### 3.2.2. Dependent variable

The dependent variable is M&A performance. The subjective performance measurement method is adopted, that is, the respondents investigate the expected goal of the merger and acquisition (Capron and Guillén, 2009).

Current degree of subjective judgment. From the market share, sales revenue, profit, profitability, cash flow from five aspects to measure, a total of 5 related items. Using the 5-point Likert scale, the respondents made subjective judgment on the degree of the expected merger objectives, and the degree of realization gradually increased from 1 to 5.

### 3.2.3. Mediation variables

The mediation variable is the internal legitimacy. From the perspective of shareholders, executives and employees three main stakeholders (Dacin et al., 2007), including: main and enterprise and target enterprise shareholders of support for M&A, enterprise and target executives of support for M&A, main and enterprise and target enterprise employees support degree of M&A, set up six items. As used by 5-point Likert scale, support increased gradually from 1 to 5.

### 3.2.4. Adjustment variables

The adjustment variable is the M&A model. In this study, the M&A mode is divided into upward cross-border M&A and downward cross-border M&A. Based on the system quality, the institutional quality of the parent country is lower than that of the host country, the upward cross-border merger, and the institutional quality of the parent country is higher than that of the host country, the downward cross-border M&A. System quality data from the world bank global governance index (WGI), including voice and responsibility, political stability and there is no violence/terrorism, government efficiency, regulatory quality, legal system, corruption control six core governance dimensions, each dimension of score range for [−2.5, 2.5], the higher the score said system quality, the better. At the same time, to better distinguish merger and acquisition model, the six dimensions, compared with the system quality of our country, the target enterprise host system quality is higher than our system quality for upward cross-border M&A, assigned value is 1, the target enterprise in the host system quality is lower than the system quality for downward cross-border M&A, assigned value is 0.

### 3.2.5. Control variables

There are five control variables in this study, respectively: (1) Enterprise age. The establishment of the enterprise to the year of the merger; (2) Enterprise ownership. In this study, it was set as a virtual variable, with 1 for state-owned enterprises and 0 for non-state-owned enterprises; (3) M&A experience. Measured by the richness of pre-acquisition experience and measured by 5-point Likert scale, the richness gradually increased from 1 to 5; (4) R&D investment. Compared with the industry competitors, using 5-point Likert scale, the investment gradually increases from 1 to 5; (5) relative scale. Measured by the size of the target enterprise relative to the size of the main parallel enterprise, the 5-point Likert scale is used, and the relative scale gradually increases from 1 to 5.

## 3.3. Analysis of the results

### 3.3.1. Reliability analysis

Reliability test is a test of the reliability of questionnaire data. Generally, Cronbach's Alpha coefficient is used to test the consistency and stability of the questionnaire. When Cronbach's Alpha coefficient is greater than 0.7, the reliability of the questionnaire is higher, and the larger the value of the system, the higher the reliability of the questionnaire.

The results are shown in **Table 1**, the overall Cronbach's Alpha coefficient of the questionnaire was 0.957, the Cronbach's Alpha coefficient of internal legitimacy was 0.948, and the Cronbach's Alpha coefficient of the acquisition performance was 0.953, both greater than 0.7. Therefore, the reliability and overall reliability of the questionnaire are good.

**Table 1.** Shows the reliability analysis.

| Variable | Cronbach's Alpha | Question item |
|---|---|---|
| Internal legitimacy | 0.948 | 6 |
| M&A performance | 0.953 | 5 |
| Ensemble | 0.957 | 11 |

### 3.3.2. Validity analysis

The construct validity was tested by KMO and Bartlett spherical test. When the KMO value is greater than 0.7, the validity of the questionnaire is high, and the larger the value of the system, the higher the validity of the questionnaire. The results of validity test and analysis are shown in **Table 2**. KMO of internal legitimacy, index is 0.900, KMO of acquisition performance, index is 0.815, overall KMO index is 0.856, all greater than 0.7, and Sig. value of Bartlett spherical test is less than 0.01, and the validity of the questionnaire scale is good.

**Table 2.** Validity analysis.

| Variable | KMO | Sig |
|---|---|---|
| Internal legitimacy | 0.900 | 0.000 |
| M&A performance | 0.815 | 0.000 |
| Ensemble | 0.856 | 0.000 |

### 3.3.3. descriptive statistics

Through the above analysis, each variable of the questionnaire and the overall questionnaire all had good reliability and validity. Therefore, this study continued to make descriptive statistics for each variable, and the results are shown in **Table 3**, mainly including the minimum, maximum, mean and standard deviation of each variable.

**Table 3.** Describes the statistics.

| Variable | Number | Min. | Max. | Avg. | σ |
|---|---|---|---|---|---|
| Control of the board level | | 1 | 5 | 3.3333 | 1.3450 |
| Control of shareholders | | 1 | 5 | 3.2727 | 1.8023 |
| Control of managers | | 1 | 5 | 3.0303 | 0.9717 |
| Internal legitimacy | | 2 | 5 | 3.6267 | 0.7156 |
| M&A model | | 0 | 1 | 0.6061 | 0.4901 |
| M&A performance | 165 | 1.4 | 5 | 3.5879 | 0.9576 |
| Enterprise age | | 4 | 107 | 23.1818 | 20.2009 |
| Enterprise ownership | | 0 | 1 | 0.3330 | 0.4728 |
| M&A experience | | 1 | 5 | 2.8485 | 1.0684 |
| Relative scale | | 1 | 5 | 2.5758 | 1.1590 |
| Research input | | 1 | 5 | 3.0364 | 1.0294 |

### 3.3.4. Correlation analysis

Correlation analysis can not only describe the relationship between variables, but also can preliminary judgment whether there is collinearity problem, using Pearson correlation coefficient for testing, results as shown in **Table 4**, the absolute value of Pearson correlation coefficient between all variables is less than 0.7, within acceptable range, preliminary exclude multicollinearity, then tested by the variance inflation factor (VIF), VIF value of all variables are more than 1 less than 5, can exclude multicollinearity problem.

From the correlation analysis results of **Table 4**, the board control, managers control, internal legitimacy and M&A performance correlation is significant, and the board layer control, managers control and internal legitimacy correlation is significant, after the preliminary understanding of the relationship between variables, then through regression analysis to test the relationship between variables, to verify the hypothesis.

**Table 4.** Correlation tests.

| Variable | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| M&A performance | 1 | | | | | | | | | | |
| Control of shareholders | 0.055 | 1 | | | | | | | | | |
| Control of the board level | −0.219* | 0.314* | 1 | | | | | | | | |
| Control of managers | −0.281** | 0.082 | 0.552** | 1 | | | | | | | |
| Internal legitimacy | 0.693** | 0.009 | −0.251** | −0.312* | 1 | | | | | | |
| M&A model | 0.107 | 0.329** | 0.339** | 0.153* | 0.041 | 1 | | | | | |
| Enterprise age | 0.024 | −0.160* | −0.160* | −0.075 | 0.072 | −0.030 | 1 | | | | |
| Enterprise ownership | 0.130 | −0.143 | 0.064 | −0.022 | 0.160* | −0.351* | −0.109 | 1 | | | |
| M&A experience | 0.077 | 0.259* | 0.248** | 0.151 | 0.204** | 0.305* | −0.029 | 0.173* | 1 | | |
| Relative scale | 0.193* | 0.114 | −0.026 | −0.043 | 0.127 | 0.187* | 0.109 | −0.019 | 0.529** | 1 | |
| Research input | 0.232** | 0.054 | 0.079 | 0.304** | 0.183* | 0.029 | 0.312* | 0.038 | 0.255** | 0.447** | 1 |

Note: ** Significant correlation at the 0.01 level (bilateral); * Significant correlation was found at the 0.05 level (bilateral).

#### 3.3.5. Regression analysis and hypothesis testing

After reliability and validity tests, and the exclusion of multicollinearity and correlation analysis, a stepwise regression model was established to test the hypothesis. Considering the many research assumptions, the three dimensions of shareholders, directors and managers were tested separately.

Shareholders regression analysis results as shown in **Table 5**, model 1 and model 2 respectively with internal legitimacy and merger and acquisition performance as the dependent variables, the shareholder control and control variables into the model, the relationship between the shareholder control and internal legitimacy and enterprise performance are not verified ($p > 0.05$), namely **H1** and **H5a** is not established, so the mediation effect and regulation effect is not necessary to discuss, namely **H5b** and **H6a** is not established.

**Table 5.** Results of the regression analysis of the shareholder layer.

| Variable | Model 1 | Model 2 |
|---|---|---|
| | Internal legitimacy | M&A performance |
| Control of shareholders | −0.017*** | 0.045* |
| M&A experience | 0.163 | −0.032*** |
| Enterprise age | 0.051 | −0.039*** |
| Research input | 0.104 | 0.187 |
| Relative scale | 0.021* | 0.080 |
| Enterprise ownership | 0.128 | 0.129 |
| F | 0.870 | 0.747 |
| R2 | 0.081 | 0.071 |
| The adjusted R2 | −0.012*** | −0.024*** |

Note: * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

Results of the board-level regression analysis are shown in **Table 6**, Model 3, with M&A performance as the dependent variable, Including the internal legitimacy and control variables into the model, The regression results showed that the internal legitimacy was significantly and positively correlated with the M&A performance ($\beta$ = 0.690, $p < 0.001$), That is, **H4** is supported; Model 4 with the internal legitimacy as the dependent variable, Adding board-level control and control variables to the model, The regression results showed that the control of the board layer was significantly negatively correlated with the internal legitimacy ($\beta = -0.327$, $p < 0.05$), That is, **H2** is supported; Model 5 with M&A performance as the dependent variable, The board-level control and control variables will be added to the model, The regression results showed that the control of the board layer was significantly negatively correlated with M&A performance ($\beta = -0.273$, $p < 0.05$), That is, the **H5c** is supported.

**Table 6.** Results of board-level regression analysis.

| Variable | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 |
|---|---|---|---|---|---|
| | M&A performance | Internal legitimacy | M&A performance | M&A performance | Internal legitimacy |
| M&A experience | −0.136 | 0.233 | 0.036 | −0.121 | 0.134 |
| Enterprise age | −0.088 | −0.001 | −0.097 | −0.097 | 0.059 |
| Research input | 0.109 | 0.134 | 0.205 | 0.115 | 0.079 |
| Relative scale | 0.086 | 0.009 | 0.092 | 0.085 | 0.012 |
| Enterprise ownership | 0.028 | 0.133 | 0.120 | 0.030 | 0.194 |
| Internal legitimacy | 0.690*** | | | 0.673*** | |
| Control of the board level | | −0.327* | −0.273* | −0.053 | −0.317* |
| M&A model | | | | | 0.137 |
| Board layer control & M&A model | | | | | −0.212 |
| F | 10.116*** | 2.140 | 1.565 | 8.603*** | 2.186* |
| R2 | 0.507 | 0.079 | 0.137 | 0.509 | 0.235 |
| The adjusted R2 | 0.457 | 0.095 | 0.050 | 0.450 | 0.127 |

Note: * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

To verify the internal legitimacy of the mediation effect between board control and acquisition performance, Model 6 adds internal legitimacy to Model 5, The regression results indicate that: after adding the internal legitimacy, The main effect of board-level control on M&A performance is no longer significant (β = −0.053, $p >$ 0.05), This shows that the internal legitimacy has a complete intermediary effect between the control of the board level and the acquisition performance, besides, Comparing Model 5 and Model 6 found that, After Model 6 adds internal legitimacy, the explanatory power of the model is greatly enhanced (adjusted ΔR2 = 0.4), The **H5d** is therefore supported.

To verify the acquisition mode between the board of control and M&A performance adjustment effect, on the basis of Model 4 to join the acquisition model, at the same time to reduce the potential problems of multiple collinearity, the board of control and merger model after centralized product join model, to establish the Model 7, the regression results show that merger and acquisition model on the board of directors control and internal legitimacy relationship is not significant (β = −0.212, $p >$ 0.05), namely **H6b** is not established.

The manager regression analysis results are shown in **Table 7**. Model 8 included manager control and control variables in the model. The regression results show that the manager control and internal legitimacy (β = −0.419, $p$ < 0.01), etc., **H3** is supported; Model 9 included management control and control variables in the model, and the regression results show that the management control and M&A performance are significantly negatively correlated (β = −0.399, $p$ < 0.01), i.e., **H5e** is supported.

**Table 7.** Results of the manager-level regression analysis.

| Variable | Model 8 | Model 9 | Model 10 | Model 11 |
|---|---|---|---|---|
| | **Internal legitimacy** | **M&A performance** | **M&A performance** | **Internal legitimacy** |
| M&A experience | 0.197 | 0.010 | −0.116 | 0.056 |
| Enterprise age | −0.017 | −0.119 | −0.108 | 0.145 |
| Research input | 0.263 | 0.331* | 0.164 | 0.175 |
| Relative scale | −0.011 | 0.071 | 0.079 | 0.016 |
| Enterprise ownership | 0.104 | 0.093 | 0.026 | 0.148 |
| Internal legitimacy | | | 0.638*** | |
| Control of managers | −0.419** | −0.399** | −0.132 | −0.431** |
| M&A model | | | | 0.110 |
| Control of managers & M&A model | | | | −0.417** |
| F | 2.994* | 2.572* | 8.964*** | 4.284*** |
| R2 | 0.233 | 0.207 | 0.520 | 0.376 |
| The adjusted R2 | 0.155 | 0.127 | 0.462 | 0.288 |

Note: * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

To verify the intermediary effect of internal legitimacy between management control and acquisition performance, Model 10 adds internal legitimacy to Model 9, The regression results indicate that: after adding the internal legitimacy, The main effect of management control on M&A performance is no longer significant (β = −0.132, $p$ > 0.05), This shows that internal legitimacy has a complete intermediary effect between management control and acquisition performance, besides, Comparing Model 9 and Model 10 found that, Strengthen the model with internal legitimacy (adjusted ΔR2 = 0.335), The **H5f** is therefore supported.

To verify the adjustment effect of the M&A model between the management control right and the M&A performance, Add the merger model on the basis of Model 8, While to address the potential problem of reducing multicollinearity, Add the product of management control and the merger model, From this, by building a Model 11, The regression results show that the M&A model has a significant negative role in regulating the relationship between management control and internal legitimacy (β = −0.417, $p$ <0.01), besides, Comparison of Model 8 and Model 11 found that, The explanatory power of the model was also enhanced after adding the acquisition mode and the crossover mode (adjusted ΔR2 = 0.133), And when the M&A model is upward cross-border M&A, Greater negative relationship between management control and internal legitimacy (as shown in **Figure 2**), Thus, **H6c** is supported.

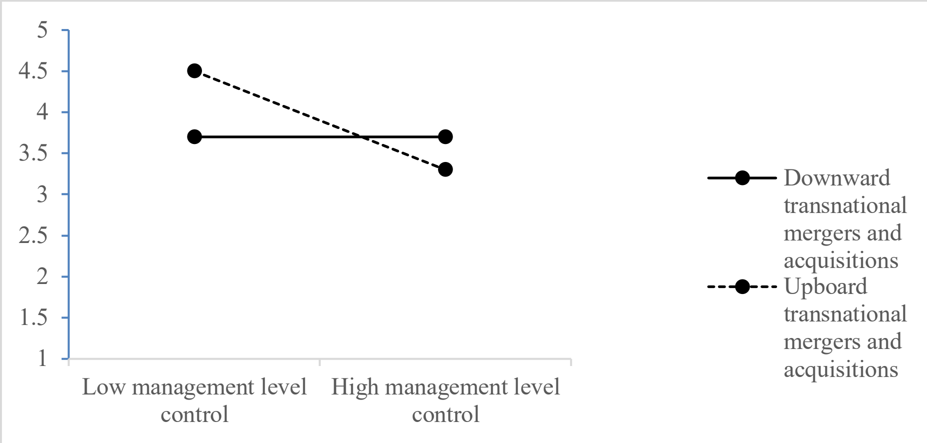


**Figure 2.** Regulation effect of M&A mode.

Finally, the hypothesis was verified by regression analysis, and the specific results are shown in **Table 8**.

**Table 8.** Summary of hypothesis test results.

| | Internal legitimacy | M&A performance | Mesomeric effect | Regulatory effect |
|---|---|---|---|---|
| Control of shareholders | false | false | false | false |
| Control of the board level | Negative correlation | Negative correlation | Completely intermediary | false |
| Control of managers | Negative correlation | Negative correlation | Completely intermediary | Negative regulation |
| Internal legitimacy | / | Positive correlation | / | / |

## 5. Conclusion

Internal legitimacy is positively correlated with M&A performance; however, the hypotheses regarding the distribution of shareholder control rights have not been established. Additionally, there is a negative correlation between board control rights and both internal legitimacy and M&A performance. Internal legitimacy serves as a mediator in the relationship between board control rights and M&A performance, although the regulatory effect of the M&A model is not significant. Moreover, management control is negatively correlated with internal legitimacy and M&A performance, with internal legitimacy acting as a mediating factor between these two constructs. The M&A model demonstrates a negative correlation with both management control and internal legitimacy, suggesting that upward cross-border M&A has a more pronounced negative impact on management control and internal legitimacy compared to downward cross-border M&A.

There are two potential reasons for the failure to allocate shareholders' control rights effectively: (1) This study employs the ratio of M&A equity held by shareholders as a metric; however, the merger process is complex, and acquiring equity in the target company does not necessarily result in controlling shareholders. Thus, merely assessing the amount of equity acquired fails to accurately depict the scale of control at the shareholder level; (2) Based on the conclusions reached in this study, control rights transition from the shareholder level to the board level and are subsequently redistributed to managers, with the number of supported research hypotheses increasing progressively. Consequently, it is hypothesized that the relationship between shareholder control rights, internal legitimacy, and M&A performance lacks significance. This may be attributed to an absence of a direct relationship among these variables. Instead, shareholder control potentially influences internal legitimacy and M&A performance indirectly by affecting certain intervening variables, indicating that control exerted at the shareholder level affects internal legitimacy and M&A outcomes in an indirect manner.

The theoretical value of this study mainly includes the following three points:

(1) This study enhances the understanding of control allocation following cross-border M&A. The existing literature primarily examines the relationships between control allocation and corporate performance, as well as between multinational M&A control and M&A performance. Current research is largely centered on the control exercised by influential stakeholders, and there are relatively few comprehensive analyses that integrate three distinct levels of examination. While analyses at these three levels exist, the implications of control allocation in cross-border M&A differ significantly.

(2) This study advances research on stakeholder theory by examining the effects of changes in control distribution following M&A. Specifically, it investigates how these control changes, along with related psychological and behavioral factors, influence M&A performance. This exploration will contribute to the ongoing development of stakeholder theory.

(3) It advances the study of institutional theory and facilitates cross-disciplinary research between institutional theory and stakeholder theory. Legitimacy, regarded as the central concept of institutional theory, refers to the extent of recognition and support within the M&A field, as well as the intersection among various stakeholders. This research situates both theories within the M&A context, thereby promoting the cross-fertilization and integrated development of the two theories.

The model design of this study is grounded in a solid theoretical foundation, with variable measurements that draw upon established scales and relevant data published by authoritative organizations, which enhances the reliability of the research. However, there are some limitations in the study due to constraints such as research conditions and subjective factors, which requires further exploration in future studies. The sample size in this research is limited to 165 cases, which may contribute to the insignificant results observed in the regression analyses of some models. Therefore, future research should aim at increase the sample size. If a sufficient number of samples can be obtained, the data can be divided into two subsamples based on different types of M&A, such as cross-industry and same-industry mergers, for comparative analysis.

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