The Performance of Chinese Enterprises in Merger and Acquisition Deals: An Empirical Study of Domestic Acquisitions Compared with Overseas Acquisitions from the Perspectives of Target Transparency and Cross-Listing

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Abstract:

This paper empirically examines the effect of the target transparency and cross-listing on M&A performance of Chinese enterprises by using event study method and multiple linear regression analysis, with the sample of 147 cases of acquisition undertaken by Chinese listed companies from 2002 to 2020. The results show that target transparency positively affects Chinese enterprises' M&A performance and has a greater impact on domestic M&A than on cross-border M&A; cross-listing does not have a significant impact on the relationship between target transparency and M&A performance of Chinese enterprises.

Keywords: Target transparency; Cross-listing; M&A performance

1. Introduction

In the tendency of economic globalization, many enterprises are actively seeking to develop overseas markets. As one of the main ways to help enterprises enter overseas markets and acquire strategic resources such as technology and capabilities at a lower cost, merger and acquisitions (M&A) have been favored by enterprises. Since the Chinese government proposed the "Go Global" strategy in 2000 and China's accession to the WTO in 2001, cross-border M&A in China has grown rapidly over the past 20 years. According to 2020 Statistical Bulletin of China, Chinese OFDI flows have turned into the world's number one in 2020 and the international activities of Chinese enterprises have become a very important part of the world economy.

One of the most important purposes of a company conducting M&A is to obtain satisfactory performance. However, not all enterprises are able to achieve their desired performance due to many factors from both sides of the transaction and the transaction process. Among these factors, the information related to the transaction, such as the information disclosure of both parties, information timeliness and so on, plays an important role in affecting the performance of M&A. Song et al. (2021) argued that constrained by the problem of information asymmetry, firms often have difficulty in obtaining the desired returns when undertaking M&A. On the one hand, the information transparency of the M&A target affects the decision making of the acquirer and the progress of the pre-research process, on the other hand, whether the acquirer has experience in cross-listing also affects its sensitivity to information and judgment of risks.

Based on above analysis, the performance of Chinese enterprises' M&A in domestic and overseas from the perspectives of target transparency and cross-listing is dealt with in this paper. This study enriches the research on information as an important factor affecting M&A performance from a new perspective, and it is also helpful for Chinese enterprises to make effective decisions in the process of M&A in order to obtain ideal performance. The rest of this paper is organized as follows: the next section discusses the literature review and develops our hypotheses. The third section describes the methodology. The fourth section presents the empirical results, followed by conclusion and discussion in the final section.

2. Literature review and hypotheses

2.1. Relationship between target transparency and M&A performance

While existing research has demonstrated that high target transparency facilitates the pre-merger preparation phase, there has been an ongoing debate about the impact of target transparency on enterprises M&A performance. Some scholars proposed that target transparency is positively related to M&A performance, they deemed that the more transparent the information about the target company, the more accurately the acquirer can assess the risks of the transaction, and thus the less cost and risk the acquirer will bear (Du Xiaojun & Zhu Xiaodong, 2013). Erickson et al. (2012) found that target transparency is significantly and positively related to M&A performance using the deviation from analysts' predictions as a proxy variable for target transparency. Wang Tiantong (2020) and Yilmaz (2021) also pointed out that the more transparent the information of the target company is, the higher the market expectation on M&A, which helps the acquirer to obtain a high M&A premium. However, some scholars opposed choosing a target firm with too much public information. Tan et al. (2016) proposed that too much information disclosure would reduce the irreplaceable resources available to the acquirer after M&A, which is unfavorable to improving M&A performance.

Despite the above disputes, most studies tend to agree that the impact of target transparency on M&A performance in domestic and overseas is different. Zaheer (1995) expounded that enterprises operating overseas will incur additional costs that local enterprises do not have, which is called outsider disadvantage. Cross-border M&A is affected by outsider disadvantages such as institutional differences and faces higher uncertainty, hence higher reliance on public information (Wu Bing et al., 2018; Lavie & Miller, 2008; Liesch et al., 2011). Koronborg, Thomsen (2009) and Elango (2009) also pointed out public information is prerequisite because enterprises would face the problems of legitimacy and lack of information in the process of cross-border M&A.

In summary, when enterprises conduct M&A activities, public information resources of the target company are crucial. Likewise, for Chinese enterprises public information can help enterprises reduce communication costs and predict the possibility of success of M&A transaction (Xiao Peng & Xia Yali, 2021). Therefore, we assumes that the more transparent the target firm is, the better the Chinese acquirer's M&A performance will be, and the specific assumptions are as follows:

H1a: M&A target transparency positively affects M&A performance. The higher the target transparency, the higher the M&A performance.

H1b: The impact of M&A target transparency on overseas M&A is more significant than that of domestic M&A.

2.2. The relationship between cross-listing and M&A performance

At present, the research contents related to cross-listing and M&A performance are scattered, and the conclusions of the relationship between them are inconsistent. Song et al. (2021) obtained the conclusion that the performance of cross-listed firms was more consistent with initial market predictions by examining domestic mergers and acquisitions of Chinese firms over the period 1998-2015. Using Chinese enterprises' cross-border M&A between 2010 and 2015, Bian Chuxin and Wu Qing (2016) found that cross-listed firms outperform single-listed firms in terms of short-term M&A performance. Wang (2019) also found that emerging market firms can significantly improve their natural disadvantages in cross-border M&A through cross-listing. However, there are also views that the impact of cross-listing on performance may not always be positive, Abdallah et al. (2019) proposed that when cross-listing is seriously affected by trading market supervision, cross-listing will negatively affect M&A performance. Cross-listing requires enterprises to disclose information more strictly, which actually reduces the agency costs of enterprises, and also effectively enhances the liquidity of companies' stocks, raises the market's expectations on the transaction, and maximizes investors' profits. We therefore hypothesize the following:

H2: Acquirer's cross-listing positively affects M&A performance. M&A performance of cross-listed firms is better than that of single-listed firms.

2.3. The moderating effect of cross-listing on the relationship between target transparency and performance.

In M&A transactions, the quality of listing of different enterprises varies widely, and cross-listing can urge enterprises to comply with the rules of multiple market transactions and optimize their business behavior, which is particularly important for M&A performance (Chen et al., 2021). When Cosset et al. (2013) analyzed the cases of U.S. firms' mergers and acquisitions to the United Kingdom, they found that cross-listed firms paid more attention to the degree of information disclosure and regulation, and therefore pay more attention to the public transparency of information about the target firm. Zhou Kaiguo and Zhou Mingshan (2014) also pointed out that cross-listing could significantly reduce the information asymmetry problem that existed in M&A transactions and could mitigate the adverse effects of low transparency of target firms on M&A performance. Based on above analysis, we predict the following:

H3: Cross-listing positively moderates the relationship between target transparency and M&A performance.

3. Methodology

3.1 Data collection

The cross-border M&A data for this article are sourced from the BvD_Zephyr Database, the M&A events of Chinese enterprises in domestic and overseas from 2002 to 2020 are selected as the initial samples and are screened according to the following points: (1) The acquirers of each sample are Shanghai and Shenzhen A-share listed companies; (2) M&A transactions have been completed; (3) Due to the particularity of the financial report of the financial industry, the data of the industry could not be used in this study, the financial industry samples are excluded; (4) excluding ST and *ST companies sample; (5) excluding the sample with multiple M&A transactions within 3 months; (6) excluding samples with post-acquisition equity less than 10% of the target company and missing financial data. Finally, 147 M&A events were screened out. Among them, 57 were domestic M&A and 90 were overseas M&A.

The cross-border M&A deal data in this article is from the BvD_Zephyr database; individual company stock data and market yield data are obtained from the CSMAR database; the enterprise characteristic information is sorted from CSMAR database and enterprise annual report. Based on the location of the target companies, the targets were divided into two groups: domestic and overseas.

3.2. Variables and measurements

3.2.1. Dependent variable

Post-acquisition performance: The dependent variable of this study is post-acquisition performance. We measured it as the "Cumulative Abnormal Returns" (CAR) of the acquirer's stocks. Accounting metrics or stock market metrics are generally chosen to measure M&A performance (Zhao Qiwei & Wu Shuang, 2019). However, due to the lack and unreliability of financial data in accounting indicators, this paper selects stock market indicators to measure M&A performance.

The period used to estimate CAR is from 90 trading days to 4 trading days before M&A announcement date, i.e., (***t-90***, ***t-4***), where (***t=0***) is the date of the first announcement of the M&A announcement and the time window is (***t-3***, ***t+3***). In this paper, we choose the following equation to calculate the excess return:

(1)

Where AR_{it} denotes the abnormal return of firm i at day t, R_{it} denotes the actual return of firm i at day t, and $E(R_{it})$ is the expected return of firm i at day t.

The CAR of each sample in the window period is calculated according to equation (1):

(2)

Where CAR_i is the cumulative abnormal return of firm i in the (***t-3***, ***t+3***) window period, and AR_{it} denotes the excess return of firm i at day t.

3.2.2. Independent variable

Here independent variables are target transparency and cross-listing.

(1) Target transparency. This variable is a dummy variable to measure the degree of information transparency of the target company. Target transparency is measured by the ownership nature and industry of target enterprises according to Song et al. (2021) and Aalbers et al. (2021), i.e., if the target company is in the high-tech industry (including communications, medical, and technology) or is a private company, the company has low transparency, then the value of its target transparency is set as "0", otherwise "1" is set.

(2) Cross-listing. Drawing on the study by Song et al. (2021), we created a dummy variable to differentiate Chinese acquirers that are cross-listed in the Hong Kong stock exchanges "1" from those that are single-listed in the Mainland China exchanges "0".

3.2.3. Control variables

In addition to the above independent variables, this article adds the following control variables, these variables derive from enterprise level and transaction level respectively.

(1) Control variables from enterprise level

Acquirer's size, return on net assets (Roa), cash asset ratio (Ca), intangible assets ratio (Ria), asset current ratio (Acr), the nature of ownership and the age of the enterprises are selected as control variables from enterprise level. These variables involve the acquirer's asset status, debt status, scale, business nature and M&A experience. They affect the enterprise's M&A decision and performance.

(2) Control variables from transaction level

The relevance of the acquisition, the manner of the transaction and the percentage of the acquirer's shareholding after transaction are selected as control variables from transaction level. These variables may affect information exchange in the transaction process, then affect the M&A performance.

Table 1 shows the descriptive statistics of the major variables.

Table 1 the Main Variables of Descriptive Statistics

Variable	Area	Mean	Std. Dev.	P25	P50	P75
CAR	Domestic	0.003	0.070	-0.043	-0.007	0.037
	Oversea	-0.030	0.098	-0.045	-0.018	0.022
TE	Domestic	0.622	0.488	0.000	1.000	1.000
	Oversea	0.561	0.501	0.000	1.000	1.000
CL	Domestic	0.289	0.456	0.000	0.000	1.000
	Oversea	0.175	0.384	0.000	0.000	0.000
Size	Domestic	22.988	1.770	21.605	22.866	24.130
	Oversea	22.314	1.471	21.309	21.980	22.894
Roa	Domestic	-0.631	5.415	0.036	0.079	0.114
	Oversea	0.112	0.072	0.077	0.111	0.146
Ca	Domestic	0.154	0.129	0.065	0.134	0.200
	Oversea	0.191	0.134	0.093	0.144	0.250
Relatedness	Domestic	0.656	0.478	0.000	1.000	1.000
	Oversea	0.842	0.368	1.000	1.000	1.000
DAR	Domestic	0.525	0.223	0.377	0.543	0.678
	Oversea	0.362	0.184	0.208	0.384	0.505
ShareH	Domestic	0.480	0.219	0.301	0.485	0.612
	Oversea	0.964	0.116	1.000	1.000	1.000
PayM	Domestic	0.887	0.232	0.900	1.000	1.000
	Oversea	0.877	0.331	1.000	1.000	1.000
Ownership	Domestic	0.327	0.471	0.000	0.000	1.000
	Oversea	0.175	0.384	0.000	0.000	0.000
Ria	Domestic	0.422	0.497	0.000	0.000	1.000
	Oversea	0.050	0.076	0.015	0.033	0.051
Acr	Domestic	0.003	0.07	-0.043	-0.007	0.037
	Oversea	0.616	0.175	0.519	0.615	0.728

Note: "Domestic" means the target company is located in China; "Oversea" means the target company is located overseas.

4. Empirical results

4.1. Correlation Analysis

Table 2 is the correlation matrix of the main variables. It can be seen from table 2 that:

(1) The maximum of the correlation between the variables are all below 0.8;

(2) The variance inflation factors of all variables are less than 10.

The above two points can prove that the multicollinearity between these variables is negligible, so they can be used for further exploration.

Table 2 Correlation Matrix of the Main Variables

	CAR	*TE*	*CL*	*Size*	*Roa*	*Ca*	*Relatedness*
CAR	1.000						
TE	0.049	1.000					
CL	0.056	0.014	1.000				
Size	0.103	0.156*	0.464***	1.000			
Roa	0.045	-0.087	0.060	0.068	1.000		
Ca	-0.007	-0.070	0.021	-0.212**	0.095	1.000	
Relatedness	-0.096	-0.064	0.135	0.012	0.121	0.064	1.000
DAR	-0.001	0.087	0.061	0.461***	-0.273***	-0.460***	-0.051
ShareH	-0.130	-0.042	-0.371***	-0.206**	-0.042	0.075	0.044
PayM	-0.016	-0.081	0.269***	0.080	-0.057	0.007	0.168**
Age	-0.085	0.023	0.004	0.053	-0.332***	0.004	0.030
Ownership	0.000	0.215***	0.244***	0.446***	0.063	-0.244***	0.035
Ria	0.010	-0.048	0.213***	0.035	0.060	-0.200**	0.070
Acr	-0.083	-0.087	-0.153*	-0.246***	0.028	0.467***	-0.011
	DAR	ShareH	PayM	Age	Ownership	Ria	Acr
DAR	1.000						
ShareH	0.047	1.000					
PayM	-0.013	-0.059	1.000				
Age	0.115	0.039	0.121	1.000			
Ownership	0.264***	-0.206**	-0.115	-0.058	1.000		
Ria	0.047	-0.021	0.082	-0.074	-0.023	1.000	
Acr	-0.269***	0.129	0.055	-0.003	-0.294***	-0.319***	1.000

Note: "*"indicates 10% significance level; "**"indicates 5% significance level; and "***"indicates 1% significance level.

4.2. Regression analysis

Table 3 shows the regression results of the relationship between target transparency and M&A performance. As can be seen from the full sample column of Table 3(a), the regression coefficient of target transparency and M&A performance indicator CAR(-3,+3) is 0.006 after controlling for the effects of other factors and passes the significance test at the 5% level, which indicates that acquirers are able to achieve higher M&A performance when the target firm is more transparent, and hypothesis H1a is confirmed. Meanwhile, the paper divides the sample into M&A transactions by Chinese firms in domestic and overseas, the comparison of Table 3(b) and Table 3(c) shows that the regression coefficient of target transparency on the performance indicator CAR(-3,+3) of Chinese firms' M&A in domestic is 0.0129 and passes the significance test at the 10% level, while the regression on the performance indicator of overseas M&A does not pass the significance test, which indicates that the effect of target transparency on domestic M&A is more significant and overturns the hypothesis H1b.

Table 3 Target transparency and M&A performance regression results

Variable	(a)All CAR(-3,+3)	(b)Domestic CAR(-3,+3)	(c)Overseas CAR(-3,+3)
TE	0.006**	0.0129*	-0.0283
Size	0.006	0.00621	0.0180
Roa	0.003	0.000442	-0.187
Ca	0.025	0.0454	-0.0770
Relatedness	-0.016	-0.00210	-0.0219
DAR	-0.011	-0.0908**	0.0200
ShareH	-0.045	-0.0468	-0.113
PayM	-0.001	-0.0218	-0.0178
Age	-0.009	0.0152	-0.00254
Ownership	-0.018	-0.00111	0.0126
Ria	-0.025	-0.0377**	0.266
Acr	-0.040	-0.180	0.216*
Constant	-0.048	-0.0248	-0.340
Observations	147	90	57
R-squared	0.053	0.0129	0.137

Table 4 shows the regression results of the relationship between cross-listing and M&A performance. As can be seen from the table, the regression coefficients of the cross-listed regressions for the full sample and for the domestic and overseas categorical samples are negative and all fail the significance test. This suggests that cross-listing has no significant effect on the M&A performance of Chinese firms in both the domestic and overseas, and hypothesis H2 is not tested.

Table 4 Cross-listing and M&A performance regression results

Variable	(a)All CAR(-3,+3)	(b)Domestic CAR(-3,+3)	(c)Overseas CAR(-3,+3)
CL	-0.005	-0.0076	-0.0283
Size	0.007	0.0073	0.0180
Roa	0.0002	0.0002	-0.187
Ca	0.027	0.0463	-0.0770
Relatedness	-0.0165	-0.00085	-0.0219
DAR	-0.0124	-0.0931**	0.0200
ShareH	-0.0470	-0.0539	-0.113
PayM	-0.001	-0.0254	-0.0178
Age	-0.001	0.0162	-0.00254
Ownership	-0.016	-0.0011	0.0126
Ria	-0.021	-0.0352**	0.266
Acr	-0.041	-0.172	0.216*
Constant	-0.057	-0.035	-0.340
Observations	147	90	57
R-squared	0.052	0.0129	0.137

Table 5 shows the regression results for the joint effect of target transparency and cross-listing on M&A performance. As seen in Table 5(a), the regression coefficient of -0.00194 for the full sample of target transparency and cross-listing does not pass the significance test, and there is no significant moderating effect of cross-listing on target transparency and M&A performance of Chinese firms. Similarly, Tables 5(b) and 5(c) show that cross-listing has a positive but statistically insignificant impact on the M&A performance of Chinese firms in the domestic as well as overseas, so hypothesis H3 is not tested.

Table 5 Joint effect of target transparency and cross-listing on M&A performance regression results

Variable	(a)All CAR(-3,+3)	(b)Domestic CAR(-3,+3)	(c)Overseas CAR(-3,+3)
TE×CL	-0.00194	0.00307	0.00268
Size	0.00644	0.00629	0.0141
Roa	0.0002	0.000273	-0.176
Ca	0.0247	0.0438	-0.0802
Relatedness	-0.0168	-0.00188	-0.0160
DAR	-0.0124	-0.0498	0.0125
ShareH	-0.0451	-0.0207	-0.118
PayM	-0.00161	0.0140	-0.0137
Age	-0.000922	-0.00108	-0.00184
Ownership	-0.0166	-0.0357**	0.00765
Ria	-0.0253	-0.192	0.246
Acr	-0.0402	-0.0938**	0.198*
Constant	-0.0516	-0.0173	-0.273
Observations	147	90	57
R-squared	0.051	0.159	0.121

5. Conclusion and discussion

This study examines how target transparency and cross-listing affects the M&A performance of Chinese enterprises. We assumed that target transparency positively affects M&A performance and affects overseas M&A performance more significant. We further expected that the negative effect caused by target opaqueness would be alleviated when the acquirer has cross-listing experience. Using the event study method, we compared acquisitions made by Chinese enterprises single-listed in the Mainland China exchanges with those by Chinese enterprises cross-listed in both Mainland China and Hong Kong stock exchanges to test our hypotheses, the results showed that:

(1) Target transparency positively affects the M&A performance of Chinese firms. And there is a significant difference in the degree of influence of target transparency on performance of domestic M&A and overseas M&A. This is due to the fact that for Chinese enterprises, domestic M&A is mostly horizontal and aimed at market development (Zhu et al., 2020). So, Chinese acquirers tend to be reluctant to take more risks and therefore pay more attention to information disclosure of the target company. Comparatively, Chinese enterprises have a strong strategic resource-seeking motive for overseas M&A, and are willing to pay more to acquire intangible assets such as high technology of developed country enterprises (Jiang Dianchun. & Tang Haodan, 2021), rather than pay more attention to information transparency. Therefore, target transparency has a more significant impact on Chinese enterprises' M&A in domestic.

(2) When discussing the effect of cross-listing on M&A performance and the moderating effect on the relationship between target transparency and M&A performance, we find that the effect of cross-listing on M&A performance of Chinese firms is not significant, the possible reasons are assumed as follows: Firstly, cross-listing represents the listing quality of enterprises. At present, for most Chinese listed enterprises, there is still a certain distance between the compliance of information disclosure and market rules and the requirements of cross-listing. Therefore, the cross-listing ratio is low, and the overall performance level is less affected by cross-listing. Secondly, even if cross-listing improves the information environment of firms by alleviating the information asymmetry problem, it still does not address the possible opportunistic behavior of management (Wang et al., 2014), therefore, the optimal M&A opportunity will not necessarily be utilized, even if it may really exist. Finally, compared with developed countries with mature market supervision, China's immature regulatory environment at this stage does not necessarily help to improve M&A performance of cross listed enterprises, which to some extent validates the findings of Abdallah et al. (2019).

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