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The Emergence and Performance of the Chinese Merger Market and the Impact of Partner Location

Abstract:
Chinese acquirers spent $38 million on mergers and acquisitions in 1990, and $666.1 billion on mergers and acquisitions in 2016. As the Chinese merger market has grown, so too has the literature on its performance. Little is known, however, with whom the Chinese can best do business. We aim to fill this gap. We suggest that because the liabilities of ‘distance’ ‘foreignness’ and ‘outsideness’ complicate acquisition performance, targets in countries and regions which add fewer of these liabilities will outperform those that add more. We test this using a sample of 19,766 large (>=$10m) acquisitions (Jan 1990-Aug 2017), and a sub-sample of 1,542 acquisition for which we could calculate performance. We then plot the overseas expansion of Chinese acquirers, and compare the performance of Chinese acquisitions, within the Greater China region, within the Confucian cultural sphere, and between Asian and the West. In each case, we predict that increasing cultural distance decreases performance. Then, because the Continental European governance system is institutionally more familiar to the Chinese system than it is to the Anglo-Saxon system, we consider the Chinese experience in each of these two systems. Our results largely support our hypotheses, but we also point to the limits of the generalizability of existing literature in understanding the Chinese market.

Key Word:
Mergers and Acquisitions; Performance; China; Culture; Institutions; Corporate Governance; Confucian system; Anglo-Saxon system; Continental European system.

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INTRODUCTION

The Chinese market for mergers and acquisitions is booming\(^1\); in 1990, Chinese acquirers spent $38 million on mergers and acquisitions, and in 2016 they spent $661.3 billion.

As the Chinese merger market has grown, so too has the literature on the performance of Chinese mergers and acquisitions (e.g., Peng et al., 1999; Cooke, 2006; Peng, 2006; Xia et al., 2008; Yang et al., 2011). A number of scholars have looked at the performance of Chinese overseas acquisitions (e.g., Boateng et al., 2008; Chen and Young, 2010) but none, to the best of our knowledge, have considered how the location of the target impacts performance. In other words, little is known if Chinese acquirers can work better with American, European or Asian targets. The purpose of this paper is to address this gap.

We propose a hierarchy of targets in terms of location and performance expectation. Based on the suggestion that international deals are more costly than domestic deals -- because of the liabilities of ‘distance’ (Boeh and Beamish, 2012), ‘foreignness’ (Zaheer, 1995) and ‘outsideness’ (Johanson and Vahlne, 2002) – and the observation that cultural and institutional differences vary, we propose the following ordering of international targets.

First, we suggest that Chinese acquisitions, outside of mainland China, but within the Greater China Region – that is, Hong Kong, Macau, and Taiwan – will outperform those outside the region, because acquisitions within the region will present fewer geographic and cultural challenges, and the same institutional challenges that Chinese acquirers will face anywhere outside of China. Second, we suggest that Chinese acquisitions outside of the Greater China

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\(^1\) See McCarthy et al. (2016). While technically and legally different, terms like ‘merger’, ‘acquisition’, and ‘takeover’ are used interchangeably. Following the convention, we describe merger and acquisition waves as merger waves. We define the Chinese mergers market, furthermore, as the set of deals that involve Chinese firms.
Region, but within the Confucian world – that is, Japan, Korea and Vietnam – will outperform those outside because all the countries in this region share a common Confucian foundation (Miles and Goo, 2013), and a social systems that emphasize ‘harmony’ (Alston, 1989) and ‘reciprocity’ (Lovett et al., 1999; Chung and Hamilton, 2001). Outside of the Greater China region, in other words, Confucian targets are the next most familiar. Third, we suggest that Chinese acquisitions outside the Confucian world, but still within Asia will outperform those in the West, because Asian cultures are more similar to each other – in terms of their collectivist and long-term tendencies – than they are to Western cultures – which tend to be short-term focused and individualistic (Hofstede, 1984; 2001; 2007). Asian target, in other words, will be more familiar to Chinese acquirers and therefore perform better. Finally, we suggest that, in the West, ‘Continental European’ targets will outperform ‘Anglo-Saxon targets’, because while the cultural and geographic distances are high in the case of all Western targets, the governance literature (Weimer and Pape, 1999; Cernat, 2004; Mueller, 2006) suggests that the Chinese corporate governance system is more similar to the Continental European system – employed throughout continental Europe – than it is to the Anglo-Saxon – employed in the English-speaking world (Miles and Goo, 2008). Continental targets we suggest will be relatively more familiar, institutionally, to Chinese acquirers.

We test this hierarchy of targets using a sample of 19,766 large (>$10m) Chinese acquisitions, announced in the period Jan 1990 - August 2017, and a sub-sample of all 1,542 acquisitions by stock-listed acquirers, for which we could measure performance.

We show that the average Chinese deal adds 3.23% to the market value of the acquiring firm, and that almost 60% of Chinese acquisitions in the sample created value. This is surprising, given that studies using Western samples usually report that 65-85% of mergers and acquisitions fail (McCarthy and Dolfsm, 2012). We show that most Chinese acquisitions
are domestic, and with good reason: the average domestic deal adds 2.6% to the market value of the acquiring firm. Looking at the international deals we find little evidence to suggest that deals within the Greater China region create value, but find that those with the Confusion Region, and the wider Asian continent, add value in the way that we would expect. Amongst the Western targets, we report that Chinese acquirers prefer Anglo-Saxon targets to Continental targets, but show that the Chinese do better deals with Continental targets than they do with Anglo-Saxon targets; we report that the Chinese neither create nor destroy value with Continental acquisitions, but destroy value with their Anglo-Saxon acquisitions.

We finish our discussion by reflecting on why some parts of the performance hierarchy are supported, while other parts are not, and point to potential future research questions. In doing so we make a number of contributions. Firstly, and because we study the impact of target location on acquirer performance, we add to the theory of mergers and acquisitions. Next, and because we study Chinese acquisitions, we contribute to the discussion which has been dominated by “case studies and descriptive statistics” (Lin et al., 2009, p.1114), and to a literature which has “focused … on the USA and UK” (Moschieri and Campa, 2009, p 72).

BACKGROUND

Mergers and Acquisitions

An extensive literature documents why mergers might occur (see e.g., Trautwein, 1990; Mueller, 1995; Weitzel and McCarthy, 2011). In one of the earliest classifications, Chatterjee (1986) suggests that mergers and acquisitions are used to create ‘operative’, ‘financial’, and/or ‘collusive’ synergies. Operative synergies are the gains that come from ‘increased production and/or administrative efficiencies’, financial synergies are the gains that come
from ‘reductions in the cost of capital’, and collusive synergies are the gains that come from ‘increased market power’ (Chatterjee, 1986, p.121). Subsequent researchers have refined this basic model (see e.g., Krishnan et al., 2007; Devos et al., 2008); Houston et al. (2001), for example, splits operative synergies into ‘expansionary’ synergies, which are the gains that come from an expansion into a new product or regions, and ‘cost-cutting’ synergies, which are the gains that come from acquisitions which reduce the acquirers (average) costs. And to this model, resource-based scholars have added the gains that come with controlling ‘strategic assets’ – such as natural, technological, financial, and human resources (e.g., Chen, 2008) -- and international business scholars have made use of Dunning’s (1980, 1988, 1993) OLI paradigm, to suggest that foreign acquisitions may also be motivated by ‘market seeking’ gains – which come with access to foreign markets, and the potential that they offer for the export of domestic products and for an increase in sales (e.g., Buckley et al., 2007)².

The Dangers of Mergers and Acquisitions

The empirical reality of mergers and acquisitions is, however, somewhat different. After 100 years of research on ‘the M&A markets of the USA and UK’ (Moschieri and Campa, 2009, p 72), the impact of a merger on the performance of the acquiring firm is said to be, at best, “inconclusive” (Haspeslagh and Jemison, 1991, p.59), and is thought, at worst, to be “systematic[ally] detrimental” (Dickerson et al., 1997, p.359). Many mergers are described as failures: Puranam and Singh (1999) suggest that between 65 and 85% of all mergers and acquisitions fail, and that as many as 50-65% are divested within 5 years, and Houston et al., (2001) estimate that only about 60% of predicted cost-cutting synergies, and only about 7% of predicted of revenue-expanding synergies are ever realised. Huge sums of money are lost

² Rich literatures consider which of these factors contribute the most to merger performance (e.g., Houston et al., 2001; Devos et al., 2008) and if these factors apply to emerging market firms (e.g., Athreye and Kapur, 2009; Dunning and Lundan, 2008; Gubbi et al., 2010; Li, 2007; Rui and Yip, 2008; Sun et al., 2012).
in the process, and huge amounts of shareholder value destroyed. Moeller et al (2005), for
example, estimates that shareholders lost ‘$216 billion’ in the 1990s on mergers and
acquisitions (p.758), and concluded that shareholder would ‘have been better off if
management had simply burned the cash used to pay for the acquisition’ (p.765).

A large literature suggests that cross-border deals are a particularly troublesome subset of
mergers and acquisitions (e.g. Chatterjee and Aw, 2000; Eckbo and Thorburn, 2000; Rossi
and Volpin, 2004; Moeller and Schlingemann, 2005; Levine and Schmukler, 2006; Sarkissian
and Schill, 2008; Gozzi et al., 2008). This literature argues that while any merger might be
subject to ‘unforeseen and insurmountable challenges’ (Child et al., 2001), international deal-
makers add the liabilities of ‘distance’ (Boeh and Beamish, 2012), ‘foreignness’ (Zaheer,
1995) and ‘outsideness´ (Johanson and Vahlne, 2002) to the performance equation.

Broadly speaking, the ‘liability of distance’ is the costs associated with doing business ‘far
away’: distance increases transportation (Capron et al., 1998) and monitoring costs
(Böckerman and Lehto, 2003), obstructs the flow of information and increases information
asymmetries (Coval and Moskowitz 1999), and it reduces market power (Levy and Reitzes,
1992) and access to soft information (Hauptman and Hirji 1999). Distance is present, to a
varying degree, in most mergers and acquisitions. The liabilities of ‘foreignness’ (Zaheer,
1995) and ‘outsideness´ (Johanson and Vahlne, 2002), however, are two specific sets of costs
associated with cross-border deals. These are the liabilities that come with doing business
‘abroad’; the former can be thought of as the costs of learning a new set of rules – both in a
cultural and institutional sense –and the latter can be thought of as the cost of associated with
a developing a new network position in a foreign market (Qian et al., 2013; Bell et al., 2012;
Zaheer, 2002). Both liabilities increase transaction costs, complicate communication
(Kaurent, 1983; Chevrier, 2003), reduces the quality of the information transferred (Jaffe et
al., 1993; Kim, 2009), create uncertainty (Reus and Lamont, 2009), and leads to situations of ‘them and us’ (Huntington, 1993) which, in turn, increases employee turnover (Krug and Hegarty, 1997), and both liabilities have been linked to sub-par cross-border performance.

The Chinese Merger Market

It is well known that Chinese merger market has grown rapidly in recent years. It is also well-known that as it grew the Chinese merger market quickly internationalised (see e.g., MOC, 2006; 2007; Athreye and Kapur, 2009; UNCTAD, 2011; Nicholson and Salaber, 2013). Rui and Yip (2008), for example, report that Chinese acquirers spent a total of $30 billion on foreign acquisitions between 1978 and 2002, but spent $57.2 billion in 2005, alone, and a further $73 billion alone in 2006. McCarthy and Dolfsma (2012) also report that the number of Chinese outbound acquisitions increased by a factor of 47 between 2000 and 2011.

It is perhaps surprising, therefore, to note that most of the literature on Chinese mergers and acquisitions only ‘uses case studies and descriptive statistics’ (Lin et al., 2009, p.1114), and that empirical research on the Chinese merger market only started in the late 1990s (see e.g., Peng et al., 1999). Writing in 2011, Yang et al (2011) counts “a total of six previous papers [that] deal with M&As in China (Chen and Young, 2010; Cooke, 2006; Lin et al., 2009; Peng, 2006; Peng et al., 1999; Xia et al., 2008), [only] three of which use rigorous quantitative methods (Chen and Young, 2010; Lin et al., 2009; Xia et al., 2008)” (p.241).

Because of this, there are significant gaps in our understanding of the way in which the Chinese merger market operates, and there is a need for comparative studies (Earley, 1989; Tsui et al., 2007; Li and Peng, 2008; Peng and Heath, 1996), ‘in order to test or generalize Western findings’ Yang et al (2011, p241). Unfortunately, however, such attempted still remain relatively rare (Lu et al., 2008; Lin et al., 2011; Nicholson and Salaber, 2013).
**The Partner Location Performance Hierarchy**

This paper adds to this gap in our understanding, by considering, effectively, the applicability of the literature on cross-border mergers and acquisitions to Chinese acquirers. We reason that if differences in language, regulation, currencies, culture and legal systems complicate the performance of an international acquisition, and predict superior performance for domestic deals, then international deals which alter fewer of these variables will outperform those that alter more variables. This reasoning leads us to predict a performance ordering of the overseas targets, which we refer to as the partner location performance hierarchy. Table 1 presents an overview of this hierarchy. The intuition behind it is explained below.

--- Insert Table 1 Here --

**HYPOTHESES**

A rich literature suggests that domestic deals should outperform international deals. Theoretically, international deal makers incur the liabilities of ‘distance’ (Boeh and Beamish, 2012), ‘foreignness’ (Zaheer, 1995) and ‘outsideness’ (Johanson and Vahlne, 2002), and empirically a large literature suggests that cross-border deals underperform (e.g. Chatterjee and Aw, 2000; Eckbo and Thorburn, 2000; Rossi and Volpin, 2004; Moeller and Schlingemann, 2005; Levine and Schmukler, 2006; Sarkissian and Schill, 2008; Gozzi et al., 2008). Because we have no reason to suggest that Chinese acquirers are any more astute at dealing with these liabilities, we suggest that the existing literature applies. Thus:

\[ H1 – Domestic Chinese deals will outperform international Chinese deals \]
Domestic deals are to be preferred, therefore, to international deals. But, clearly, not all international deals are equally as troublesome. If the liabilities of distance, foreignness and outsideness complicate cross-border mergers and acquisitions (Kogut and Singh, 1998), then clearly deals which incur fewer of these liabilities will outperform those that incur more. This reasoning leads to a hierarchy of international destinations. Firstly, we suggest that Chinese acquisitions outside of China, but within the Greater China Region – that is, Hong Kong, Macau, and Taiwan – will outperform those outside of the region. Acquisitions within the region, we argue, present Chinese acquirers with fewer geographic and cultural challenges, and the same level of institutional challenges than they will face anywhere outside of Mainland China; an acquisition in capitalist Hong Kong presents the same institutional challenges, we suggest, to a Chinese acquirer as an acquisition in the US or UK. Thus:

**H2 – Deals in the Greater China region will outperform deals outside the region**

Secondly, we suggest that Chinese acquisitions outside the Greater China Region, but within the so-called Confucian cultural sphere – that is, Japan, Korea and Vietnam – will outperform those outside that sphere. Acquisitions within that world, we suggest, will present fewer cultural challenges, because all the countries in that world are built upon a ‘Confucian’ foundation (Miles and Goo, 2013), and share a social systems that emphasize ‘harmony’ – epitomized by the Japanese concept of *wa* (和) – at the group-level (Alston, 1989), and ‘relationships’ – epitomised by the Chinese concept of *guanxi* (关系) – at the individual level (Lovett et al., 1999; Chung and Hamilton, 2001; Hitt et al., 2002). Outside of the Greater China region, in other words, Confucian targets are the next most familiar. Thus:

**H3 – Deals in the Confucian Region will outperform non-Confucian deals**
Next, we suggest that Chinese acquisitions outside of the Confucian cultural sphere, but within Asia, will outperform those outside of Asia. Asian targets, we reason, will present fewer cultural challenges to Chinese acquirers, because Asian cultures are more similar to each other – in their tendencies towards collectivist and long-term orientated – than they are to Western cultures – which are short-term focused and individualistic (Hofstede, 1984; 2001; 2007). Asian targets, we suggest, therefore, will be more familiar to Chinese acquirers and will be more likely, therefore, to perform better than Western targets. Thus:

$$H4 - \text{Asian deals will outperform non-Asian deals}$$

Finally, and looking at the West, we suggest that ‘Continental’ targets will outperform ‘Anglo-Saxon targets’, because while the cultural and geographic distances are high in the case of all Western targets, the governance literature (e.g. Weimer and Pape, 1999; Cernat, 2004; Mueller, 2006) suggests that the Chinese corporate governance system is more similar to the Continental European’ than it is to the Anglo-Saxon (Miles and Goo, 2008). In the Anglo-Saxon system – used throughout the English-speaking world – the firm is conceived as an instrument for creating shareholder value (Weimer and Pape, 1999). Ownership is dispersed and shareholders are atomistic, but all shareholders are equally protected (La Porta et al., 1998). This, and the fact that the stock market is the stick by which performance is gauged, and the stick by which managers are compensated, makes shareholder the most significant stakeholders in the Anglo-Saxon system. By contrast, in the Continental system – used throughout continental Europe – the firm is considered to be a coalition of various participants, all of whom strive for the continuity of the firm as a whole (Moerland, 1995). Ownership is concentrated, often in a single family, and employees and debt providers are given a significant say in the ways in which the firm is run. This means that shareholders are important in the Continental systems, but not more important than any of the other
stakeholders. Because of this, Continentals firms tend to be focused on stability and continuity, while Anglo-Saxon firms tend to be focused on the creation of short terms gains, and on the distribution of those gains to shareholders (Gelauff and Den Broeder, 1996).

For Chinese acquirers the latter system – the Continental system – is likely to be more familiar. In the Chinese system the purpose of the firm is to create an inheritance (Miles and Goo, 2013). Ownership tends to be concentrated (Claessens et al., 2000; Carney, et al., 2011), often in the hands of a single family, and there is a high degree of overlap between ownership and management in most Chinese firms (Ahlstrom et al., 2010; Heugens et al., 2009; Liu et al., 2011; Peng and Jiang, 2010; Schulze and Gedajlovic, 2010; Zhang and Ma, 2009). The similarity between Chinese and Continental firms on one hand, and the lack of familiarity of Chinese acquirers with the stock market, on the other (Bosiot and Child, 1996; Keister, 1998, 2009; Li et al., 2008; Yiu et al., 2007; Rui and Yip, 2008; Naughton, 2002), which is all important in the Anglo-Saxon world, leads us to suggest that Continental targets will present Chinese acquirers with fewer challenges than Anglo-Saxon targets. Thus:

\[ \text{H5 – Continental deals will outperform Anglo-Saxon targets} \]

**METHODS**

**Sample**

We test these hypotheses using a data from the *Thomson Reuters SDC*. We refine it to include all deals: (1) announced between Jan 01, 1990 and July 31, 2017; (2) with transaction values above US$10 million. We only include deals: (3) for 100% of the target firm’s shares; and (4)
deals which do not involve recapitalization, a repurchase of own shares, or a spin-off to existing shareholders. Doing so, we create an initial sample of 19,766 acquisitions.

**Target Location**

Using the location of the firm, we program a number of indicator variables.

First, and to test the first hypothesis – which suggests that domestic Chinese acquisitions will outperform international Chinese acquisition – we create: (1) a *China* indicator that identifies Chinese acquirers (*A_China*) and Chinese targets (*T_China*); (2) an *International* indicator that differentiates between domestic Chinese deals and international Chinese deals.

Then, to test the hierarchy of international deals, we programme a number of indicators. Firstly, we programme a *Greater China Target* indicator, which identifies Chinese acquisitions in Hong Kong and Macau, and Taiwan with a 1, and all other international acquisitions with a 0. Secondly, we programme a *Confucian Target* indicator, which identifies all international targets outside the *Greater China Region*, but within the Confucian cultural sphere -- that is, in Japan, South Korea, and Vietnam – with a 1, and all other international acquisitions with a 0. Thirdly, we programme an *Asian Target* indicator variable, which identifies targets within Asia, but outside the *Greater China and Confucian Regions* -- that is, Brunei, Cambodia, East Timor, Indonesia, Laos, Malaysia, Mongolia, Myanmar, the Philippines, Singapore, Thailand – with a 1, and all other international acquisitions with a 0. Finally, we programme an *Anglo-Saxon* indicator, which identifies all acquisitions in Australia, Canada, Ireland, New Zealand, the United Kingdom and the United States, as well as their dependencies (such as the Falkland and Guam) with a 1, and all other acquisitions outside of *Asia* with a 0, and a *Continental* indicator, which identifies all
acquisitions in Continental Europe, minus Ireland and the UK, and their dependences (such as Gibraltar and the Isle of Man) with a 1, and all other acquisitions outside of Asia with a 0.

Deal Performance

Following the majority of merger performance studies (see Zollo and Miere, 2008 for an excellent review), we calculate performance using an event study methodology.

In an event study, a pre-event ‘estimation window’ is defined, and historical data is used to forecast the firms ‘normal’ stock price at a future date; this is an expectation of how the firm’s stock should have been priced, had the event not occurred. Comparing this ‘forecast’ with ‘actual’ data on the firm’s stock price, after the event, provides an indicator of the firm’s ‘abnormal’ return; this is the change in the firm’s value, above or below the firm’s expected value, which is attributable to the event. Summing the abnormal returns over a period of time, known as an ‘event window’, leads to an expression as ‘cumulative abnormal returns’.

Algebraically, the abnormal return is calculated by identifying the difference between the actual returns and normal returns of the acquiring firms. Abnormal return of a security $i$;

$$ AR_{i,t} = R_{i,t} - E[R_{i,t}] $$

Where $R_{i,t}$ is the actual return and $E[R_{i,t}]$ is the estimated or normal return to the acquiring firm. In equation (2) is displayed how the normal return is calculated;

$$ E[R_{i,t}] = \alpha_i + \beta_i R_{m,t} + \varepsilon_{i,t} $$
Where $\alpha_i$ is the intercept coefficient, $\beta_i$ is the slope, $R_{m,t}$ the formation of the used benchmarks, and $\varepsilon_{i,t}$ is expected to be equal to 0. Summing the abnormal returns to the firm, within a predefined event window, produces *cumulative abnormal returns*:

$$CAR_i[t_1, t_2] = \sum_{t=t_1}^{t_2} AR_{i,t}$$

(3)

We calculate cumulative abnormal returns to the acquiring firm using the standard 250 day estimation window -- measured from 295 days before each event to 45 days before it [-295, -45] – and the standard one [-1,+1] and five day event window [-5,+1]. We follow the precedence of measuring CARs before the announcement to include pre-bid run-ups (Schwert, 1996) and afterwards to observe the effect of the event. If a merger was announced on a non-trading day, we code the subsequent trading day as the official announcement day.

We retrieve the stock-market data necessary to complete an event study using *Datastream*. Data availability, at this point, reduces the sample of available deals to 1,542 deals.

**Performance Controls**

A number of factors are known to impact deal performance (see King et al., for a review). We control for: (1) the percent of the deal financed by cash (*Percent Cash*) and stock (*Percent Stock*) because Heron and Lie (2002) shows that cash-financed deals outperform stock-financed deals; (2) *Acquirer Size*, measured in thousands of employees, because Moeller et al (2004) show that larger acquirers make worse deals; (3) the *Deal Size*, because Moeller et al (2004) show that larger deals perform poorly. All the necessary data is collected from *DataStream*, and / or the SDC. We test each of the control variables for normality, and employ logs of all variables that fail the test. *Table 2* provides a descriptive overview of the
data that we use in this study. All variables are winsorized, between 0.01% and 99.99%, to
minimise the effect of possibly spurious outliers.3

-- Insert Table 2 Here --

Estimation

We consider the impact of partner location using OLS techniques. In all estimations we
cluster, at both the targets and acquiring industry, according to Froot (1989) and Wooldridge
(2002), using both firms Standard Industrial Classification (SIC) codes, to allow for industry
effects. We also include year dummies, to account for year specific effects. We also adjust all
standard errors for heteroskedasticity, using the Huber (1967) and White (1980) sandwich
estimator of variance. Finally, and before interpreting the results, we confirm that multi-
collinearity is not an issue, using a variance inflation factor (VIF) test (Hair et al., 1992).

RESULTS

The Chinese Merger Market

Figures 1, 2 and Table 3 report the growth and shape of the Chinese merger market. Figure 1
illustrates the near exponential nature of the growth in the Chinese merger market; from 2
deals in 1990, worth $38 million, to 3,261 deals in 2016, worth $661.3 billion. Figure 2
provides a breakdown in the composition of the Chinese merger market. It reports that,
despite the huge growth in the market, the willingness of the Chinese to internationalise

3 Winzoring is a technique for dealing with the effects of possibly spurious outliers. By winzoring
between 0.01% and 99.99%, we set all data below the 0.01th percentile equal to the 0.01th percentile,
and all data above the 99.99th percentile equal to the 99.99th percentile. The estimators that this
creates are more robust to outliers, and by winzorising the data, we can make use of the full set.
remains low; in total, 91.4% of Chinese deals are domestic. *Table 3* looks at the location of Chinese acquisitions that cross borders. It reports that 2.7% of Chinese deals (n=528) or 30% of Chinese international deals, involve targets in the Greater China region. Confucian targets (n=613) account for 35% of Chinese overseas acquisitions, and Asian targets (n=740) account for 42% of Chinese overseas acquisitions. Outside of Asia, Anglo-Saxon targets (n=566) account for the lion's share of the overseas acquisition (32%), with the United States (n=241) and Australia (n=167) standing out as popular non-Asian destinations, while Continental Europe (n=253) accounts for 14% of Chinese overseas acquisition, with Italy (n=44), Germany (n=42), and the Netherlands (n=22) as the most favoured destinations.

--- Insert Figures 1, 2 and Table 3 Here --

**Partner Types and Performance**

*Models 1-6,* in *Table 4,* reports on how the choice of partner impacts performance. We report results using the [-5,+1] event window; the results using the [-1,+1] window are consistent and available from the authors upon request.

*Models 1-4* consider the specifics of Chinese acquisitions within Asia. *Model 1,* for example, tests the hypothesis that Chinese domestic deals outperform international deals. A positive and significant coefficient for the *Domestic Target* indicator provides support for this hypothesis; domestic deals perform 2.6% better than international deals. *Model 2* adds the *Greater China* Target indicator to test the hypothesis that deals within the *Greater China Region* will outperform deals outside of the region, for reasons of cultural closeness. A negative and significant coefficient on the *Greater China* dummy forces us to reject this hypothesis. *Model 3* adds the *Confusion Target* indicator to the equation, to test the hypothesis that Chinese acquisitions within the Confusion world outperform those outside the
region. A positive and significant coefficient provides supports for that hypothesis. Lastly, *Model 4* adds the *Asian Target* indicator, to test the hypothesis that Asian targets outperform non-Asian targets; a positive and significant coefficient allows us to support that hypothesis.

--- Insert Table 4 Here ---

Next, *Models 5-7* consider the specifics of Chinese acquisitions in the West, to test the hypothesis that Chinese acquirers will be able to create more value with targets based in Continental European governance systems, than targets in the Anglo-Saxon system. *Model 5* shows that Chinese Anglo-Saxon acquisitions destroy value, and *Model 6* shows that Chinese Continental European acquisitions neither create value. *Model 7* confirms these effects, when both indicators are included, and thus supports the suggestion that Chinese acquirers can do better deals in the Continental governance system than the Anglo-Saxon system.

**DISCUSSION**

**Main Findings**

A number of the findings we presented above fit with our expectations / predictions, but a number of our other findings require some additional consideration. Our results suggest:

(1) *The Chinese merger market is booming and creating value*

The Chinese made 19,766 large (>-$10m$) acquisition between Jan 1990 and August 2017, and the growth has been near exponential. In 1990, Chinese acquirers made 2 large mergers and acquisitions; in 2016, they made 3,261 large acquisitions. Looking at the sub-sample for which we could calculate performance, we find that the Chinese
are, on average, creating value with their acquisitions. The average Chinese acquisition in the sample added 3.23% to the market value of the acquiring firm, and that almost 60% of Chinese acquisitions in the sample created value; Western samples usually report that 65-85% of acquisitions fail (McCarthy and Dolsma, 2012).

(2) We find mixed support for our proposed performance hierarchy

A number of our expectations regarding the proposed performance hierarchy were confirmed, but a number of the results were quite unexpected. We found:

a. Domestic deals outperform international deals

We expected and found that domestic deals outperformed international deals. The majority of Chinese acquisitions (91%) are domestic, and the evidence shows that domestic acquisitions create value; on average, domestic acquirers add +2.6% to the market value of the firm. This finding fits with the wider literature, which shows that domestic deals perform better (Chatterjee and Aw, 2000; Eckbo and Thorburn, 2000; Moeller and Schlingemann, 2005).

b. Acquisitions in the Greater China Region destroy value

We expected that acquisitions in the Greater China region would be the next best thing to a domestic acquisition, but we find that these acquisitions actually destroy value. Understanding why requires additional research. It might be, however, that targets within the Greater China region are not sufficiently different to those on Mainland China to justify incurring the costs that come with the liability of distance, foreignness and outsidedness.
c. Confucian and Asian Targets add value

We expected and found that both Confucian and Asian targets would add value to Chinese acquirers. Our results suggest that the average Confucian target adds 9.8% to the value of the market value of the acquiring Chinese firm. This seems to suggest that Chinese acquirers which step outside of the Greater China region, but remain within the Confucian world, add the most value. By contrast, Chinese acquisitions outside of the Confucian world, but within Asia, add value, but only add 1.3% to the acquirer, on average. Confucian targets, in other words, seem to be sufficiently different to justify internationalisation, but sufficiently similar to be easily integrated.

d. Anglo-Saxon targets perform badly, and Continental targets are unspectacular

Lastly, we expected that when cultural and geographic distances were equally high, Western targets with lower institutional hurdles would not only be preferred, but would demonstrate superior performance. We somewhat support this suggestion. Chinese acquisitions of Anglo-Saxon targets destroy value; the average Anglo-Saxon acquisition reduces the value of the acquiring firm by 3.1%. Chinese Continental European acquisitions perform better, but they neither create nor destroy value. We thus support the hypothesis, but find that while the Chinese do the worst with Anglo-Saxon targets, they don’t do much better with Continental European targets.

Together, these findings provide support for only parts of the proposed performance hierarchy. Our failure to support the entire hierarchy supports the suggestion that China is ‘different’ (Lin et al., 2009), and that Chinese mergers and acquisitions are
significantly different (Peng and Heath, 1996), insofar as the expectations derived from the literature, typically based upon the study of US acquirers (e.g., Hitt et al., 2001; Moschieri and Campa, 2009), is not fully generalizable to Chinese firms. We support the calls, therefore, for additional comparative research (e.g., Lin et al., 2009; Yang et al., 2011; Nicolson and Salaber, 2013) to further test or to generalise Western findings, and to develop theories for emerging economies (Earley, 1989; Tsui, 2007).

Limitations

Our findings are subject to a number of important limitations. Firstly, we only consider large acquisitions, which we define to mean greater than $10 million. Such a restriction is put in place because smaller deals are known to perform differently (see e.g., Weitzel and McCarthy, 2011), and because the convention in the merger literature is to implement a minimum restriction. In doing so, however, the generalizability of our results becomes unclear. Secondly, we do not consider the underlying motives behind the merger, which other have suggested are critical to understanding merger performance (Shrivastave, 1986; Bower, 2001; Javidan et al., 2004; Schweizer, 2005). It may be, however, that Asian targets outperform Western targets, not because of cultural similarities and differences, but because there are more cost-cutting acquisition in Asian, and more revenue-expanding acquisition in the West. Additional research is required, we suggest, to investigate this possibility.

CONCLUSIONS

The purpose of this paper was to document the emergence of the Chinese merger market, and to consider how the choice of partner – in terms of physical location – impacts performance.
Building upon a theoretical literature which suggest that international deals are more costly – in terms of the liabilities of ‘distance’ (Boeh and Beamish, 2012), ‘foreignness’ (Zaheer, 1995) and ‘outsideness’ (Johanson and Vahlne, 2002) – we argued, firstly, that domestic Chinese acquisitions will outperform international deals and, secondly, that those international deals which incurred more of these liabilities would underperform those that incurred less. Effectively, therefore, the aim of this paper was to answer the calls of scholars looking to test the generalizability of the existing literature to emerging market firms (e.g., Earley, 1989; Tsui, 2007; Lin et al., 2009; Yang et al., 2011; Nicolson and Salaber, 2013).

Our results demonstrate that: (1) unlike Western firms, Chinese acquirers are creating value through mergers and acquisitions; (2) the literature only imperfectly applies to Chinese acquirers. We find that in most cases the performance of Chinese overseas acquisitions support the proposed performance hierarchy, but certainly not in all cases. Our failure to support the entire hierarchy supports the suggestion that China is ‘different’ (Lin et al., 2009; Peng and Heath, 1996), and that the existing literature is not fully generalizable. In doing so, we create a number of rich research opportunities for scholars looking to dig deeper into the largely unexplored field of linking Western literature to Chinese mergers and acquisitions.

REFERENCES


Kogut, B., and H. Singh (1988), The effects of national culture on the choice of entry mode, Journal of international business studies, 19(3)


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Table 2 - Pairwise Correlations and Descriptive Statistics
Figure 1 – The Emergence of the Chinese Merger Market
Figure 2 – A Break Down of the Chinese Merger Market
### Table 3 – The Global Distribution of Chinese Targets

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Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1