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Performance of cross-border acquisitions: Evidence from China

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PERFORMANCE OF CROSS-BORDER ACQUISITIONS: EVIDENCE FROM CHINA

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Performance of Cross-Border Acquisitions: Evidence from China

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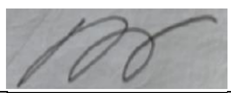
Declaration

I hereby declare that this doctorate dissertation is my original work
and it has been written by me in its entirety.
I have duly acknowledged all the sources of information
which have been used in this dissertation.

This doctorate dissertation has also not been submitted for any degree
in any university previously.



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Abstract

The number of cross-border mergers and acquisitions (M&As) in China has increased dramatically in recent years. Under China's "go global" strategy, Chinese firms are devoting more capital and time to developing their overseas business. Cross-border M&As make up a large proportion of these activities. Therefore, it is crucial to determine what factors affect the performance of cross-border acquisitions.

Previous studies show that the post-merger performance of the acquirer is affected by various factors. Those papers mainly focus on domestic M&As. However, cross-border M&As also have unique features. In this study, I focus on Chinese cross-border acquisitions and the factors that affect the acquirers' post-merger performance. I start my research with a few case studies. I analyze Chinese cross-border acquisition deals and compare them with U.S. deals. In addition, I examine one domestic acquisition of a Chinese corporation and compare it with cross-border acquisitions conducted by Chinese acquirers. I find that post-merger integration for cross-border acquisitions faces more issues than that for domestic acquisitions. Through the case analysis, I identify two factors that are crucial to the post-merger performance of the acquirer. These two factors are due diligence and cultural conflicts. In the second part of my study, I conduct a series of empirical analyses. I use two proxies that are highly correlated with the due diligence process and culture conflicts to examine their impact on post-merger performance. I manually match data on Chinese cross-border deals from the Securities Data Company database to data from the China Stock Market and Accounting Research database. The empirical results show that acquirers' overseas experience is associated with better post-merger performance and market reactions. Moreover, the deal characteristics differ between targets incorporated in developed and developing countries. However, long-term post-merger performance does not vary with the target incorporated nation. To conclude, my study shows that firms undertaking cross-border acquisitions need to conduct thorough due diligence and pay more attention to post-merger integration. Although the market might have different reactions to the acquisitions of firms incorporated in different countries, long-term performance is not affected by the target's nationality.

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I dedicate this thesis to my daughter YU Carolyn.

1 Introduction

In recent years, the number of Chinese firms conducting cross-border mergers and acquisitions (M&As) has increased dramatically. The process of Chinese cross-border acquisition has also experienced rapid development during these years, with a few key stages. Before 2000, cross-border mergers and acquisitions were not the usual channels for firms' expansion, which might have been due to factors such as insufficient financing channels and inadequate laws and regulations. However, in 2008, cross-border M&As entered an exploratory stage that lasted until 2013. The global financial crisis in 2008 decreased the value of some high-quality foreign companies, providing excellent opportunities for Chinese companies to expand overseas. Meanwhile, China's "going out" strategy gave companies more incentives and support to make investment overseas, which started a new merger wave across the nation. The next stage was from 2014 to 2016, as more listed companies participated in overseas acquisitions. In addition, as the RMB entered its depreciation cycle, the demand for global asset allocation by enterprises increased. The "Made in China 2025" industry upgrade, "Belt and Road Initiative," and consumption upgrade demand proposed by the Chinese government jointly promoted the transformation of the M&A target industry. The final stage of cross-border M&A development began in 2017 when the government started to promote cross-border M&As and started to regulate firms' acquisition activities.

Cross-border M&As represent an important channel for firms to obtain technologies, enter new markets, and increase their size. Studies show that as in domestic acquisitions, firms' long-run performance is affected by the outcomes of

M&As (Chavaltanpipat et al., 1999; Spyrou & Siougle, 2007). Therefore, the performance of firms' cross-border acquisitions is crucial to the wealth of the firms' shareholders. In this paper, I analyze the factors that affect the performance of Chinese cross-border acquisitions.

In the first part of my study, I conduct a literature review. I summarize the questions addressed by previous studies and analyze the topics that are less touched upon. Literature has documented that factors such as acquirer characteristics, offer price, and target stock run-up all have impacts on the merger outcomes. However, less is known about how the due diligence and integrations might affect the acquirer post-merger performance. This paper fills in this gap in the literature. In the context of cross-border acquisitions, I use proxies that related to the firms' due diligence and integration process to examine how these factors are correlated with the merger performance.

In the second part of this paper, I analyze five takeover cases, starting with three Chinese cross-border acquisitions. The first is Geely's acquisition of Volvo, and the other two are acquisitions conducted by Everbright Securities Unit and Lenovo, respectively. These three cases were all conducted by Chinese acquirers. However, they differ substantially in their post-merger performance. In the case analyses, I examine the negotiation of these cases and analyze the characteristics of the acquirers and the targets. In addition to these Chinese cases, I study two U.S. deals—a cross-border acquisition conducted by Amazon and a domestic acquisition conducted by Microsoft. Through these case analyses, I identify several factors that are key to the success of cross-border acquisitions. One of the factors is the rigor of the due diligence process during negotiation. With careful due diligence, the acquirer can more precisely evaluate a target. The second factor that affects the performance of a cross-border acquisition is the success of the post-merger integration. A few concerns emerge during the integration process, such as the organizations' cultural differences, corporate structure changes, and communication issues. Acquirers that can quickly and smoothly complete the integration process gain more from their cross-border acquisitions.

In the final part of my study, I conduct a series of empirical tests. As discussed in the case study section, due diligence and integration process are crucial to the success of cross-border acquisitions. I use the bidders' oversea connections and director-level overseas experience as proxies to capture these two factors. Presumably, firms with more oversea connections have fewer cultural differences with the targets. They can communicate smoothly with the targets and experience fewer issues in corporate structure adjustments. In addition, those overseas experience (both at the corporate level and director level) can help the acquirer conduct careful due diligence and evaluate the target's value more precisely.

I collect data from the Securities Data Company (SDC) and China Stock Market and Accounting Research (CSMAR) databases. I manually match the data according to the acquirers' names. I test whether firms with oversea connections elicit a stronger market reaction and have better long-run post-merger performance. I use two proxies to measure acquirers' oversea connections: director-level overseas experience and company-level overseas connections. I deem a director as having overseas experience if he has studied or worked abroad. If the acquirer firms have businesses in overseas markets or have branches abroad, I define them as having company-level overseas connections. I find that markets react more favorably to cross-border deals with acquirers that have overseas experience. Furthermore, long-term performance is positively associated with deals in which acquirers have overseas experience.

In the second part of the empirical study, I test whether the target nation affects the post-merger performance in the short term and the long term. The target nation can be a proxy of the motivation of the acquisitions. Targets in a developed country might possess more patents and high-tech equipment. Through these acquisitions, acquirers can obtain new technologies. On the other hand, when firms acquire targets in developing countries, it is more likely that they are motivated by obtaining resources or entering into new markets.

The results indicate that the market reactions are better for deals with targets that are incorporated in more-developed countries. However, the long-term performance of the acquirer firms is not affected by the target's nation of incorporation. Details on the data collection process and the empirical results can be found in Chapters 4 and 5.

This paper is organized as follows. In Chapter 2, I conduct a literature review on cross-border acquisitions. In Chapter 3, I analyze a few Chinese cross-border cases and compare these cases with U.S. cross-border acquisitions. Chapter 4 describes the data collection process and reports the summary statistics of my sample. Chapter 5 reports the empirical results, and Chapter 6 concludes the study.

2 Literature review

M&As receive abundant research attention. Recent studies examine the post-acquisition performance of the targets and acquirers. These studies find that the long-run post-merger performance of the acquirer is affected by the target firm size (Dimson and Marsh, 1986). Fuller et al. (2002) and Faccio et al. (2006) show that when firms acquire privately-held targets, the post-merger announcement returns are generally positive. However, some studies argue that the acquirer's announcement returns are biased. First, investors do not have much information and only trade on their private information; thus, their trading behaviors are biased (Jiang et al., 2005). Another reason that post-merger announcement returns are biased is the lack of short selling (Miller, 1977). The cost of short selling is higher, and only a few investors conduct short selling. Thus, the market might be upward biased.

2.1 Factors that affect post-merger performance

What factors affect acquirers' post-merger performance? This question is addressed in several studies. Laamanen and Keil (2008) find that a high rate of acquisitions and the variability of the rate are negatively related to performance. In addition, they find that the size of the acquirer, the scope of the acquisition, and the acquirer's past takeover experience moderate the relationship. Capron (2016) shows that the timing of the acquisition is also important to the acquirer. Cosh et al. (2006) find that the board's share ownership in the acquiring company can affect the takeover performance. They use a sample of 363 U.K. takeovers and find a strong relationship between takeover performance and CEO ownership. Target–

acquirer connections also affect acquisition outcomes. For example, Cai and Sevilir (2012) find that when the acquirer and the target have a common director, acquirer announcement returns are significantly higher than those of deals without such connections. To explain the superior acquirer performance, the authors find that first-degree connected deals are associated with a lower premium, and second-degree connected deals are associated with higher post-deal performance. Conversely, Ishii and Xuan (2014) find that M&As are more likely to take place among firms with (vs. without) social ties. What's more, the social ties between acquirers and targets have a significant negative effect on the announcement returns of the acquirers and the combined firms. The existence of social ties is associated with a higher target board retention rate, a higher probability of the acquirer CEO receiving deal-related bonuses, and poorer post-deal performance. Renneboog and Zhao (2014) show how corporate networks affect the takeover process and find that well-connected firms (central firms) are more likely to become bidders compared to other firms. In addition, well-connected firms complete the deal in a shorter time. In addition, directors of connected targets have a higher probability of being retained. However, they find no impact of board connection on announcement returns. Schmidt (2015) studies the social ties between the CEO and board members and finds that the CEO–board connection has both benefits and costs to the firm. When the potential value of the board's advice is high, social ties are associated with higher announcement returns. However, when monitoring needs are high, the social ties between the CEO and board members are associated with negative announcement returns.

2.2 Motivations of M&As

Another line of studies focuses on the motivations of firms to conduct mergers and acquisitions. The literature documents that M&As are often value-destroying, which raises the question of why firms conduct M&As (Goldberg, 1983). According to the literature, one of the motivations is to gain control of the market. Studies document that after an acquisition, the combined firm gains significant control of the market (Jensen, 1984). In addition, studies show that opportunities for synergy emerge after M&As (Chatterjee, 1986; Lubatkin, 1983).

The post-merger performance of cross-border acquisitions also differs from that of domestic takeovers. For example, Aw and Chatterjee (2004) find that U.K. firms acquiring large takeover targets are associated with negative cumulative abnormal returns over the test period. In addition, the performance of U.K. firms that take over U.S. targets is better than that of U.K. firms that take over EU targets. Bris and Cabolis (2008) find that corporate governance can affect firm value and merger outcomes. They show that the stronger the shareholder protection, the higher the premium in cross-border acquisitions relative to domestic acquisitions.

2.3 Factors affecting acquirers' stock performance

One of the factors that affect acquirers' stock performance is the offer price paid. The offer price of a deal is correlated with the target firm's pre-announcement stock volatility. Since the 1980s, studies show that target firms' stock prices experience a significant run-up before the merger announcement (Keown & Pinkerton, 1981; Jarrell & Poulsen, 1989; Meulbroek, 1992; Schwert, 1996;

Chakravarty & McConnell, 1997; Meulbroek & Hart, 1997; King, 2009; Kedia & Zhou, 2014; Augustin et al., 2019). For example, in a sample of 1,814 target firms, Schwert (1996) finds that the average cumulative abnormal return two months before the merger announcement date is 13.3%. Jarrell and Poulsen (1989) document that the stock run-up effect exists for tender offer deals. Kedia and Zhou (2014) show that there are abnormal trading activities of the target's corporate bonds and that the bond prices are correlated with the acquirer's characteristics.

Although studies agree on the existence of stock run-up before merger announcements, there are different views on what factors lead to the pre-announcement run-up. Some researchers provide evidence that insider trading is the cause of the stock run-up. Using data on illegal trading from the Securities and Exchange Commission, Meulbroek (1992) shows that pre-announcement run-ups are due to insider trading. Kedia and Zhou (2014) find that the target's corporate bond prices are correlated with the acquirer's characteristics, which supports the insider trading explanation. Moreover, they find that affiliated dealers are more likely to participate in trades associated with higher returns and to sell more bonds that stand to lose. These findings suggest that there are information flows within financial institutions. King (2009) analyzes Canadian takeovers and finds evidence that insiders use private information to trade before the merger announcement.

The acquirer firms' characteristics also have impacts on post-merger performance. In particular, studies find that a firm's risk-taking reflects the CEO's life experiences, which affect corporate decision making (Roussanov & Savor, 2014; Hutton et al., 2014; Benmelech & Frydman, 2015; Schoar & Zuo, 2013;

Malmendier et al., 2011). Relatedly, Malmendier and Tate (2008) conclude that the acquiring CEO's propensity to pursue risky value-destroying acquisitions reflects his or her life and educational experiences that fuel overconfidence.

2.4 Factors affecting targets' stock performance

For target firms, the private negotiation process might affect the deal outcomes and the target stock performance. The first question in the private negotiation process is what type of target or acquirer initiates the deal. Masulis and Simsir (2018) find that targets that have economic weaknesses or financial constraints are more likely to initiate M&A deals. Consistent with these findings, Fidrmuc and Xia (2017) report that firms with higher CEO ownership, larger golden parachutes, and higher stock options granted to the CEO are more likely to initiate deals. Aktas et al. (2016) find that acquirers with higher levels of CEO narcissism are more likely to conduct acquirer-initiated deals. Chen and Wang (2015) find that a target's private information about its stand-alone value and a bidder's private information about the valuation of the target firm are key factors determining the time of initiation. Whether the outcomes of target-initiated deals are different from those of acquirer-initiated deals is an interesting question worth examining. Masulis and Simsir (2018) find that for target-initiated deals, the takeover premium, target abnormal returns, and deal value to earnings before interest, tax, depreciation, and amortization multiples are lower. Oler and Smith (2008) find that firms that make take-me-over announcements are more likely to underperform their peers.

Another line of studies focuses on how a target sells its firm through negotiation or auction, and what factors affect the target's choice of the selling process. Xie (2010) finds that target-initiated deals are more likely to use auctions and acquirer-initiated deals are more likely to negotiate one on one. Schlingemann and Wu (2015) find that targets choose auctions to maximize the target takeover premium through greater competition and to relax their financial constraints. They also find that auctions are associated with higher target announcement returns. Anilowshi et al. (2008) study how target firms manage their earnings and their choice of selling method and find that firms that conduct earnings management are more likely than firms without earnings management strategies to sell their firms via auction. Another question is whether the selling method affects the deal outcomes. Boone and Mulherin (2007) find that the selling method does not affect deal outcomes. Why not? Chira and Volkov (2015) find that compared with firms with successful auctions and pure negotiations, firms with ex-ante auction failures are associated with lower final premiums and higher acquirer returns. Aktas et al. (2011) report latent competition among acquirers bidding in one-on-one negotiations. They also show that when the bid premium is high enough, it can be used to deter potential bidders. This result shows that there are costs related to the auction process. Boone and Mulherin (2008) find that the bidder's announcement returns are not negatively correlated with the intensity of the takeover competition, which does not support the winners' curse hypothesis.

2.5 Literature review summary

So far, I have reviewed M&As literature. From the above review, we can see that there are only a few studies that focus on cross-border acquisitions. Most of the studies examine the factors that affect domestic acquisitions. However, cross-border acquisitions possess different features from domestic acquisitions. Therefore, it is necessary to investigate cross-border acquisitions separately from domestic acquisitions. Besides, less is known about how due diligence and cultural conflicts can affect the acquirers' post-merger performance. This study fills in the gap in M&As literature by focusing on cross-border acquisitions and examine how due diligence and cultural conflicts affect the success of acquisitions.

3 Case study

According to the SDC Platinum database, the number of Chinese cross-border M&A deals significantly increased after 2000. However, cross-border acquisition in China is in the initial stage. Although the number of Chinese cross-border acquisitions has continued to grow in recent years, the success rate of these cross-border deals is not high. Furthermore, Chinese firms face numerous challenges in the post-integration period. Therefore, it is crucial to examine a few typical cases to determine the factors that affect deal outcomes. Below, I conduct case analyses of three Chinese M&As (all cross-border) and two U.S. M&As (one domestic and one cross-border). I collected the detailed information of the M&As from the firm's official websites, SEC filings, as well as news reports. From these case analyses, I summarize the factors that affect the deals' post-merger performance. In the next two chapters, I support my conclusion with large-sample empirical analyses.

3.1 Chinese cases

Although the number of cross-border acquisitions has increased significantly, Chinese firms face a few challenges. One is the low announcement return. According to historical data, the market return on the announcement date of cross-border acquisitions is significantly lower than that of domestic takeovers. Another issue faced by Chinese firms is the low success rate of post-merger integration. Chinese enterprises often spend a lot of effort studying the market to predict price and demand. Firms should take more time to study the post-merger integration problem, as this aspect is something enterprises can control. Below, I analyze three Chinese cases to gain a better understanding of firms' strengths and weaknesses in the cross-border M&A process.

3.1.1 The case of Geely and Volvo

My case study starts with the takeover of Volvo by Geely. Through this acquisition, Geely obtained high-end technologies and new platforms. In addition, this takeover opened the foreign markets for Geely.

(1) Case background

On March 28, 2010, Geely announced that it would acquire 100% of Volvo's shares for USD1.8 billion. Through this acquisition, Geely took over nine series of products, three new platforms, more than 2,400 global networks, talents, and brands, and an important supplier system. Five months later, on August 2, 2010, Geely completed the acquisition in London. Although this acquisition has since proven to be successful, things did not go well in the negotiation period. Before the two parties reached an agreement, there was fierce competition in the auction to acquire Volvo. Negotiating with Volvo was not easy.

Established in 1986, Zhejiang Geely Holding Group Co., Ltd. is one of the top 10 enterprises in China's auto industry. After 18 years of construction and development, Geely performs well in the areas of automobiles, motorcycles, engines, gearboxes, and auto parts. In 2014, Geely's total assets exceeded RMB20 billion.

The target firm, Volvo, is a famous Swedish company in the auto industry. Volvo cars are known as the safest in the world, and Volvo is the largest car company in Northern Europe and the largest industrial conglomerate in Sweden. Before it was acquired by Geely, Volvo operated as a subsidiary of Ford after it had been acquired in 1999.

Although acquiring Volvo was costly and risky for Geely, there were also several benefits. First, Geely obtained a few top-notch technologies in the auto field. The chairman of Geely mentioned that Geely was very keen to acquire the patents developed by Volvo. As an international brand, Volvo had not only valuable patents but also many skilled workers. After the acquisition, Geely had access to those patents. Second, acquiring Volvo increased the reputation of Geely's brand. Before the acquisition, Geely was not well recognized in the foreign market and had no competitive power in the luxury car market. Geely expected to fix this shortcoming with the acquisition of the Volvo brand. Finally, the acquisition of Volvo helped Geely enter overseas markets. Geely can earn oversea market shares through this acquisition. However, after the acquisition, Geely could enter new markets with a well-known name. Therefore, comparing the pros and cons, the benefits of the takeover were greater than the costs for the acquiring firm.

Between 2005 and the takeover in 2010, Volvo's operating performance had been in decline. On average, its annual loss was about USD10 billion. Therefore, it was wise for Ford, Volvo's parent company, to sell Volvo to avoid further losses. The selling process for Volvo was rather fierce. Geely was not a particularly strong competitor, but it was able to win the auction because it showed great respect for Volvo's culture and management strategy. Geely's chairman promised that after the acquisition, he would allow Volvo to operate as an independent department and would give Volvo management teams the power to make decisions. Also, China is a market with lots of growth opportunities and many potential customers. Being acquired by Geely gave Volvo access to these advantages.

Although the process of taking over Volvo was difficult, Geely's post-merger performance has been extremely good. The stock price increased by about 106% after the merger announcement, and the long-term performance is positive. Based on the operational performance between 2013 and 2018, the post-merger integration was very smooth. For the whole year of 2014, Volvo Car Group's global retail sales reached 465,866 units, much higher than in 2013, setting a new global sales record since 2007. It is also worth mentioning that in 2014, Volvo surpassed Lexus to become the fifth luxury car brand in the Chinese market. Volvo has a very good brand reputation within China's market, and it is regarded as very safe by Chinese customers. Moreover, Geely showed great respect for Volvo's management teams, which made the post-merger integration even smoother.

(2) Case summary

Looking into Volvo's case, it is clear that the post-merger integration period was crucial to the success of the M&A. Although the competition process during the negotiation might lead the acquirer to offer a higher premium, with a smooth integration period, the acquirer can still gain from the takeover. To lower the probability of cultural conflicts and communication barriers, Geely allowed Volvo to operate independently after the integration. All of these actions improved the post-merger performance.

There were a few reasons for the smooth integration process. First, Geely devoted a lot of time in choosing suitable targets and conduct a careful due diligence. Before the negotiation started, Geely had already searched for potential partners to enter into overseas markets. Furthermore, to show Geely's respect for Volvo, Geely's chairman flew abroad several times to meet with Volvo's management teams. Second, during the integration process, Geely try very hard to avoid cultural conflicts. Since the merger, Volvo has been led by its original management team. Geely does not interfere with all of the business decisions. Finally, the support of the government cannot be ignored. In recent years, more and more Chinese firms have conducted cross-border acquisitions. The Chinese government has launched a series of policies to help firms obtain more opportunities in the overseas market. For example, firms have more channels to finance acquisitions. All of these factors contribute to the favorable outcomes of Geely's acquisition.

3.1.2 The case of Everbright Securities Unit's overseas acquisition

(1) Case background

Beginning in 2016, Everbright Securities Unit (Everbright) partnered with Beijing Baofeng Group Co. (Baofeng) to establish a fund targeted at acquiring overseas companies. They planned to acquire MP & Silva Limited. Based in London and founded by the Italian businessman Riccardo Silva, MP & Silva Limited was an international sports marketing and media rights company. In May 2016, Everbright and Baofeng purchased 65% of MP & Silva's stock. The acquisition was an important stepping stone for Baofeng to enter the sports industry.

To finish the acquisition, Everbright and Baofeng established the Jin Xin investment fund, and the acquisition was made through this strategic partnership. The total investment of the Jin Xin fund was about RMB5.2 billion, invested by 14 partners. Among all of the partners, China Merchants Wealth Asset Management Limited, the largest limited partner, invested around RMB2.8 billion, about 53.82% of the total fund value. The total value invested by the priority investors was about RMB3.2 billion.

However, three years after the acquisition, it was reported that MP & Silva had missed rights payments to entities such as the Premier League. Many entities cut their ties with MP & Silva after the agency had missed several scheduled rights fee payments and lost a host of big contracts in the months after it emerged that Serie A was set to take the company to court over unpaid rights fees totaling nearly EUR38 million. The final straw that crushed MP & Silva came from the French Tennis Federation (FFT). In October 2018, the FFT appealed to the High Court of Justice for the bankruptcy of MP & Silva under the Insolvency Act.

The China Merchants Bank, together with other priority partners of the Jin Xin investment fund, filed a lawsuit against Everbright Capital for compensation of RMB3.489 billion. Although Everbright signed a contract to make up the difference in return for priority shares by inferior share subscribers, there is still dispute among the investors, and who should bear the loss remains unclear.

(2) Case summary

Why did the acquisition of MP & Silva fail? The lack of due diligence seems partly responsible. As an acquirer, Everbright should have conducted thorough due diligence. However, Everbright did not carefully examine the past performance of MP & Silva, nor did it propose to use the important and commonly used valuation adjustment mechanism. At the time of the acquisition, most of the major sports copyrights owned by MP & Silva were close to expiry. Among them, the copyright contracts with Serie A and Ligue 1 were due to expire by 2018, and those with the Premier League, Arsenal FC, and F1 by 2019. The longest contract is up to 2021. The lack of continuity of copyright was a major concern after the acquisition by the Jin Xin investment fund. Such issues could and should have been examined during the due diligence process. With proper analysis, the fund would have been able to avoid acquiring relatively unattractive firms with little growth potential.

In addition, after the acquisition, the fund did not sign a non-competition agreement with crucial employees of MP & Silva. As a result, the three founders of MP & Silva quit the company immediately after the acquisition, securing a huge amount of money. From August 2015, two of the founders, Radrizzani and Silva, started to reduce their shares in MP & Silva. Radrizzani founded Eleven Sports in 2015, acquired several import broadcast rights, and after the acquisition, bought the British crown team Leeds United in 2017. Silva bought the American second-level professional football team Miami FC in 2017 and became a shareholder of the Serie A giant AC Milan in 2018. The actions of the two founders adversely affected the operations of MP & Silva after the acquisition.

Who should bear the loss? The value of MP & Silva dropped considerably, and in October 2018, after successive lawsuits, the British High Court declared MP & Silva in official bankruptcy liquidation. On March 13, 2019, the Jin Xin fund and its executive partner Everbright sued Baofeng Group in the High Court of Beijing. Due to the failure of this acquisition, Everbright and the other plaintiffs required Baofeng to make up the loss of approximately RMB750 million.

3.1.3 Lenovo takeover of IBM PC

(1) Case background

In December 2004, Lenovo Group announced the acquisition of IBM's PC business. In May 2005, the transaction was completed. The negotiations between Lenovo and IBM began in 2003 and lasted for about one year. At the end of 2003, Lenovo began the due diligence process and hired McKinsey as its strategic consultant to gain a comprehensive understanding of IBM's PC business and integration possibilities. In early 2004, Lenovo hired Goldman Sachs as its financial advisor. On March 26, 2004, Lenovo and IBM began substantive negotiations. The negotiations were conducted with a confidential agreement. During the negotiations, the two parties reached an agreement, and subsequently announced an acquisition agreement on December 8, 2004. After the merger, Lenovo would have access to IBM's entire PC business, including its notebook and desktop businesses. Lenovo acquired the PC business's global sales channels, R&D centers in Japan and North Carolina, and 10,000 employees. The transaction consideration was about USD650 million in cash, and Lenovo's stock was worth about USD600 million. The total consideration was up to USD1.25 billion.

After the transaction, Lenovo and IBM established long-term strategic partnerships. Lenovo received five years' free use of the IBM brand and ownership of related patents of the ThinkPad brand. Lenovo was the preferred supplier of IBM's PC equipment, and the IBM Global Service Center became Lenovo's priority service provider. Besides, IBM Global Financial Service became the preferred provider of Lenovo's financial leasing and financial services.

After the acquisition, IBM and Lenovo formed a unique marketing and service alliance, and Lenovo's PCs were sold through IBM's worldwide distribution network, which allowed Lenovo to enter more worldwide markets. IBM continued to provide a variety of integrated IT solutions for small and medium-sized business customers. IBM was the preferred maintenance and quality assurance service and financing service provider for the new Lenovo.

(2) Case summary

To summarize the success of Lenovo's acquisition, I start by analyzing Lenovo's negotiation process. Next, I explain what Lenovo did to achieve an effective post-merger integration.

Unlike Everbright, Lenovo conducted thorough due diligence throughout the negotiation process, which ensured that the merger was completed smoothly. The due diligence conducted by Lenovo included verifying procurement data and business information. Lenovo hired a third-party accounting firm to verify the information through a review of the relevant procurement contracts, to check the accounts, and to spot check the bills. Due to the neutrality of the third party, the concerns of IBM were alleviated. Lenovo paid a reasonable fee to those third party, reflecting its great confidence in the transaction.

To achieve the effective integration after the merger, Lenovo devoted a lot of effort to reduce the conflicts between the two parties. Lenovo adopted dual-brand and dual-market tactics to maintain the temporary stability during the post-merger period, rather than rushing to integrate. Lenovo introduced the concept of "candid respect and compromise." Compromise was the key for Lenovo and IBM when identifying the most important tasks after integration. Through this way, the two parties gradually arrived at the best resolution and avoided the cultural conflicts.

3.2 U.S. cases

In the following analyses, I focus on a cross-border acquisition conducted by a U.S. company and a U.S. domestic acquisition. I compare these two cases with the acquisitions conducted by Chinese firms discussed in the previous sections.

3.2.1 Amazon's takeover of Joyo

(1) Case background

Joyo.com (Joyo) was established in 2000. Specializing in popular products such as audio and video, books, software, games, and gifts, Joyo rapidly grew into an influential e-commerce website in China. In January 2000, Joyo spun off from Beijing Jinshan Software Co., Ltd. Jinshan Company and Legend Investment Co., top IT companies in China, jointly invested in the newly formed Joyo. Later, in September 2003, the world-famous investment institution Tiger Fund became the third largest shareholder of Joyo.

On the other side of the world, Amazon is a key player in the e-commerce sector in the U.S. market and is one of the NASDAQ 100's index stocks. Before Amazon took over Joyo, it already had six websites around the world selling a variety of products. Amazon offers new products and refurbished goods in categories such as clothing, shoes, apparel, home gardening, outdoor products, baby products, jewelry and watches, books, kitchen utensils, cameras, magazine subscriptions, mobile phones and services, music, computers, and other accessories. Amazon also sells products on other companies' websites through store collaboration. Before taking over Joyo, Amazon already had 7,800 employees.

Although Amazon was willing to enter the Chinese market, it faced fierce competition with local online shopping companies, such as dangdang.com. In early 2004, Amazon approached dangdang.com and Joyo in private to negotiate a potential integration. However, dangdang.com rejected Amazon's offer. During the second round of negotiations, Amazon only negotiated with Joyo about the possibility of a merger. In April 2004, Amazon and Joyo took the merger to the next stage and started to discuss the terms and concessions of the deal. Later, they reached a merger agreement with a final offer price of about USD75 million. Amazon acquired 100% of Joyo's stock, with 95% of the consideration paid in cash.

The merger announcement was made on August 19, 2004. The U.S. and Chinese markets had different opinions on this integration. Many Chinese investors thought that the consideration was less than Joyo was worth, and that Amazon would gain from this acquisition. However, U.S. investors did not agree that the acquisition can bring Amazon more value. On the announcement date, Amazon stock opened at USD40.34 per share, but the price dropped later that day.

Amazon's post-merger performance in China was not successful. Joyo.com did not increase its sales in mainland China, nor did it bring other profit to Amazon. Compared with other e-commercial platforms, like Dangdang.com, Tmall, and JD.com, Joyo has little market share and its sales are decreasing.

(2) Case summary

One reason for the failure of Amazon's acquisition is its lack of localization. In the second year after the acquisition, Amazon made a major overhaul of Joyo. The layout style was completely changed to emulate Amazon's, and a global unified model was adopted to save costs. In China, Amazon–Joyo was more like a department with no decision-making functions, instead of an operation center. However, China's culture differs a lot from that of the U.S. For example, in China, there are lots of special holidays, such as Chinese New Year and November 11. The failure to adjust to the local market meant Amazon had difficulty competing with local online shopping companies. In recent years, the number of employees has dropped by around 50%. However, Amazon has recently realized the importance of localization and has changed its strategies in the Chinese market. It has opened a new business in year 2014, "overseas purchase," which allows local customers to buy products manufactured outside China. The breakthrough of overseas purchase allowed Amazon to see its potential to sell products at a lower cost. At the end of October 2016, Amazon's special Prime membership service was added to China's special terms to provide Prime membership customers with cross-border orders with unlimited free shipping throughout the year.

The case of Amazon shows the importance of integration. Although Amazon started with a takeover of a local company, integrating and adjusting to the local market were crucial to its entrance into new markets. However, in domestic acquisitions, localization is not an important factor that determines the success of the merger—rather, competing with other potential bidders and identifying synergies are.

3.2.2 Microsoft's takeover of LinkedIn

(1) Case background

LinkedIn is the world's largest professional network website, and its members use the platform to stay connected. It also provides opportunities for its members to advance their careers. The LinkedIn board regularly evaluates LinkedIn's strategic direction and ongoing business plans with a view to realizing LinkedIn's vision and mission, strengthening its core business, and enhancing stockholder value. As part of this evaluation, the LinkedIn board had considered a variety of strategic alternatives, including (1) the continuation of LinkedIn's current business plan as a standalone entity; (2) modifications to LinkedIn's business plan and strategy; and (3) potential expansion opportunities into new business lines through acquisitions and combinations of LinkedIn with other businesses.

On February 16, 2016, LinkedIn's CEO met with Microsoft's CEO to discuss their ongoing commercial relationship and ways to enhance it. During the discussion, the concept of a business combination was raised. Apart from Microsoft, LinkedIn had discussed business combinations with a few other potential acquirers, such as Google, Facebook, and Salesforce, that were also interested in LinkedIn. During the negotiation period, the LinkedIn board authorized the company to engage Qatalyst Partners as its financial advisor to assist with its exploration of alternative strategic transactions.

On April 6, 2016, representatives of Wilson Sonsini, LinkedIn's outside legal counsel, provided Microsoft with a draft of a confidentiality agreement. The confidentiality agreement was signed on April 11, 2016. On May 13, 2016, Microsoft submitted a revised proposal in response to the request for best and final offers for the acquisition of LinkedIn at USD182 per share in cash, with the flexibility to include Microsoft common stock as part of the consideration mix if requested by LinkedIn. Another company had submitted a bid for USD182 per share, consisting of USD85 in cash and the remainder in that company's stock. On June 6, 2016, Microsoft's proposal of USD182 in cash per share of LinkedIn common stock was no longer feasible and Microsoft was encouraged to offer USD200 per share. Mr. Weiner, the CEO of LinkedIn, informed the members of the Transactions Committee that he had spoken to Mr. Hoffman, co-founder and executive chairman of LinkedIn, and he was now also supportive of the acquisition of LinkedIn entirely in the form of cash, in addition to the proposal of a cash and stock transaction. The representatives of Qatalyst Partners discussed with the Transactions Committee that an acquisition entirely for cash would be more attractive to Microsoft.

On June 11, 2016, the representatives of Qatalyst Partners, Allen, and Wilson Sonsini reviewed the terms of the merger agreement and Microsoft's proposal for an acquisition of LinkedIn at USD196 per share in cash. Later that day, LinkedIn informed Microsoft that the LinkedIn Board had approved the acquisition, and the merger agreement was signed.

From the bidding process, we can see that the bidding competition was quite fierce. One of the potential problems associated with fierce bidding competition is that the winner might overpay. Boone and Mulherin (2008) suggest that the breakeven returns to bidders in corporate takeovers stem from the competitive market for targets. Therefore, in domestic acquisitions, bidders may face the problem of high market competition.

(2) Case summary

Is the takeover of LinkedIn successful? The answer is still unknown because the acquisition took place not long ago. However, the deal seems to have paid off so far, as LinkedIn has generated more than USD5 billion in annual revenue and this number is still growing. In addition, LinkedIn's well-connected chairman Reid Hoffman can help Microsoft, which has not been very well connected in Silicon Valley, build stronger connections. So far, the post-merger integration process has been smooth in the year following the acquisition.

3.3 Conclusions from the case analyses

From the cases analyzed, we can see that there are many differences between domestic acquisitions and cross-border acquisitions. Bidders in cross-border acquisitions must focus not only on the pre-bidding competition but also on the post-merger integration. The integration process is more challenging for cross-border acquisitions because the bidders might be less familiar with overseas markets, industry trends are hard to predict, and communication between the targets and the acquisition might not be very smooth due to cultural differences.

Several factors determine the success of cross-border acquisitions. One of the factors is due diligence when evaluating the value of the target firm. The evaluation process is not simply about the price. The evaluation should also concentrate on the future developments of the target firm and the industry, contracts such as copyrights and patents, brand value, etc. For example, if Everbright and Baofeng had devoted more time to the due diligence process, they might have been able to avoid the losses. Obtaining intellectual assets and patents is crucial to the success of a cross-border acquisition. However, the evaluation process is more complicated for cross-border than domestic acquisitions, and the industry trend is hard to forecast because of the acquirer's unfamiliarity with overseas markets.

Another factor that affects the performance of a cross-border acquisition is the effectiveness of the post-merger integration. Comparing the cases above, we can see that the post-merger integration can affect the operation and decisions of the merged entity. Geely's success depended a lot on its respect for Volvo's culture and the management team's ability. However, failing to adapt to the Chinese market and controlling too much of Joyo surely damaged Amazon's operating performance. The bidder needs to pay attention to several aspects of the post-merger integration. First, some independence might be good for the target firm's operation. In cross-border acquisitions, the target firms need to adapt to the local market. Therefore, too much control from the bidder might lower the efficiency of the target firm's operating process. Second, acquisitions' success also depends on the bidder's use of the target's resources. With valuable patents and connections, the acquisition can bring the bidder more than what can be found in the balance sheets. Last but not least, maintaining a good reputation for the target's brand is also important. Volvo's good reputation in China contributed a lot to the success of Geely's acquisition.

To verify the conclusions drawn from the case analysis, in the empirical part I test whether overseas experience and the target's nationality can affect the merger outcomes. I focus on the acquirer's overseas experience and the target's nationality for the following reasons.

First, acquirers with overseas experience are more likely to conduct thorough due diligence before the two parties reach an agreement. The overseas experience of board members can help the acquirer to better communicate with the target during the negotiation process. Through such conversations, acquirers can obtain valuable information that allows them to better evaluate the target. Besides, thorough due diligence can lower the probability of acquiring worthless assets.

Second, the overseas experience of board members can also help to smooth out the integration process after the merger. Cultural differences and communication problems often lead to less successful post-merger performance. Board members with overseas experience can act as a bridge to help the two parties better understand each other.

I also examine whether the target's nationality affects post-merger performance. Targets with different cultures might experience different post-merger integration processes that affect merger performance. There are many differences between developed countries and developing countries, such as in legal systems, customer preferences, and market competition. On the one hand, acquirer firms in developed countries allow the bidder to obtain advanced technology. Such technologies allow the bidder to produce high-end products and gain more market share. On the other hand, the cultural differences between mainland China and developed countries are significant. These cultural differences might be reflected in daily communication between the two merger parties. Misunderstandings, a lack of communication, and differences in working hours can all contribute to low efficiency. The two management teams might behave differently and cause unnecessary costs to the combined company. Therefore, in this paper, I use the target's nationality as a proxy of the target culture to test its effect on integration performance.

4 Data and research methodology

4.1 Data and sample selection

I use cross-border M&A data from the SDC database. My sample is from January 1990 to January 2016. I start from 1990 because before 1990, only a few Chinese cross-border deals took place. The number of Chinese cross-border deals started to increase after 1990. I collect data on all deals in which the acquirers were Chinese mainland companies. Next, I require the acquirer firm's state of incorporation to be mainland China (omitting firms incorporated in Hong Kong, Taiwan, and Macau). In addition, I drop deals in which the target firms were incorporated in mainland China, Hong Kong, Taiwan, and Macau. I retain only deals whose status is either "Completed" or "Withdrawn." Furthermore, I require the number of shares acquired to be larger than 50% of the target's total shares.

Deal characteristics, such as deal size and deal premium, are obtained from the SDC database. I drop deals with incomplete deal characteristics and deals with missing target and acquirer firm characteristics. For the acquirer characteristics, I manually match the SDC and CSMAR data using the company name. The matching process is as follows. First, I manually search for the company name in the SDC database in English and translate this name into Chinese. Then, I check whether the firm is listed. Last, for listed firms I obtain the corresponding stock codes from their official websites.

I also collect the firms' financial information and stock trading information from the CSMAR database. With the collected firm stock codes, I obtain the firms' characteristics from the CSMAR database. I drop deals for which the target firms' characteristics are missing.

My final sample comprises 1,641 deals with non-missing deal information. Among them, 512 were conducted by listed acquirers. Merging the information with that of the CSMAR database yields 227 deals with Chinese listed acquirers with stock trading information. The number of deals with stock trading information is much smaller than that of public acquirers in my sample, as some of the firms were listed outside mainland China and other stock trading information had fewer than 50 data points one year before the deal announcement.

In addition, I manually collect the acquirers' overseas experience. To measure overseas experience, I use two proxies—the acquirer board members' overseas experience and the acquirer's overseas connections. Acquirer board members are defined as having overseas experience if they have studied or worked abroad. An acquirer is deemed to have an overseas connection if it has entered an overseas market or established branches in an overseas market. Board member information and overseas information are obtained for 67 of the 227 deals. This information is collected from the firms' annual reports and their official websites.

Table 1 reports the deal number by year from the SDC database and my sample. From Table 1 we can see that the deal number increased year by year. After 2000, cross-border acquisitions conducted by Chinese firms increased dramatically. On average, there were only six deals per year before 2000. The deal number was significantly lower during the first few years at the beginning of the 1990s. There were 20 deals at the beginning of 2000. However, hundreds of cross-border deals have taken place in recent years. The data show that Chinese firms have started to conduct more acquisitions. The number of cross-border deals increased from 2 deals per year in 1990 to 142 in 2017.

[Insert Table 1 here]

I remove deals with missing variables, reducing my sample size. I drop deals whose status is not "Completed" or was "Withdrawn." The number of the acquirer's shares is required to be larger than 50% of the target firm's total shares. After deleting deals with missing values, I have 1,461 cases of Chinese acquirers' conducting cross-border deals. As shown in Table 1, Columns (2) and (3), 512 deals were conducted by listed acquirers and 949 deals were conducted by private acquirers. We can see from Columns (2) and (3) that in the 1990s there were only a few cross-border deals conducted by public acquirers. Cross-border deals conducted by public acquirers increased significantly after 2001.

Columns (4) to (6) of Table 1 show the characteristics of the listed acquirers. Column (4) reports the number of deals with acquirers listed in mainland China. Column (5) reports the number of deals with acquirers listed in markets outside mainland China. Column (6) shows the number of deals with cross-listed acquirers. From these three columns, we see that before 2010, acquirers listed overseas conducted more cross-border mergers and acquisitions. However, after 2010, Chinese listed firms increased their acquisition activities overseas. The number increased dramatically after 2013, and in the last three years, the number of cross-border acquisitions conducted by Chinese listed firms exceeded the sum of the cross-border acquisitions conducted by overseas listed firms. This phenomenon might be correlated with the proposal of the Belt and Road Initiative in 2013.

Panel A of Table 2 presents the summary statistics of Chinese cross-border M&A deals according to acquirer overseas experience. Column (1) of Panel A reports the total number of deals for which data on overseas experience are available. Column (2) of Panel A reports the number of deals for which board members have overseas experience. Column (3) presents the number of acquirers with overseas connections.

[Insert Table 2 here]

As shown in Panel A of Table 2, of the 67 deals for which the firm's board and director information is available, 38 acquirers have board members with overseas experience and 27 acquirers have overseas connections.

Panel B of Table 2 presents the number of Chinese cross-border M&A deals by the target nation. Column (1) of Panel B reports the total number of deals. Column (2) presents the total number of cross-border deals conducted by listed acquirers. Column (3) reports the total number of cross-border deals with private acquirers.

From Panel B of Table 2, we can see that Chinese acquirers are more likely to acquire firms in North America and Europe. The countries in these two continents are more developed, and the firms are more mature. Acquisitions of firms in these two areas are likely driven by the desire to obtain high-end technology. For these deals, post-merger integration is crucial to the success of an

M&A deal. Two factors might affect the acquirers' post-merger integration. First, obtaining advanced technology might be risky. Although the products are advanced, they might not be suitable for the mainland market. How to use those technologies in the acquirer's firm might be a key factor affecting post-merger performance. Second, the cultural differences between mainland China and North America, and between mainland China and Europe, are very large. These cultural differences might be reflected in the daily communication between the two merger parties. Misunderstandings, a lack of communication, and differences in working hours can all contribute to low efficiency. The two management teams might behave differently and incur unnecessary costs for the combined company.

Table 3 presents the summary statistics of acquirer characteristics and deal characteristics. Column (1) to column (5) reports the variables' mean, median, standard deviation, minimum value, and maximum value respectively.

[Insert Table 3 here]

4.2 Methodology

4.2.1 Measure of firm performance

In this paper, I use short-term measurements and long-term measurements of post-merger performance. Short-term measurements reflect market reactions to the merger announcement. This measure indicates the market's opinion of the cross-border M&A deal. I also use the acquirer firm's long-term performance after the deal to examine post-merger integration.

(1) Short-term firm performance

In this paper, I use 3-day, 5-day, 11-day, and 23-day cumulative abnormal returns (CAR [-1, 1], CAR [-2, 2], CAR [-5, 5], and CAR [-1, 21] respectively) to measure the acquirer's market performance. Abnormal returns are calculated using the market model. I use the acquirer's stock price from 365 days before the announcement date to 60 days before the announcement date to estimate the market model. I drop deals with fewer than 50 trading data points within the stated period. The market model is calculated using the formula below:

$$Return_{i,t} = \alpha + \beta_1 Market\ Return_{i,t} + \varepsilon_i \tag{1}$$

(2) Long-term firm performance

I measure the post-merger performance of the acquirer using the acquirer's ROA one year (two years) after the merger announcement, and its earnings per share one year (two years) after the merger announcement. ROA is calculated as earnings before interest and tax divided by the acquirer's total assets.

I also measure the acquirer's post-merger long-term performance by using its long-term stock performance. To measure the long-term post-merger performance, I calculate the stock returns one year (180 days) after the merger announcement. I use Model (2) to calculate the stock return:

$$Stock\ return = \frac{Stock\ price\ at\ one\ year\ (180\ days)\ after\ announcement}{Stock\ price\ at\ one\ day\ after\ announcement} - 1 \tag{2}$$

4.2.2 Regression model

I also examine the factors that affect cross-border post-merger performance by using linear regression. My model is shown in Equation (3). The dependent variable of Model (3) is the post-merger performance of the acquirer firm, either short term or long term. The independent variables are the deal and firm characteristics. I add year fixed effects to control the variation of M&A performance each year:

$$Y_i = \alpha + \beta_1 X_{1i} + \beta_2 X_{2i} + \sigma_i + \varepsilon_i \tag{3}$$

X_{2i} stands for the control variables and σ_i stands for the unobserved year specific effects. I use two acquirer firm characteristics as control variables in all of the regressions: "Acquirer total assets" and "Acquirer leverages." "Acquirer total assets" is the total book value of assets at the beginning of the year, and "Acquirer leverages" is calculated as the debt to asset ratio of the acquirer.

The two key factors in this study are overseas experience and target nationality. These two measures are highly correlated with the target due diligence process and cultural conflicts. Overseas experience is measured at two levels, firm-level and director-level. Overseas experience can capture the acquirer's familiarity with the target as well as the foreign market. Those experiences enable firms to better evaluate targets. Firms with overseas experience are comparatively familiar with the economic environment in the target nation. Besides, firms with overseas experience have less information asymmetry, which allows the acquirer to offer a proper merger premium. In addition, in the post-merger integration process, firms with overseas experience can reduce the cultural conflicts between the acquirers and targets. The overseas experience of the director allows the firms have more foreign connections. Besides, directors' overseas experience can guide them better communicate and negotiate with their counterparties. On the other hand, target nationality can capture the motivation of the acquisition, which can affect the due diligence process and cultural conflicts. Target in developed countries might have a lower information asymmetry level, which allows the acquirer to better evaluate the target. However, they might face a complex economic environment and law system, which might require the acquirer to spend more time in the due diligence process. The different motivation for acquisition also affects the post-merger integration process. In the following test, I use these two proxies to examine how they affect the deal characteristics and post-merger performance.

5 Empirical tests

5.1 Post-merger performance

As discussed above, I will focus on the acquirer overseas experience and the target nationality in my empirical tests. Overseas experience is important to the firms' due diligence before the merger announcement while the target nationality reflects the merger motivation.

I first test whether the deal outcome is significantly different between those with overseas experience and those without. According to the previous analysis, firms with overseas experience should be more familiar with the targets and able to better evaluate the target's true value. Besides, when directors have overseas experience, acquirers are likely to be more familiar with the culture of the target and thus communicate more smoothly with the target firm's management team. These factors all contribute to the success of the post-merger performance. In the following tests, I examine both short-term market reactions and long-term post-merger acquirer performance to analyze the effect of acquirers and director overseas experience.

In the second part of Chapter 5, I examine whether the area of target incorporation affects the acquirer firm's market reactions and post-merger integration. The target's nationality of incorporation can affect the economic environment the acquirer might face and the laws that the acquirer might be subject to. Therefore, it is not surprising to find that the target's nationality of incorporation can affect the deal's outcome and the acquirer's long-term performance. In the following test, to measure the short-term performance and the market reaction to the deal announcement, I use CAR, which is calculated from the 365 days before the announcement date to 60 days before the announcement date.

[Insert Table 4 here]

As shown in Table 4, on average, the market reactions to deals with overseas experience and overseas connections are better than those to deals without overseas experience. This finding is consistent with my conjecture that overseas experience is positively correlated with the performance. It is also consistent with the conclusions of the case analyses in Chapter 3. Therefore, the empirical findings are consistent with those of the case analyses.

Several channels can explain the results of Table 4. First, acquirers with more overseas experience are less likely to face high information asymmetry during the due diligence process. Less information asymmetry lowers the risk the acquirer might be subject to during the acquisition. Furthermore, deals that might present obstacles in the post-merger integration period can be avoided in the negotiation process if the acquirer is acquainted with the target's culture. The second channel that may drive my results is that overseas experience can help firms to find more suitable outside advisors. With the help of experienced outside advisors, firms can better evaluate the target and avoid overbidding. The acquirer firm's overseas business and other connections have similar functions in helping the firm approach targets that can generate high synergies.

Table 5 presents the market reactions to announcements of Chinese cross-border M&A deals according to the target's nation of incorporation. Columns (1) to (4) present the results of the market reactions to merger announcements for targets located in a developed continent with window periods of [-1, 1], [-2, 2], [-5, 5], and [-1, 21] respectively. I adjust for year fixed effects for all the regressions.

In Table 5, the main variable of interest is whether the target is incorporated in developed countries. The variable "Target incorporated in developed area" is a dummy variable that equals 1 if the target firm is incorporated in North America or Europe. Otherwise, the variable for a target incorporated in a developed area equals 0. I control for acquirer size and leverage in the regression. As shown in Table 6, the targets incorporated in developed areas are associated with higher market reactions. The results are consistent within all four window periods. On average, if targets are incorporated in a developed area, the market reactions are 3% higher than for deals in which the targets are not. As shown in the table, acquirer size and acquirer leverage are not significantly correlated with the market reactions. This result is inconsistent with previous research (Moeller et al., 2004; Capron & Pistre, 2002). One of the probable reasons is that my sample is relatively small. There are only 227 data points in my sample.

[Insert Table 5 here]

The results in Table 5 reflect market opinions to the acquisitions. In general, shareholders are more favorable toward deals with targets incorporated in developed countries. This might be due to the higher probability that these firms possess advanced technologies and efficient management teams. Targets incorporated in less developed areas might have fewer patents or advanced products. Such acquired assets might be subject to higher uncertainty if the targets are incorporated in developing areas. In addition, the legal systems in developed areas are more robust and might bring more certainty to the acquirers, also contributing to the positive market reactions to the merger announcement. Overall, the results in Table 6 reflect shareholders' opinions on Chinese firms' acquisitions.

In the following two tables, I test how the long-term post-merger performance varies according to the acquirer's overseas experience and the target's nation of incorporation. I use ROA and stock returns to measure long-term performance. Detailed calculations can be found in Chapter 4.

Table 6 presents the long-term market reactions to the deal announcements of Chinese cross-border M&A deals according to the acquirer's board members' overseas experience and the acquirer's overseas connections. The variable of interest is board members' overseas experience and the acquirer's overseas experience. Columns (1) and (3) report the ROA one year after the merger announcement. Columns (2) and (4) report the ROA two years after the merger announcement.

As shown in Table 6, the acquirer's overseas experience is associated with higher post-merger performance. The post-merger one-year ROA and the post-merger two-year ROA are significantly higher when the acquirers possess overseas experience. These results are consistent with the conclusions of the previous case analyses. Acquirers with overseas experience can communicate more smoothly with the target firm after the merger. Better integration generates higher synergy.

[Insert Table 6 here]

The findings in Table 6 are not surprising. Overseas experience is valuable in the post-merger integration process. First, cultural differences are shown to be one of the reasons for the failure of post-merger integration. Overseas experience can mitigate the effects of cultural differences. With more knowledge of the target culture, communication can be smoother, and fewer misunderstandings might occur. Second, overseas experience can also help the acquirer firms set a proper goal in the target market. To open the overseas market, localization is crucial. As shown in the case of Amazon, an inappropriate goal might lead to unexpected losses. Finally, overseas experience also correlates with more overseas connections, which are valuable in the merger markets (Cai & Sevilir, 2012; Ishii & Xuan, 2014).

Table 7 presents the market reactions to the announcements of Chinese cross-border M&A deals according to the target's nation of incorporation. The dependent variable is the target's nation of incorporation, which is a dummy variable that equals 1 if the target is incorporated in a developed area. Column (1) reports the ROA one year after the merger announcement, and Column (2) reports the ROA two years after the merger announcement. I adjust for year fixed effects in all of the regressions. ROA is calculated as the acquirer's earnings before interest and tax, divided by the total assets. The sample includes 202 data points with non-missing acquirer characteristics and stock trading information.

As shown in Table 7, the long-term post-merger performance of the Chinese acquirers is not significantly correlated with the target's nation of incorporation, although Table 5 shows that the market reactions differ for deals with targets incorporated in developed countries. Long-term operating performance is correlated with post-merger integration.

[Insert Table 7 here]

The results in Table 7 can be interpreted as follows: when taking over a corporation in a less developed area, firms might be subject to negative market opinions. However, these negative market reactions are not rational in terms of long-term post-merger performance. Statistically, there is no significant difference in performance between acquirers that takeover targets in developed versus developing countries. This result indicates that the market might have biases in some of the cross-border takeovers.

Table 8 shows the long-term stock performance after the cross-border deal announcement. The stock's long-term performance is calculated using Equation (2) in Chapter 4. The stock prices one year after the deal announcement are collected from the SDC database. Consistent with the long-term operating performance (ROA), the long-term stock performance is not correlated with the target's nation of incorporation. Similar to the results in Table 7, these results show that whether takeover targets are in developed nations or developing nations does not affect the long-run performance.

[Insert Table 8 here]

5.2 Deal characteristics performance

In this section, I examine how overseas experience and the target firm's nation of incorporation affect merger deal characteristics. Table 9 presents the correlation between the adoption of termination fees and acquirer overseas experience. In addition, this table reports the association between the adoption of termination fees and the target's nation of incorporation. Columns (1) to (3) present the results of the adoption of target termination fees. Columns (4) to (6) present the results of acquirer termination fees. I control for the acquirer's total assets and leverage. The t-statistics are in parentheses. I adjust for year fixed effects for all of the regressions.

As shown in Table 9, the board members' overseas experience and the bidder's overseas connections are not correlated with the adoption of termination fees. However, the results in Table 9 indicate that targets incorporated in developed countries are more likely to adopt termination fees and ask the acquirers to adopt termination fees. Two factors might contribute to this result. First, targets in well-developed countries are generally larger and the structures of the target firms are more complicated. Therefore, the adoption of termination fees can cover the cost of due diligence and other opportunity costs that might occur if the acquirer or the target decides not to go through with the merger. Second, targets in well-developed countries are exposed to more merger opportunities. The adoption of termination fees can lower the chances that a target withdraws from the merger negotiation and turns to other potential acquirers that can offer better merger terms.

[Insert Table 9 here]

The adoption of termination fee agreements also benefits the target. For targets, merging with foreign firms might be less uncertain than being acquired by domestic firms. These uncertainties might arise from cultural differences, market misfits, or complicated corporate structures. The termination agreements adopted by the acquirer firms lower the target firms' uncertainty and can help transactions complete faster and more smoothly.

Finally, I test how overseas experience and the target's nation of incorporation affect the deal characteristics. Columns (1), (2), (4), and (5) of Table 10 show the correlation between the bidder's overseas experience and the deal status and payment methods. Columns (3) and (6) of Table 10 show the correlation between the target's nation of incorporation and the deal status and payment methods. I control for the acquirer's total assets and leverage and adjust for year fixed effects for all of the regressions.

[Insert Table 10 here]

The results of Table 10 indicate that deal characteristics such as completion rate and payment method are not affected by acquirers with overseas experience. As shown in Table 10, the deal completion rate is not affected by the target's nation of incorporation. This result is very interesting, because one might expect the completion rate of deals with overseas experience or targets incorporated in developed countries to be higher. Targets incorporated in developed countries might have more experience in M&A and can engage advisors with better reputations. However, results are not consistent with this view. One possible reason is that the cultural differences between Chinese acquirers and targets in well-developed countries are large. These differences might present more difficulties in the negotiation period and the integration process. Therefore, when a Chinese acquirer is faced with two similar targets, the one located in Europe or North America might be more associated with greater difficulties in the takeover process.

Another finding in Table 10 shows that the payment methods of the deal are not correlated with overseas experience or the target's nation of incorporation. Studies have shown that the payment method of the deal might be affected by the target firm's information asymmetry level. On average, firms in well-developed areas have less information asymmetry. However, our results are not consistent with this view, although this might be due to the small sample size of this study. Another possible explanation is that although the firms are financially transparent, the differences in culture, language, and working hours all hinder the communication process and lead to a higher information asymmetry level.

Overall, my empirical results indicate that acquiring targets that are incorporated in a well-developed area might benefit the acquirer in the short run, as reflected in the short-term market reactions. However, long-run operating performance and long-term stock performance do not vary with the target’s nation of incorporation. In addition, our results show that deal characteristics are similar for deals with targets in developed and developing areas, except in the adoption of termination fees. Cross-border acquisitions have slight differences compared to domestic acquisitions regarding deal terms.

6 Conclusion

In this paper, I study the factors that affect cross-border acquisitions' post-merger performance and deal characteristics. I start my research with a few case studies. I analyze Chinese cross-border acquisitions and compare them with U.S. deals. In addition, I examine one domestic acquisition and compare it with cross-border acquisitions conducted by Chinese acquirers.

In the case studies, I find that due diligence during the negotiation process and the success of post-merger integration are crucial to the M&A deal. During the negotiation period, the acquirer must not only evaluate the value of the target, but also pay more attention to the target's patent, its brand value, and the local market. After the merger announcement, whether the acquirer can communicate smoothly with the target management team is important to the success of the merger. The success of the acquisition also depends on the bidder's use of the target's resources.

In the second part of this paper, I use empirical data to examine Chinese cross-border acquisitions. The results show that the acquirer firm's short-term and long-term post-merger performance is affected by the acquirer's overseas experience. My results show that firms with overseas experience have stronger market reactions to the deal announcement. In addition, the long-term performance is higher for acquirers with overseas experience.

Moreover, I test whether deal performance is affected by the target's nation of incorporation. Specifically, I find that the market reacts more favorably to cross-border deals with targets incorporated in more developed countries. In addition, the deals that involve targets incorporated in more developed countries also have superior deal outcomes. However, long-term performance is not affected by the target's nation of incorporation.

My study has some limitations. One concern about my study is that I only focus on the target firms' nationality. Due to data limitations, I cannot control for other target firm characteristics. Target characteristics are shown to be correlated with the deal characteristics and the acquirer firm's post-merger performance. However, in my sample, some of the target firms are not public firms, and their financial information is not publicly available. In addition, some target firm characteristics can affect the merger negotiation process. A larger or complicated target firm might be associated with a longer negotiation period. Other factors, such as target and acquirer connections and the use of financial advisors, can also affect the post-merger performance. Therefore, future research should focus on these factors and test whether and how these factors affect Chinese cross-border acquisitions' post-merger performance.

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Appendix A: Variable definitions

Cumulative Abnormal Returns (CAR): Cumulative abnormal returns to the merger announcement. Abnormal returns are calculated using the market model (as shown in **Equation (1)**). To calculate the market model, I use the acquirer's stock price in the window period [-365, -60] before the merger announcement. Firms with fewer than 50 data points are dropped.

ROA: Earnings before interest and tax divided by the total assets at the beginning of the year.

***Earnings per share*:** Earnings per share of the focal year.

Long-term post-M&A stock returns: The stock returns one year (180 days) after the merger announcement. This variable is calculated using **Equation (2)**.

Acquirer total assets: The natural logarithm of the total book value of assets at the beginning of the year.

Acquirer leverages: The debt to equity ratio of the acquirer.

Target incorporated in developed area: Dummy variable. This variable equals 1 if the target is incorporated in North America or Europe.

Director with overseas experience: Dummy variable. This variable equals 1 if the acquirer's board of directors has overseas experience and 0 otherwise.

Acquirer with overseas connections: Dummy variable. This variable equals 1 if the acquirer has entered an overseas market or established branches in an overseas market.

Target/Acquirer termination fees: Dummy variable. This variable equals 1 if the target or acquirer adopts a breakup fee provision.

Completed deal: Dummy variable. This variable equals 1 for deals that are completed and 0 for deals that are withdrawn.

Cash deal: Dummy variable. This variable equals 1 if the deal considerations are paid 100% in cash.

Appendix B

Table 1 Number of cross-border deals from China by year

This table presents the summary statistics of M&A deals that took place in each year. Column (1) reports the total number of cross-border merger and acquisition deals in each year. Column (2) presents the total number of cross-border deals conducted by listed acquirers. Column (3) reports the total number of cross-border deals conducted by private acquirers. Columns (4) to (6) show the number of deals conducted by each type of listed acquirers in each year in my sample.

	(1)	(2)	(3)	(4)	(5)	(6)
Year	Total cross-border deals	Listed acquirers	Private acquirers	Listed in mainland China	Listed in markets outside China	Cross-listed firms
1990	2	0	2	0	0	0
1991	0	0	0	0	0	0
1992	7	3	4	1	2	0
1993	9	2	7	0	1	1
1994	5	0	5	0	0	0
1995	4	0	4	0	0	0
1996	5	2	3	1	0	1
1997	9	0	9	0	0	0
1998	9	0	9	0	0	0
1999	7	2	5	0	1	1
2000	6	0	6	0	0	0
2001	11	2	9	1	0	1
2002	24	9	15	3	5	1
2003	6	1	5	1	0	0
2004	24	12	12	7	4	1
2005	35	8	27	3	5	0
2006	35	12	23	2	6	4
2007	58	14	44	5	8	1
2008	68	28	40	8	18	2
2009	77	24	53	9	12	3
2010	86	21	65	10	10	1
2011	101	24	77	16	5	3
2012	95	33	62	20	11	2
2013	80	37	43	24	11	2
2014	130	43	87	19	22	2
2015	184	81	103	54	25	2
2016	242	108	134	77	23	8
2017	142	46	96	33	13	0

Table 2 Acquirer's overseas experience and target nationality

This table presents the summary statistics of Chinese cross-border M&A deals according to the acquirer's overseas experience and target nationality. Panel A reports the statistics of overseas experience. Column (1) reports the total number of deals for which information on overseas experience can be collected. Column (2) reports the number of deals that involve board members who have overseas experience. Column (3) presents the number of acquirers that have overseas connections. Panel B focus on target nationality. Column (1) reports the total number of deals. Column (2) presents the total number of cross-border deals conducted by listed acquirers. Column (3) reports the total number of cross-border deals conducted by private acquirers.

Panel A: Overseas experience

	(1)	(2)	(3)
	Total cross-border deals	Board members with overseas experience	Acquirers that have overseas connections
Number of deals that have information	67	38	27

Panel B: Target nationality

	Total cross-border deals	Listed acquirers	Private acquirers
Africa	43	10	33
Asia	259	78	181
Europe	517	182	335
North America	461	181	280
Oceania	139	41	98
South America	42	20	22

Table 3 Summary statistics

This table presents the summary statistics of acquirer characteristics and deal characteristics. Column (1) to column (5) reports the variables' N, Mean, median, standard deviation, minimum value, and maximum value respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	N	Mean	Median	Std Dev.	Min	Max
Acquirer total assets	227	23.095	22.517	2.286	19.579	30.815
Acquirer leverage	227	-0.056	0.899	1.111	-16.714	0.164
CAR [-1, 1] (%)	227	1.257	0.695	6.795	-59.450	27.110
CAR [-2, 2] (%)	227	0.785	0.535	9.791	-96.635	35.119
ROA after one year	202	0.028	0.039	0.123	-1.016	0.182
ROA after two years	155	0.072	0.035	0.495	-0.718	6.109
Stock performance after 180 days	187	-0.030	-0.090	0.352	-0.816	1.401
Stock performance after one year	187	-0.040	-0.121	0.511	-0.863	2.655
Target termination fees	227	0.018	0.000	0.132	0.000	1.000
Acquirer termination fees	227	0.009	0.000	0.094	0.000	1.000
Completed deal	227	0.912	1.000	0.284	0.000	1.000
Cash deal	227	0.203	0.000	0.403	0.000	1.000

Table 4 Market reactions to cross-border deal announcements and overseas experience

This table presents the market reactions to deal announcements of Chinese cross-border M&A deals according to the acquirer's directors' overseas experience and the acquirer's overseas connections. Columns (1) and (2) present the relationship between the acquirer market reactions to merger announcements and director overseas experience. Columns (3) and (4) report the relationship between the acquirer market reactions to merger announcements and acquirer overseas experience.

	CAR			
	(1)	(2)	(3)	(4)
	[-1, 1]	[-2, 2]	[-1, 1]	[-2, 2]
Directors with overseas experience	1.423*	2.210*		
	(1.66)	(1.83)		
Acquirer with overseas connections			1.989*	2.133
			(1.78)	(1.16)
Acquirer total assets	-0.092	-0.110	0.081	0.124
	(-0.50)	(-0.18)	(0.30)	(0.33)
Acquirer leverage	-0.001	0.003	-0.006	-0.011
	(-0.43)	(0.06)	(-0.66)	(-0.60)
Year fixed effects	Yes	Yes	Yes	Yes
N	67	67	67	67
R^2	0.101	0.078	0.061	0.129

Table 5 Market reactions to cross-border deal announcements and target's nationality

This table presents the market reactions to deal announcements of Chinese cross-border M&A deals according to target nations. Columns (1) to (4) present the results of the market reactions to merger announcements for targets located in a developed continent with window periods of [-1, 1], [-2, 2], [-5, 5], and [-1, 21] respectively. I adjust for year fixed effects in all of the regressions.

	CAR			
	(1)	(2)	(3)	(4)
	[-1, 1]	[-2, 2]	[-5, 5]	[-1, 21]
Target incorporated in developed countries	2.483**	3.040**	6.341**	11.083**
	(2.38)	(2.00)	(2.30)	(2.15)
Acquirer total assets	-0.107	0.010	0.276	0.281
	(-0.52)	(0.03)	(0.51)	(0.28)
Acquirer leverage	-0.002	0.000	-0.009	-0.015
	(-0.41)	(0.06)	(-0.68)	(-0.61)
Year fixed effects	Yes	Yes	Yes	Yes
N	227	227	227	227
R^2	0.113	0.096	0.062	0.079

Table 6 Post-merger accounting performance to cross-border deal announcement and overseas connections

This table presents the post-merger accounting performance of Chinese cross-border M&A deals according to the acquirer's board members' overseas experience and the acquirer's overseas connections. The independent variable of interest is directors with overseas experience. Columns (1) and (3) report the results for ROA one year after the merger announcement. Columns (2) and (4) report the results for ROA two years after the merger announcement.

	ROA after one year (1)	ROA after two years (2)	ROA after one year (3)	ROA after two years (4)
Director with overseas experience	0.009	0.015		
	(1.21)	(1.61)		
Acquirer with overseas connections			0.009^{*}	-0.013^{*}
			(1.78)	(-1.66)
ROA one year before merger	-1.113	1.125	0.378	0.45
	(-0.32)	(0.14)	(0.98)	(0.32)
Acquirer total assets	-0.002	0.007^{*}	-0.001	0.003^{*}
	(-0.41)	(1.67)	(-1.08)	(1.77)
Acquirer leverage	0.002^{***}	-0.003^{***}	0.000^{***}	-0.001^{***}
	(3.36)	(-3.11)	(4.12)	(-2.89)
Year fixed effects	Yes	Yes	Yes	Yes
N	61	61	61	61
R^2	0.091	0.173	0.211	0.136

Table 7 Post-merger performance to cross-border deal announcement

This table presents the market reactions to deal announcements of Chinese cross-border M&A deals according to target nation. The main independent variable is the target's nation of incorporation. Column (1) reports the results for ROA one year after the merger announcement. Column (2) reports the results for ROA two years after the merger announcement. I adjust for year fixed effects in all of the regressions.

	ROA after one year (1)	ROA after two years (2)
Target incorporated in developed countries	0.005	-0.017
	(0.27)	(-0.73)
ROA one year before merger	-1.536	1.201
	(-1.45)	(1.14)
Acquirer total assets	0.003	0.010*
	(0.64)	(1.79)
Acquirer leverage	-0.004	-0.009**
	(-1.23)	(-2.19)
Year fixed effects	Yes	Yes
N	202	155
R^2	0.099	0.975

Table 8 Stock performance to cross-border deal announcement

This table presents the long-term post-merger stock performance to the deal announcement of Chinese cross-border M&A deals according to target nation. The main independent variable is the target's nation of incorporation. Column (1) reports the results for the post-merger stock performance for 180 trading days. Column (2) reports the results for the stock performance for one year. I adjust for year fixed effects in all of the regressions.

	(1) Stock performance after 180 days	(2) Stock performance after one year
Target incorporated in developed countries	-0.035	-0.034
	(-0.63)	(-0.44)
Acquirer total assets	-0.006	0.003
	(-0.63)	(0.21)
Acquirer leverage	-0.000	0.000
	(-0.51)	(0.24)
Year fixed effects	Yes	Yes
N	187	187
R^2	0.259	0.328

Table 9 Adoption of termination fees

This table presents the correlation between the adoption of termination fees and the target's nation of incorporation. Columns (1), (2), and (3) present the results of the adoption of target termination fees, and Columns (4), (5), and (6) present the acquirer termination fee results. The main independent variables are "director with overseas experience," "acquirer with overseas experience," and "Target incorporated in developed countries." I control for the acquirer's total assets and leverage. I adjust for year fixed effects in all of the regressions.

	Target termination fees			Acquirer termination fees		
	(1)	(2)	(3)	(4)	(5)	(6)
Director with overseas experience	0.072			0.102		
	(1.29)			(1.44)		
Acquirer with overseas connections		-0.012			0.052	
		(-0.31)			(0.21)	
Target incorporated in developed countries			0.047**			0.030**
			(2.29)			(2.12)
Acquirer total assets	0.003*	0.004*	0.007*	0.002*	0.006*	0.005*
	(1.72)	(1.66)	(1.70)	(1.77)	(1.81)	(1.96)
Acquirer leverage	-0.001	-0.001	-0.000	-0.001	-0.001	-0.000
	(-0.31)	(-0.972)	(-0.42)	(-0.31)	(-0.97)	(-0.44)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
N	60	60	227	60	60	227
Pseudo R^2	0.113	0.087	0.092	0.135	0.072	0.142

Table 10 Other deal characteristics

This table presents the correlation between deal characteristics and the target's nation of incorporation. Columns (1)-(3) ((4)-(6)) show the correlation between the target's nation of incorporation and deal status (payment methods). The main independent variable is the target's nation of incorporation. I control for the acquirer's total assets and leverage. I adjust for year fixed effects in all of the regressions.

	Completed deal			Cash deal		
	(1)	(2)	(3)	(4)	(5)	(6)
Director with overseas experience	0.035			0.056		
	(1.01)			(0.99)		
Acquirer with overseas connections		0.102			0.112	
		(0.81)			(0.27)	
Target incorporated in developed countries			0.028			-0.036
			(0.63)			(-0.59)
Acquirer total assets	0.001	0.002	0.000	0.002	0.005	0.000
	(1.33)	(1.63)	(0.63)	(1.42)	(1.21)	(1.12)
Acquirer leverage	-0.001**	-0.001***	0.001***	0.002	0.001	0.000
	(-2.12)	(2.76)	(2.83)	(1.32)	(0.82)	(0.08)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
N	60	60	227	60	60	227
Pseudo R^2	0.072	0.066	0.114	0.102	0.165	0.123