LUND UNIVERSITY
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Master in Economic History

The role of state ownership on acquisition premia: Do Chinese enterprises pay systematically higher acquisition premia?

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Abstract: Usually, high acquisition premia are considered to be a proxy for aggressive management style, extremely risk-taking behavior and poor managerial decision making and ultimately failure. In the case of China, it is questionable if this assumption can hold true. In general, cross border M&A failure rate is high and did not vary significantly over time. A study by KPMG found that only 17% of cross-border acquisitions created shareholder value, while 53% of acquisitions destroyed shareholder value or just broke even (KPMG, 2013; Shimizu et al., 2004) How comes that, if profits and appropriate acquisition premia, crucial for success, are extremely hard to generate, still so many Chinese investors acquire European targets? Employing a dataset of 531 Chinese outward cross-border M&As over the period of 1996 to 2017, roughly half of it is conducted by SOE. This paper finds that, on average Chinese MNEs pay higher acquisition premia than other Non-Chinese investors do for similar targets. The question that arises out of these findings is why Chinese investors are willing to pay more than their peers?

Key words: Mergers, Acquisitions, Acquisition Premium, China, SOE

EKHM51
Master thesis, First Year (15 credits ECTS)
August 2017
Supervisor: Christer Gunnarsson
Examiner: Tobias Axelsson

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I. Introduction

In general, Cross Border Acquisition Premium from emerging markets are considered to be particularly high. (Heather & Wolff, 2012) Usually, these investors argue that, due to the fact that they have to overcome geographical and cultural distances and compensate for their late comer status and lower reputation, higher premiums are necessary, in order to win a tender or sign a takeover deal. (Peng, 2012). Usually, high acquisition premia are linked to poor managerial decision making eventually risking failure. (Sirower, 1997) This notion seems to not entirely fit and can not be generalized to the recent Chinese merger wave experienced in Europe due to China's unique institutional setting and structural legacy. China is in general not following the traditional, conventional development path and challenging economic theory. Therefore, it is questionable if overpayment in the Chinese context is really related to irrational managerial decision making.

I argue that, besides the very common non-deal related drivers like supply and demand and business cycles and the very understandable reasons of geographical and cultural distance, the role of state-ownership is a key factor in explaining high acquisition premiums paid by Chinese state-owned enterprises (SOE) in Europe. Chinese SOE have proven to be direct tools of the Chinese government in putting into practice national policies. (Caves, 1982; Stopford, Strange, & Henley, 1991; Murtha & Lenway, 1994). Overall, the increasingly important role of SOE in developing countries is part of a broader trend. The role of state-owned enterprises has changed dramatically during the last two decades and SOE play a more active role in general and in particular in China. (Ramamurti, 2008) This is especially true for emerging markets. (Heather & Wolff, 2012) Governments excel their influence in a more direct way. (Caves, 1982; Stopford, Strange, & Henley, 1991; Murtha & Lenway; Buckley, Clegg, Cross, Liu, & Zheng, 2007; Young & McGuinness, 2001) However, due to scarcity in trustworthy data, I can only limit my quantitive research to the analysis of Chinese investors as a whole compared to other investors and Chinese State-owned enterprises in contrast to private companies. Nevertheless, I do believe that the effect of Chinese investors paying more is triggered by the effect of the ownership indirectly. Therefore, I will investigate the effect of ownership in my Chinese sample and contrast POE and SOE. In order to explain this effect, theory will be introduced and help to understand the key drivers.

The "Going Out" policy and the "One Belt One Road" Policy are pragmatic and intelligent attempts to deal with overcapacities and to establish Chinese brands on the world market. Did Chinese investors acquire target at all costs? If investors paid more than other investors at the same time for similar targets, what might be the reason that Chinese investor value European targets higher than other non-Chinese investors do?

II. Aim

The economic raise of China, as an investor is a relatively new phenomenon, that has to be observed and analyzed. Recent research shows that despite firms' efforts to create value and synergy opportunities by engaging in M&As (Cartwright and Cooper, 1993), almost half of the M&As turns out to be unsuccessful (Cartwright and Schoenberg, 2006; Haleblian et al., 2009). In the 30 years of research regarding the development of M&As nothing has changed (Leeth and Borg, 2000). Napier (1989) found that throughout the years this failure rate did not vary significantly. A recent study by KPMG found that only 17% of cross-border acquisitions created shareholder value, while 53% of acquisitions destroyed shareholder value (Shimizu et al., 2004). The remaining percentage of acquisitions broke even. Although research reveals these unfavorable failure rates, acquisitions are increasingly popular and as a result of globalization and MNE cross-border activity, this paradox is experienced worldwide (Datta and Puia, 1995; Campa and Hernando, 2004). Observers are concerned about the performance of the target and the financial stability of the acquirer and what these factors have of an impact on future performance. Especially, the impact of a high premium on later performance of the target. Also the European media and business community is shocked by the pace and determinant attitude Chinese investors show in Europe. Thus, Chinese acquirer, especially SOE got criticized and do not enjoy comparable market access possibilities due to increasing investment barriers, political opposition, and new institutional restrictions (Davies, 2010). High premia raise concerns about the competition situation on the European market, since not every acquirer has the Chinese government with 1,4 trillion dollars of foreign exchange reserves as a stakeholder. Therefore, investigating whether Chinese investors systematically overpay is important. But answering this question is not easy even though a huge body of literature exists, scholars do not understand how the price of a deal is in reality produced. Valuation is a very case-sensitive matter and every company is unique. Therefore, valuation is often much more of an art than a science, since many factors that are hard to quantify and capture play a role in finding a price for a company and valuation is by far not a standard procedure. (Damodoran, 2011; Fernandez, 2004) Additionally, conflicting interests, information asymmetry, agency problems, different institutional settings, are all very hard to capture and might differ from case to case and country to county. This is probably the reason why a vast body of literature fails to fully understand the drivers of acquisition premia. It seems very obvious that ownership is a very important driver when it comes to measure the way a company competes. So far, the role of SOE in M&A got neglected for good reason since governments traditionally invested domestically and played a less-direct role in foreign direct investment. The above is particularly true in countries like China where most of the shares of listed companies are still controlled by the state (Lau, Fan, Young & Wu, 2007). Therefore, research about the role of SOE in mergers and

acquisition is important to fully understand the dynamics of the transactions and to better judge the Chinese activities in Europe. (Chen & Young, 2010) Unfortunately, despite the obvious relevance of the topic researchers have not put much emphasis on this topic when analyzing the Chinese M&A waves. There is not much data available on the topic and even a very expensive database like Bloomberg does not disclosure the full picture. The names and industries are always announced but often the announced premium is not disclosured. This is a problem for empirical research. Also from a theoretical point of view, no model or theory has been developed for the current situation. (Urbšienė et al. 2015) (Bargeron, et al. 2008)

This paper is organized as follows: the first section reviews the literature on the topic of M&A: in particular premiums, premium determinants and the role of ownership on premia and what is specific about Chinese acquirers. Next, a methodology is introduced on how to investigate the research question and how to analyze the two data samples. In the third section, a comparison between the premiums paid by Chinese and European acquirers for similar targets in Europe is presented. Moreover, in the last section, conclusions are made and directions for future research on the topic are provided.

III. Literature review

There are prior attempts to tackle similar research questions, the study of Guo et al. (2016). investigates in general Chinese cross border M&A around the world and found that SOEs tend to pay higher acquisition premiums when engaging in cross-border merger activity as compared to non-SOEs. According to these findings, this is first due to the fact that these companies are part of the state allocation system and enjoy privileged access to financial support from the government. Second, goals such as social welfare and political interests lead to different incentive structures; and third, SOE are simply less efficient in making managerial decisions. Moreover, corporate government structures have more weaknesses than private owned enterprises (POE) and agency problems occur more frequently. Moreover, Urbšienė et al. 2015, Bargeron et al.2008 and Asplund, 2012 came to similar conclusions. But not all research found Chinese investor to overpay. Betschinger, (2012). argues the complete opposite and finds that the influence on the government even allows to negotiate lower premia due to political ties and preferential deals. Since there is not much consensus about the matter, my goal is to update prior research and to gather findings out of these studies together in order to draw conclusions and to apply this knowledge to my dataset. In a more general context, much of the research sees the role of the government and especially the state ownership on cross-border business activity critically. This literature qualifies governments as an obstacle to cross-border M&A activity having a negative impact. But there are many reasons to belief that

a government and a state ownership can have a positive impact on M&A. Of course, a government also has to monitor markets in order to detect competition issues and intervene and express antitrust and protectionist concerns (Seldeslachts, Clougherty, & Barros, 2008) In the case of China, the government plays an encouraging role. The role of SOE has changed over time and the role the Chinese government increasingly plays in global competition is different to the existing literature on government ownership in general. Even thought in the West, the influence of government controlled companies has vanished with the rise of domestic enterprises in emerging nations. (Cuervo-Cazurra & Dau, 2009) The role of the government is particular strong in China compared to other countries. This becomes especially obvious in the context of mergers and acquisitions. In countries like China and India, the government is increasingly active in encouraging companies to go abroad and to compete. Many of these large enterprises are state-owned, and this ownership structure presents some challenges to traditional theories and their underlying assumptions. Research is needed to investigate this new role the government is playing. Especially, the role of SOEs in order to update findings and take these new tendencies into account. Not surprisingly, scholars call for new theory development in order to better estimate the growing influence of the government on firms and economics. (Guo et al. 2016; Cheng et al. 2011)

3.1 The waves of Chinese investment

China's adherence to the Word Trade Organization (WTO) marked an important turning point in globalization strategies of Chinese MNE. Policy maker urged Chinese companies to become more competitive and to better integrate into the world economy. Foreign brands entered China and this growing rivalry from already established brands gave the Chinese government reason to seek market opportunities abroad. The Chinese government urged local companies to make acquisitions abroad. Acquisitions in Europe were still very small at that time. In general, we can observe three broad waves of Chinese M&A activity in Europe. The aim of the first phase of outbound M&A deals until 2006 was to improve product designs, brands, distribution and sometimes production capacity. The notion behind this wave, was to increase sales and market shares in foreign markets. However, in the beginning not all transactions proved to be successful. In some cases, Chinese companies have chosen to exit, because the goal of market share was not met and companies made substantial losses. Reasons for these loses are usually in relation with the acquisition integration and concerns about quality and labor and some general issues with the operation itself. (Williamson, 2016) China has in the beginning mainly acquired distressed companies or companies whose competitive advantage used to be culture, people, systems or brands. (Holweg & Oliver 2012) But unfortunately, people, systems and brands are very hard to transfer and implement in a foreign country and culture. From the Chinese side, there also was considerable disappointment about the transfer of outdated models to China by Western firms (the Volkswagen Santana for instance), with little technology transfer and capability development taking place in new product development. (Holweg & Oliver, 2012)

The second wave of acquisitions was more of a resource seeking wave after 2006. Deals were aimed at securing raw materials and energy resources for China. Besides, few deals, mainly in Russia, Europe was not the prior target of resource seeking deals. Besides, there was also a boom in acquisitions of stakes in financial services companies abroad in 2007 as Chinese financial institutions with large cash reserves sought to expand their operations abroad. Obviously, the financial crisis during that time hit Chinese investors hard, same goes for the industry in general. (Williamson, 2016) Since these financial deals occurred, I will later not exclude financial deals out of the regression analysis, because they are part of the history of Chinese M&A in Europe and should be taken account of. The third wave of acquisitions has mainly targeted "industrial" companies with the aim to improve technology, know-how, and sometimes brand recognition. These deals received less press attention, because they were still small in number. To conclude, the first two waves of Chinese M&A activities did not focus on European targets in particular, but once the aim of Chinese Out-Bond Merger activity shifted toward technology and brands, European companies became attractive. Some of the sectors of these early transactions were automotive in western Europe with the aim to improve safety systems, fuel consumption and emissions reduction, as well as core capabilities in designing automotive components. (Williamson, 2016) (Holweg & Oliver, 2012) To summarize, what is noticeable is that regardless the industry, mainly SOE but also POE have focused on acquiring western MNE with leading positions in their respective markets. (Chen & Young, 2010).

3.2 Definition Acquisition Premium

In order to better understand my research question, first the term of acquisition premia has to be defined and to be explained why premia are important. Premia are important because many mergers turn out to be a lot less successful than expected. Often irrational decision making leads to high premiums. But what does paying too much really mean? First of all, there is no one single price when it comes to acquisitions. In literature, the term is explained as the difference between the actual cost of acquiring a target and an estimate of the targets pre-acquisition value. Often, the premium gets defined as the ratio of the negotiated price of one target's share and the price at which the target's share is traded in the market (Laamanen, 2007; Sirower & Sahni, 2006) (Rossi and Volpin, 2004; Halleblian et al., 2009). For later econometric analysis, I calculate it based on the definition in the literature, as the percentage difference between market value of the target firm and announced value of the deal.

There are different types of investment and one can very broadly divide into: greenfield investments, portfolio investments, acquisition and merger. First, there is the greenfield investment, this form of investment is rather rare in combination with Chinese investors. Besides, Joint Venture tend to occur more frequently, a form in which the investing acquirer company merges with one or several target companies

and creates a new company. These companies usually emerge, if the acquirer depends on local expertise and knowledge or if regulation force companies to engage with a local partner, as this has been the case for foreign companies in China. Merger and acquisitions are either foreign portfolio investments or foreign direct investments. A company can choose to invest in different forms of investment: capital, know how, patents. However, for econometric analysis joint ventures are not relevant, because no data on acquisition premia is available.

3.3 The difference between value and price of an acquisition

The matter of M&A is very complex and there is no general guarantee for success. The uncomfortable truth is that many researchers do not truly understand how premia are really produced. A high premium for instance does not automatically lead to success, also size of the company is not automatically leading to a high premium. (Mellen &Evans, 2010) Value and price in M&A are very different concepts. So some sources describe value as an individualistic perception, that also seem to vary among different agents (PWC, 2013) Literature distinguishes different types of valuation methods: balance sheet based, income statement based, mixed, cash flow discounting, value creation and option based methods are the most common. There are different preferences, but however some authors agree on the fact that discount cash flow (DCF) models are most frequent. (Damodoran, 2011; Fernandez, 2004). There are differences between the buyer and the seller side, the buyer side is more likely to use DCF. But all these methods do not change the fact, that there is not much consensus about the "right valuation method" and the "right fair value". A vast body of literature admits, that it is impossible to calculate the one right correct value, because many valuation methods depend on of estimations and assumptions and might differ therefore (Damodaran, 2011). Some methods like DCF even use insider information and are time consuming. (Havnaer, 2012). Also the current market situation is taken into account by some methods, so that value differs over time. (Damodoran, 2011; Fernandez, 2004). The valuation is even part of the negotiation process and some metrics likes EBIT or EBITDA penalizes the buyer, or the DCF that is preferred by the buyer, so metrics are also used in the context of negotiation and parties can influence the valuation outcome depending on the method they use and the intention they have. (Mellen &Evans, 2010) However, the most frequently used metrics to estimate acquisition premia is the market capitalization or in other words the price of shares times the number of shares traded at the stock exchange. (Hayward & Hambrick 1997; Gupta & Misra, 2007; Varaiya &Ferris, 1987; Guo, Clougherty & Duso, 2013). The price of the target paid by the acquirer using either stock or cash, is the value of the target company to the acquirer plus a premium. (Fernandez, 2004). The price of the deal is usually paid with a premium because otherwise no seller would be prepared to sell at the companies' market value. However, in some cases target companies sell at market value or even below market value and accept a negative acquisition premium. The premium in this context depend to a high extent on the fact, if the target was at

the times of negotiations already valued fairly, or might be overvalued. An important indicator for fair actual market value is the payment method the acquirer company manager would agree too. A cash deal is sending positive signals to the market. (Rappaport & Sirower, 1999) (Mellen &Evans, 2010) Moreover, one can distinguish value into intrinsic value, market value (market capitalization), purchase price and synergy value. Most basically, the intrinsic value is capturing the current situation by the net present value of expected future cash flows. The market value or called current market capitalization is the share price and assumes that there are investors willing to buy the company at the valuation of the company. Purchase Price is the price that a potential bidder believes to have to pay to be accepted by the target shareholders. Synergy Value is the net present value of the cash flows that will result from improvements made when the companies are combined. Value Gap is the difference between the intrinsic value and the purchase price. (Mellen &Evans, 2010) The bottom line is that there is no one single price and that everything might be pretty relative- what might be expensive in Europe seem to be a bargain for a cash-rich Chinese Acquirer.

3.4 Why do we talk about Takeover premiums? Implications for M&A success

The question that arises is: what are the implications of a high premium? A high acquisition premium is usually considered in literature in a non-Chinese context as a poor managerial decision risking any possible future synergies. The danger for an acquiring company is to lower the firm value, as the 'overpayment' consumes from the expected synergies that must be achieved simply to sustain an acquired firm's market value. (Sirower, 1997; Rossi and Volpin, 2004; Cartwright and Schoenberg, 2006; Cartwright and Cooper, 1993) Overpayment occurs not only in China but in many other countries, in the U.S. for instance acquirer paid an average acquisition premium in the range of 30-50 percent of target market values for the past three decades (Hayward & Hambrick, 1997; Walkling & Edmister, 1985; Varaiya & Ferris, 1987). Even though many studies revealed that high acquisition premiums frequently destroy value (Sirower & Sahni, 2006; Moeller, Schlingemann & Stulz, 2005), companies continue to pay high premiums. Bloomberg indicates that the world average premium for all industries in 2012 was 31.2% and 30% in 2013 (Bloomberg, 2017). The takeover premium is an important factor in determining the success of a takeover, as well as for the gains for both acquirers' and targets' shareholders (Eckbo, 2009; Henry, 2004; Franks and Mayer 1996; Very and Schweiger, (2001) showed that the level of the offered premium plays a significant role in whether the takeover fails or is successful. Similarly, Cheng et al. (1989) found relations between takeover premium, return on assets and firm profit. Others have related the success of an acquisition with procedures and contracts that could result in advantages for the target firm (Eckbo, 2009)(Leeth & Borg, 2000; Datta et al., 1992). Although, the vast majority of empirical evidence shows positive returns for target firms, others provide arguments for the benefits of acquiring firms in the takeover process. For instance, Lang et al. (1989) found that shareholders of acquiring organizations gain value when the takeover bid is high. This

indicates that even when a higher level of premium is paid, acquirers' shareholders can still benefit from an acquisition. Similar evidence is found by Hirshleifer and Titman (1990). They reveal that acquirers are more likely to be successful in a bid when the offered premium increases. Nevertheless, competition has a huge impact on premia, and the number of bidders impacts the success rate. (Hirshleifer and Titman, 1990). Often contra-dictionary findings show the complex matter of the topic. Even tough in some cases high premiums still allow to increase shareholder value, for my analysis I assume that excessively and systematically overpaying risks future synergy gains, the initial motivation to engage in the transaction. In the next section, I will therefore further explore motivations.

3.5 Motives for Merger

My research question is to answer if Chinese investors and SOE tend to overpay: in order to understand why an overpayment might be produced, investigating motives is crucial. A price and therefore an overpayment might become very relative when a higher strategic purpose is served. In most case, mergers serve a certain purpose and this purpose might be very difficult to quantify and put into relation with the cost of a transaction. Therefore, I would like to use this section to introduce the most frequent motives behind deals in order to show the diverse nature, different extent and complex dimension of deals. In section 3, in my descriptive statistics, I will apply this theoretical knowledge to my dataset and put the sample into a broader context.

In theory, the most common motives are related to a firm's strategy. And the ultimate goal is to create value, most likely by creating synergies. Moreover, besides synergy and value creation, often dubious motives are the reason for a merger. Value creation can be achieved by synergy, growth, increasing market power, acquiring unique capabilities or resources, unlocking hidden value. In cross border merger exploiting market imperfections, overcoming adverse government policies, technology transfer, product differentiation or following clients are common motives to engage in cross border mergers. To the dubious motives count tax considerations, diversification and a manager's personal interest. (Mellen &Evans, 2010: 81-86) The creation of value can be accomplished through increased market power, for instance, by forming strategic alliances, or even monopolies or oligopolies. Other motives for creating value through M&As are suggested to be efficiency motives (Haleblian et al., 2009; Andrade et al. 2001; Pilloff and Santomero, 1997). In general, there are five types of synergies: cost savings, revenue enhancements, process improvements, financial engineering and tax benefits. Cost savings are considered as "hard synergies" and are very likely to achieve. This can be achieved by eliminating jobs, facilities, and related expenses from economies of scale. Mergers in the same industry and same country allow to realize high cost savings. Nevertheless,

acquirers often underestimate how long it will take to realize cost savings and therefore it is no wonder why it is so hard to predict the synergy value beforehand. This holds true for synergies like revenue enhancements. The estimation of synergy gains through revenue enhancement or tax reliefs requires external variables that are often beyond management's control. (Mellen &Evans, 2010: 81-86) Obviously, in the Chinese context macro driver and a higher national interest are very important motives. China is in a constant reform process and has been for many decades due to its cheap labor supply a popular destination for European investors. Since the beginning of the century, the direction of investments has changed and now China is investing more and more abroad. The going-out-policy and the internationalization of Chinese MNE started already long before and especially in the beginning not all transactions were successful. (Chuang, 2016) With the time, the incentives for Chinese investors in Europe have multiplied. In the beginning those incentives were mainly market-seeking and resource-seeking motives in a context of double-digit GDP growth. Some of the incentives in this context are moving up the value chain and the desire to establish Chinese brands and MNE. In addition to that, due to high energy demand and high resource demand, resource seeking motives make Chinese investors invest abroad. With a slowing down of the economy and a shift towards domestic consumption the incentives to reach out for new markets and to invest money outside of the country are even higher since overcapacities are a dangerous threat to the Chinese economy and the new OBOR policy, an attempt to deal with this dangerous misbalance. Moreover, the China 2025 plan wants to make china an innovation champion in the manufacturing sector and further increase automatization. (E&Y, 2016)

3.6. Theory explaining high premia

There are many different approaches, one could choose to try to explain the ongoing trend of Chinese merger activity in Europe, this section will introduce the most important concepts and perspectives that has to be taken into account when assessing acquisition premia. In this sense, resource theory might be the most fundamental concept in this context trying to explain in general why foreign companies engage in merger and acquisition in the first place. The rationale behind this theory is that companies try to acquire resources they do not have themselves or in their home market. These resources might be sophisticated technology, know how, management expertise or many more. In general, SOEs seek foreign resources and opportunities to overcome their competitive backwardness in their home market (Makino, Lau, & Yeh, 2002). Since some resources and competencies are not easily available in China, these firms are likely to bid high for these resources, as they potentially value the targets more than MNEs that already hold such resources (Boardman, Freeman, & Eckel, 1986; Boardman & Vining, 1989; Megginson, Nash, & van Randenborgh, 1994). Therefore, it is reasonable to believe that in some cases, Chinese acquirer did not pay too much, but valued the target companies higher according to their home market conditions. This goes especially for cases like brands, technology and resources.

However, resource theory might help to explain why cross-border M&A transaction, takes place in the first place and to a certain extent, why in some cases, investors value targets higher and are therefore willing to pay more, but systematically overpayment seem to be caused by more than just differences in availability of resources in different markets. In theory, investors should pay all the same regardless of their country of origin. The Capital Asset price model (CAPM) one of the most fundamental concepts in asset valuation in finance, predicts that under the assumption of availability of information the market reacts to overvalued or undervalued shares. So the investors will buy efficient assets and sell inefficient assets and investors should pay regardless of their country of origin the same prices. (Schweser, 2015)

But one important underlying assumption of this model is information symmetry or the equal access to information. Since reality is often very far away from this model world, it is in this case also very reasonable to believe, that this fundamental assumption of the CAPM is not met and availability of information plays a big role in explaining why assets might tend to be overvalued. It is well-documented from corporate governance literature that SOE tend to struggle in particular with information asymmetries. Therefore, I argue, that information asymmetries have a major impact on acquisition premia. In the following, I will further explain the further scenarios of information asymmetry from a corporate governance perspective.

There are different possible scenarios in which investors suffer of information asymmetry and therefore pay more: 1) they could pay more because they do not have access to the right information to accordingly estimate the fair value, 2) they have access but have technical difficulties to assess the fair value, 3) a third option would be that the manager has technical access to information, has the right tools and knowledge to assess the fair value but choses to pay more because of a managerial self-interest and moral hazard. Therefore, information symmetry only exits for some agents of a company but not to all decision maker involved. In addition to the information asymmetry argument, a very broad body of literature investigates this moral hazard problem, that will be tackled later. (Aguilera and Jackson, 2003, 2010; La Porta et al., 1999; Goergen and Renneboog, 2003; Franks and Mayer, 2001; Jürgens et al., 2000). Coming back to my argument of the three scenarios, I find that literature confirms these three possibilities. The first scenario can be explained by the fact, that much of the country specific and industry knowledge was not familiar to Chinese investors and therefore, Chinese investors had difficulties in estimating the fair value. This is in line with literature, as Laamanen (2007) comments, acquisition premium may be justified when target firms' resources are difficult for the market to value. Thus, the efficient market hypothesis can not hold true in the case of China, since Chinese investors had especially in the beginning, when investing abroad substantial obstacles to overcome and given their lack of experience and contacts it is reasonable to think that they suffered from a lack of information. Some scholars call this lack of knowledge the liability of foreignness

(Zaheer, 1995). Information asymmetries usually exist in the processes of due diligence, negotiations, and post-acquisition management planning. (Reuer, Tong, & Wu, 2012) The acquirer has difficulties in assessing the true value of the target firm due to a few reasons: 1) the target may not disclose complete information about itself; 2) the acquirers and targets belong to different institutional environments (Shimizu, Hitt, Vaidyanath, & Pisano, 2004). Information are already important to domestic activities but become even more important when engaging in transactions abroad especially if some of the information is of implicit nature. (Gaur & Malhotra, 2012). The second scenario describes the lack of ability in estimating fair value. Poor managerial decision making might further increase information-asymmetry problems of finding the true value of a target company. We should not forget that China is still in many aspects a developing country and has not much experience in conducting M&A deals. There are different accounting standards, language barriers and differences in regulations and legislations. Moreover, China is offering less property rights to investors and shareholder protection and information flows might not be the same. The third scenario describes a more active decision against shareholder's benefits and usually the own managers of a firm are the cause of the lack of information. In this scenario the foreign investors are actively hindering information to flow to harm their own company in order to act in their own interest. This might be due to different attitudes towards risk and personal incentives. Agents might be willing to take more risk compared to principals. Monitoring cost are high and therefore principals are not always monitoring the actions of agents. (Eisenhardt, 1989; Gaspar et al., 2005; Luo & Tung, 2007). These information problems are known to be especially severe for Chinese SOE, because weakness in governance are especially frequent. In order to further discuss these governance weaknesses, I am going to introduce the agency theory in order to explain the third scenario of lack of information. Agency theory is a fundamental concept important to understand moral hazard and adverse selection problems. Agency theory is especially important to understand Chinese SOE, since these problems tend to occur more frequently in SOE. In general, agency theory relates to the situation during the takeover process when shareholders (principals) and managers (agents) have different goals (Kesner et al., 1994). These conflicting interests are especially severe since those shareholders investing in the deal are those paying for the cost of this problem (Cartwright and Schoenberg, 2006; Walkling, 1984). If the acquirer 's managers benefit personally by buying the target above its fair value, agency theory suggests that managers will act in their interest and engage in an action that increase their own utility function. (Walkling and Long, 1984). (Kesner et al., 1994; Jensen, 1986; Walkling, 1984; Bathala et al., 1994). Jensen and Murphy (1990) showed that CEOs might have the incentive to conduct a deal against their shareholders, if this deal increases size of the firm and therefore lead to higher salaries. (Bliss and Rosen, 2001; Grinstein and Hribar, 2004), However, this risk of moral hazard is more hidden in manager's incentive structures might not be always obvious. (Grinstein & Hribar, 2004). There is not a clear empirical evidence proving the relationship of positive premiums and agency costs (Hartzell et al., 2004; Moeller, 2005). This mainly due, to the fact that this hypothesis is very hard to

prove and therefore literature lacks not surprisingly of evidence. (Haleblian et al., 2009; Shimizu et al., 2004; Angwin, 2001; Andrade et al., 2001; Hayward & Hambrick, 1997; Sudarsanam et al.)

Besides the agency perspective, the national context accounts to a large extent in explaining excessive bidding behavior and I am going to use this section to explain differences in property rights. The role of government regulations and governance structures are key in explaining the attractiveness of acquisitions (Moeller & Schlingemann, 2005; Haleblian et al., 2009; Teerikangas & Very, 2006).
Importan macro economic driver and institutional differences account to a very large account and once can say that differences in shareholder protection incentives investors to seek better market opportunities and to invest in countries, in which they enjoy the most favorable conditions to invest. So even if in some countries returns seem to be high, the fact that this investor can not enforce its claim leads to the fact, that this country is not attractive for other investors. In China, one example of such weak investor protection would be the fact, that Chinese investors do not have the right to elect the board from distance but have to be present in person to vote for major corporate decisions. This can be a huge disadvantage in a country like China where geographical distances do not always allow to be present to vote in the favor of the investor. Therefore, it is not surprising why Chinese investor seek to invest abroad. In addition to that, classical problems such as country risks and uncertainties, cultural differences hinder or incentive investors to invest in a certain legal, institutional environment. An important factor, in the Chinese case is the relative underdevelopment of the financial market. China is a country in which the financial market is the last segment of the country that is not yet reformed and financial flow help to orchestra reforms and control the overall economic development. Therefore, this underdevelopment leads to increasing willingness to invest capital in safer, more predictable environments with more friendly regulations and conditions. It goes without saying that all these factors not only influence the willingness to invest but also the potential success of a transaction and the value creation of this endeavor. (Ben-Amar and Andre, 2006; Lu and Beamish, 2004; Shimizu et al., 2004; Rossi and Volpin, 2004).
China's unique institutional setting with fairly weak property rights and low shareholder protection makes Chinese investors seek opportunities abroad to hedge against inflation and to seek safe investment opportunities with higher returns than in their home market. For many ordinary people with limited access to resources and information the stock market or real estate market is the only way to hedge against inflation. Thus, incentives to invest abroad are manifold. This holds especially true if these transactions go with preferred visa schemes and other opportunities for Chinese individuals to acquire a foreign citizenship and bring their savings out of China. (Opper, 2012)

Shareholder protection is an important factor and research found that organizations in countries characterized by strong shareholder protection were significantly more dispersed than countries with lower

shareholder protection. (La Porta et al., 1999) The relatively large number of shareholders in organizations with highly dispersed ownership traditionally result in lower levels of monitoring and free-riding problems (De Miguel et al., 2004; Schleifer & Vishny, 1986). Besides the incentive side, differences in shareholder protection also leads to different perceptions of those involved in the acquisition bargaining process and those investors who are not involved in the bargaining process end up being less informed and this might lead to the fact, that those investors develop different perceptions and opinions. Out of this information lack, free-riding problems occur and in general a misbalanced information structure can only lead to conflicts and misunderstandings. (Rossi & Volpin, 2004). The concentration of ownership is a rather complex area, and some authors argue that larger proportions of shares held by shareholders, increases firm value due to monitoring efforts of block holders. For those Shareholder monitoring and management might be too expensive, especially for those with a minimum stake in the company. (Schleifer &Vishny, 1986 ; De Miguel et al. 2004)

3.7 Determinants of Acquisition Premiums

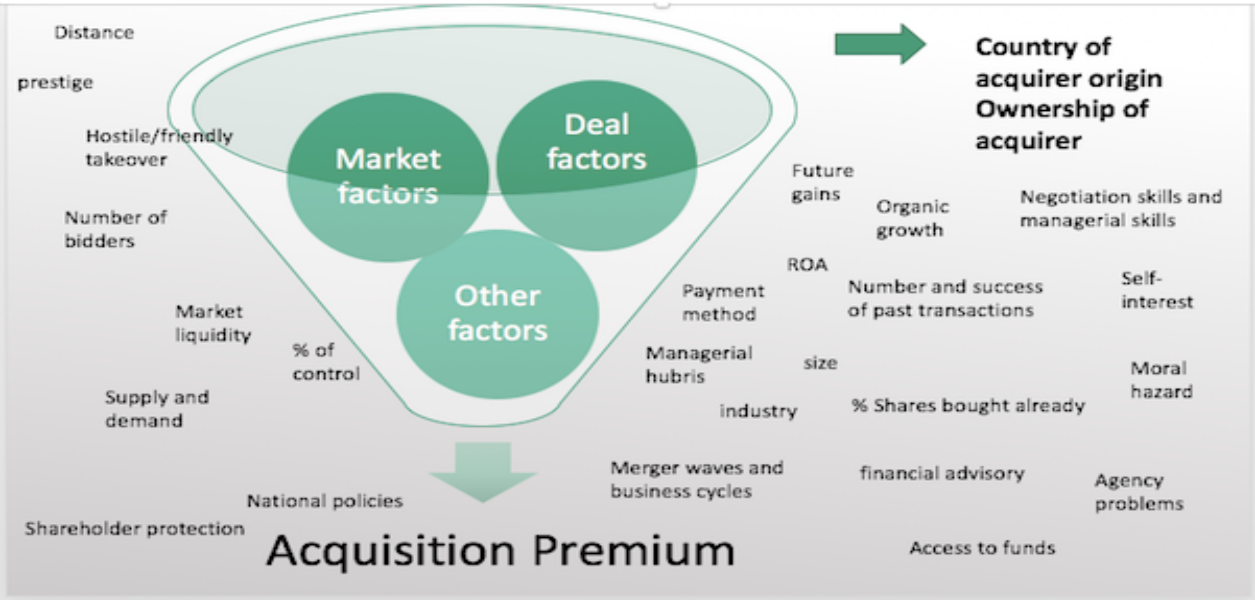


Figure 3.71. Acquisition Premium driver (compiled by the author)

Acquisitions are rather complex transactions and literature has failed to fully understand the driver of premia. This is mainly due to the broad number of different determinants that have been found to be related to the amount of acquisition premia. I will use this section to show the complexity of acquisition driver being aware that I also only display the most common driver identified by literature. This section should give the reader a sense of how premia are been produced in reality. (Reuer, Tong, & Wu, 2010). In brief,

one can divide these determinants into three groups: first the market related factors, second the deal related factors and third the factors that are neither related to the market nor to the deal but that impact premia. I start first by introducing market related factors. In some cases, a premium is not much more than a function of factors like: business cycles, demand and supply, and other markets conditions such as liquidity in the market. (Schlingemann, Stulz, &Walkling 2002). A too low liquidity for instance might make prices decrease further, so the simple rules of supply and demand apply to premia. (Shleifer & Vishny, 1992) In this vein, competition matters and the number of competing bidders have been found to impact the premium. Varaiya (1987) discovered a significant positive relationship between takeover premia and bidding competitions**.** Moreover, geographical reasons matter: a number of studies have found the closeness between the acquirer and target to be an influential factor on post-M&A performance (Ahuja & Katila, 2001; Patel & King, 2011). Distance in a cultural, knowledge and geographical way is critical as a transaction indicator. Also the fact, that a deal might be a cross-border or domestic deal is of great importance. (Rossi & Volpin 2004)

Second, I am going to introduce the deal related factors: it is well recognized that premiums size, industry, number of employees, valuation outcome, experience, management expertise and pedigree of advisory has a strong impact on premia. (Hope et al., 2011; Jahera, Hand, & Lloyd, 1985; Nathan & O'Keefe, 1989; Shelton, 2000; Shleifer & Vishny, 2001; Slusky & Caves, 1991; Walkling & Edmister, 1985). However, the human role is a very important factor and experience, background and personal characteristics can affect the value of the deal. (Eckbo, 2009; Experience is seen as a crucial firm characteristic, since an organization learns from earlier inefficiencies with respect to their acquiring strategies. A company is known to pay a higher premium if this company has conducted successful transactions in the past (Haleblian and Finkelstein, 1999; Strong managerial skills and efforts in the integration process will translate into higher shareholder value (Teerikangas &Very, 2006). Research suggest that shareholders of well-managed companies are significantly better off. (Hirshleifer & Titman, 1990). Nevertheless, the human factor in the deal can have adverse effects, too. Management hubris, resistance to takeovers, bad investment advisory might lead to value destruction and high premia. The hubris problem, moral hazard and the agency problem occurs if the management actually knows that they may overpay for the target, but they still proceed with the acquisition for their own sake. Like the agency motive, hubris is not easily quantifiable. Hostile takeovers are usually expensive since the existing management will initiate defense mechanism (Beckman & Haunschild, 2002; Hayward & Hambrick, 1997; Haunschild, 1994; Robinson & Shane, 1990; Roll, 1986; Sinha, 1992). Premia can also vary between industries and industry, is in general a very important driver. Some technology-intensive sectors with high level of R&D investments are related to higher premiums. (Kohers & Kohers, 2001; Laamanen, 2007). A very important factor is the fact whether a company already

posses shares of a certain company because this investor will have more incentives to acquire the outstanding shares. Walkling & Edmister (1985) finds that an ownership structure of already over 50% will incentivize the investor to acquire the remaining shares and to take more control, even if premia are much higher. (Shleifer & Vishny; 1986). High long-term debt of a target may bring potential financial synergies to the acquirer (Leland, 2007), but also comes with higher risk. Therefore, it may have a positive but possibly also a negative effect. Another important factor is the free cash flow hypothesis. Ficha et al. (2013), finds that cash-rich firms will acquire firms, even distressed companies with negative net present value (NPV) when they have abundant cash funds. Qiu et al, (2014) emphasizes that it has great impact on whether the management is part of the acquiring team, because this might mean that managers have incentives to pursue their own goals, these moral hazard situations will be explained later in more detail when introducing the theoretical framework. Walkling & Edmister (1985) found a significant negative relationship between target group bid premia and target financial leverage, valuation ratio and market to book ratio, percentage of shares controlled by bidders before acquisition, and a positive effect from competing bidders. The role of the advisory is known on having an impact on the acquisition premium and Chinese investors are known to employ first tier investment banks. First tier investment banks might be able to conduct the deal faster and to negotiate a lower premium but might charge higher fees so that a lower negotiated premium still translates into a higher overall premium, due to high fees of fist tier investors The payment method is a very important driver that will be explained in more detail later because this method is part of my econometric model and serves as a control variable. Besides, the payment type, majority control is for good reason simply more expensive than smaller shares in ownership, Obviously, the degree to which an investor can influence and block decisions is the reason for this effect . (Rossi & Volpin, 2004), Sudarsanam et al. (2010), and Ficha et al. (2013) Dhaliwal et. al (2015) finds that shared auditors are observed in roughly 25% of all public acquisitions and targets are more likely to receive a bid from a firm that has the same auditor. Moreover, these shared auditor deals are associated with significantly lower deal premiums, lower target event returns, higher bidder event returns, and higher deal completion rates.

Third, I will present other factors than deal-related and market-related factors, that have an impact on premia. Such factors are for instance diversification and synergy. If combined future cash flows of two firms are higher than those which the companies would have realized on their own, synergy is reached, a powerful driver and determinant of M&A transactions and their premia. (Damodaran, 2005). Estimating diversification and synergy effects are key in the value creating process and are the most important considerations when engaging in transactions. Obviously, given the vague nature of these estimates, mistakes in estimating such multiples lead to value destruction. Besides, this key aspect, location is a proxy for many things in economics. For good reason for instance, developing countries are known to pay higher premia. (Rossi & Volpin, 2000) Hope et al. (2011) found that emerging market firms tend to pay higher

acquisition premia for the developed-nation targets than for developing-nation targets. A general trend might be the desire of the Chinese government to diversify the economy and to establish Chinese high-tech companies and brands. A second important driver is diversification. (Koppens, 2010; Slusky & Caves, 1991) The potential to achieve diversification effects, increases premia. Research found for instance that differences of debt ratios between target and acquirer leads to higher premia, since different debt ratios allow better resource allocation. The higher the difference between debt ratios, the more likely it is that acquirers will level up debt and enjoy the financial leverage. (Damodaran, 2005).

A last important driver are national policies, national pride and the impact of ownership. These effects will be explained in the next section. To conclude, all this research does not change much to the fact that the dynamics of premia and merger in general are not yet fully understood. One of the rather unstudied areas are the role of the state ownership of the acquirer on premia. This is mainly due to the fact that national governments traditionally played a less direct role in foreign direct investment. Thus, this area of research got neglected, and SOEs restricted their operating scope to the domestic economy. (Laamanen, 2007) In the next two sections, I will summarize some frequent issues that are common in relation to public acquirers.

3.8 The impact of ownership structure on premia

In order to support the research question with theoretical knowledge, this section will discuss the general impact of ownership on acquisition premia and also on the role of Chinese government ownership on Chinese Acquisition premia. There are some main points that are important: mainly manager incentives, the role of mixed ownership and managerial hubris.

Sometimes, it is not so clear what stands behind a certain ownership structure in the Chinese context, what is clear is that in many cases it sill remains the state. (Wei, 2007) The corporatization and privatization of SOEs started already two decades ago but can not be considered accomplished the slightest. (Ramamurti, 2000) The reality is that most shares in Chinese listed companies are still controlled by the state (Lau et. al. 2007). The ownership of acquirers and targets are in many cases very different and it may be especially problematic, if a Chinese SOE acquires a private MNE in Europe. There is research suggesting that mixed ownership structures increase many disadvantages of both ownership systems and partial privatization often leads to worse outcomes than before. According to the author, such findings are universal and can be transferred and generalized to the interaction between SOE and POE in general. The problematic nature of communication between SOE and POE is not new and Boardman and Vining (1989) found that control and coordination becomes more complex if different management styles are mixed due to conflicts between the

public and private shareholders. Therefore, it is reasonable to think that Chinese SOE face difficulties when gathering information and engaging in negotiations with western MNE. (Boardman, Eckel, & Vining, 1986). Such frictions may influence the quality of due diligence, crucial for estimates in assessing the future synergy and ultimately lead to high acquisition premia. Therefore, some sort of cultural, administrative, knowledge and connectedness distances arises. (Berry, Guillén, & Zhou, 2010)

First, incentive structure of Chinese SOE will be described: the power and influence a manager might have during the deal process is defined by the ownership structure. In some cases, a manager has a veto right and can deny a deal. (De Miguel et al., 2004; Schleifer and Vishny, 1996; La Porta et al., 1999; Thomsen and Pedersen, 2000). There are actually findings that support my research question and relate the value of a deal to its ownership type. (Miller et al. 2009; and Chirico, 2010) SOE managers are appointed by the government mostly because of political reasons and not on basis on their economic performance. These managers act as entrepreneurs and governmental representative at the same time and have to serve a political interest, such goals as harmony and stability are more important than the viability or profitability of their company. (Walter & Howie, 2003) Compensation is also not related to performance and since manager do not benefit, why should they focus on increasing shareholder value? The resulting risk is that managers do not optimize their bidding behavior and do not aim acquisition cost reduction. (Zhang & Parker, 2002 Perotti, Sun, & Zou, 1999 Fan, Wong, & Zhang 2007 ; Eckbo, 2009; Birkinshaw et al., 2000; Haleblian et al., 2009 ; Peng, 2012; Sauvant, Maschek, & McAllister, 2009). Moreover, many of these managerial positions are only for a limited period of time and managers hope to rotate to a similar or better position afterwards. This leads to the fact that a manager is more concerned about the relations within the party and his entourage than about his economic performance as a manager. (Eckbo, 2009; Birkinshaw et al., 2000; Haleblian et al., 2009 ; Peng, 2012; Sauvant, Maschek, & McAllister, 2009). Especially in a high context culture of guanxi networks, that is based on promoting each other in networks and doing friends and colleagues favors in the hope to get support in the future. (Nee &Opper, 2012) Another institutional factor is decentralization of governmental control and delegate responsibilities to enterprise managers. This tendency leads to competition among different offices. (Ramamurti, 2000). Research finds that SOEs are less profitable due to inefficiencies resulting from weak property rights (Boardman, Freeman, & Eckel, 1986, Rossi & Volpin, 2004) Later, Hayward (1997) finds that executives' hubris factors revealing a significant positive relationship between takeover premia and target officers' holdings, recent acquirer performance, media praise for the CEO. While Moeller et al. (2005) merely paid special attention to the large loss-making deals during the preceding merger wave. Deng (2007 & 2009), and Rui & Yip (2008) cultural variance between countries makes the process of integrating a foreign company more costly. (Lu and Beamish, 2004)

3.9 The impact of the government on premia

As announced previously, this section is going to discuss the government influence on acquisition premia. The Chinese government represents a non-negligible force behind increased cross-border investment activity. The government, as the biggest shareholder of Chinese SOEs, plays a crucial role in this outward cross-border M&A activity. (Morck, Yeung, & Zhao, 2008) (Peng, Wang, and Jiang, 2008)

The Chinese government supports includes measures like low-interest financing, favorable exchange rates, reduced taxation, industrial guidance, and subsidized insurance for expatriates. There are special funds dedicated to foreign trade development and foreign aid projects, export credits, simplified foreign exchange procedures (Peng, 2012). There is a nearly grotesque lending bias towards POE. SOE have preferential access to long-term/mid-term loans from state-owned banks, interest subsidies and Chinese state-owned development banks channel cheap loans to politically connected firms while POE do not get access to finance without collaterals. (Musacchio & Flores-Macias, 2009).

This favorable situation is mainly due to high foreign exchange reserves, relatively cheap labor costs and the resulting favorable export position that China has held over the past two decades. China holds the world's largest amount of foreign reserves: US$3,254.67 billion in 2011 (The World Bank, 2012). There is researching finding that the government made a purposeful effort to conserve foreign exchange in order to support outward FDI (Luo, Xue and Han, 2010). Given this lack of serious financial constraint it is not hard to understand why some very large buyouts of developed-nation targets have happened. Other scholars argue that the fact, that China got less harmed by the 2008 financial crisis contributed to China comparative advantage and helped to acquire targets in developed countries. (Chen & Young, 2010). The policy support, the privileged access to finance allows more aggressive behavior in making foreign acquisitions. Therefore, offering higher acquisition premia for foreign targets is likely. SOEs face a softer budget constraint and instead of getting punished for doing non-viable operations getting rewarded by policy rewards and advantages. Such benefits might be tax reliefs, or better insurance policies. Social welfare and national strategy are more important than a firms viability and thus profitability concerns are neglected. (Boardman, Freeman, & Eckel, 1986).

But what might be an advantage in one aspect can be a disadvantage in another aspect. Government support might help to acquire targets but this support comes with a fundamental problem. This problem is that the government steps in as soon as the company is in difficulties. The company can count on being bailed out and these soft budget constraints are the core problem of state-owned enterprises. Low efficiency is the

ultimate result of unlimited support and soft budget constraints. But not only the fact of being bailed out in an emergency case is a problem: tax privileges, favorable insurance terms, and foreign industrial guidance makes SOE less independent and gives less incentives to improve core capabilities. (Ahlstrom, Chen, & Yeh, 2010; Huang, 2003). Governments might lack competence and expertise in corporate operations to make effective decision monitoring (Chen & Young, 2010). There is evidence in literature that SOE are less efficient in dealing with risks since the massive government interventions bring immense costs. The bureaucratic burden in SOE is heavy and decisions have to be approved and examined by different layers of hierarchy. Internal conflicts and Principal –Agent issues tend to occur more frequently in SOE and sometimes the objectives of government ownership and minority-shareholder ownership get into conflict; (Chen & Young, 2010; Dharwadkar, George, & Brandes, 2000; Su et al., 2008; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). (Baumol, 1980; Wintrobe, 1985; Bos, 1986; Negandhi & Ganguly, 1986). Meyer and Rowan (1977) point out that institutionalization involves the process by which social processes, obligations, and actualities take on a rule like status in social thought and action. (Cheng & Young, 2010; Luo & Tung, 2007; Shenkar et. al., 1998) This having said, it is not hard to imagine that many acquisition are not made for short term profit orientation but rather to follow a long-term master plan. Yet, Su, Xu, and Phan (2008) non-governmental shareholders may not be able to influence SOEs to the same degree that they can influence non-SOEs. Given this knowledge, it comes natural to develop curiosity about the impact of state ownership on premia in my dataset and therefore I will introduce in the next section the methodology and data set. Especially, state ownership in the Chinese context worth further investigation. Therefore, the state ownership hypothesis has to be tested. My a priori expectations are therefore that Chinese SOE pay significant higher acquisition premia compared to Chinese POE but also to the benchmark group of both private and public acquirers.

Hypothesis:

H1: Chinese SOE pay significant higher acquisition premia compared to POE
H2: Chinese SOE pay significant higher acquisition premia than benchmark group

IV. Empirical Evidence and Methodology

An econometric analysis will be conducted to use different aspects of Chinese acquisitions internationally. Before doing the econometric analysis, some descriptive statistics will help to better understand the trends in the data and summary statistics of variables. The collected data consist of deals

from 2000 to all the way to 2017. The number of deals in a given year is not constant, which makes my data set a pooled cross section data. So, it contains both properties of cross section data as well as time variation. Having a time variation in data allows me to see dynamics in premiums paid in deals. Although there is a variation in time in my data, my data set is not classified as panel data, as the unit of observation (deals) are not the same across years. So, it would not be suitable to use panel data models such as fixed effects or random effects. Therefore, an Ordinary Least Square estimation technique to estimate the determinants of deal premium will be implemented.

OLS Method

An illustration of OLS for the case of two explanatory variables, X_1 and X_2, with Y the dependent variable is: $Y_i = \alpha + \beta_1 X_{1i} + \beta_2 X_{2i} + u_i$

OLS is considered to be a very reliable method of estimating linear relationships between economic/finance variables. OLS method is used in various environments, but can only be used when it meets the following assumptions: where Y_{it} is the dependent variable(i.e deal premium) for the ith observation in year t, $\beta_1^{'}$ is the vector of parameters to be estimated and X_{it} is the vector of control variables, and u_{it} is the error term. Due to the limitations in my data set that is mentioned above, I will run several regression equation to analze driving factors of deal premium. Specifically, in my main regression, a dummy for investments from China will be included. This will allow me to differentiate deal premium that Chinese investors pay for deals from the deal premiums paid by investors from others parts of the world. Some variables that can be an important determinant of the deal premium, such as industry of the target firm, nature of the source company are not available for the sample that include investments from countries other than China. For the Chinese sample, there will be a dummy variable for each industry. This will allow me to see how deal premium may differ based on the source companies industry. (Gujarati, 2004)

4.1 Data Collection

Chinese Statistics from China are usually not very useful in conducting research about sensitive political topics. Since acquisition premia and a potential overpayment might have consequences on competition and disclosure many information about the current situation of the acquirer and its strategy and long-term prospect, most acquirer companies prefer to not disclosure acquisition premia. This is not very

different in China. What is special with Chinese FDI statistics is that Hong Kong and other tax heaven are popular. Hong Kong serves as a platform to channel cash flows anonymously and round tripping is a common phenomenon between China and Hong Kong. The Chinese Statistical Yearbook is a very useful and precise data source when it comes to non-sensitive data. Unfortunately, when it comes to investigate Chinese merger and acquisition premia in Europe, the best approach is to research the data at the target/European side where the payments show up instead of analyzing the statistics of the acquirer.
Bloomberg is a database that collects data about merger via newspaper interviews, expert interviews, and other insider information advantage. To make my data sample not too dependent on one source, I decided to back up findings with Pitchbook and S&P Cap IQ. Therefore, data from different sources had to be drawn together in Excel and later transferred into STATA. The extraction from Bloomberg did not happened without complication and many entries had to be computed manually due to the quantity restriction in Bloomberg. My main source for the quantitive analysis is however Bloomberg.

First, a sample of 514 Chinese Investors investing in Europe from 1996–2017 have been drawn. This sample consists of Investments, Merger and Acquisitions. The deal status of these transactions is either completed, withdrawn or terminated. Other options for deal status would be pending and proposed. I renounced on using pending and proposed deals because merger and acquisitions due to their complexity and magnitude in capital tend to have a high failing rate and many deals die before they even get signed. I also exclude partial acquisitions and multiple acquisitions on the same day. Existing literature excludes spin-offs, recapitalizations, self-tenders, repurchases, acquisitions of remaining interest, exchange offers and privatizations. Literature usually excludes spin-offs, recapitalization, self-tender, repurchase, acquisition of remaining interest, exchange offers and privatizations. Unfortunately, due to data scarcity, I cannot exclude asset sales and minority stake purchases. But I can guarantee that these minority stakes have a value more than 20 Million and even though, I do not have very precise data on the percent of stake already acquired, I can guarantee at least a certain threshold. Other papers excluded only deals minor to 1 Million, with 20 Million as the smallest value in the Chinese Sample, I am quite on the safe side. (Guo et al. 2016)

Moreover, one can divide transactions into cross border merger or domestic merger. In order to investigate my research question, domestic deals will be excluded and only investigate cross border merger, since domestic merger occur more frequently and are less complex. (Rossi & Volpin, 2004) Of course, the circumstances of the takeover account to a large extent. According to literature, the type of transactions influences the bid premium tremendously, because in case of a hostile acquisitions or in case of other complications, targets use strategies of defense, that lead to higher takeover cost. (Rossi & Volpin, 2004; Sudarsanam et al. 2010, and Ficha et al. 2013) Since, there are no hostile takeovers in my dataset, I can neglect this otherwise important detail. Similar to the transaction attitude, the existence of a competing bid

might increase the difficulty in wining the bid, and thus increase the bid premium. Unfortunately, there is not much data available on the competition situation either. (Varaiya, 1987, Haunschild,1994, Hambrick & Hayward, 1997, etc.) The category "multiple acquirers" is computed automatically by Bloomberg. Deal synopsis from Capital IQ and reading news articles would help to complete the database. The true name is however not important for my hypothesis since Bloomberg provides me with sufficient information about the target country, industry and deal premium to conduct an analysis anonymously in some rare cases.

Base information like deal amount, target industry, deal date, financial advisor of the acquirer will be included in my dataset. Unfortunately, public or private ownership could not be added in the data base, so I had to draw a new Chinese sample with Chinese investors buying in Europe in the respective time to edit my data base manually with ownership information. There is no distinguished category between mergers or acquisitions and Bloomberg displays deals with a minimum value of 5 percent of the outstanding target shares sought. A cross-sectional data sample as it consists of a number of individual transactions will be employed, each occurring at a different point of time, and where I have drawn together the same variables for all observations. Bloomberg calculates the premium by subtracting the 20 days average target stock price per share one day prior to the announcement date from the offer price per share and then dividing this difference with the 20 days average target stock price (Figure 1). Even thought literature suggests to employ mostly one day and 30 days premium. (Hitt et al. 2001) I have chosen to not use this metrics because the other metrics was not available for all my sample data provided in Bloomberg. The 20 day premium, is still a good dependent variable, because it deals with the problem of information leakage and reaction of the market to the announcement of the deal. This metrics is automatically computed by Bloomberg and still allows reasonable econometric analysis.

Figure 4.11: Calculation of Acquisition in Bloomberg database

Announced Bid Premium Calculated by Bloomberg Data base:
$AnPremium$=_ _$Offer$ _$price$ _per _s are−2_0_ _day _$target$ _$average$ _2_0_ _day _$target$ _$average$ _

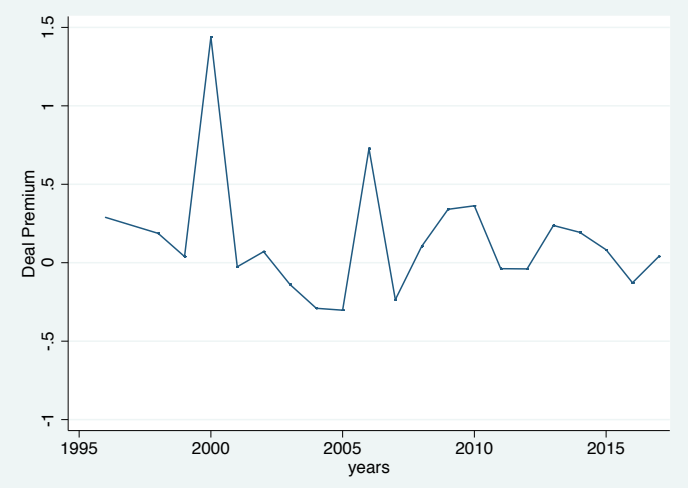
The benchmark sample is a sample of cross border transactions in Europe in the period of 1990–2017 with similar characteristics. This rare data sample, proves of 146.177 merger and acquisition or investments transactions occurred in total. Out of these deals 139.646 are either completed, terminated or withdrawn. If I chose cross border deals, 66. 566 deals remain. Out of these 37 701 deals are from a public acquirer so this number is somewhat similar to the Chinese sample and more or less half of the population is conducted by a public acquirer. I controlled for similar characteristics like in the Chinese sample.

Dependent Variable: Deal Premium

I will use two measures of deal premia: my first premium measure is announced premium which is ready in the data set. However, announced premium variable exists only for 35 deals for China where is it exists for a lot more deals for Non-Chinese deals. In order to get more robust coefficient and standard errors, I will generate an alternative deal premium measure. I will make use of the definitions of deal premium that exists in the literature. Acquisition or deal premium is defined as the difference between the actual cost of acquiring a target and an estimate of the targets pre-acquisition value (Guo et. al, 2016). Similarly, Sonenshine and Renolds (2014) defines it as the percent difference between the price paid to effectuate the merger and the current market price of the target firm. Based on these definitions, I calculate the deal premium as the percent difference between announced value of the deal in the market value of the firm before the deal. Using these two measures of deal premium will strengthen my analysis, because I will be able to see how sensitive the coefficients are to the definition of deal premium. In the figures below, I present how deal premium changes based on certain characteristics of the data.

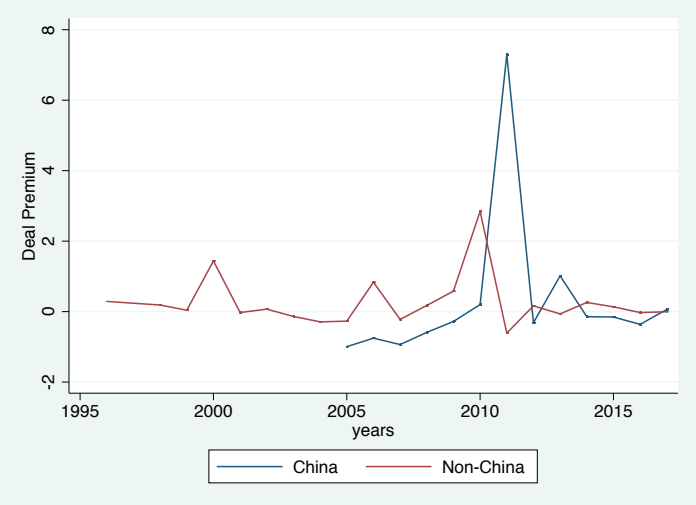
In the figure below, I present how the average deal premium changes by time. I include both Chinese and Non-Chinese group. The data goes back to 1996 and 2005 for the non-Chinese group and Chinese group respectively. So, the time before 2005 reflects Non-Chinese group only. Overall, it can be said that there is no trend in the average deal premium over time. Although we see some spikes in certain years. This is mainly due to few observations with very high deal premium in the spike year. I dropped outliers but still the distribution of deal is not normal. I do not drop very low values because negative premiums are frequent and also high premia are possible and reasonable given the massive cash reserves. (Weitzel &King, 2016)

Figure 4.12.: Average Deal Premium by time (both groups together)



In the figure below, we can see how average deal premium changes by time for both groups separately. There is a huge spike in the Chinese group around 2011. Again, this is mainly due to few observations with a very high value of the deal premium for Chinese companies. For the non-Chinese group, no trend is observed, while for the Chinese group there seems to be an upward trend over time.

Figure 4.13.: Average Deal Premium by time (both groups separately)



It might also be interesting to see how average deal premium differs based on the ownership of the acquirer company. We see in the figure below that average deal premium is higher for the non-SOE Chinese companies. The finding in the literature suggests the opposite though. In other words, SOE are found to offer higher deal premiums compared to non-SOE companies. The figure below simply compares the averages without controlling any other factor. In order to see only the effect, SOEs on deal premium many factors should be controlled, which is done in the regression analysis.

Figure 4.15: Average Deal premium by SOE (all sample)

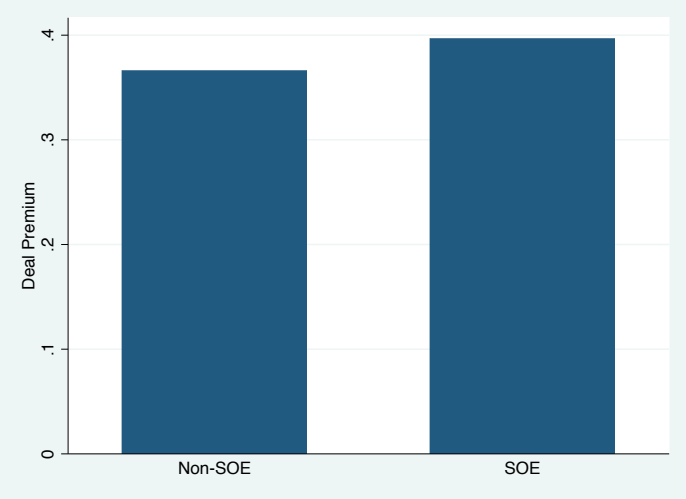
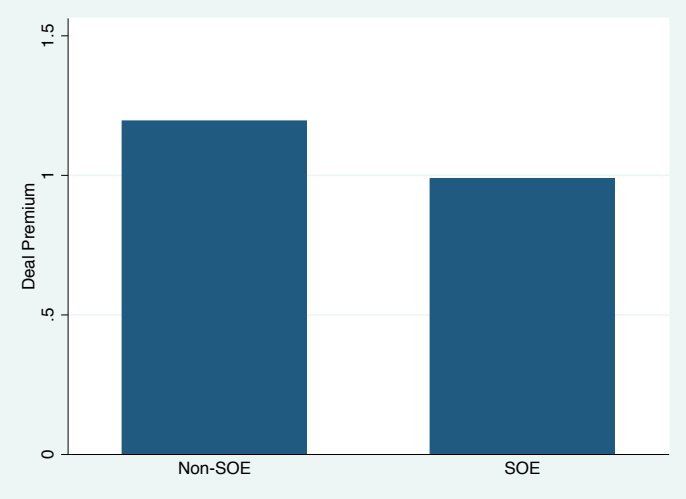
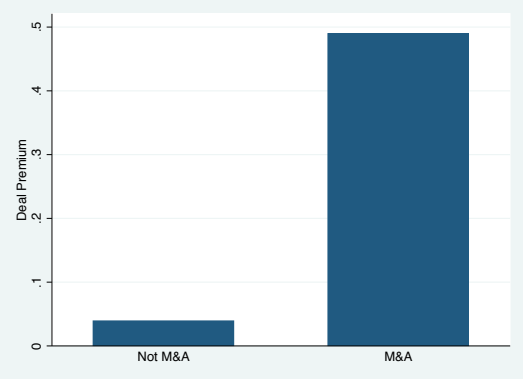


Figure 4.16.: Average Deal premium by SOE (China only)



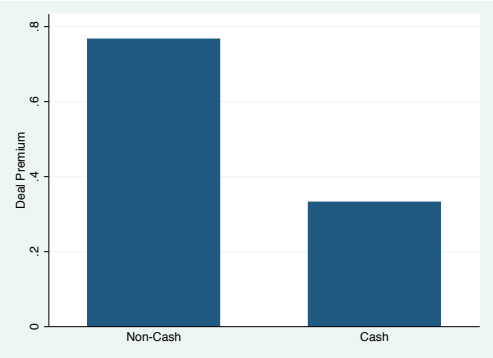
Type of deal (investment, mergers and acquisitions etc.) can be a potential determinant of the deal premium. We see in the figure below that M&A deals have an about 5 times higher deal premium compared to non-M&A deals. Again, it is worthwhile to remember, I don not control for any other factor so far. So, we should be cautious about interpreting these figures.

Figure 4.17.: Average Deal premium by Deal Type (M&A and others)



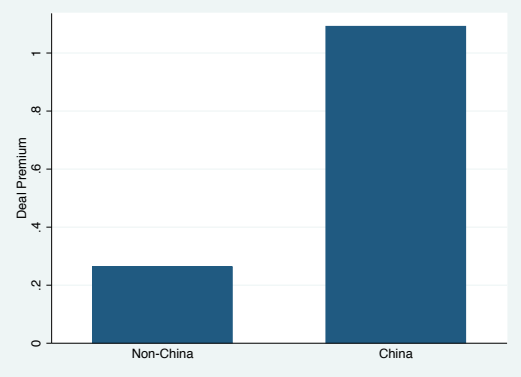
Some deals are paid by cash and some are paid by stock and some are paid by debt. So, looking at the average premium by payment type will give us better insight about the relationship between payment type and deal premium. It is seen in the figure below, that non-cash payments have a higher deal premium. This does not come as a surprise because of the already described situation of risk transfer. It is just a lot easier to promise somebody equity than cash and in case the synergy does not materialize, the acquirer will have to pay twice, once by the too high premium relative to the later synergy and second for the drop in stock prices, due to failing to meet expectations. Also from the revenue side future cash flows might be lower and therefore with equity the acquirer will participate in losses twice. Offering equity instead of cash is besides that, a clear signal to the market about the confidence of the managers conducting the deal, also some sort of risk management behavior if one expects synergies to happen less likely. (Rappaport & Sirower 1999)

Figure 4.18.: Average Deal premium by Payment Type (Cash and others)



Finally, the figure below shows the average deal premium for Chinese and non-Chinese groups. It can be seen that Chinese companies on average paid higher premium compared to non-Chinese acquirers. Although this result seems to support my hypotheses, for a solid analysis, I need to control for other relevant factors.

Figure 4.19.: Average Deal premium by Sample Group



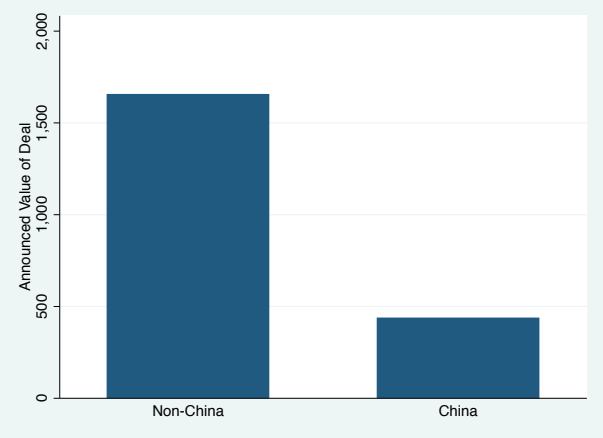
4.2 Control Variables

I will use several control variables to analyze the determinants of the deal premium. The choice of control variables is based on the existing literature. Depending on data availability for the Chinese and non-Chinese group, I use for my two regressions slightly different control variables in the regression analysis. This causes the number of observations to differ each time, so I include or remove a control variable from the regression.

Announced Total Value

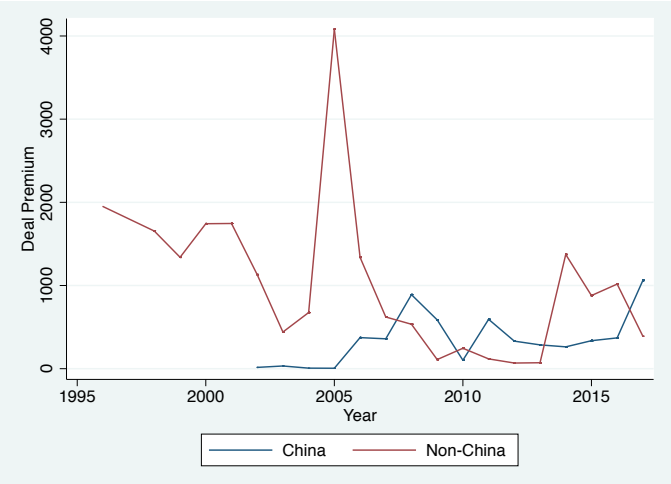
Although I do not use announced total value as an independent variable in my regression analysis, it is important to learn more about descriptive statistics for this variable, as I use this variable to calculate the deal premium. Announced total value of the deal varies significantly across different observations. In the figure below, average total value of the deal is given for Chinese and benchmark sample. It is seen that average value of the deal is significantly higher than that of Chinese sample.

Figure 4.21.: Average Total Value of Deal by Sample Group (in million dollars)



The figure below graphs total value of a deal overtime for Chinese and benchmark sample separately. It can be seen that there is no general trend in average total value of deal over time for the benchmark sample. However, we see spikes randomly in some years. Most striking spike is in 2005 for the benchmark sample. This is most likely caused by a very highly valued deal that exists in 2005 for the benchmark group. For the Chinese sample average value of the deal seems to increase slightly over time

Figure 4.22.: Average Total Value of Deal by time (in million dollars)



Deal Type (M&A, investment etc.)

In my data set, there are several types of deals; merger and acquisitions (M&A) and investments. I decided to let investments in my data set, even portfolio investments have sometimes different goals and are often just short time high yield investment opportunities, in order to account for the big picture of the Chinese investment activities in Europe and due to the scarcity of data. In order to let things comparable, I do adjust this to both data samples. Most Chinese investment in Europe goes into existing, established firms. There are almost no greenfield projects. Unfortunately, I do not have more precise information about the percentage of green field investments. However, I have precise data about Investments, Joint Venture and M&A. In my dataset there are no joint ventures, and only M&A and investments deals. These two types of deals that might affect the deal premium, so it must be controlled for in the regression analysis. I create a dummy variable for M&A, which takes the value 1 if the deal type is M&A and 0 otherwise. It is seen in the table below that 72% of all the deals in the data are M&A. For the Chinese sample share of M&A is 61%, while it is 82% for the benchmark group.

Table 4.23: Deal type by sample group

All Sample	Deal Type	Freq.	Percent	Cum.
	Investment	307	27.73	27.73
	M&A	800	72.27	100
	Total	1,107	100	
Chinese Sample	Deal Type	Freq.	Percent	Cum.
	Investment	202	39.3	39.3
	M&A	312	60.7	100
	Total	514	100	
Benchmark Sample	Deal Type	Freq.	Percent	Cum.
	Investment	105	17.71	17.71
	M&A	488	82.29	100
	Total	593	100	

Payment Type (Cash, stock, debt)

Deals can be agreed upon certain payment types such as cash, stock or debt. A premium can differ based on payment type of the deal. So it is reasonable to control for the payment type in the regression analysis. I create a dummy variable for the payment type, which is equal to one if the payment type is cash and zero if it is stock or debt. The table below presents the distribution of payment type for all the sample, the Chinese sample and the benchmark sample. According to the table, in the Chinese sample and the benchmark sample, 86% of the deals are cash deals. So there is not any variation in payment type for the two samples. According to literature, differences in payment types used to be historic and in the past cash payment was more

common. (Rappaport & Sirower, 1999) However, despite this historic fact, there is an important difference between these two types of payment. According to theory, the main distinction between cash and stock transactions is the transfer of risk. In cash transactions, acquiring shareholders take on the entire risk that the expected synergy will not be generated. In stock transactions, that risk is shared with the selling shareholders.

If the share price drops after the transaction is completed or the hoped synergy effects do not realize, the acquirer that paid with shares has to pay twice, once with the shares of the price and second with a decreasing value of the shares. Research consistently shows that the market takes the issuance of stock by a company as a sign that the company's managers believe the stock to be overvalued. If the management makes the choice to use stock to finance an acquisition, the company's stock is likely to fall. (Rappaport & Sirower, 1999) The resulting problem is that undervaluing shares or issuing new shares is also going to penalize current shareholders, which might be even worse. The target companies must be able to bring forward explanations to their own stockholders why they have to share synergy gains of the transaction with the stockholders of the acquired company. In short, the payment method can be understood as some sort of signal. If an acquiring company's managers believe that the market undervalues their shares, the logical implication of this manager would be to choose a cash offer. But sometimes what a manager says and what is the reality is not really the same. Sometimes managers send signals to the market even if they think differently. Often managers bluff and say that their shares are undervalued and still proceed with a stock offer. (Sirower, 1999) Acquirers who use stock tend to be those with overvalued shares, thus, the premium they confer is illusory. Therefore, it takes much more conviction to spend hard cash. (Lowenstein, 1997)

Table 4.24: Payment type by sample group

All Sample	Payment Type	Freq.	Percent	Cum.
	Non-Cash	149	13.46	13.46
	Cash	958	86.54	100
	Total	1,107	100	
Chinese Sample	Payment Type	Freq.	Percent	Cum.
	Non-Cash	71	13.81	13.81
	Cash	443	86.19	100
	Total	514	100	
Benchmark Sample	Payment Type	Freq.	Percent	Cum.
	Non-Cash	78	13.15	13.15
	Cash	515	86.85	100
	Total	593	100	

Number of Employees

Firm size is a very important factor, that plays a role in many financial statistics/ratios. Target firm's size can be an important factor in determining how much premium an acquirer is wiling to pay for a target firm. There are numerous statistics that are used for firm size such as firm's revenue, total assets or number of employees. Number of employees will be used to control for firm size. This data exists for both Chinese and Benchmark sample. Summary statistics for number of employees is given in the descriptive statistics table below. In the regression analysis, the natural logarithm of number of employees will be used, rather than the raw number because doing so reduces the heteroscedasticity problem and makes interpretation easier (Gujarati and Porter, 2009). Boston Consulting Group (2007) shows that "megadeals" priced at more than $1 billion destroy nearly twice as much value relative to smaller transactions. Also in line with Moeller et al. 2004, Loderer and Martin (1990) argue that acquirers lose more in large deals because they pay too much. This can be the case if confident managers overestimate the possibility of generating value. (Roll, 1986; Hayward and Habrick, 1997; Malmendier and Tate, 2008) Moreover, managers may also pay more for a large target because this large target might offer other incentives that could benefit the manager privately. (Morck, Shleifer and Vishny, 1990; Loderer and Martin, 1990; Grinstein and Hribar, 2004; Harford and Li, 2007; Moeller et al., 2004).

Ownership

Literature has always tried to answer the question if managers in state-owned enterprises decide in their own interest or in the interests of shareholders. Sometimes the incentives of managers stand in conflict with the benefits of shareholders. These gains can be manifold: more prestige because of managing a larger firm, better remuneration or other perks, and do not have to worry that the stock price goes down and a hostile take over might occur. (Bargeron et al.2008) (Haleblian et al.,2009; Shimizu et al., 2004;) The result out of this conflict might be a moral hazard problem that makes managers decide in their own interest. The table below presents the frequency distribution of the SOE variable for the Chinese sample only. According to the table, 58 percent of the Chinese acquirer companies are SOEs. From a corporate governance perspective, research reveals that ownership structures are important for the degree of managers' power and control in the deal process and their opportunity to block risky M&As (De Miguel et al., 2004; Schleifer and Vishny, 1996; La Porta et al., 1999; Thomsen and Pedersen, 2000). In case of failure of a bidding attempt, there are more adverse consequences for managers of public firms than for managers of private firms. On the other hand, transparency issues have adverse effects for SOE. A public firm might not have much interest in disclosure information and showing too much of their strategy, in order to avoid competitors to take measures. (Bargeron et al. 2008) (Lehn and Zhao 2006) Agency problems might be more serious in many public firms than in private firms. (Jensen 1989). In addition, private firms differ from the bidding behavior

of public firms in that private firms are much less reluctant to walk away from a deal than are public firms—while 37.4% of the offers by private firms are withdrawn, only 16.9% of the offers by public firms are withdrawn. This evidence is consistent with the hypothesis, that failure cost more for public firms, but it could also reflect greater agency costs in the typical public firm relative to private firms or a greater willingness of private firms to make offers that have little chance of success (Bargeron et al. 2008)

Table 4.25: Frequency distribution of SOE (All sample)

SOE	Freq.	Percent	Cum.
Non-SOE	451	40.74	40.74
SOE	656	59.26	100
Total	1,107	100	

Table 4.26.: Frequency distribution of SOE (Chinese sample only)

SOE	Freq.	Percent	Cum.
Non-SOE	214	41.63	41.63
SOE	300	58.37	100
Total	514	100	

ROA

Return on asset (ROA) of a firm is another very important financial ratio that is used in empirical studies in finance and economics. I will use ROA of the target firm as a control variable. ROA exist for both: the Chinese and the benchmark group, so I can use this variable in my main regression equation. Summary statistics for ROA is given in the descriptive statistics table below. According to the free cash flow hypothesis and Ficha et al. (2013), cash-rich firms tend to do acquisitions, even those who destroy value when they have abundant cash reserves. Therefore, it is reasonable to control for ROA.

Industry

Some industries are designated by the Chinese government as favored sectors. It is reasonable to believe that favored sectors can afford to pay even higher premiums in order to acquire foreign targets. Those strategic sectors might be: metal mining, oil and gas extraction, and automotive. (Zhang, 2010) It is important to control for industry because different industries have their specific rules, investments logic and regulations. (Harford, 2005) In order to control unobserved heterogeneity across different industries of

target firms, I will use industry dummies. Unobserved heterogeneity refers to any unobserved differences in target industries that might affect the deal premium. These differences are assumed to be time invariant, as it is specific to industry. One way to estimate the unobserved heterogeneity is to include a dummy variable for each industry of the target firm. In my data set there are 9 industry areas for target firms. Main industries include, basic materials, communication, consumer, energy, financial, industrial, technology, utilities, and diversified. Note that the industry variable is available for the Chinese data only. A frequency table of industry sectors is given in the table below. According to the table consumer industry has the highest share in the data with 26.1%. It is followed by industrial sector, which consists of 24.1% of the data. The lowest share belongs to utilities sector with only 1.5%. The pie chart below also demonstrates the frequency distribution of target firm industries.

Table 4.27.: Frequency Distribution of Industry of Target firms (Chinese Data only)

Target Industry Sector	Freq.	Percent	Cum.
Basic Materials	47	9.16	9.16
Communications	35	6.82	15.98
Consumer	134	26.12	42.11
Diversified	16	3.12	45.22
Energy	39	7.6	52.83
Financial	56	10.92	63.74
Industrial	124	24.17	87.91
Technology	54	10.53	98.44
Utilities	8	1.56	100
Total	513	100	

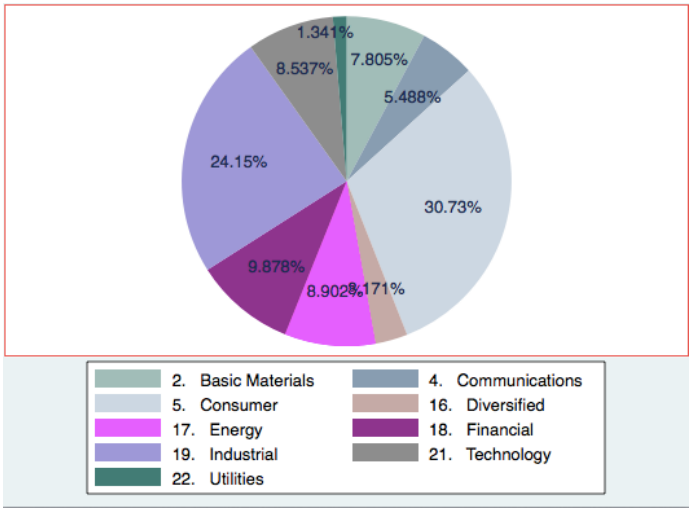


Table 4.28. : Distribution of Industry of Target firms (Chinese Data only)

Year

M&A is a very cyclical business and therefore one has to account for the time factor. In 2004, for instance very low premia occurred more frequently while in 2008-2013 premia have been high. The 2008 financial crisis hit the economy worldwide, thus the firm values were much lower; while the wave in 2003 was mainly caused by the introduction of financial derivatives and the dramatical growth of the stock market. My empirical analysis employs therefore a set of time fixed effects to account for aggregate economy wide events that may occur over time and affect all the firms simultaneously such as economic crisis. In other words, the year variable will be capturing any changes over time that might affect my dependent variable deal premium, which are not controlled by my control variables. The data for the Chinese sample includes deals starting from 2002 to 2017. For the benchmark data, it covers years 1996 through 2017. The table below presents the frequency distribution of years for my data. It can be seen that number of deals are highest for the years, 2014, 2015 and 2016. We see that the number of observation is increasing each year. Media is maybe more active in publishing sensitive data and in recent years acquisition premia become more often public than it has been the case 20 years ago, but besides the availability of data, there is a clear tendency that mergers occur more nowadays more frequently than this has been the case in the past.

Table 4.29.: Frequency Distribution of Year

year	Freq.	Percent	Cum.
1996	1	0.09	0.09
1998	19	1.72	1.81
1999	26	2.35	4.16
2000	33	2.99	7.15
2001	36	3.26	10.41
2002	19	1.72	12.13
2003	35	3.17	15.29
2004	28	2.53	17.83
2005	26	2.35	20.18
2006	42	3.8	23.98
2007	64	5.79	29.77
2008	65	5.88	35.66
2009	46	4.16	39.82
2010	52	4.71	44.52
2011	61	5.52	50.05
2012	57	5.16	55.2
2013	65	5.88	61.09
2014	97	8.78	69.86
2015	145	13.12	82.99
2016	143	12.94	95.93
2017	45	4.07	100
Total	1,105	100	

Descriptive Statistics

Table 4.210.: Descriptive Stats for China

Variable	**Obs**	**Mean**	**Std. Dev.**	**Min**	**Max**
Deal Premium	101	1.091304	8.044571	-0.9958082	60.05487
Announced Deal Premium	36	19.32111	36.89963	-98.78	113.32

Cash	821	0.6869671	0.4640103	0	1
M&A	821	0.637028	0.48115	0	1
Announced Value of Deal	514	435.2724	1283.95	0	14134.77
Total Value	93	23127.64	95534.89	-66.6281	876593
ROA	268	7.928966	97.92888	-173.369	769.122
Target Number of Employees	125	4139.256	8492.066	2	36763
SOE	821	0.5249695	0.4996805	0	1

Variable	Obs	Mean	Std. Dev.	Min	Max
Deal Premium	568	0.2629714	2.789701	-0.999975	44.05851
Announced Deal Premium	576	26.62477	33.89634	-98.78	301.97
Cash	599	0.8614357	0.34578	0	1
M&A	599	0.8230384	0.3819552	0	1
Announced Value of Deal	596	1654.24	10002.62	0.08	185075
Total Value	130	12108.52	37742.2	2.02824	377574
ROA	571	0.4148967	38.1207	-199.145	769.122
Target Number of Employees	346	3390.98	6716.626	1	49709
SOE	593	0.6003373	0.4902425	0	1

Table 4.211: Descriptive Stats for Benchmark Group

Variable	Obs	Mean	Std. Dev.	Min	Max
Deal Premium	669	0.388026	4.047433	-0.999975	60.05487
Announced Deal Premium	612	26.19515	34.09134	-98.78	301.97
Cash	1420	0.7605634	0.42689	0	1
M&A	1420	0.715493	0.4513383	0	1
Announced Value of Deal	1110	1089.781	7403.543	0	185075
Market Value	223	16703.94	68115.44	-66.6281	876593
ROA	839	2.8151	63.68893	-199.145	769.122
Target Number of Employees	471	3589.567	7228.446	1	49709
SOE	1107	0.5925926	0.4915739	0	1

4.3 Hypothesis and Model

H1: Chinese companies pay significant higher acquisition premia than companies in the benchmark group
H2: Chinese SOE pay significant higher acquisition premia than Chinese POE

The Model 1

$$\Pr emium_{it} = \beta_0 + \beta_1 China_{it} + \beta_2 Year_t + \beta_3 MA_{it} + \beta_4 \log(EmpNum)_{it} + \beta_5 SOE_{it} + \beta_6 Cash_{it} + u_{it}$$

Where Premium is the deal premium. China is a dummy variable which is equal to 1 if the acquirer is from China and, 0 otherwise, Year is a trend variable, MA is a dummy which equals to 1 if type of deal is M&A, and 0 otherwise, logEmpNum is the natural log of number of number of employees of the target firm, ROA is return on asset, Cash is a dummy variable which is equal to 1 if payment is made by cash and 0 otherwise and u_i is error term. A common problem in a regression analysis is heteroscedasticity. In order to overcome this problem, I run regression equations with robust standard errors. Also to make sure that the OLS assumptions hold, I will perform several tests after the regression.

In order to understand the determinants of deal premiums, specifically for the Chinese sample, and to make use of variables that exist for Chinese data only, I run a separate regression for the Chinese sample. This regression will allow me to see the effects of industry and SOE on deal premium. It is argued in the literature that (Guo et al. 2016) whether the acquirer company being a SOE or not matters in how much acquirers pay for a deal. The regression equation specific to Chinese sample will be:

Model 2

$$\Pr emium_{it} = \beta_0 + \beta_1 Year_t + \beta_2 MA_{it} + \beta_3 \log(EmpNum)_{it} + \beta_4 ROA_{it} + \beta_5 Cash_{it} + \beta_6 SOE_{it} + \beta_7 Industry_{it} + u_{it}$$

Where Premium is the deal premium. Year is a trend variable, MA is a dummy which equals to 1 if type of deal is M&A, and 0 otherwise, logEmpNum is the natural log of number of employees of the target firm, ROA is return on asset, Cash is a dummy variable which is equal to 1 if payment is made by cash and 0 otherwise, SOE is a dummy variable which takes the value 1 if the acquirer is a SOE and 0 otherwise, Industry is a set of dummy variables that represents industry of the target firm, and u_i is error term.

V. The Results

This paper proved that my two hypothesis hold true. The first hypothesis tests if Chinese companies pay significant higher acquisition premia than companies in the benchmark group and the second proves that Chinese SOE pay significant higher acquisition premia than Chinese POE. Both hypothesis hold true and the results are presented in the section below. In the following section, OLS regression results are presented in the following tables. In the first column, I present regression results when the dependent variable is announced premium, which is provided by Bloomberg. According to the results, China, Year and M&A variables are significant. The coefficient for China is 6.876 and significant at 10% level. It suggests that Chinese acquirer's deal premium is 6,876 units bigger than non-Chinese acquirers. This finding supports my hypothesis about Chinese acquirers' willingness to pay for deals. The Year variable is significant at 1% and the M&A variable is significant at the 5% suggesting my prior reckon that mainly M&A deals are related to higher premia and that portfolio investments are not affected by this recent overpayment trend. On average each year announced deal premium increases about 1.2. The deal premium is about 10 units higher for M&A deals than investment deals. In other words, acquirers are willing to pay about 10 units higher premium in M&A deals compared to investment deals. Coefficient for the Cash variable is -2.08, which means if the deal is paid out by cash rather than stock or debt, then deal premium is about 2 units less. However, this is not significant statistically. Coefficient of number of employees suggests that when the target firm's employee number increases by 1 percent deal premium decreases by 0.892 units. This coefficient is not statistically significant. However, the sign of the coefficient is in line with literature, but there are many different since there is no clear opinion about the relationship of size and premia in literature. I therefore assume that one can not draw conclusions on the size of the firm only and that many other factors influence the size of the acquisition premium. The SOE coefficient is 10.91 and significant at the 1%. level. This means that SOE companies pay 10.91 unit more deal premium compared to non-SOE. This supports my hypothesis and shows that the ownership structure is related to the size of the premium, in both cases, in the Chinese sample but also in comparison to the benchmark sample.

In the second column of the table, I present OLS regression results when the dependent variable is deal premium based on my own calculation. According to the results, the China and the number of employee variable are statistically significant. Chinese acquirers' deal premium is about 1.488 units higher than that of non-Chinese acquirers. When number of employees increases by 1%, the deal premium decreases by 0.235 units and is significant at the 5 percent level. This finding suggests that acquirers are willing to pay higher premium for smaller target companies. In general, this finding is in line with literature. But on the other hand, concerning size the is no general widely accepted truth and higher premiums are possible for both: smaller and bigger companies. Year and M&A variables are statistically insignificant and therefore

mergers are related to higher premia than simple portfolio investments. The SOE coefficient is 6.13 and significant at 10%. SOE companies pay 10.91 unit more deal premium compared to non-SOE. This supports again my hypothesis and emphasizes the role of ownership on acquisition premium in the Chinese context.

Table 5.11: OLS regression results (All sample)

	(1)	(2)
VARIABLES	Announced Premium	Premium(own calculation)
China	6.876*	1.488**
	(3.743)	(0.654)
Year	1.207***	-0.027
	(0.444)	(0.064)
M&A	10.242**	0.610
	(4.237)	(0.577)
Cash	-2.083	-0.643
	(6.136)	(0.846)
lognofemployees	-0.892	-0.235**
	(0.773)	(0.109)
SOE	10.91***	6.13*
	(3.771)	(3.659)
Constant	-2,425***	56.02
	(904.0)	(129.2)
Observations	376	424
R-squared	0.18	0.27

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

In the table below, I present the OLS regression results for the Chinese sample only. Column 1 of the table uses announced premium as a dependent variable. According to the results, the number of employees, SOE and some industry dummies are significant. The coefficient of the number of employee suggests that if the number of employees increase by 1 percent, announced deal premium decreases by 8.4. As mentioned previously, this is probably because smaller firms are perceived to have bigger potential in terms of growth and profitability. These findings are in line with literature and a broad body of literature found that megadeals usually just destroy value instead of creating shareholder value. (Moeller et al. 2004. Loderer and Martin 1990)

The SOE variable of my second model, that is answering the question is also significant at the 10%

significance level. Chinese SOE acquirers pay about 28 units higher premium compared to Chinese non-SOE acquirers. This confirms the lending bias against Chinese private companies. The four big state banks are mainly financing SOEs and other agents that put into practice reform policy. Moreover, there are sets of industry dummies included in the regression. The reference industry category is basic materials and got chosen automatically from STATA. Consumer industry deals have significantly higher deal premium compared to basic materials. Financial and Industrial categories have significantly lower deal premium compared to basic materials. Which supports the findings that the second Chinese merger wave was mainly a resource seeking merger wave. This finding also supports the resource theory in its very literal sense.

In the second column of the Table, I present regression results when the dependent variable is premium based on my own calculations. Both the number of employees and the SOE variables continue to be significant. In fact, the SOE variable is significant at 1% significance level now. The coefficient of SOE implies that SOE acquirers pay 10 units higher premium than non-SOE acquirers. This result is consistent with the literature and confirms high agency and transaction costs. (Guo et al. 2016) The coefficient of number of employees suggests that a one percent increase in the number of employees decreases deal premium by 1 unit at the five percent level. The only statistically significant industry dummy are 'consumer', 'financial' and 'industrial', which is significant at 5% and 10% level. The coefficient of 'consumer' implies that consumer sector companies are paid about 10 units higher premium than basic materials. The descriptive statistics of the sample has shown that most of the deals in general are in the consumer industry which supports the fact, that Chinese acquirer try to improve branding and to acquire management expertise in this area.

Table 5.12.: OLS Regression Results (Chinese Sample only)

	(1)	(2)
VARIABLES	Announced Premium	Premium(own calculation)
Year	2.359	-0.701
	(3.852)	(0.517)
Cash	-8.986	0.621
	(32.30)	(4.037)
MandA	-6.698	-1.191
	(20.19)	(2.476)
lognofemployees	-8.437*	-1.057*

	(4.423)	(0.587)
SOE	28.68*	10.022***
	(16.50)	(2.889)
Communication		2.590
		(11.12)
Consumer	7.15**	9.965**
	(3.09)	(4.659)
Diversified		0.826
		(6.773)
Energy	10.94	2.419
	(28.41)	(5.358)
Financial	-93.12**	5.154
	(42.66)	(5.881)
Industrial	-66.63*	4.566
	(37.13)	(4.774)
Technology	-31.13	5.274
	(35.05)	(6.152)
Utilities		4.671
		(11.36)
Constant	-4,729	1,415
	(7,734)	(1,039)
Observations	29	71
R-squared	0.508	0.170

Robust Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.

VI. Limitations and further research

As some research suggest, it could have been interesting to further distinguish the ownership variable. Information like family ownership, institutional ownership could be more precisely distinguished. Unfortunately, Bloomberg did not allow to further distinguish these details. However, in the Chinese context the information SOE or Non-SOE has quite of an explanatory power in determining the situation of a company. The same goes for the amount of stake already acquired, it would be interesting to further define this variable. There is a body of literature arguing that acquirer already owning a stake are more likely to pay high acquisition premia. Likewise, I could not exclude explicitly Hong Kong but only chose mainland China. I have checked the dataset for companies outside of China and could not detect any Hong Kong based deal, but I know that Hong Kong serves as a platform for FDI from China. So even tough if I do not have included Hong Kong in my data sample, there might be some dubious channels that orchestra Chinese

FDI via Hong Kong. Similar research on the topic with another database suggest that around half of the sample are Hong Kong based transactions. (e.g., Buckley et al., 2007; Peng, 2012: 98) Tracking capital flow leaving China is in general a problem impossible to overcome and as way to deal with the problem, I have renounced to use Chinese statistics in the first place, but relied on Bloomberg, a database that collects information from western media. Cayman Island and other islands are famous for excel Chinese transactions. I have tried to control for this effect in the benchmark sample, but I am aware that I can not entirely avoid that Chinese deals are compared with Chinese deals. Also western companies use tax heaven, so excluding all the tax heaven would distort realities even more. When searching for my data in Bloomberg, I realized that many deals that appeared on the European side to have happened – but did not show up on the Chinese side. This mismatch can only be explained by deals not being defined. However, despite these limitations Bloomberg can be considered as a reliable data source and data is researched by Bloomberg analysts thanks to newspaper articles, expert interviews and other reliable information sources from the European side instead of the Chinese side. (Zhang & Ebbers, 2010; Hanemann & Rosen, 2012)

Furthermore, a more complex empirical model and more advanced methods could have been better to support the hypothesis. Due to my small sample size in the Chinese sample, I could not afford to exclude financial firms, even if this would have been appropriate. Unfortunately, financial firms have different goals and objectives when acquiring targets and comparing them to normal firms is not ideal. However, due to the general scarcity of the data, I have accepted this limitation and decided that a comparison is still reasonable and interesting. As suggestion for future research, I would suggest to investigate the target market to book value. This metrics is described by literature of having a great impact on acquisition premia. This is mainly due to the fact, that this ratio gives information about the valuation of a company and if this company might be even in distress. Another interesting variable to control for would be the percentage of shares held at announcement. Prior research finds that, the bid premia would decrease with the original percentage of shares held at announcement. Shleifer & Vishny (1986). Similar to this important fact, information about the number of competitors would be a factor that worth controlling for. (Varaiya, 1987, Haunschild,1994, Hambrick & Hayward, 1997, etc.) However, much of the corporate governance research is based on surveys, and these surveys interviewed managers about their incentives when engaging in deals. As all studies were based on interviews asking the managers directly instead of asking other shareholder the outcomes might not entirely reflect reality.

VII. Conclusion

This empirical work has shown, that in average Chinese inventors tend to pay higher acquisition premia than other investors for similar targets. The contribution to literature is an update of prior research attempts

with more and more recent data. Moreover, the trial to define the acquisition premium in different ways so that the available data can be used more effectively to account for limitations of econometric methods and to overcome the problem of a too small sample size of other prior research attempts. Given the political context, that the Chinese investors are not only paying higher premiums, because of poor managerial decisions but also because these investments serve a higher national interest. Overcapacities of the Chinese economy are a serious threat to the overall stability of the Chinese economy and industrial policy is aiming at shifting the economy towards domestic consumption. Moreover, two decades of export-led growth and labor intense manufacturing allowed the Chinese government to hort immense foreign exchange reserves. The Chinese government has many incentives to invest abroad and the timing of this movement is not a coincidence. The second investment wave occurred in Europe at a time of political uncertainty and economic instability after the financial debt crisis. After the European debt crisis, many targets, especially in Spain, Greece, Portugal became very affordable and attractive to hold long term. Moreover, according to experts, Chinese assets seem to be on the other hand overvalued. Even if the acquisition premium seems to be high in the European context, compared to similar targets, European targets of the same characteristics seem as a bargain to Chinese investors. Hanemann and Rosen (2012), find that asset valuation fluctuates with the global growth cycles, therefore countries with higher growth rates might offer higher premia. This confident bidding behavior might be due to the strong overall economic situation of the Chinese economy and the lack of investment opportunities of Chinese saving account holder due to weaker property rights and in general the financial system of China, that is still under reform. The stock market is composed of state-owned firms with government support but soft budget constraints. It is therefore not surprising, that given the relative stability of European markets, Chinese investors value European targets higher than the overall market would do. In addition to that, Chinese brands seek to enter foreign markets and brands and this market access is a key step in further pushing forward internationalization. Besides, European markets are a solution to deal with overcapacities due to a slowing down of the economy and the new shift towards domestic consumption that is not yet accomplished and on the other hand new growth potential for new Chinese brands. When it comes to high technology and innovation, fierce competition and expensive knowledge intensive research is a key to innovation. China has shown a remarkable progress, but there are some fields in which European companies still have more advanced technology. Technology transfer is another key reason to pay more than would be rational. The same goes for strategic competitors in high tech industries. If a Chinese company cannot compete with a European company, why not just buying this company instead of trying desperately to compete? Especially since the Chinese government is trying to win new markets. (Gapper, 2016). Obviously, geopolitical aspects like the new OBOR policy and the Going-Out-policy are key driver. The access to resources and China's new leading role in the developing world are strategic investments. However, much of the driving forces behind premia remain a puzzle and more research has to be done and many aspects could not be covered. The role of supply and demand for instance. As

Slusky&Caves (1991). describes, competition has a severe effect on premia. China has entered the world scene and might increases the number of bidders by being an additional agent. The simple fact that there are more bidders competing for one target and the appearance of a non traditional and new player might increase demand and lead to higher premia.

From an institutional economics perspective, there is reason to believe that competition among managers might incentivize to engage in value destroying transactions. In the Chinese institutional context, competition among local governments has led to a skyrocketing debt burden and these competition structures are common inside the CCP. Fiscal federalism in China has lead to competition structures among local governments that incentivizes to achieve growth targets by all means and even taking high leverage and risk. It is likely that such competition structures exist among SOE managers that incentivizes SOE managers to acquire targets abroad, even if acquisition premia are consuming value creating effects. As as suggestion for further research, a combination of empirical and institutional perspective might help to deeper study causes of higher premia of Chinese SOE in Europe.

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VIIII. Appendix

BenchmarkSample

Rank	**Target Country**	**Deal number**	**Percent**
1	U.K.	162	27,09
2	France	71	11,87
3	Germany	53	8,86
4	Sweden	41	6,86
5	Norway	35	5,85
6	Italy	28	4,68
7	Netherland, Poland	27	4,52
8	Finland, Denmark, Spain	13	2,17
9	Austria	14	2,34
10	Switzerland	11	1,84
11	Greece	12	2,01
12	Turkey	8	1,34
13	Hungaria	6	1,00
14	Russia, Ireland	5	0,84
15	Luxembourg, Czech Republic, Guernsey	4	0,67
	Portugal, Slovenia, Croatia, Romania	3	0,5
17	Isle of Man, Malta, Estonia, Cyprus	2	0,33
18	Gibraltar, Faroe Island, Serbia, Iceland	1	0,17

Rank	Target Country	Number of Deals	Percent
1	U.K.	187	22,86
2	Germany	153	18,7
3	Netherlands	64	7,82
3	France	64	7,82
4	Italy	54	6,6
5	Switzerland	37	4,52
7	Spain	32	3,91
7	Russia	28	3,42
8	Belgium, Ireland	17	2,08
9	Denmark	15	1,83
10	Finland	13	1,59
11	Portugal, Sweden, Austria	12	1,47
11	Sweden	12	1,47
11	Austria	12	1,47
12	Cyprus	11	1,34
13	Norway, Poland	10	1,22
14	Multiple	8	2,4
13	Turkey	9	1,1
12	Czech Republic, Luxembourg	7	0,86
14	Hungary, Bulgaria	6	0,73
15	Greece	5	0.61
16	Romania	4	0.49
17	N.A.	2	0,24
18	Slovakia, Lithuania, Croatia, Isle, Azerb.	1	0,12
18	Ukraine, Liechtenstein,	1	0,12