Cross-Border M&As by Chinese Firms: An Analysis of Strategic Motives and Performance

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Abstract:
This paper considers the strategic motivation and performance of Chinese cross-border M&A activities of 27 deals which took place in Shanghai and Shenzhen stock markets in the period of 2000 – 2004. The study finds that cross border M&As formation by Chinese firms are primarily motivated by market development, that is, increasing market share, to enable faster entry into new markets, diversification and to obtain foreign advanced technology and other resources. In terms of wealth creation, the study finds that cross border M &As create value for Chinese acquiring firms.

Keywords: Chinese firms; Cross-Border M&A; Performance

Introduction
One of the most notable developments in China over the past two decades has been the vigorous pursuit of market oriented reforms aimed at enhancing the competitiveness of Chinese firms’ worldwide. The Chinese economic reform policies actively encourage Chinese firms to engage in outward foreign investments rather than only attracting inward foreign investments into China. As a result, the number of Chinese firms
engaged in the outward cross-border merger & acquisition (CBM&A) activities is on ascendancy over the recent years. It has been reported that, over the January 2000 – December 2004 period, there were 27 outward merger & acquisition deals involving Chinese listed companies, with 11 and 16 cases taking place in Shanghai and Shenzhen stock markets respectively. Anecdotal evidence suggests that the actual CBM&A deals by Chinese firms in this period were more than the reported 27 deals however, as many of them were unlisted companies, the related data are not available.

It is pertinent to note that, there is a huge difference between CBM&A flows from developing countries to developed countries and those from developed countries to developing countries. For example, CBM&A activities involving firms from a developed country are likely to possess monopolistic and internalization advantages compared with the firms from a developing country. While firms from developed countries may be motivated to engage in CBM&As to exploit their own resources abroad, firms from developing countries may cross border to invest in order to explore or seek another country’s resources. It follows that, the M&As involving firms from emerging economy such as China to developed countries may be motivated to obtain intangible assets and resources which they do not have themselves. These assets include superior marketing skills, product differentiation, patent-protected technology, superior managerial know-how and economies of scale. It is thus argued that companies attempt to improve their core competences and fill in the strategic gap by CBM&A activities. Vermeulen and Barkema (2001) found that although the initial costs of CBM&A may be relatively high, the enterprises could expand their knowledge and improve the competitive advantage of the organization. In the long run, mergers and acquisitions may be an important vehicle to build capacity and improve organisational performance of the firm.

Given the important role played CBM&As, it is surprising that no study has been carried out on the motives and performance of the corporate M&As by Chinese firms in foreign countries. It is also important to point out that most of the empirical studies on CBM&A focus on the activities from developed to developing countries or to other developed countries. Relatively little attention has been given to CBM&As from developing countries to developed countries. It is therefore difficult to generalise the
applicability of the conclusions drawn in the context of advanced market economies to the CBM&As conducted by firms in the Chinese emerging capitalist economy. This ought to be investigated. The purpose of this study is to examine the strategic motives and performance of CBM&A activities undertaken by Chinese firms using event study methodology. We examine this issue by focusing on what motivates Chinese companies to engage in cross-border M&As and the extent to which recent corporate acquisitions announced by Chinese companies have resulted in a generation of value for the acquirer.

The rest of the paper is set out as follows: The next section reviews the literature relating to motives of cross-border mergers and acquisitions and value creation for acquirers. Following that is the methodology for the study. The fourth section presents the results and discussion. A summary and conclusions are in the last section.

**Literature Review**

There is an extensive literature on the motives and effects of mergers and acquisitions (M&As) and the market for corporate control for value creation (see Trautwein, 1990; Conn, Cost, Guest and Hughes, 2001; Campa and Hernando, 2004; Aw and Chatterjee, 2004 Gregory and McCorriston, 2005; Moeller and Schlingemann, 2005; and Francoeur, 2005). We review the extant literature focusing specifically on motivation for CBM&As and the evidence accumulated through event studies approach on the returns to shareholders of the acquirer firms.

**Motivation for Cross-border M&As**

Over the past two decades CBM&As have been a popular strategy for firms and constitute an important mode of entry into foreign markets (See UNCTAD, 2000). Official statistics from UNCTAD (2000) suggested that the share of CBM&As as a
percentage of FDI flows rose from 52% in 1987 to 88% in 2000. Although, CBM&As activities as a share of foreign direct investment (FDI) fell to 55% in 2004, the total number of global M&As has been increasing at a rapid rate in recent times. For example, the Financial Times (2007) reported a huge rise in global volume of mergers and acquisition to about $1,130 billion in the first three months in 2007 and this provides a clear indication that mergers and acquisitions remain popular. A number of researchers attribute the phenomenal growth in CBM&As to increasing globalization of business, industry consolidation, privatization, and the liberalization of economies (Shimizu, Hitt, Vaidyanath and Pissano, 2004). Despite this, a study by KPMG (1997/1998) found that only 17% of CBM&As created value for shareholders compared with 53% destroying it. What then motivates firms into engaging in CBM&As? Prominent among the motives found in the extant literature include:

**Access and Acquisition of Resources and Technology**

A number of studies have examined the motivation for CBM&As from the resource-based view (RBV) (see Baum and Oliver, 1991; Hennart, 1991; Eisenhardt and Schoonhoven, 1996; Madhok, 1997) and organizational learning perspectives (Barkema and Vermeulen, 1998; Vermeulen and Barkema, 2001). These studies suggest that CBM&As are motivated by an opportunity to acquire new capabilities and learn new knowledge. Thus as Ohmae, (1989: 145) argues: “today’s products rely on so many different critical technologies that most companies can no longer maintain cutting edge sophistication in all of them”. Therefore, tapping external sources of know-how becomes an imperative. Acquisition of existing foreign business allows the acquirer to obtain resources such as patent protected technology, superior managerial
and marketing skills, and overcome special government regulation that create a barrier to entry for other firms (Errunza and Senbet, 1981). Shimizu et al. (2004) endorses this view by suggesting that firms may engage in M&As in order to exploit intangible assets. This line of reasoning is consistent with Caves (1990) who argues that acquisition of foreign competitor enables the acquirer to bring under its control a more diverse stock of specific assets and can therefore seize more opportunities.

Schimizu et al (2004) suggest that cross border M&As may also be initiated to internalize an acquirer’s intangible assets to reduce or avoid transaction costs. This view is consistent with the internalization theory which suggests that firms with intangible assets should invest across the border in order to avoid the costly market mechanism of transferring those assets (Buckley and Casson, 1976, Buckley and Cater, 1999). In short, CBM&As may be motivated through the internalization of the acquirer’s various intangible assets. Conversely, the acquirer can also use the target’s intangible assets by the way of reverse internalization. Internalization and reverse internalization can help acquirers to avoid any misappropriation of intangible assets and reduce transaction costs. Seth, Song and Pettit (2000, 2002), Cheng and Chan (1995), Eun, Kolodny and Scheraga (1996), Morck and Yeung (1992) and Markides and Ittner (1994) studies have rendered support for internalization and reverse internalization as motives for CBM&As.

**Diversification**

Diversification – a well documented strategy for expansion of firm has been suggested as one of the dominant reasons for CBM&As (Seth, 1990; Trautwein, 1990; Shleifer and Vishny, 1992; Markides and Ittner, 1994; Denis, Denis and Yost, 2002). It is
argued that international acquisitions do not only provide access to important resources but also allow firms an opportunity to reduce the costs and risks of entering into new foreign markets (Porter and Fuller, 1986; Boateng and Glaister, 2003). Seth (1990) reported that the desire to reduce risks both operational and financial risks through geographical market diversification are a source of value in cross-border acquisitions but not domestic acquisitions. For example, the sources of value such as those associated with exchange rate differences, market power conferred by international scope, ability to arbitrage tax regimes are unique to international mergers (Manzon, Sharp and Travlos, 1994; Morck and Yeung, 1992; and Seth, Song and Pettit, 2000; 2002). Moreover, as economic activities in different countries are less than perfectly correlated, portfolio diversification across boundaries should reduce earnings volatility and improve investors’ risk-return opportunities. A numbers of studies including Erruza, 1977; Lessard, 1973, Logue, 1982 and Davis, 1991 have rendered support for risk reduction through portfolio diversification argument. It therefore follows that firms may engage in CBM&As primarily to reduce risk through diversification.

**To Facilitate Faster Entry into Foreign Market**

Martin, Swaminathan and Mitchel (1998) have suggested that CBM&As can be used to access new and lucrative markets as well as expanding the market for a firm’s current goods. Similar conclusions have been drawn by Datta and Puia (1995) who stated that CBM&As activity provides the opportunity for instant access to a market with established sales volume. UNCTAD (2000) also indicated that cross-border mergers provide the fastest means for international expansion. Kogut and Singh, 1988; Barkema et al., 1998, Boateng and Glaister, 2003 argued that it is expensive, difficult
and time consuming to build up a global organisation and a competitive presence due
to issues such as differences in culture, liability of foreignness, different business
practices and institutional constraints. CBM&As offer significant time saving in this
respect. For example, CBM&As allow an immediate access to a local network of
suppliers, marketing channels, clients and other skills.

**Efficiency theory**
A number of scholars including Friedman and Gibson (1988); Bradley, Desai and Kim
(1988); Trautwein (1990) argue that firms engage in mergers to achieve synergies.
Synergies stem from combining operations and activities such as marketing, research
and development, procurement and other cost components, which were, hitherto
performed by separate firms. Synergy is a broad concept which encompasses different
sources of value gains including economies of scale and scope, increasing market
share and power, taking advantage of tax and exchange rate differentials between
countries. For example, it is argued that by combining operations and activities,
mergers can increase firm's capacity and provide an opportunity to reduce costs
through economies of large-scale production, pooling resources to produce a superior
product and generate a large market share and long-run profitability (Trautwein, 1990,
Doukas and Travlos, 1988, Ghauri and Buckley, 2003). Similarly, synergy in
CBM&As can also be created by taking advantage of exchange rate differential (Kish
and Vasconcellos, 1993) and tax differential between the host and home countries
(Servaes and Zenner, 1994). McCann (2001) suggests that lower tax rate will attract
inward acquisitions and higher tax rate in a country will inspire outward acquisitions to
avoid the damage of domestic higher tax rate. The role of tax rate differential as a
motive of CBM&As has also been supported by Froot and Stein (1991), Manzon,

**Cross border M&As and Acquirers’ Performance**

The theory behind the positive returns from CBM&As is premised on the assumption that firms engaged in cross border transactions in foreign markets to exploit the firms’ specific resources to take advantage of market imperfections (Buckley and Casson, 1976; Morck and Yeung, 1992. In other words, prior literature suggests that CBM&As provide integration benefits of internalization, synergy, risk diversification and consequently create wealth for the acquirer-firm shareholders (Kang, 1993; Markides and Ittner, 1994).

The evidence on returns to the acquiring firm shareholders is evenly distributed between studies that report negative cumulative abnormal returns and slightly positive cumulative abnormal returns. For example, a review study carried out by Bruner (2002) reported that out of the 44 studies he surveyed 24 reported positive returns with 20 reporting negative returns for the acquiring firms. This finding is consistent with the conclusion drawn by Campa and Hernando (2004) who pointed out that the returns to the acquirer firm is less conclusive. A number of studies have reported positive performance indicating that CBM&As actually create value for the bidding firms’ shareholders. For example Morck and Yeung (1992), Markides and Ittner (1994), Manzon, Sharp and Travlos (1994), Doukas (1995), Cakici, Hassel and Tandon (1996), Markides and Oyon (1998), Black, Carnes and Jandik (2001), Kiymaz and Mukherjee (2001), Gleason, Gregory and Wiggins (2002), Kiymaz (2003) and Block (2005) have reported significant bidder return in case of US bidders acquiring foreign target firms.
All of the above studies have found significant positive abnormal returns for bidding firms ranging from 0.29% to 1.96% for event windows varying between ten days before and after the announcement date.

Beside the studies that show positive performance of bidding firms, there are other studies that show negative returns for the bidding firms. For example, using market model Mathur, Rangan, Chhachhi and Sundaram (1994) and Datta and Puia (1995) reported significant negative performance for bidders. Using both index model and market model, Danbolt (1995) analysed bidders from different countries that acquired UK firms and reported that acquirers earn significant negative abnormal returns for event window -8 to +5 months. Eun, Kolodny and Scheraga (1996) examined acquiring firm return by using mean adjusted return model. Their study finds that the foreign acquirers of US targets earn statistically significant negative abnormal returns of -1.20% for an event window of -5 days to +5 days for the total sample. Moreover, using market adjusted return model and market model, Aw and Chatterjee (2004) reported that UK bidders earn significant negative abnormal returns of -4.46% and -8.07% in six months and twelve months after the acquisition respectively. In addition to positive and negative announcement performance of bidding firms, there are several other studies that have reported insignificant bidder returns for the overall sample at or around the announcement time of CBM&A (Doukas and Travlos, 1988; Fatemi and Furtado, 1988; Mathur, Chhachhi and Sundaram, 1989; Servaes and Zenner, 1994; Danbolt, 1995; Yook and McCabe, 1996; Kiymaz and Mukherjee, 2000; Eckbo and Thorburn, 2000; Seth, Song and Pettit, 2000; Campa and Hernando, 2004; and Gregory and McCorriston, 2005).
**Data Collection**

The sample analysed in this study consists of Chinese listed companies engaged in cross-border mergers and acquisitions over the 5 year period from 2000 – 2004. It is important to point out that all the 27 companies were actively traded in Shanghai and Shenzhen stock exchanges. The sample information of the Chinese listed companies was collected from the A Share which provides the data only on the CBM&As in China. The data relating to share prices were collected from the securities transaction analysis system on the website of Bank of China International, finance field (www.jrj.com.cn), finance.sina.com.cn, and the website of China Securities Regulatory Commission. The sources of data relating to the motives of CBM&As are derived from both the China Daily newspapers and China Securities – a publication which provides a comprehensive information about firms including CBM&As, industry categories, name of the bidding and target companies; target’s country of location and rationale behind the deal. China Daily newspaper is a leading news paper with business section providing news stories around the time of bid announcement including company press releases on mergers and acquisitions. Table 1 highlights the salient features of samples according to sector of operation, year of M&A, type of acquisition, method of payment and country of target. There are 7 industry categories with telecommunications representing a third of the sample. This is followed by machine tools and electronics with 22.2% each. Textiles, building & construction and food retail constitute 3.7% each. The time dimension of the study runs from 2000 to 2004 with about a third of M&As formed in 2003 and two-thirds occurring in 2000, 2001, 2002 and 2004. With regard to the target, about 33.3% are from USA. This is followed by Germany, Korea with 14.8%. Those acquired in Canada, Italy, Australia and Hong Kong constituted 3.7% each. About 59% of the acquisitions are related, with almost 41% classified as
unrelated. In respect of method of payment, 96% of the acquisitions are financed by cash with the remaining 4% by stock.

Table 1: Sample Characteristics

<table>
<thead>
<tr>
<th>Industry classification</th>
<th>No. of Acquisitions</th>
<th>%</th>
<th>Country</th>
<th>No. of Targets</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecommunications</td>
<td>9</td>
<td>33.3</td>
<td>USA</td>
<td>9</td>
<td>33.3</td>
</tr>
<tr>
<td>Manufacturing - Machinery</td>
<td>6</td>
<td>22.2</td>
<td>Germany</td>
<td>4</td>
<td>14.8</td>
</tr>
<tr>
<td>Electronics</td>
<td>6</td>
<td>22.2</td>
<td>Korea</td>
<td>4</td>
<td>14.8</td>
</tr>
<tr>
<td>Automobiles</td>
<td>3</td>
<td>11.1</td>
<td>Japan</td>
<td>3</td>
<td>11.1</td>
</tr>
<tr>
<td>Textiles</td>
<td>1</td>
<td>3.7</td>
<td>France</td>
<td>3</td>
<td>11.1</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>1</td>
<td>3.7</td>
<td>Canada</td>
<td>1</td>
<td>3.7</td>
</tr>
<tr>
<td>Food</td>
<td>1</td>
<td>3.7</td>
<td>Italy</td>
<td>1</td>
<td>3.7</td>
</tr>
<tr>
<td>Year of Acquisition</td>
<td></td>
<td></td>
<td>Australia</td>
<td>1</td>
<td>3.7</td>
</tr>
<tr>
<td>2000/1</td>
<td>6</td>
<td>22.2</td>
<td>Hong Kong</td>
<td>1</td>
<td>3.7</td>
</tr>
<tr>
<td>2002</td>
<td>6</td>
<td>22.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>9</td>
<td>33.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>6</td>
<td>22.2</td>
<td>Related</td>
<td>16</td>
<td>59.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Unrelated</td>
<td>11</td>
<td>40.7</td>
</tr>
</tbody>
</table>

Methodology

This paper analyses the performance of 27 Chinese listed companies involved in mergers and acquisition activities by using event study method. We carried out the empirical analysis of the stock market data using the standard event-study methodology to assess the impact of acquisition announcements on shareholder wealth.

The assumption underpinning this methodology is that the capital markets are efficient (in semi-strong form), which implies that the price of any security incorporates all currently available public information and adjusts to the public release of new information instantaneously. The most commonly used event-study methodology is a market model suggested by Fama (1976). The superiority of market model has been supported by Brown and Warner (1980) and Armitage (1995). The model predicts a firm’s “normal or expected” returns given the market return and the firm’s historical
relationship to the market.
In order to observe the whole impact of the CBM&As on the share prices of the listed sample companies, the announcement date is taken as 0, and the event period is from -T1 to T2, with day -T1 representing 20 days before the announcement date and day T2 being 20 days after the announcement date. Therefore -T1= -20, T2 = +20 represent the event window with 0 being announcement date. We collected the bid announcement dates from Bank of China International (BOCI) and crossed checked with the data from China Securities Regulatory Commission which provides similar information. For each acquisition, we thoroughly checked the BOCI and China Securities Regulatory Commission information to make sure that the announcement date was the first public announcement of the acquisition and that no information has been leaked previously.

The daily actual return rate $R_{i,t}$, $R_{m,t}$ per share and market during the event period are the calculated. The actual return rate of the i company for t day is defined as:

$$ R_{i,t} = \frac{P_{i,t}}{P_{i,t-1}} - 1, $$

The actual return rate for market on t day is defined as:

$$ R_{m,t} = \frac{P_{m,t}}{P_{m,t-1}} - 1 $$

$P_{i,t}$, $P_{i,t-1}$ refer to the closing price of the i share on trading day t,t-1 respectively. $P_{m,t}$,$P_{m,t-1}$ refer to the closing stock index on the trading day t, t-1 respectively.

Thus for each firm the following regression model is estimated:

$$ R_{it} = \alpha_i + \beta_i x R_{mt} + \epsilon_{it} $$

Where

$R_{it}$ = return on security of firm I at time t

$R_{mt}$ = return on market portfolio at time t. In this study, we use the equally weighted market returns from Shanghai and Shenzen Stock Exchanges.

$\alpha_i$ & $\beta_i$ = parameters of the relationship between the return on individual security and that of the market; and
\[ \varepsilon_{it} = \text{random error term} \]

The parameters alpha (\( \alpha_i \)) and beta (\( \beta_i \)) are estimated for each security i over the period -150 to -21 trading days prior to the announcement of the acquisition. These parameters are then used to calculate the expected returns over the test period. The difference between the actual returns and expected returns for each day and for each firm are called abnormal returns (\( AR_{it} \)) and are computed as follows:

\[ AR_{it} = R_{it} - (\hat{\alpha}_i + \hat{\beta}_i R_{mt}) \]

Where \( \hat{\alpha} \) and \( \hat{\beta} \) are estimated parameters \( \alpha \) & \( \beta \) of firm i

We then calculate the daily average abnormal return rate \( AAR_i \) of non-institutional shares as well as total samples and the cumulative average abnormal return rate \( CAR_i \)

\[ AAR_i = \frac{\sum_{t=1}^{n} AR_{i,t}}{N}, \quad CAR_i = \sum_{i=0}^{n} AAR_i \]

To evaluate the above result to ascertain whether the CAR is caused by the fluctuation of share prices, we implemented t-test based on the null hypothesis below.

Hypothesis \( H_0: AAR_i = 0; \quad CAR_i = 0 \)

Test statistics: \( Taar = \frac{ARR}{S(ARR) \sqrt{n}} (m-1) \)

\[ S^2(AAR_i) = \frac{1}{n-1} \sum_{i=1}^{n} (AR_{i,t} - AAR_i)^2 \]

\[ t_{CAR} = \frac{CAR_i}{S(CAR) / \sqrt{n}} t(n-1) \]

\[ S^2(CAR_i) = \frac{1}{n-1} \sum_{i=1}^{n} (CAR_{i,t} - CAR_i)^2 \]
Results and Discussion

Strategic Motivation

Table 2
Strategic Motives for Mergers & Acquisition by Chinese firms

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>To facilitate international expansion / Diversification</td>
<td>17</td>
<td>39.0</td>
</tr>
<tr>
<td>To Increase market share/power</td>
<td>12</td>
<td>27.0</td>
</tr>
<tr>
<td>To acquire strategic Asset – Technology &amp; know-how</td>
<td>12</td>
<td>27.0</td>
</tr>
<tr>
<td>To overcome trade barriers</td>
<td>3</td>
<td>7.0</td>
</tr>
<tr>
<td>Total</td>
<td>44*</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Note: Chinese Firms engaged in CBM&As for more than one motive

Table 2 shows the strategic motivation for the Chinese acquiring firms. It is pertinent to note that most of the Chinese acquiring firms are motivated to engage CBM&A activities for more than one reason. Therefore several companies listed two or three motives for engaging in CBM&As. The most important motive for Chinese firms entering into foreign market is “to facilitate international expansion and diversification.” The Table indicates that about 39% of the firms engaged in CBM&As listed this motive as the main reason. The second highest-ranked motives are to increase market share and power and “to acquire strategic assets including technology, research and development capabilities and other management know-how with 27% each. Most of the firms investigated listed “to acquire strategic assets” either as the main or additional reason for engaging in CBM&As. This is followed by ‘to overcome trade barriers’. It is hardly surprising that ‘to facilitate international expansion/diversification’ and 'to increase market share' are ranked among the highest ranked motives among Chinese acquiring firms. This is because the search for new markets and market power are a constant concern for firms in the increasingly competitive...
environment (UNCTAD, 2000; Boateng and Bjortuft, 2003). M&As represent the fastest means of reaching the desired goals when expanding internationally. Moreover, Chinese companies may use mergers and acquisitions to operate in foreign countries to overcome trade barriers.

Another important motive for CBM&As by Chinese acquiring firms is to acquire strategic resources and technology which encompasses technology, improving R&D capabilities and management know-how. This finding is consistent with Child and Rodrigues (2005) who suggested that the enterprises with low skills may enter the foreign market via M&As, which allow them to obtain the new technological resources and other strategic assets. Caves (1990) endorses this by suggesting that foreign acquisitions may be motivated by the quest to bring a more diverse stock of specific assets under the acquirer’s control and to enable more opportunities to be seized. This explanation is also in line with the views of Hill, Hwang and Kim (1990) who pointed out that, foreign acquisitions by MNCs may be motivated by strategic objectives. Bresman, Birkinshaw and Nobel (1999) suggest that cross border M&A is an effective way to expand the knowledge base of a firm. Given the low level of skills of Chinese firms in relation with developed countries such as U.S and U.K, it is not surprising that the Chinese firms are motivated to engage in CBM&As to obtain intangible and other tangible resources which can then be transferred to every function of the acquirer’s business after M&A.

Table 3 analyses the strategic motivation according to sector of operation. The Table indicates that, telecommunication firms are motivated primarily by three reasons to expand geographically and diversify, to acquire strategic assets and to increase market share. In the case of machine tools, Chinese firms enter into foreign market to expand
internationally and diversify to increase market share. This suggests that firms in this sector are mature and can compete on global scale for market share. On the other hand, electronic and automobile firms are motivated by the need to acquire strategic assets and increase market share.

Table 3: Acquirers Strategic Motivation and Industry Classification

<table>
<thead>
<tr>
<th>Industry</th>
<th>To facilitate international expansion / Diversification</th>
<th>To acquire strategic assets</th>
<th>To overcome trade barriers</th>
<th>Increase market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecommunications</td>
<td>8</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Machine tools</td>
<td>4</td>
<td>1</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Electronics</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Automobile</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Textiles</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building &amp; construction</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of companies</td>
<td>17</td>
<td>12</td>
<td>3</td>
<td>12</td>
</tr>
</tbody>
</table>

Table 4 indicates that Chinese firms expanding to the United States are motivated by three main reasons: ‘to facilitate international expansion/diversification’, ‘to increase market share’ and ‘to acquire technology and other managerial skills’. In the case of firms entering the Korean market, the motive is to facilitate international expansion and diversification and increase market share. With regard to firms entering Germany and France, Chinese firms do so for a number of reasons: to acquire strategic assets and to facilitate international expansion. The finding that Chinese firms entering the U.S markets are motivated by resource exploration appears not surprising in that, this finding confirms the notion that much of the inward investments into the U.S is motivated by strategic knowledge sourcing purposes (Cantwell, 1995; Makino, Lau
and Yeh, 2002). Moreover, it is consistent with the “late development” thesis which suggests that firms from the emerging economies enter foreign markets to “catch up” with firms in developed market economies in terms of technology and know-how and develop business environment supportive of international competitiveness (Dore, 1973; Wesson, 1999). Chinese acquiring firms appear to use international mergers and acquisitions as a means of addressing their competitive disadvantages as late comers to close the gap that separate them from leading companies in USA, France and Germany.

Table 4: Target Country and Strategic Motivation for Mergers & Acquisitions

<table>
<thead>
<tr>
<th>Country of Target</th>
<th>To facilitate international expansion / Diversification</th>
<th>To acquire strategic assets</th>
<th>To overcome trade barriers</th>
<th>Increase market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>7</td>
<td>4</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Germany</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>France</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Italy</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Japan</td>
<td>2</td>
<td>1</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Australia</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea</td>
<td>2</td>
<td>1</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of companies</td>
<td>17</td>
<td>12</td>
<td>3</td>
<td>12</td>
</tr>
</tbody>
</table>

Short-term Performance of Chinese Acquiring Firms

The results of empirical analysis of the daily and cumulative abnormal returns generated by the 27 acquisitions by Chinese firms for different time windows (-1, +1) and -20, +20) are presented in Table 5 and Figure 1. Table 5 indicates a positive and significant (p<0.05) cumulative abnormal returns (CARs) for the overall sample of acquiring firms averaging 1.32% for two day period (0, +1). This finding suggests that CBM&As in China have a positive market wealth effect for investors in the short term. This finding is consistent with the findings of earlier studies on international
acquisitions such as Morck and Yeung (1992), Markides and Oyon (1998) whose studies reported positive and statistically significant CARs ranging between 0.29 to 0.50% over a two day event period.

Table 5: Short - Term Abnormal Returns Surrounding Acquisition Announcement

<table>
<thead>
<tr>
<th>Event day</th>
<th>Returns</th>
<th>Average</th>
<th>t-statistics</th>
<th>Returns</th>
<th>Average</th>
<th>t-statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>-1</td>
<td>AAR</td>
<td>0.008945</td>
<td>2.14**</td>
<td>CAR</td>
<td>0.008945</td>
<td>2.14**</td>
</tr>
<tr>
<td>0</td>
<td>AAR</td>
<td>0.005675</td>
<td>1.68</td>
<td>CAR</td>
<td>0.01462</td>
<td>2.87**</td>
</tr>
<tr>
<td>+1</td>
<td>AAR</td>
<td>-0.00141</td>
<td>-0.48</td>
<td>CAR</td>
<td>0.01321</td>
<td>2.27**</td>
</tr>
</tbody>
</table>

Note: *, **, *** show respectively that it is significant under the level of 10%, 5% and 1%.

With regard to event period (-20, +20), Figure 1 suggests that the average abnormal return rates and cumulative average abnormal returns in the 20 days before and after the M&A fluctuate with the lowest returns occurring on the third day after M&A although not significant. It is pertinent to note that before the announcement of M&A, the returns were positive for 14 days and negative for 6 days and after the announcement, there were positive and negative returns for 13 days and 7 days respectively. The movements and levels of the average and cumulative abnormal returns before and after the announcement day (Day 0) over the respective event windows renders support to the premise that stock markets are efficient including those in the Chinese emerging economy in that all information are quickly incorporated in the stock prices of the firms. Overall, the figure shows that the acquiring firms enjoy an overall average positive CAR of 4.4274% and is also statistically significant at the 5 percent level.
Figure 1 The AAR & CARi curve during [-20, 20]

Again, this finding tends to support the conclusions drawn by Markides and Ittner (1994), Doukas (1995), Cakici, Hassel and Tandon (1996), Markides and Oyon (1998), Black, Carnes and Jandik (2001), Kiymaz and Mukherjee (2001), Gleason, Gregory and Wiggins (2002), Kiymaz (2003) and Block (2005) who reported significant bidder returns in case of US bidders acquiring foreign target firms with positive abnormal returns for bidding firms ranging from 0.29% to 1.96%. However, the finding is at variance with the studies of Mathur, Rangan, Chhachhi and Sundaram (1994) Danbolt (1995) and Datta and Puia (1995) reported significant negative performance for bidders.

**Summary and Conclusions**

This paper examines the motivation and performance of 27 cross-border acquisitions by Chinese firms over the 2000-2005. The study represents the first attempt to examine wealth gains of acquiring firms in China and provides new findings in an
under-research geographical region. First, this paper identifies the main motives that influence cross border mergers and acquisitions formation by Chinese firms in foreign markets. The study finds that takeovers by Chinese firms’ abroad are not motivated by a single reason but by a set of multiple motives. The motives include: ‘to facilitate international expansion and diversification’ and “to acquire strategic assets’ including technology, research and development capabilities and other management know-how. This suggests that the motivation for M&As by Chinese firms appears to be intrinsically linked to market development and power and strategic knowledge sourcing. CBM&As by Chinese firms are seen primarily as a means of faster entry into new markets and increase market share thereby gaining the benefits of internalization, synergy and risk reduction through diversification. This study tends to provide support for the survey findings reported by KPMG Management Consulting (1997/1998) in which ‘to increase market share’ and new presence in other geographical areas were identified as the most important motives for M&As in Europe. A tentative conclusion to be drawn from the results is that mergers in China are used as a competitive weapon designed to obtain technology, market power and synergies.

Regarding the results of event studies, the findings of this study suggest that cross-border mergers and acquisitions by Chinese firms experience significant and positive wealth gains for shareholders of the acquiring firms. The findings lend support to the view that cross-mergers & acquisitions enable international firms to exploit imperfections in product, factor and capital markets, and thus create more gains for their shareholders (Kindleberger, 1969; Caves, 1971; Hymers, 1976; and Froot and Stein, 1991).

The results of this paper have significant implications for policy makers in China.
From a public policy perspective, this research signifies the importance of speeding up the economic reforms in China to enable Chinese firms to participate fully and gain the benefits arising from the global market for corporate control. Local firms should be encouraged to engage in mergers and acquisitions of foreign firms to obtain the resources they lack (e.g. proprietary technology and managerial know how) and thus enabling them to develop their firm specific advantages and effectively cope with intensifying competition stemming from Chinese accession to World Trade Organisation (WTO). Despite this study’s contribution, the sample size appears to be the main limitation of this paper and hence we could not investigate the factors influencing the short-term performance. Future studies should focus on the factors which influence the creation of value for Chinese acquirers using multivariate regression analysis.

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