An Empirical Analysis of Chinese Block Trades

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論 文 内 容 の 要 旨

The market for corporate control is an important external corporate governance mechanism, which achieves the efficient allocation of corporate control rights. Previous studies, based predominantly on the developed markets such as the US and the UK, have investigated various issues regarding takeover activities (e.g., characteristic of acquirers and target companies, firm performance and financial policy change following takeover, earnings management proceeding takeover). To the best of my knowledge, however, there are only few studies to address those issues in developing countries, which have different institutional characteristics from those of developed countries, such as weak legal protection of investors, concentrated ownership structure, and so on. To fill this research gap, this dissertation investigates effects of unique institutional characteristics on the function of the market for corporate control in emerging markets. This dissertation uses China as an example of emerging markets because China has several unique institutional characteristics (e.g., segmented share structure, split-share structure reform), which provide interesting material to address the issue, as well as typical characteristics of emerging markets (e.g., poor legal protection of investors, concentrated ownership structure, severe government control). This dissertation pays particular attention to target companies, since takeovers are considered to be an effective governance mechanism for those companies. Specifically, this dissertation investigates (1) which companies are more likely to be targeted in China; (2) whether Chinese block trades create value for target shareholders and how capital gain opportunities affect bidders' incentive; and (3) whether Chinese state-owned enterprise (SOE) targets manage their earnings prior to block trade announcement.

Chapter 1 presents research questions and potential contributions of this dissertation after reviewing previous studies.

Chapter 2 examines characteristics associated with the probability of Chinese companies being block trade targets. Different from developed countries, controlling shareholders in developing countries pursue large private benefits of control (PBC). This fact naturally raises an important question: do bidders in emerging markets mainly pursue PBC or seek capital gains by implementing value-increasing takeovers? This chapter addresses this issue by examining factors associated with the likelihood that firms become block trade targets. By using Chinese firms' data between 2003 and 2009, this chapter finds that during the pre-reform period, the proportion of non-publicly tradable shares (NPTSs) over total outstanding shares and free cash flow were positively related to the probability of firms being block trade targets. For the pre-reform observations, ownership concentration, director ownership, and firm size were negatively related to the frequency of firms being block trade targets. There is no evidence that poorly performing firms were more likely to be block trade targets before the reform. These results suggest that Chinese bidders mainly pursued PBC rather than capital gains from value-increasing takeovers before the reform. The cost of a block trade increased significantly after the split-share structure reform, and the frequency of block trades declined considerably. This chapter makes substantial contributions to the literature by showing that institutional characteristics make Chinese bidders mainly pursue PBC and the reform makes it difficult to engage in control rights transactions for PBC.

Chapter 3 investigates whether block trades create value for target shareholders and whether bidders attempt to improve target firms' management for capital gains in China. A conventional premise is that bidders take over poorly managed companies to achieve capital gains. Previous studies commonly document evidence that takeovers create significant value for target firms' shareholders. However, an important question remains unsolved: does the potential for future capital gains really incentivize bidders to improve targets' management? It is exceedingly difficult to address this fundamental question because takeover markets in developed countries commonly provide bidders with sufficient opportunities to realize capital gains. Chinese data are novel and advantageous to address the issue due to the existence of the segmented share structure that restricts NPTS holders to realize capital gains. As with the US evidence, this chapter finds that target firms' stock prices show significantly positive responses to initial announcements of block trades. Shares of target firms also outperform the matched companies in the long term. Importantly, both the short- and long-term stock price performance is significantly better for publicly tradable share (PTS) transactions than for NPTS transactions. These results are robust to control for the bidding price. Overall, the results suggest that opportunities to realize capital gains (share tradability) incentivize bidders to increase target firms' value. This chapter also finds targets of PTS transactions significantly increase assets and sales growth during the post-announcement years, while those of NPTS transactions significantly decrease fixed investments in the formal announcement year. Share tradability motivates bidders to expand target firms' businesses for capital gains, whereas share non-tradability makes bidders focus on asset restructuring. This chapter also finds weak evidence that the stock price reaction to announcements of PTS transactions becomes larger when the target firm has more growth opportunities. To the best of my knowledge, this is the first research to show that share tradability affects the function of the corporate control market. The results have policy implications that the split-share structure reform enhances value creation activities in the market for corporate control.

Chapter 4 investigates earnings management (EM) of Chinese SOEs being block trade targets. Target firms are usually unaware of potential takeover attempts and do not have sufficient time and opportunity to manage their earnings before takeovers. Most of previous studies on the issue, however, do not present clear explanations on this important concern. In this regard, block trades targeting Chinese SOEs provide an ideal environment to address the issue, since those block trades are initiated by targets, and accordingly, they have the time and opportunity to engage in EM. Some Chinese block trades transfer control rights of SOEs to private parties (STP transactions), while others transfer the control rights to another SOE (STS transactions). The different types of block trades should provide target firms' managers with different incentives for EM. Although this chapter does not find clear evidence that SOE targets of block trades in China between 2001 and 2008 increase EM immediately before the announcement, results show that SOEs manage earnings more upward in STP transactions than in STS transactions. Meanwhile, this chapter does not find evidence that SOEs charge higher bidding prices in STP transactions than in STS ones. These results are consistent with the idea that target firms engage in EM, especially when there is serious information asymmetry between bidders and targets. To the best of my knowledge, this is the first research to show evidence of information asymmetry-based explanations of earnings management in the context of block trade targets in emerging markets.

Chapter 5 presents summaries and conclusions of this dissertation. Results in this dissertation clearly suggest that institutional characteristics in emerging markets affect bidders' behaviors and the function of the market for corporate control. I also stress that this dissertation clarifies conditions for the market for corporate control to serve as an effective governance mechanism by taking advantage of Chinese data.