

A survey of mergers and acquisitions in China

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<https://doi.org/10.15017/7325759>

出版情報：経済論究. 178, pp.1-17, 2024-07-28. 九州大学大学院経済学会
バージョン：
権利関係：



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Abstract

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Abstract

Researchers have shown great interest in the driving factors and wealth effect of M&A. Most of the M&As were conducted by firms in developed countries in the past 100 years and most of the prior research focuses on them. Compared to the studies on developed markets, the research about acquisitions in China is still limited. Thus, in this paper, we first review the studies about motivation, wealth effect, and performance of acquiring companies in the U.S. and China. Then, particular attention is given to the review of overvaluation in stock swaps, the role of geographic proximity and transportation convenience, and incentives of managerial compensation in acquisitions.

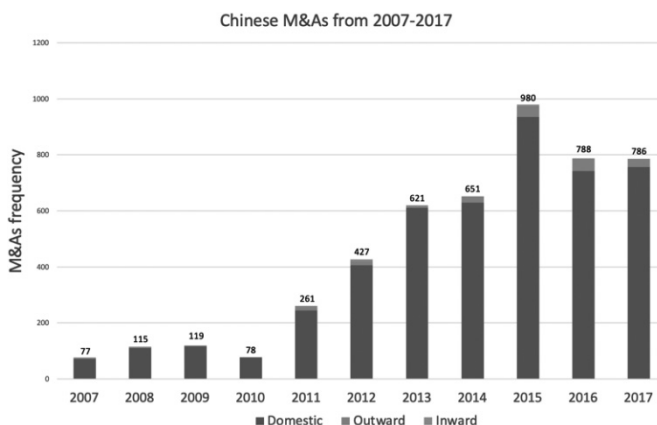
1 . Introduction

Mergers and acquisitions (M&As) are corporate strategies for companies to expand operations, specifically, which is that a company purchases all or part of another company's assets or equity to affect the control of the company being acquired. M&As generally have been demonstrated to create economic value by combining two entities to create a new and more valuable entity. The resources of value creation are classified as cost of capital-related (resulting in financial synergy), cost of production-related (resulting in operational synergy), and price-related (resulting in collusive synergy) (Chatterjee, 1986). Synergy is referred to as companies that can create greater efficiency

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and realize economies of scale, and higher growth potential through the M&As. Bradley et al. (1983) focused on tender offers from 1963 to 1980 and observed the magnitude of synergistic gains created by successful acquisitions, using the revaluation of the combined wealth of the target firm and acquiring firm shareholders. Healy et al. (1992) examine the post-acquisition performance between 1979 and mid-1984, and find the merged firms show improvements in asset productivity, and these improvements are particularly strong for firms with highly overlapping businesses. However, recent US studies find most acquirers receive an insignificant or negative stock return at the announcement of acquisitions, while target shareholders earn positive abnormal returns (Jarrell and Poulsen, 1989; Jensen and Ruback, 1983).

The first Chinese merger occurred in 1993 when Haier was restructured with funds raised from local banks and was permitted to grow through M&A (Reddy et al., 2019; Zhang, 2003). Figure 1 shows that the number of Chinese M&A activities has grown rapidly in recent years, especially in 2015. The Chinese M&As mainly include domestic acquisitions, outward and inward cross-border acquisitions. The Chinese M&A market is dominated by domestic deals, companies are mostly targeting unlisted targets that are either stand-alone private firms or wholly owned subsidiaries (Bhabra and Huang, 2013). In the initial years when M&A activity was emerging in China, most of the M&As were initiated by SOEs. SOEs have been encouraged to restructure their assets through M&As. In particular, SOEs operating in strategically relevant sectors such as basic materials, energy, utilities, telecommunications, aerospace, and defense have been encouraged to form global conglomerates (Yang et al., 2019). Meanwhile, China's accession to the World Trade Organization (WTO) in 2001 also accelerated the Chinese M&A process, further expanding companies' business



[Figure 1. Chinese M&As from 2007 to 2017]¹⁾

1) Chinese M&As data are retrieved from the China Securities Market & Accounting Research (CSMAR) database and organized manually.

overseas and enhancing attractiveness to foreign investors (Deng, 2009). With the rapid liberalization of import and export policies, the industrial structure has been changed. Consolidation of firms via mergers and acquisitions to overcome China's low industrial concentration and over-capacities in production (Chen, 2002). In addition, the stock liquidity increased following China's split-share reform in 2005, also promoting corporate acquisition and leading to better post-acquisition performance (Ma et al., 2016).

With the increasing number of M&A deals in China, studies about driving factors and the wealth effect of Chinese acquisition have emerged. To better understand the value creation of Chinese acquisitions, we try to present a comprehensive overview of driving factors and important factors associated with the success and failure of acquisitions in Chinese firms. We also discuss acquisition characteristics and important factors that affect Chinese M&As and their outcome. This discussion provides important insights and tasks for future research.

The remainder of the survey proceeds as follows. Section 2 reviews the general studies of mergers and acquisitions in the U.S. market. Section 3 reviews the recent studies of M&A in China. Section 4 examines the means of payment and equity overvaluation. Section 5 focuses on the role of geographic proximity and transportation convenience in the value creation of acquisitions. Section 6 highlights the managerial compensation and corporate governance structure in acquisitions. Finally, this survey concludes in Section 7.

2. Literature review of U.S. merger and acquisition

According to recent US studies, most acquirers receive an insignificant or negative stock return at the announcement of acquisitions, while target shareholders earn positive abnormal returns (Jarrell and Poulsen, 1989; Jensen and Ruback, 1983). Meanwhile, acquiring firms suffer significant negative long-term losses after acquisitions (Agrawal et al., 1992; Rau and Vermaelen, 1998). Some studies argue the main explanation for value destruction is due to acquisition motivated by managers' distorted incentives, such as agency motive (Jensen, 1986), overpayment due to hubris behaviors (Malmendier and Tate, 2008; Roll, 1986), and signaling of equity overvaluation (Faccio and Masulis, 2005; Shleifer and Vishny, 2003).

Agency motivation suggests that acquisitions occur when acquirer managers pursue their personal interests at the expense of shareholder's wealth, such as empire-building tendency (Jensen, 1986; Nguyen et al., 2012). Harford (1999) argues managers may abuse the advantage of rich cash holding and shed light on the agency conflict. By using the corporate data from 1972 to 1994, he finds that cash-rich companies show higher acquisition propensity but show negative acquisition announcement returns. Some studies find horizontal acquisitions perform better than diversifying ones (Bhagat et al., 2005; Maquieira et al., 1998; Walker, 2000). Meanwhile, some studies have shown that capital

structure and governance structure play important roles in avoiding agency problems in acquisitions. Maloney et al. (1993) examine the mergers in the merger waves, specifically between 1962 to 1971 and 1972 to 1982, and find a positive relationship between the leverage of an acquiring company and acquisition announcement returns. Because the monitoring by debtholders is expected to encourage managers to make better acquisition decisions. Previous studies find acquiring a private target generates higher returns than targeting a public company (Capron and Shen, 2007; Chang, 1998; Moeller et al., 2004). Because ownership is highly concentrated in private companies, targeting these companies tends to create large blockholders who can play effective monitoring the managerial performance (Chang, 1998). Officer (2007) examines the acquisitions of both publicly traded and unlisted targets from 1979 to 2003, and also finds the average discounts for acquisitions of unlisted targets approximately 15% to 30% relative to multiples paid to acquire comparable publicly traded firms.

Unlike agency motivation, hubris CEOs believe that they are acting in the interest of shareholders, but they make mistakes in evaluating target firms or overestimate merger synergies (Berkovitch and Narayanan, 1993; Malmendier and Tate, 2008). Hayward and Hambrick (1997) highlight four indicators of CEO hubris: the bidder's recent performance, recent media praise for the CEO, measures of the CEO's self-importance, and the composites factor of these three variables. They take advantage of the acquisition between 1989 and 1992, providing evidence of the losses in acquiring firms' shareholder wealth following an acquisition, especially when CEO hubris is greater and pays high acquisition premiums. Malmendier and Tate (2008) focus on 477 large public trade companies from 1980 to 1994 and construct the indicator variables for CEO confidence based on whether CEOs exercise options late or timely. They find the probability of making an acquisition is 65% higher if the CEO is classified as overconfident, and the stock market reaction to the acquisition announcement is more negative than the acquisition initiated by non-overconfident CEOs. Hubris and overconfidence lead the company to become a frequent or serial bidder, and previous studies commonly find the performance of frequently acquiring companies declining (Aktas et al., 2016; Billett and Qian, 2008; Fuller et al., 2002; Ismail, 2008). Billett and Qian (2008) examine the history of acquisitions by individual CEOs and find that previous acquisitions lead to a high likelihood of acquisitions. As for value creation, CEOs' first deals exhibit zero announcement effects, but the subsequent deals driven by overconfidence exhibit negative announcement effects. Ismail (2008) uses the takeover data from 1985 to 2004, to investigate whether takeovers by multiple acquirers received favorable reactions from the market compared with single acquirers. He also certifies that successful first-time bidders suffer from hubris behavior in subsequent acquisitions, showing that multiple acquirers receive worse announcement returns than single acquirers. Besides, Aktas et al. (2016) focus on the effect of the psychological trait of narcissism on the M&A deals between 2002 and 2006. Specifically, they measure CEO narcissism scores based on the first-person singular pronouns

in the interviews and find that narcissistic acquiring CEOs are more likely to initiate acquisition and negotiate faster. Some studies find large acquirers perform worse than small acquirers, because large companies are more likely to overpay in acquisitions and enter acquisitions with negative synergy gains (Humphery-Jenner and Powell, 2014; Moeller et al., 2004).

In addition, the signaling of equity overvaluation theory suggests that overvalued companies tend to conduct acquisitions and pay with stock when they believe their shares are overvalued (Shleifer and Vishny, 2003). Some studies provide evidence that the announcement of stock-swap acquisitions receives unfavorable stock price reactions compared to cash deals since it sends a negative signal of overvaluation to the market (Brown and Ryngaert, 1991; Servaes, 1991; Travlos, 1987). In contrast, some studies find that overvalued acquirers can benefit from stock swaps since they can take advantage of the overvalued stocks (Eckbo et al., 2018; Savor and Lu, 2009).

Furthermore, some studies argue that specific compensation contracts incentivize even non-overconfident CEOs to conduct acquisitions. Because managerial compensation increases after acquisitions, so well-rewarded CEOs tend to acquire again (Bliss and Rosen, 2001; Grinstein and Hribar, 2004; Guest, 2009; Rosen, 2005).

3. Mergers and Acquisitions in China

Recently, research on the driving factors and wealth effect of M&As in China has emerged. Some studies focus on external environmental factors, such as capital market environment, policy, and technological progress. Wang (2008) finds that economic growth, easy monetary policy, and currency appreciation encourage the Chinese company to conduct acquisitions. In contrast, the interest rates are negatively associated with M&A activity. Barbieri et al (2021) focus on the four Five Year Plans covering the period from 1996 to 2015, to investigate whether being identified as an emerging sector affects corporate acquisitions. They find that selective policies can differentially affect M&A waves according to the type of M&A. Besides, some studies find that policy uncertainty is negatively associated with corporate acquisitions, since the policy uncertainty increases the value of the option to delay investments, thus increasing the incentive for acquirers to postpone acquisitions (Bonaime et al., 2018). Borthwick et al (2020) use Chinese data from 2003 to 2017 and find that M&A likelihood decreased in the subsequent year when policy uncertainty amongst Chinese firms. Furthermore, Li et al. (2022a) examine the impact of economic policy uncertainty triggered by the financial crisis on Chinese cross-border M&As, and find that policy uncertainty in the host country reduces the scale of acquisition as well as harms the M&A performance. In contrast, Sha et al. (2020) find that companies tend to make acquisitions when economic policy is highly uncertainty by using the acquisition data initiated by listed companies from 2001 to 2018. However, SOEs show prudence and are less likely to acquire and less likely to use only cash pay compared with non-SOEs. In

addition, Gu et al. (2022) examine the peer effect in acquisitions and also consider the effect of economic policy uncertainty on it. By using the completed M&A data from 2005 to 2019, they find that firms tend to imitate their peers' merger and acquisition behaviors, and economic policy uncertainty could strengthen the peer effect in M&As. This is because firms can obtain more information, gain valuable experience, and reduce risk by following each other's behavior in the same industry.

In addition, some studies highlight the firm internal factors on the motivation and value creation of corporate acquisitions. Commonly, Chinese companies conduct M&As to increase market share, obtain advanced technology and resources, and promote diversification (Boateng et al., 2008; Deng, 2009; Ma and Liu, 2017). Compared with M&A activity in the developed market, many studies provide evidence that acquiring companies can benefit from corporate acquisitions (Bhabra and Huang, 2013; Boateng et al., 2008; Chi et al., 2011; Tao et al., 2017). Boateng et al. (2008) focus on the Chinese cross-border M&As between 2000 and 2004, and find that Chinese bidders receive significant positive stock market responses to acquisition announcements. Chi et al. (2011) examine the financial performance and characteristics of M&As for the period 1998-2003. They report significant positive abnormal returns before (6 months) and around the announcement date but insignificant returns in the post-announcement period (6 months). Zhao et al. (2019) focus on the size effect in the acquisition from 2003 to 2014, and they find that acquirer size plays a significant negative role in announcement returns, which supports the view of agency theory. However, large acquirers perform better in the integration process. In addition, some studies find the corporate governance structure affects the acquisition decisions (Boateng et al., 2017; Opoku-Mensah, 2023). Opoku-Mensah (2023) explores the background characteristics of different controlling shareholders that are associated with acquisition decisions and finds shareholders with the highest controlling rights lead to acquisitions. Besides, companies with large board sizes are less likely to conduct acquisitions. Meanwhile, Boateng et al. (2017) explore the role of board monitoring mechanisms and corporate governance in acquisitions from 2004 to 2011 in the Chinese market and find that more independent directors are associated with less value-destroy acquisitions as well as better post-acquisition operating performance.

However, some studies also find acquisitions may be driven by manager-distorted incentives, such as agency motivation. Yang et al. (2019) explore the motivation behind the Chinese takeover based on the role of corporate liquidity by taking the panel data of listed firms from 1998 to 2015. They find that cash-rich firms are more likely to conduct acquisitions, especially if they are subject to tunneling. In addition, Liu et al. (2019) take advantage of the unique institutional setting in China to investigate the factors associated with acquisition performance, and they find the political connection distorts acquisition decisions in state-owned enterprises (SOEs). This is because managers align firm goals with government objectives rather than maximizing firm value, and this leads to worse post-acquisition performance. Gu (2023) examines the effect of managers' overconfidence on innovation

and risk-taking entrepreneurship, and finds that managers' overconfidence leads to worse post-acquisition performance by decreasing post-acquisition R&D investment.

In the Chinese market, to prevent undesirable fluctuations and provide investors with extra time to evaluate newly released information, Chinese stock exchanges provide listed companies with the right to request suspension of stock trading when they announce "major events," such as mergers and acquisitions (M&As). Previous studies show that stock-financed acquirers tend to manage accounting earnings upward (Erickson and Wang, 1999; Louis, 2004), thus it also can be applied in stock price management. The overvalued bidders may desire to keep the high valuation by taking this option until the acquisition agreement is made, as the reference in the exchange rate negotiation.

In addition, coastal areas in China achieved tremendous economic development in the 2000s. In the past 20 years, western areas started as the government increased investments in infrastructure. Thus, a huge difference in transportation convenience exists between coastal and western areas. There is evidence that better travel access between bidder and target is associated with the increasing number of corporate acquisitions (Han et al., 2022; Jin et al., 2021; Li et al., 2022; Zhang et al., 2021). The development of western areas in China should incentivize the coastal areas companies to acquire the companies residing in the western cities. Therefore, it is worthwhile reviewing the previous literature regarding the transportation factors associated with acquisitions.

Finally, the Chinese M&A market is still rapidly growing which shows many investment opportunities exist. Besides, different from the U.S. matured financial market, the external financial capability of Chinese firms remains limited. Therefore, different from the role of corporate governance prevents value-destroying acquisitions due to opportunistic behavior and overpayment in the U.S. market (Boone et al., 2007; Levi et al., 2014; Masulis et al., 2007), better corporate governance should lead to better acquisition decisions in China, such as the high proportion of independent directors or high ownership concentration (Boateng et al., 2016; Firth et al., 2006).

The following three sections review the literature on these topics.

4. Overvaluation in stock swaps

Myers and Majluf (1984) demonstrate that information asymmetry between managers and outside investors provides managers with the incentive to issue stocks when their stocks are overvalued. In the context of acquisitions, managers of bidding firms can obtain gains from stock-swap acquisitions if they identify their stocks as being more overpriced than the target firm (Shleifer and Vishny, 2003). If bidders have recently experienced a sizable stock price increase, stock-financed acquisitions allow them to obtain control rights of the target firm without serious dilution of their voting power (Faccio and Masulis, 2005). Uninformed target firms are likely to accept offers from overvalued bidders that are at price peaks (Boateng and Bi, 2014). Indeed, previous studies commonly find that overvalued

bidders use their stocks as currency (Akbulut, 2013; Ben-David et al., 2015; Dong et al., 2006; Eckbo et al., 2018; Faccio and Masulis, 2005; Rhodes-Kropf et al., 2005). Savor and Lu (2009) take the acquisition data in the U.S. from 1962 to 2000 to investigate whether valuation-driven acquisitions benefit or hurt shareholders' long-term wealth. They find that stock-swap acquirers achieve significantly better long-term stock returns when they successfully complete a deal than when they fail to consummate it. This finding is consistent with the view that overvalued firms can create shareholder wealth by engaging in stock-financed acquisitions.

At the exchange of the good deal effect, however, stock-financed acquisitions send a negative signal to the market that the acquirer is overvalued. Previous studies commonly find that the announcement of stock-swap acquisitions receives unfavorable stock price reactions compared to cash deals (Brown and Ryngaert, 1991; Servaes, 1991; Travlos, 1987). Dong et al. (2006) based on two theories of motivations for takeovers, stock market misvaluation and Q theory of investment, to examine the valuation of bidder and target on the acquisition decisions and performance by using the U.S. acquisitions from 1978 and 2000. They find that high-value bidders are more likely paid by stock rather than pure cash, and these deals are associated with lower announcement stock returns. Fu et al. (2013) argue that overvalued stock acquirers experience underperformance in the long run because these bidders tend to overpay the premium and do not achieve synergy effects. Using the insiders' abnormal selling of shares as a sign of overvaluation, Akbulut (2013) shows that overvalued companies receive low stock price reactions when they announce stock-swap deals. Long-run stock price underperformance is also detected following the completion of stock-swap acquisitions.

Many empirical studies investigate the stock overvaluation effect on the payment method and performance in the Chinese M&A market. Stock overvaluation leads companies to conduct acquisitions and pay with their own overvalued stocks (Huang et al, 2024; Xu et al, 2018). Xu et al. (2018) focus on the ChiNext market in China, and find that overvaluation leads to more uses of stock or cash-and-stock mixed payment in acquisitions, as well as associated with higher chance, frequency, and larger transaction size of M&A. In addition, overvalued companies are willing to pay high premiums to achieve M&A (Zhang et al., 2023). Zhang et al. (2023) investigate equity overvaluation and insider trading activity, and find that overvalued equity can achieve positive short-term stock returns, but cannot improve M&A performance in the long run.

While Erickson and Wang (1999) and Louis (2004) argue that stock-financed acquirers tend to manage accounting earnings upward, it is uncertain whether the boosted earnings contribute to high stock prices to the degree that investors rationally unravel earnings overstatement (Stein, 1989). Meanwhile, it also extremely challenging to identify their behaviors clearly aiming to keep a high stock price. In Chinese market, listed companies are privileged to apply to adjourn trading their own stocks for a certain period as a means of stock price management (Wu, 1998). However, though reviewing previous studies of overvaluation in stock swaps, we find few papers investigating stock

price management in acquisitions.

5. Geographic proximity and transportation convenience

Previous studies examine the effect of geographic proximity on financial investments (Coval and Moskowitz, 1999; Grinblatt and Keloharju, 2001; Ivković and Weisbenner, 2005), venture capital investments (Tian, 2011), analyst forecast accuracy (Bae et al., 2008; Malloy, 2005), and real estate investments (Garmaise and Moskowitz, 2004). These studies commonly emphasize the advantage of geographic proximity that reduces the cost of processing soft information through enhanced face-to-face communication. In a similar vein, initial studies of the U.S. market have shown that geographic proximity generates informational advantages in acquisitions, because acquirers can collect soft information of nearby located targets in a less costly way such as motivation, goals, expectations, ideas, opinions, and team dynamics (Uysal et al., 2008). Such soft information helps bidders to select targets that can achieve sufficient synergy effects. Indeed, previous studies provide evidence that proximity between bidder and acquirer increases likelihood of acquisition and is associated with higher returns (Boschma et al., 2016; Erel et al., 2012; Grote and Umber, 2007; Ragozzino, 2009; Uysal et al., 2008). Grote and Umber (2007) focus on the acquisition of transaction data from 1990 to 2004 in US market and find that US acquirers show a strong preference for close target companies, and acquisition announcement returns decrease with increased distance between bidders and targets. Specifically, the deals taking place within 500 kilometers perform worse by one percentage point than deals at medium distance.

With the development of transportation models, recent papers have switched focus from geographic proximity to developed transportation networks (Bernstein et al., 2016; Charnoz et al., 2018; Ellis et al., 2020; Giroud, 2013). Convenient transportation can substitute for geographic proximity to alleviate information asymmetry. The development and convenience of transportation also promote corporate acquisitions, recent Chinese studies find that better travel access, represented by the number of direct flights and high-speed rail introduction increases the number of M&A activities between the two places (Han et al., 2022; Jin et al., 2021; Li et al., 2022b; Zhang et al., 2021). Since direct connection is available, bidders can save time and costs in collecting information about potential targets and ex-post monitoring. Zhang et al. (2021) examine the effect of the non-stop direct flight introduction on acquisition abroad by taking the cross-border M&As between China and the US, and they find direct flights increase the likelihood and amounts of cross-border acquisitions between the connected cities. Given that target firms are generally small private companies, direct flights provide bidders with an effective vehicle to collect relevant information on these opaque firms. Jin et al. (2021) take advantage of the opening of HSR in China as a natural experiment to examine whether it can increase cross-region M&As. They find that local firms are more likely targeted by

non-local bidders after the opening of HSR. Li et al. (2022b) highlight the roles of transportation access both in information acquisition channels and monitoring channels by using Chinese data from 2001 to 2017, and they find that M&A transactions between two HSR-connected cities increased by 9.6 percent after the initiation of the HSR service. Besides, they also find better post-acquisition performance for the acquirers. From the previous studies, we know the development of transportation can increase the number of acquisitions in two different places. In addition, the deals that bidders and targets with direct access are associated with high returns. Most previous studies focus on the direct connection between bidders and targets, but few studies investigate the transportation convenience of the single city where the bidder and target reside. Cai et al. (2016) find companies in urban areas are more likely to receive a takeover bid and deals receive higher acquirer announcement returns. Although they suggest easy transportation as a potential factor behind the urbanicity effect, they do not show direct evidence of the transportation convenience matters in acquisitions.

6. Managerial compensation and corporate governance

Previous studies intensively examine company pay-for-performance sensitivity and find it can reduce the principle-agent problems and lead to better firm performance (Firth et al., 2006, 2007; Hubbard and Palia, 1995; Jensen and Murphy, 1990). But this incentive is not always rational, managers may pursue less risky policies that reduce firm performance when they managers burdened with risk (Mishra et al., 2000; Wright et al., 1996). Mishra et al. (2000) consider the firm's business risk based on Jensen and Murphy (1990), and find the performance of higher-risk firms is more negative relative to the pay-for-performance sensitivity than lower-risk firms, which supports the view that CEO risk aversion limits the benefit from performance-sensitivity compensation structure.

Meanwhile, except for firm performance, it is well-recognized that managerial compensations are positively associated with firm size (Bliss and Rosen, 2001; Girma et al., 2006; Roberts, 1956). There are two conflicting views regarding size-sensitive compensations. Managers generally have empire-building tendencies, and size-sensitive compensations are likely to foster the managerial incentive to expand firm size. This idea gives rise to the prediction that size-sensitive compensation incentivizes managers to implement value-decreasing projects. Edmans et al. (2017) argue that the positive correlation between firm size and executive pay can be explained by the rent extraction model. They argue that large firms may have more resources, allowing the CEO to extract higher pay. Bliss and Rosen (2001) find that bank mergers during 1986-1995 have a positive effect on managerial compensations mainly via the size effect, while the stock price of acquiring banks declines.

The labor economics theory provides a rationale for the size-sensitive compensation structures.

Generally, large companies should be managed by experienced talents due to the complexity of the business and organization, and therefore high managerial pay is needed to recruit competent managers (Edmans et al., 2017; Gabaix and Landier, 2008; Tervio, 2008). Tervio (2008) develops an assignment model and demonstrates that heterogenous CEO pay can be explained by the difference in talent and the scarcity of the ability, which is worth more for larger companies. Gabaix and Landier (2008) find that executive compensations increase over time with the increase in firm size because competition for talented managers raises the equilibrium level of pay. Rosen (1990) and Bliss and Rosen (2001) argue that large companies host a large tournament that needs a high commensurate prize.

M&As are risky investments that significantly expand firm size. Failures of acquisitions may lead to the dismissal of CEOs (Lehn and Zhao, 2006) and make the firm become a potential takeover target (Mitchell and Lehn, 1990). Furthermore, acquisitions affect executive compensation and *vice versa*. Rosen (2005) examines the acquisitions during 1993-2001 in the US and finds that firms where CEOs can receive large compensation increases after acquisitions are more likely to become frequent acquirers. Grinstein and Hribar (2004) investigate CEO bonuses for M&A completion by using the data from 1993 to 1999 in the US market, and they find that powerful CEOs receive larger M&A bonuses and are more inclined to engage in larger deals while receiving negative announcement returns. Guest (2009) takes the acquisitions in the UK from 1984 to 2001 to examine the impact of acquisition on executive pay, and he finds that executive pay tends to increase following acquisitions regardless of the success or failure of the deal, and well-rewarded CEOs tend to acquire again.

Following China acceded to the WTO as well as split-share reform, investment opportunities and stock liquidity increased, leading to Chinese M&A rapidly developing. The studies regarding the wealth effect of Chinese acquisition have emerged. However, it is different from the U.S. market, many Chinese studies show that most acquirers can earn positive returns (Bhabra and Huang, 2013; Boateng et al., 2008; Chi et al., 2011; Tao et al., 2017). It also shows there are many investment opportunities exist for Chinese firms. Meanwhile, the external financial ability of Chinese firms is still limited. Thus, different from the role of corporate governance prevents value-destroying acquisitions due to opportunistic behavior and overpayment in the U.S. market (Boone et al., 2007; Levi et al., 2014; Masulis et al., 2007). Better corporate governance in Chinese firms should promote acquisitions and be associated with better post-acquisition performance (Boateng et al., 2016; Firth et al., 2006).

Meanwhile, the managerial productivity theory suggests that CEO compensations are related to potential gains from acquisitions. Anderson et al. (2004) focus on the U.S. bank mergers in the 1990s and find that the change in CEO compensations after M&As is positively related to the anticipated gains incorporated in the announcement returns. They also show that the change in cash compensations is positively related to the change in operating profits. In addition, Girma et al. (2006)

explore the impact of acquisitions on the remuneration of CEOs in the UK. Specifically, they classify the mergers as “wealth enhancing” or “wealth reducing” transactions based on the stock reaction to the acquisition announcement, and find that CEOs engaging in wealth-reducing acquisitions receive significantly lower compensation changes than those who conduct wealth-enhancing transactions. However, few studies investigate the effect of managerial compensation structure and corporate governance on acquisition decisions in China. The rational size-sensitive and performance-sensitive compensation should incentivize managers to conduct adequate and wealth-enhancing acquisitions when companies have rich investment opportunities.

7. Conclusion

In summary, the literature on mergers and acquisitions has shown an interest in the driving factors and wealth effect of acquisitions. The initial studies mainly focus on the developed market, especially US market, and commonly show M&As destroy shareholder value rather than create synergy gains due to agency conflicts, overpayment, and signaling of equity overvaluation. Recently, Chinese acquisitions rapidly developed, especially following China’s accession to the WTO as well as split-share reform. The research about acquisitions in China also has emerged. However, different from the U.S. market, most studies observed that bidders can benefit from corporate acquisitions. In addition, we particularly pay attention to some important factors associated with acquisition decisions and performance, which is equity overvaluation, geographic proximity and transportation access, and managerial compensation and corporate governance. Though reviewing previous studies, we find equity overvaluation leads companies to conduct acquisitions and tend to use their overvalued stocks as currency, simply because it allows them to acquire the target for a low cost and obtain control right of the target without serious dilution of their voting power. Besides, developed transportation can be the substitute for geographic proximity to alleviate information asymmetry between bidders and targets and lead to increasing numbers of M&A deals. Besides, better corporate governance and rational managerial compensation sensitivity can promote acquisitions and is associated with better post-acquisition performance. Future research should work on stock price management, the role of transportation convenience of the bidder and target cities, as well as the determinants of managerial compensation sensitivity in the acquisitions.

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