Essays on mergers and acquisitions in China: Stock trading suspension, transportation convenience, and managerial compensations

漆, 慶宇

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氏　　名　：Qi Qingyu（チ　ケイウ）
Name

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論　文　内　容　の　要　旨
Thesis Summary

This study examines the factors affecting the decision and value creation of mergers and acquisitions (M&As) in China. M&As are an important transaction for companies to increase their efficiency and values through realizing synergy gains. Previous US studies commonly observe negative stock returns during the announcement period and long-term losses following the execution (Jensen and Ruback, 1983; Jarrell and Poulsen, 1989; Agrawal et al.,1992; Rau and Vermaelen, 1998). Although US studies suggest acquisitions destroy the acquiring company's shareholder value, there are several explanations why many companies conduct M&A activities and may have positive returns, such as the overvaluation hypothesis (Shleifer and Vishny, 2003; Savor and Lu, 2009), developed transportation access (Zhang et al., 2021; Li et al., 2022; Testoni, 2024), and incentive effects by managerial compensation (Anderson et al., 2004; Girma et al., 2006). A careful review of previous studies brings our attention to these issues as influential factors of the decisions and value creation of Chinese M&As.

We examine Chinese domestic M&A activities with particular attention to bidders' incentives for stock price management, transportation convenience of the bidder and targets' city, and incentive provision by managerial compensation. In recent years, China has witnessed a rapid surge in M&A activities. Remarkably, Chinese stock exchanges provide listed companies with the right to request suspension of stock trading when they announce "major events," such as M&As. Chinese data provide us with appropriate material to examine whether stock-paying bidders take advantage of this option to manage stock prices. Besides, the heterogeneity of transportation convenience across Chinese cities also allows us to examine the value of transportation, given that value creation in M&A transactions highly depends on effective information collection. Therefore, this thesis aims to address the following key research questions: (1) do stock-swap acquisitions incentivize managers to keep a high stock price? (2) does transportation convenience promote M&A transactions? (3) do firms rationally choose the sensitivity of managerial compensations to firm size based on their investment opportunities?

Chapter 1 presents a comprehensive review of the existing literature on mergers and acquisitions. In the past 100 years, most of the M&As were conducted in developed countries and most of prior studies focused on these countries. Compared to the research on developed markets, only a limited number of studies investigated acquisitions in China. We first review the studies on motivation, wealth effects, and performance of acquiring companies in the U.S. and China. Then, particular attention is given to the review of overvaluation in stock swap acquisitions, the role of geographic proximity and transportation convenience, and the relationship between investment opportunities and managerial compensation.

Chapter 2 investigates overvalued stock-swaps bidders' stock price management and their market timing

behaviors. Prior research revealed that overvalued firms tend to use their stocks as currency in their acquisitions. Chinese firms can suspend stock trading when they announce major events. We examine whether stock-swap bidders take advantage of this option to keep a high price as a reference in the exchange rate negotiation when they identify equity overvaluation. Our empirical analyses find that stock-swap acquirers tend to suspend stock trading after a significant stock price run-up. Suspending stock-swap bidders show significantly high acquisition announcement returns, while the returns are negatively associated with the pre-suspension run-up. However, the positive return disappears in the long run. These results suggest that stock-swap bidders take advantage of suspension trading when they identify overvaluation and achieve a good deal effect at least in the short-run.

Chapter 3 examines the effect of transportation convenience on M&A transactions. Prior studies emphasize the role of geographic proximity and direct transportation access between bidders and targets. We highlight the transportation convenience of the acquirer and target's city within the whole transportation network by using centrality variables developed in the network analysis. We find that completion rates and premiums are positively associated with the transportation convenience of the city that target firms reside in. Despite the high premium, bidders targeting firms with convenient transportation do not receive negative stock market reactions at the announcement and they realize better long-term returns following the completion. However, we do not find evidence that direct air connections matter in the M&A transactions. These results indicate that convenient transportation on the target side decreases the uncertainty of the synergy effect and allows bidders to achieve large synergy gains following the execution of acquisitions.

Chapter 4 focuses on the incentive design of managerial compensations. Previous studies highlight both firm performance and firm size affect managerial compensation. We test the novel hypothesis that firms optimally choose the pay-for-size sensitivity and pay-for-performance sensitivity based on their investment opportunities, to avoid the underinvestment problem, represented by Tobin's Q. We find the executive's compensations are more sensitive to firm size rather than firm performance when the companies have rich investment opportunities. Besides, these high q firms conduct acquisitions frequently. Importantly, these acquisitions are not overinvestments because acquirers do not pay excess premiums and the stock market does not show negative price responses. The results suggest that companies with rich investment opportunities incentivize managers to conduct acquisitions by providing size-sensitive compensations.

Chapter 5 concludes the thesis. Taking advantage of the stock trading suspension by companies announcing major events, we show stock swap acquirers tend to suspend stock trading to make use of the current high stock price, although no evidence shows they can earn gains in the long run. Meanwhile, bidders are more likely to achieve acquisition completion and realize better post-acquisition performance by targeting companies residing in more transportation-convenient cities. Furthermore, companies with rich investment opportunities can adopt rational size-sensitive compensation to incentivize managers to conduct acquisitions. These findings contribute to the existing literature in several ways. First, we present the evidence that stock-swap bidders time the market and keep the valuation of their stock price high. Second, while previous studies emphasize the direct transportation connection between bidders and targets as an important factor of smooth negotiations, we provide evidence that it may capture the effect of the transportation convenience of the target city, which is a new infrastructure for the acquirer. Finally, we present novel evidence that companies with rich investment opportunities link their managerial compensation more to firm size rather than firm performance.