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DETERMINANTS OF THE CROSS-BORDER MERGER AND ACQUISITION FROM THE EMERGING MARKET: THE CASE OF PRIVATE FIRMS FROM CHINA

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Abstract

The purpose of this paper is to investigate whether the cross-border Mergers and Acquisitions made by Chinese private firms from 2008 to 2014 have improved their financial performance, and furthermore, to analyze the development of privately held companies during the research period. This study develops and empirically tests several hypotheses on the determinants of Cross-Border M&A performance based on drawing Synergy, Agency, Socio cultural and Organizational learning theories. As a matter of fact, the results demonstrate that the Cross-border acquisition moves by Chinese private firms perform a more complicated situation than we expected. Financial performance tends to be negative between acquiring companies' previous M&A experience and the performance of a new cross-border operation. However, the cultural distance between the countries of the acquiring and target firms and the institutional environment even though its context of the target company is a developed one tend to be no-relevance with Chinese private enterprises, so that we made a conclusion according to the background of the development and special need of current market in China. Alternatively and surprisingly, besides the main determinants we focused on to explain, the findings from the factors that operational cost increase and company size have a significant relation with financial performance in cross-border acquisition, negative and positive, respectively. These findings suggest that research on international M&A should include acquirers' M&A experience as well as operational cost and company size for the context in analyzing the Chinese private firms.

JEL Classification: G34,G34

Keywords: Cross-border Merger and acquisition, determinants, private firms, financial performance

Resumo

O objetivo deste trabalho é investigar se as fusões e as aquisições transfronteiriças feitas por empresas privadas chinesas no período 2008-2014 contribuíram para melhorar o seu desempenho financeiro e, além disso, analisar o desenvolvimento de empresas privadas durante o período de investigação. Neste estudo testam-se empiricamente várias hipóteses sobre os determinantes do desempenho resultante das fusões e as aquisições transfronteiriças baseadas nas teorias da sinergia, agência, aprendizagem, sócio culturais e organizacionais. Os resultados mostram que os movimentos transfronteiriços de aquisição por parte de empresas privadas chinesas são uma situação mais complicada do que esperávamos. O desempenho financeiro tende a ser negativo entre a aquisição das empresas anterior à operação de M & A e a realização de uma nova operação transfronteiriça. No entanto, a distância cultural entre os países dos adquirentes e de destino das empresas e o seu ambiente institucional, tendem a não ser relevantes para as empresas privadas chinesas. Chegámos a uma conclusão de acordo com o desenvolvimento do mercado e as necessidades especiais do mercado actual na China. Alternativa e surpreendentemente, além dos principais determinantes que foram analisados, encontram-se outros fatoresrelevantes: o custo operacional e o tamanho da empresa tem uma relação significativa com o desempenho financeiro na aquisição transfronteiriça, negativa e positiva, respetivamente. Estes resultados sugerem que a investigação sobre M & A internacional deve incluir a experiência anterior em M & A, bem como o custo operacional e o tamanho da empresa para o contexto na análise das empresas privadas chinesas.

Classificação JEL:G34,G34

Palavras-Chave Fusão transfronteiriça e aquisição, determinantes, empresas privadas, desempenho financeiro

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List of abbreviations

IDI	–	International Direct Investment
TDI	–	Transnational Direct Investment
FDI	–	Foreign Direct Investment
OFDI	–	Outward Foreign Direct Investment
AIIB	–	Asian Infrastructure Investment Bank
DCF	–	Discounted Cash Flow
PMI	–	Post Management Integrate
WTO	–	World Trade Organization
SFEM	–	Strong Form of Efficiency Market
SOE	–	State-Owned Enterprise
OEM	–	Original Equipment Manufacturing
ODM	–	Original Design Manufacturing
OBM	–	Original Brand Manufacturing
ΔROA	–	Operating Return On Asset
ΔROIC	–	Operating Return On Invested Capital
BRIC	–	Brazil & Russia & India & China
OLS	–	Ordinary Least Squares

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1. INTRODUCTION

By providing an overview of the whole study, the purpose of this chapter can simply be divided into three different parts: first of all, we will present a brief introduction on the significance of worldwide Merger and Acquisition in emerging markets and, specifically for the Chinese private enterprises, the performance and determinants as an influential factor in M&A, as well as the motivation to study this problematic. What follows next is the objectives proposed of this study and also the methodology applied. Finally, the structure of this study is presented at the close of this chapter.

1.1 Problem statement and Motivation

The emerging markets are expected to be a new economic force since the financial crisis which happened in 2008, to stimulate and increase the competition, creating a new balance of supply and demand. Investment, especially direct investment（DI）, plays an important role in the world economy and cross-border mergers and acquisitions which no doubts are one of the essential factors that needs to be further studied. Therefore, the private enterprise in China as one of the distinctive emerging market forces, which can, directly or indirectly, impact the upcoming, increasing oversea investments from Chinese market is related to the world financial situation.

Given the importance of the private enterprise in the Chinese economy, we focus our investigation on how these firms finance their assets and explore which factors affect its decisions of cross-border merger and acquisitions. Therefore, this study focus on, as a new force in Chinese market, the private enterprise in China, in order to update the existing literature within the reality of an emerging market after financial crisis.

Due to the economic thrive in 1990s, emerging countries with ambition developed relative policies that were more suitable for firm’s development. In the last decade, a large body of research has been done in the context of emerging market, including China, on various aspects of cross-border merger and acquisition. It is related to motives, (Deng, 2004; Luo & Tung, 2007), post-merger performance, (Aybar & Ficici,2009); role of the institutions (Deng, 2009; Yiu, Lau, & Bruton,2007) and regionalization (Sethi, 2009). Despite their relevance, few studies focused on the Chinese private firms, specifically, cross-border merger and acquisitions are outnumbered in these studies.

As a promising and significant part of emerging forces, the Chinese capital market, with the benefit of reforming for the past 30 years, shows its ambition worldwide. Various related researches appeared mainly concentrated on foreign direct investment (FDI) (Young-Han Kim, 2008; Dong-Hun Kim, 2012). In terms of cross-border merger and acquisition, there exists an extensive literature on value creation (Xianming Wu & Hao Lei, 2015) in corporate control. Furthermore, many of them analyzed the evidence through event studies (Xiaojing Chen 2011) provided by the returns for shareholders of the acquiring firms.

In this paper, we concentrate on the performance and determinants of private firms in China ranging from 2008 to 2014 in cross-border merger and acquisitions, to find out the main factors. We try to figure out how the private firms in China were affected by the cross-border M&As, revealing their connections with emerging markets, and the situation in the worldwide competition after they started operating after the acquisition.

The motivation for developing this study is related to finding out the support that emerging market firms engaged in gaining advantages from cross-border mergers and acquisitions (CBMA) worldwide, being relevant for the emerging markets to investigate the Chinese private enterprise and its determinants for the Chinese market as well. Second, the motivation of this study is the possibility to give a prediction for private enterprises in China, concerning their future development.

1.2 Objectives

In the process of investigating the characteristic of Chinese private enterprises, this study attempts to contribute to the existing literature by identifying which determinants could better explain the CBMA in the Chinese Private firms.

Secondly, we intend to observe and measure the influence after the financial crisis of 2008 on Chinese private enterprise‘s CBMA, which means we focused on the statistics after 2008.

1.3 Methodology Approach

In order to achieve the results for the proposed objectives, we used one model with two different samples in order to investigate the determinants of Cross-border M&A. The model was regressed by the OLS multiple linear regression.

1.4 Structure

This thesis contains four other chapters besides this introduction: the literature review is presented in chapter 2, suggesting an overview of the relevant theories that have been developed for the cross-border M&A. In chapter 3, includes the description and construction of the Hypotheses, Methodology and the characterization of the data sample used. Afterwards, chapter 4 presents the obtained results, using essentially descriptive statistics, Pearson correlation analysis, regression analysis for two models (with different samples), and also the discussion of the results obtained. Finally, chapter 5 describes the main conclusions based on the results obtained, and contribution of this empirical study, followed by limitations faced within this empirical work and giving suggestions for future research.

2. LITTERATURE REVIEW

In order to understand cross-border merger and acquisition from emerging markets as a whole, this chapter first provides an overview of meaning. Secondly, we describe the private enterprises' context in China and its importance for the Chinese development and the evolution of the economy, especially after 2008 there was an acquisition trend thriving from emerging sector from the private enterprise, as well as the relevant related Chinese policies. Moreover, the following chapter presents the main theories of Cross-border Merger and Acquisitions, and finally, it's the review of Cross-border M&A's determinants conducted by previous empirical studies.

2.1 Cross-border merger and acquisition overview

According to the general definition of foreign direct Investment (FDI), it includes "merger and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans'（Wikipedia）. It is necessary to present sufficient background and to explore the concept border of M&A through the process of introducing the definition and its impact on FDI. Therefore, this chapter is structured as follows:

We first describe the standard definition and understanding of foreign direct investment that is significantly related to cross-border M&A, emphasizing the connection. We then discuss both cross-border M&A current development and its emergence in the emerging markets with the example from China.

2.1.1 Foreign Direct Investment (FDI)

Foreign direct investment (FDI) also known as "International direct investment"(IDI) or ”Transnational direct investment ”(TDI) is an investment made by a company or entity based in one country, into a company or entity based in another country. Foreign direct investment has two forms to finance its assets: founding a new company or controlling a foreign enterprise’s entity. Both of them consistent with one goal: generating profits and operating products in a foreign country. (Wikipedia)

The strategic decisions to undertake foreign direct investments (FDI), and thus becoming a Multi-National Enterprise (MNE), starts with a self-evaluation (Eiteman, Stonehill, Moffett, 2013). In order to better understand how to make a foreign direct investment, we present some directions and viewpoints faced by MNEs: 1) Whether to have the advantage of investing abroad; 2) Deciding where to invest; 3) Dealing with Political risk (Eiteman, Stonehill, Moffett, 2013)

Sustaining and transferring competitive advantage

In deciding whether to invest abroad, management must first to determine whether the firm has a sustainable competitive advantages that enables it to compete effectively in the home market (Eiteman, Stonehill, Moffett, 2013). This advantage must be more competitive in firm-specific, transferable and strong enough to compensate the enterprise for the disadvantage of operating abroad. According to a concept originated by Michael Porter of Harvard, a phenomenon which is known as the “competitive advantage of nations”, presents the idea that a powerful competitive home market can sharpen a firm’s competitive advantage relative to firms located in less competitive home markets. We summarize this in the Table 1 below.

Table 1 : Determinants of National Competitive Advantage: Porter’s Diamond

Conditions	Description
Factor Conditions	The factors of production,-land, labor,

	capital, technology-that are core to the specific industry might include specific labor skills set or complex technology support
Demand Conditions	The nature of local customers-customers that are demanding, diligent, sophisticated, focused on specific issues of quality of safety- all build competitiveness
Related Industries	A firm that has competed successfully in a local market, which requires an integration of related supplier and partner firms, including government, is advantaged.
Firm strategy, Structure and Rivalry	Many of world's most competitive firms have learned to adapt to local markets in different ways, altering strategy and structure to find the best fit for profitable growth.

Source: Based on concepts described by Michael Porter in "The competitive Advantage of Nations" Harvard Business Review, March-April, 1990

Although lacking a competitive home market, the emerging market countries have also spawned aspiring global MNEs in niche markets, especially the promising ones. At the beginning in the natural resource field ranging from oil, agriculture, minerals and etc, most of them become traditional exporters and global MNEs. Otherwise, the non state-owned enterprises typically start with foreign sales subsidiaries, joint ventures and strategic alliances (Eiteman, Stonehill, Moffett, 2013). Some of them are the firms that were recently privatized in important industries such as telecommunication and electronic component and are trying to make a transition to manufacturing abroad. Examples are Telefonos de Mexico, Telebrás (Brazil), Samsung Electronics (Korea), and Acer Computer (Taiwan).

In practice, the MNEs have other options to choose instead of FDI, such as licensing, joint ventures, strategic alliances, management contract and exporting. There is a theory originated from Buckley and Casson (1976); Dunning (1977), the OLI paradigm, it is an attempt to create an overall framework to explain why FDI is chosen. This theory states that, specifically and literally, a firm must have certain home market competitive advantages in "O"or owner-specific, the characteristic that can be transferred profiting from the successful FDI; and second, "L" or location-specific, which means it is easier to exploit the competitive advantages in the market of FDI; Furthermore, "I" or internationalization, a firm can maintain its competitive position by attempting to hold the entire value chain in its industry (Eiteman, Stonehill, Moffett, 2013). This is the main difference between FDI and licensing or outsourcing.

Deciding where to invest

The decision of where to invest abroad is influenced by behavioral factors. In theory, the MNEs would select a suitable country or firms to deal FDI, identifying its competitive advantages and generate a risk-adjusted return. However, in reality, human rationality is bounded by one's ability to gather and process all the information due to information asymmetry.

Political risk

In the process of operating business and facing foreign exchange risk, the MNEs should predict both firm-specific risk (Micro risk) and country-specific risk (Macro risk) and even for the bigger perspective, the global-specific risk. We can easily resume in the following

Table 2.

Table 2 Classification of Political Risks

Firm-Specific Risks	Country-Specific Risks		Global-Specific Risks
	Transfer risk	Cultural & Institutional risk	
Governance risks	Blocked funds	Ownership structure	Terrorism and war
		Human resource norms	Anti globalization movement
		Religious heritage	Environmental concerns
		Nepotism and corruption	Poverty
		Intellectual property rights	Cyber attacks
		Protectionism	

Based on the concepts described by *Eiteman, Stonehill, Moffett* in "Multinational Business Finance", Foreign Direct Decisions, 2013

2.1.2 Cross-border merger and acquisition

In order to briefly introduce the Cross-Border M&A and furthermore help to better access to its development in emerging markets we, first, present the general situation that we gathered from the information from the recent news and based on the relationship with FDI. Then we discuss the advantage of Cross-Border M&A that when firms decide to invest. Finally, we concentrate on the process that a firm operates a cross-border M&A and divides it into three stages:1) identification and valuation of the target 2) execution of the acquisition 3) post-acquisition management.

2.1.2.1 General development

Cross-border M&A is commonly regarded as a method to seize possible opportunities to enlarge firms' value. In the process of being an important phenomenon in contemporary society (Luo & Tang 2007), not just in developed countries, cross-border M&A in emerging markets act as an indispensable role in worldwide. Since 2001, the annual outward foreign direct investment (OFDI) flows from developing countries have grown faster than developed ones (Juthathip Jongwanich,2013), and cross-border M&As took place as a substantial portion of FDI, and most M&As statistics from emerging markets have originated from Asian nations (Juthathip Jongwanich,2013). As a result, emerging Asian markets were responsible for nearly one-third of global foreign outflows in 2011, which was more than double flow in 2010. As for the numbers of M&A from developing Asia, it reached 10.5% of the world total in 2009. (Popli & Sinha, 2014)

2.1.2.2 Driving forces behind cross-border merger and acquisitions

As for the reasons about why enterprise undertake Cross-Border M&As, the driving forces are a strategic response to defend and enhance their global competitiveness through the following measures (Eiteman, Stonehill, Moffett, 2013):

Gaining access to strategic proprietary assets
Gaining market power and dominance
Achieving synergies in global/local operations and cross different industries
Becoming larger and then reaping the benefits of size in competition and negotiation

Diversifying and spreading their risk wider

Exploiting financial opportunities they may possess and other desire

2.1.2.3 The cross-border acquisition process

Stage1: Identification and valuation: a well-defined corporate strategy and expertise is needed for identifying a potential acquisition target.

The identification of the target market typically precedes the identification of the target firm(Eiteman, Stonehill, Moffett, 2013). A wider choice of publicly traded firms and relatively well-defined markets, as well as publicly disclosed financial and operational data would be offered in highly developed markets.

Once identification has been completed, the process of valuing the targets begins. There are various valuation techniques used in global business today. The fundamental methodologies including discounted cash flow (DCF) and market multiples (earnings and cash flow), as well as industry-specific measures that focus on the most significant elements of value in business operation.

Stage 2: Execution of the acquisition: gaining the approval from the management and ownership of the target, furthermore, the government regulatory bodies as well. Lastly, determining a method of compensation, this can be time-consuming and complex.

Stage 3: Post-Acquisition Management: It is possible to state that the stage of post transaction management is possibly the most critical comparing with the other two in determining an acquisition's success. However, the biggest problem is always melting corporate cultures. A good handling of the clash of corporate cultures and personalities, may motivate the biggest potential gain, otherwise, it is the biggest risk.

2.1.2.4 Cross-border M&A in China

For the developed countries, there were several processes in the research of cross-border merger and acquisitions. Traditionally, we believe the theories were established on economic perspective, such as transaction cost and eclectic paradigm (ownership location internalization advantages). Over the years, the theory of resource-based and institutional contingencies was mainly focused, especially on corporate restricting events (Ping Deng, Monica Yang 2014).

Although M&As started in China from 1993, they did not become popular until around 2001, the year China joined the World Trade Organization (WTO). Financial deregulation and development provided greater access to domestic as well as International capital market and corporate law (Jing Chi, Qian Sun & Martin Young, 2011). After that, Chinese firms which had traditionally focused on export-based International strategy, shifted to more direct financial investment, particularly in the mode of cross-border merger and acquisitions. However, most cross-border M&A deals took place by state-owned enterprise, publicly listed. Changes happened since the 2008 worldwide financial crisis, China was aware of the pressure as one part of global finance force and pursued a possible way of making a difference. Alternatively, private firms with their government's supportive finance benefited from the crisis, and made a significant growth in time. Therefore, we collect the data from 2008 to 2014. Other reasons why this may have happened could be explained by the environmental stress and the rise of the Chinese private firms that have ambition and necessities to invest in oversea deals (Lardy, 2014). Furthermore, "one belt and one road initiatives" which are also called the Chinese version of the "Marshall Plan", is going to promote the investment in Southeast Asia, even Africa for more growth opportunities. The same financial purpose may be found in "Asian Infrastructure Investment Bank" (AIIB). Geographically, as the Euro exchange rate continued to decline due to the crisis, it created the opportunities for more emerging markets firms to look for potential merger and acquisitions more than ever.

2.2 Chinese private enterprise's context

In terms of the functions of CBMA of private firms, first of all, we present the general definition on privately owned enterprise and briefly introduce the development of CBMA. Second, based on the facts from the book of "Market Over Mao", we can conclude that private enterprise plays an important role in recent year in Chinese market, especially comparing with state-owned enterprises. Furthermore, there is an overview that the third great institutional transformation during the past two decades in its private firms and relevant supportive policies.

2.2.1 General definition

A privately owned enterprise refers to a commercial enterprise that is owned by private investors, shareholders or owners, basically comparing to the concept of state-owned enterprise or state institution, such as publicly owned enterprises and government agencies. There are three forms of private owned business: 1) sole proprietorship, a business owned by one person. 2) Partnership, a business that two or more people operate for the common goal of making profit. 3) corporation is a limited liability or unlimited liability that has a separate legal personality from its members. In terms of foreign direct investment, private equity firms are now accounting for more than a third of all cross-border acquisitions and are increasingly vying for opportunities with multinationals. They have shorter investment horizons anchored to early exit strategies and tight financial goals. For more details, see the table 3 below：

Table 3 The Structure of Chinese Private firms

Enterprise type	Asset ownership	Minmum capital Requirement	Tax status	Liability	Law

Private sole proprietorship enterprise	Owned solely by one natural person	N.A.	Individual	Unlimited	Provisional Regulations on Private enterprise(1998) Partnership enterprises(2006)
Private partnership enterprise	Shares are owned by two or more natural person	N.A.	Individual	Unlimited	Provisional Regulations on Private Enterprises(1998) Partnership Enterprises(2006)
Private limited liability company	Ownership based on capital contributions	RMB30,000 RMB100,000 (individual)	Corporation	Limited to respective capital contributions	Provisional Regulations on Private Enterprises(1998) Company Law (2006)
Private shareholding limited company	Ownership based on shareholdings	RMB 5 Million	Corporation	Limited to respective share holdings	Company Law(2006)
Individual business	Owned solely by one natural person	N.A.	Individual	Unlimited	Provisions on Individual Commercial Business(1987,revised 2011)

N.A.= not applicable

Source: State Council (2000, 2006, 2011); National Bureau of Statistics of China(2001a)

2.2.2 Market over Mao

Nowadays in China, there is a specific trend of thought that private companies are going to driving China's growth. The conventional wisdom still holds to the idea that state-owned enterprises dominate the economy and private firms are starving for credits and central government exerts a substantial influence. However, there exists a surprising overturn that the industrial output from state-owned enterprises is only about 25%, a big drop from more than 75% in 1978. "State capitalism is dated and wrong" said Nicholas Lardy, the writer of MARKETS OVER MAO: The Rise of Private Business in China, the researcher of Peterson Institute for International Economics. He also demonstrated his central thesis: "Private firms have become the main source of economic growth, the sole source of increasing employment and the major contributor to China's growing and now large role as a global trader"

It is true that some sectors of state-owned enterprises ranging from tobacco manufacture to oil-extraction are still the major player in China, but we have to notice that other industries like general-purpose machinery are controlled by private firms and half of retail sales are occupied by four-five retailers. Furthermore, in the industry of manufacture, the case of global direct investment in private enterprise has obviously increased, as well as the trading volume. From a geographical perspective, it almost matches the cases from other emerging markets such as Southeast Asia, Africa and Latin America.

The purpose of this study is to fill a gap in the literature concerning the context of China's private enterprises and companies, to empirically determine whether merger and acquisitions conducted by Chinese private firms from 2008 to 2014 have increased these companies' financial performance, as well as to analyze the determinant factors of successful outcomes.

2.2.3 The third institutional transformation

This is a good time for private enterprise as the third great institutional transformation of the reform period is currently undergoing in China. It is as profound as the past replacement with responsibility system in 1980s and the emergence of ownership from local economy. Since opening up more areas (sectors) for private investment by joining in the World Trade Organization (WTO) in 2001, even though the government was asked to perform further new steps in its liberalization programs and adjustments in its regulatory framework (Ross, Yang and Xiaolu Wang, 1998), the third transformation led to the emergence of the private sector as the main focus in economic growth. It concluded the two main reasons explaining this overwhelming growth:1) the diminishing of the “red hat”, the resource controlled and occupied by the government and collective entities has effectively declined in recent years. 2) private enterprises have been increasingly using resources more effectively and grown more rapidly than state-owned enterprises. It is an important role in the more efficient use in social funds and private enterprises are a new source for achieving new growth after a slowdown during and immediately after the financial crisis felt elsewhere in East Asia.

2.2.4 Limitations

However, the large state-owned enterprises (SOEs) have dominated production and commercial activities for decades and there is still discrimination against smaller and private enterprises in sectors such as business registration, taxation and, in particular, the right to engage in foreign trade. Moreover, the perception from the public about the private sector has not yet changed comparing to the economic reality reflected in the official statistics. Thus, it is necessary to allow for the participation of private firms in the promising development of China, especially including its foreign trade after the financial crisis of 2008, so that it may reach its full potential.

2.2.5 Policy

The reform of state policy from the government since the financial crisis has been inclined to encouraging private sector development. Within this context, a large number of small and medium size SOEs are currently being restructured based on market conditions in which private firms are allowed to play an indispensable role(Ross, Yang and Xiaolu Wang,1998). This is proceeding so rapidly in some areas that it is called the ‘quiet revolution’. Assistance in the development of small firms including private enterprises has been asked from state commercial banks by introducing flexible lending interest rates. From the beginning of 1999, some private enterprises were granted licenses to conduct foreign trade. More and more sectors such as financial services have been opened to foreign competition.

2.3 The current situation of Chinese enterprise’s Cross-Border M&A

Before we pay attention to the private sector in operating CBMA and its determinants in the process of dealing oversea business, it is necessary to figure out the general background about enterprises from China and their development in oversea merger and acquisitions. “The outbound M&A market flourished from 2004 through 2014”, Chinese companies seem to be enjoying a golden age of deal making, with deal value growing at a compound annual rate of as much as 35%, and deal volume expanding at a compound annual rate of 9.5%. In 2014 alone, Chinese companies made 154 outbound M&A deals, with a total value of $26.1 billion(BCG analysis, 2015).

2.3.1 What is driving China’s cross-border M&A

The factors of internal and external developments have contributed to produce the growth in Cross-border M&A. As a matter of fact in China, a rising private sector and relatively looser financial policies have stimulated enterprises to against their foreign competitors and seek overseas expansion via CBMA. An increasing number of foreign sellers in advanced markets have come to seek the advantages of working with Chinese acquirers since, globally, China has emerged as a leading international economic power. Furthermore, the Euro zone debt crisis has presented Chinese acquirers with a prime opportunity to acquire European enterprises at bargain prices. The slowing of the European economy in the wake of the global financial crisis has produced an attractive external-investment environment for restarted economic growth and relatively low asset valuations（BCG analysis, 2015）.

Chinese government has been encouraging cross-border M&A since the outbreak of the global financial crisis in 2008, which is good news for companies that need this expertise and are willing to develop it. President Xi Jinping said at the 2014 APEC leaders' summit that China's cross-border investment will nearly triple, to $1.25 trillion, over the subsequent decade.

2.3.2 The motivations are changing

The shifting is undergoing with focus and the intent of cross-border M&A, as China continues to internationalize. On the reveals from BCG study, only 20% of CBMA deals made during the past five years had the goals of acquiring strategic resources, while roughly 75% were aimed at accessing technology, brands and market share. Originally, most of China's CBMA deals were state-owned enterprises seeking resources. Today, however, more and more private-sector decision makers are looking to gain market share and to enhance their core competitiveness. Chinese enterprises are engaging in CBMA to access new profit pools, capture new markets, and having ambitions of becoming globally competitive leaders. Furthermore, this is a way to obtain cutting-edge technology and brand, as well as management experience in overseas markets.

Nevertheless, the relatively low completion rate has remained more or less constant. These developments suggest that Chinese enterprises in many industries urgently need to improve their skills to better address the challenges of globalization and achieve more successful deal results. Due diligence and PMI (Post Management Integrate) is needed as well as absorbing the experience they learned from previous deals.

2.4 The related Cross-border M&A theories

A large variety of studies has been done in the context of emerging market on the motives (Luo & Tung, 2007), synergies theory and the role of the institutions as well as post-management performance. Over the years, the focus moved to the resource-based view and the organizational learning perspective (Brkema & Vermeulen, 1998) and institutional and socio cultural-based theories, which analyze the impact from cultural distance, regulatory differences and institutional contingencies on corporate restructuring events, are increasingly numerous nowadays (Dikova, Sahib & Witteloostuijn, 2010; Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010; Lin, Peng, Yang, & Sun, 2009; Nadolska & Barkema, 2007; Reus & Lamont, 2009).

Speaking of the researches toward the situation from China, due to its insufficient and developing economic data and structure, it is still infrequent and conducted in developed countries. Lin et al. (2009) analyzed statistics and cases focused in China and India; Abybar and Ficici (2009) studied value creation in acquisitions by multinational companies from various emerging countries. Nevertheless, an increasing number of researches thrive because of more and more cross-border deals have been done since 2001, the year China joined in WTO (World Trade Organization) and 2008, the year world economy was suffering from the financial crisis. Furthermore, the perspective of the industry is also being researched (Jie Wu, Nitin Pangarkar,2012).

Following the researches done by forerunners and scholars, we define our purpose of this study as to fill the gap in the literature regarding the role of the Chinese private enterprises in cross-border Merger and acquisition. Concerning this matter there exist specific perspectives or theories that need to be described:

2.4.1 Synergy theory

First of all, in the context of this study, following on Jensen and Ruback's (1983) idea that the value created by an acquisition will affect positively the performance of an enterprise, as synergy effects will translate into cost and revenue improvements. Once reported and analyzed, it will lead to positive stock price movements, and, finally, in returns to the stockholder.

The fact is that there is no awareness yet for basic consensus in M&A literature about its effects on value creation for a company that adopts related operations as a growth strategy.

Those articles in Cross-Border M&A literature which find positive associations in synergy theory are normally based on the concept of synergy being obtained via a parenting advantage. The stock price of acquired companies simply reflected its increase and appreciation after deals(Healy, Palepu, & Ruback, 1992). On the other hand, Capron and Pistre (2002) argue that acquisitions are dependable for acquirer's stockholders, for example, the return could be positive or negative for the acquirer but there is only value creation when acquirers succeed in creating synergies. With regards to the cross-border M&As, there is a view from Hagendorff and Voss (2010) who state that the market of imperfections, especially the "informational" assets they expand, is the target they want to take advantage of, while the geographic diversity produced by the international strategy bears value for investors.

In terms of emerging markets, the international M&A allows enterprises to gain access to key strategic resources that might not be available in their domestic markets, thus improving their overall competitiveness (Luo& Tung, 2007). Additionally, the possibility of transferring of the status and reputation from the acquired to the acquirer company helps the latter to overcome the typical liability of foreignness and newness problems that it faces in global markets (Eden & Miller, 2004).

2.4.2 Agency theory

Contrasting with the synergy theory we just described and its positive effect, some researchers think CBMA do not generate value for the acquiring business, as reported in Datta and Puia (1995), a study integrating transaction cost, Resource-based View, and Cultural Difference theories, consistent with findings of studies from the U.S on national M&A.

Jensen and Ruback (1983) and Andrade et al (2001) presented the idea that M&A could not create values for the shareholders of bidders, and even destroy the wealth of shareholders in most cases. Agency theory is the one that scholars usually applied to their study and support the view of explaining these findings. The agency problem between the executives(agents) and stockholders (principals), denominated managerialism, based on the fact that agency motive become the main factor for promoting M&A activities in listed companies because of its widely dispersed ownership structure. In this mode, managers, as rational persons in business, hold more interest in certain types of acquisition and if there is any personal benefit in the process of acquisition, they would choose to sacrifice the interest of shareholders. Considering the special institutional background of China, motives and behaviors of listed firms within M&A deals are marked as one of Chinese cross-border M&A characteristics.

2.4.3 The fact of Cultural difference

Cultural differences can also impede effective post-management-integration (PMI). The drawbacks from the cultural differences can leave the Chinese enterprise inadequately prepared for the post-transaction phase. Generally, the experienced acquirers are careful to identify key talent during the due diligence, while Chinese acquirers level of due diligence to a handful managers who are always doing the multi-tasks on other acquisition deals as well. A more experienced acquirer might assemble a team of 50 or more executives with global experience to lead the acquired company during the crucial first few months following the acquisition, while Chinese acquirers might set up a small team of senior executives to handle the management handover, expecting them to do the work of the dozens of managers they have replaced.

Another perspective of impeding in terms of cultural difference can be reflected by the absence of a coherent, detailed plan for managing people. Unionized workforces are an obviously lacking experience by the Chinese managers, they sometimes neglect to form relationship and maintain communications with employee representatives. It always turns out employees may feel slighted and believe that their corporate culture is under threat. Furthermore, other imperfection includes a failure to adequately define an overseas corporate governance structure that would enable the acquirer to effectively handle its acquisition. Companies in the developed world, by contrast, are often highly centralized, with headquarters managing the sales, marketing, R&D, and planning functions, while the subsidiaries handle only manufacturing (BCG analysis, 2015).

2.4.4 Hubris Hypothesis

Roll (1986) raised a hypothesis named ”Hubris Hypothesis” after Mueller that there is a trend that managers often overstate or overestimate their capability in steering deals. In the process of merger and acquisitions, due to their being overly optimistic on the post management integration (PMI), the acquirers usually decided to operate their acquisition with a more expensive price on a large scale in the capital market. However, as a result, they failed to well-manage the target firms and therefore transferred wealth to the acquired’ shareholders. It turns out that as several news of acquisition are being spread, the acquirer’s stock price fell instead. Chinese listed firms are facing the same problems nowadays.

But, this Hubris hypothesis has its limitations. One of them is that this hypothesis is based on the Strong Form of Efficiency Market (SFEM), which, in reality, is hard to exist in capital market. Therefore, this hubris hypothesis can explain the phenomenon we mentioned above incompletely.

2.5 The Cross-border Merger and Acquisition Determinants

Based on the theories mentioned above, several empirical studies have been conducted to analyze which factors affect the cross-border merger and acquisition of enterprise in general. Hence, the factors suggested by the literature are: synergy factor, learning factor, the formal institutional environment factor, cultural proximity, company size and operational cost.

2.5.1 The Synergy factor

The idea of synergy was introduced in literature to explain the additional value created in M&A (Ansoff, 1965). Following with this perspective, synergy is widely defined as “the increase in performance of the combined enterprise over what the two enterprises are already expected or required to accomplish as independent firms” (Sirower, 1997). The additional value, also known as synergy gain, can be the result of a variety of factors, ranging from the increase in operational efficiency, market power increase, creating new competitiveness from the resource-integrated and finance at lower costs due to the increase from the scale and scope of the company.

In recent decades with the studies of finance, the word “synergy” has been researched for many years (Gruca et al. , 1997) until it affects M&A performance studies (Zollo and Meier, 2008). These studies were engaged in performance metrics (e.g. Zollo and Meier, 2008), performance drivers in M&A (Epstein, 2005), frameworks for measuring the progress of

M&A integration (Colombo et al. , 2007) or the selection of measurement approaches (Gates and Very, 2003).

In the process of dealing acquisitions worldwide, the synergy factor happened in Chinese firms' CBMA can be reflected by three main components: necessary resource-support guaranteed, preventing competitors' interference and most importantly, controlling and operating the post-management integration effectively. Most of CBMA problems happened with Chinese listed firms, especially private ones, are connected with PMI (post-management integration) process due to the four directions: 1) Detailed and specific due diligence before the acquisition goes 2) Unfamiliar or disregarded foreign laws and regulations 3) Cultural conflicts 4) Lack of experience in integrating teams. Ambitious Chinese firms showed their capability of going abroad and making deals with sufficient resources and effective execution in this process, however, challenges are still needed to be confronted in the future.

2.5.2 The learning factor

Experience with merger and acquisitions makes companies develop practices that enable them to handle the process more effectively (Nikandrou & Papalexandris, 2007).

It is a very complicated process of choosing the appropriate company target and the implementation of an M&A agreement. M&A often leads to negative comments because of its unsatisfactory outcomes and being a one-time event. Companies do not learn from this experience process or, at least, any learning or knowledge acquired is not shared and no improvement occurs (Very and Schweiger, 2001).

The previous M&A experience creates knowledge, which helps companies in the implementation phase and thus positively contributes to the performance of the M&A process. (Stylianou et al.,1996). It is their own acquisitions that acquirers should considerably study and learn. There is a better interpretation for this learning process, i.e. a 'lessons learned' advantage process.

Popli & Sinha (2014) state that there is another interpretation concerning the learning factor of experience, the experience gained by emerging multinational enterprises through their alliance from OEM, ODM, or OBMs (Original Equipment/Design/Brand Manufacturing) business arrangement is a key factor for emerging market firms dealing with cross-border M&A. In this process, Outsourced business activities in China offered opportunity for development of new competence areas and strategic resources, which eventually propelled the emerging firms higher up the value chain.

The experience of their own managers and foreigners coming from such corporate development activities pass to the parent firm as an indispensable, firm-specific advantage and it helps in resolving deadlock and facilitating eventual deal completion in future Cross-Border M&As (Very; and Schweiger , 2001).

2.5.3 The formal institutional environment factor

There is an important view of domestic institutional environment effects on individual and organizational behavior in international business research (Peng, Wang, & Jiang, 2008). Even though scholars have created concepts and metrics for the effects of a country by analyzing the characteristics of local institutional environment and try to explain variations among different nations in terms of organizational behavior, it still exists a gap of relationship between emerging markets enterprise's acquiring behavior and local institutional environment. Most of related researches in emerging markets' oversea M&A define institutional environment as a control variable, as a result, this is going to be a significant factor in our further research in hypothesis analyzing and having even impact on future development of Cross-border M&A concerning Chinese private enterprises.

Generally speaking, institutional frameworks are used as a basis for exploring international effects and they usually evolve within this limits of socioeconomic environment and become established as a result of social interactions that involve different aspects of a nation. As a matter of fact, they eventually define the social context where organizations operate as well as the behavior model they integrate (Scott, 1995).

There are two other important factors connected to Chinese private enterprises, one of them is institutional risk research concerning the political institutions, the related research presents a detailed description of democratization on the impact of Chinese listed firms especially state-owned enterprises; the second one is the powerful trade union, which formed from an internal labor market can possibly damage the enterprise’s management efficiency and may reduce the shareholders’ profit and control.

Political institutions, as the core of the institutional system, become the focus of institutional risk research, Feiqiong Chen, Yangmin & Xu, (2012**)** apply the degree of democratization as the measurement standard of the host country’s political institutions. Li and Resnick (2003) used eliminated property rights protection democratization degree as the explanatory variable and found that it enhances institutional risk and impedes the inflows of FDI. However, Asiedu and Lien (2010) found that democratization contributes to reducing institutional risk after controlling for other institutional conditions in the host country, which encourages more FDI to flow in.

Another point of view, the trade union also has different opinions in institutional perspective. Haggard (1990) argued that countries with authoritarian regimes may attract those investors whose home countries face high pressure for labor rights protection. Laurence and Mauro (2009) found that the stronger the power of the trade union, the more inclined the corporate governance system of target enterprises is to protect the interests of employees, which is unfavorable to asset restructuring and resource reorganization after M&A. However, in the process of acquiring the foreign companies, the trade union become an adverse factor for business because employee obligations and shareholder rights are emphasized unilaterally, which leads to a low level of interests enjoyed by employees of Chinese enterprises.

Furthermore, due to the close relationship between state-owned enterprises and advantage from the motherland institution, there have been a lot of thought-provoking cases involving losses concerning the worries and constrains by the reaction of the host country to the acquisition. The state-owned enterprises' cross-border M&A is supported by the Chinese government and it is likely to cause the host country political concerns; at the same time, these M&A are also vulnerable to being prosecuted for unfair competition action, and the host country may refuse the acquisition application, using excuses such as national security or protecting local enterprises. (Antkiewicz and Whalley 2007; Li and Xia 2008)

2.5.4 Cultural proximity

Cultural proximity could be regarded as one of informal institutional factors determining movements of CBMA and leading to the complexity of international business and social networks. On the one hand, it can help companies to reduce the transaction costs, especially business opportunity search costs. On the other hand, countries or companies with lower cultural proximity make international business tough to deal with. We got two reasons to explain this fact that, first of all, countries have their own cultural identities. People in different countries often speak different languages and have different religions, all of which increase the contracting costs associated with integrating two firms across borders (Ahern, Daminelli, and Fracassi 2012). Second, both cultural differences and geographic distance should decrease the likelihood that two firms in different countries choose to merge.

Stahl and Voigt (2008) stated that a company's ability to create value by exploiting intangible assets in distant cultures is determined by its capacity to overcome or use this distance. Synergy and learning stimulus can be affected by the cultural distance. Conflicts between the resources that arise from ambiguity and cultural shock will be produced, since the cultural proximity levels decline, cultural identities and physical distance, with values, management styles and practice tend to vary significantly (Morosine, Shane, & Singh, 1998).

However, using the samples of more than 400 cross-border mergers and acquisitions during the 1991~2001 period, Chakrabarti (2005) find that "contrary to general perception, cross-border acquisitions perform better in the long-term if the acquirer and target come from countries that are culturally more disparate".

In our research, the emerging country of China, which we mainly focused, on the targeted developed countries with their deals of short-term outcomes (success or failure) and the associated wealth effects of such cross-border M&A efforts might be importantly depend on the level of cultural harmony or conflict (proximity) between the two nations in which the acquirer and the target are located.

2.5.5 Company/ Firm Size

In the emerging market context, firms having large size enjoy cost-based advantages on the factor of low-cost of production and economies of scale as well as scope, furthermore, larger size firms have advantages of information symmetry with their resource and experience. These firms look for differentiation-based advantages to complement their existing cost-base advantages (Elango & Pattnaik, 2007). It is also supported by Luo and Tung (2007) that with the Cross-border M&As, large firms try to secure critical resources such as technological capabilities and brands in order to preempt their rivals.

Based on the researches mentioned above, we suggest that large firms can overcome such costs and also resolve conflicts due to differences in managerial philosophies, corporate and/or country culture. Experience of large scale operations can also help them to manage the synchronization of foreign subsidiaries with corporate headquarters back home. Furthermore, in the pursuit of expansion, large firms are more efficient in utilizing their managerial services, on account of "an increased division of managerial labor" and employment of "more capital-using methods of production" (Penrose, 1959).

Thus, we argue that firms with large size can afford to internationalization owing their capabilities to manage risks better than others.

2.5.6 Operational cost increase

It is also called efficiency enhancement. Foreign investors seek the opportunities that lower the cost and possible economy of scale opportunities for their production and operation activities, especially in relation to manufacturing, Labor, operation, administrative and distribution costs (Brooks & Hill, 2004). We are talking about operational cost in various aspects when investors from the emerging market consider the ratio of invest & cost. Increases in production costs in the home country, caused by rapid economic expansion and scarcity of resources and inputs, drive firms to invest in other countries. In particular, a rise in labor costs is a common factor in driving firms to invest overseas. Appreciation of the real exchange rate could also cause firms to relocate their production plants to other countries where the real exchange rate is cheaper, to maintain their international competitiveness. This is particularly true for a firm that engages in export-oriented activities.

3. EMPIRICAL STUDY: HYPOTHESIS AND METHODOLOGY

This chapter involves hypotheses related to the four main determinants that are mentioned in literature review and described in relevant materials of Chinese private enterprise's cross-border M&A and now we present the methodology with OLS multiple linear regression which we use to test the statistics from 2008 to 2014, before presenting the models we describe data and samples.

3.1 Hypotheses

Based on the existing cross-border M&A literature, besides the traditional question of synergy, we divide the facts that impact M&A outcomes in three main directions:

1) Firm- and industry-specific facts, such as experience of previous M&A acquisitions as a multinational company, internationalization strategy and marketing.
2) Transaction-specific factors, such as the process of post-management of acquisitions and the relationship between companies
3) Institutional context-specific facts: such as growth, institutions and culture. (Shimizu et al., 2004).

According to the theories and studies we mentioned in literature review including Post-Merger-Integration process, synergy measurement and the metrics of financial performance, etc. that are related to the synergy factor, we also find out the cross-border M&A, especially Chinese private enterprise, having several distinctive aspects that we need to focus on for constructing our hypothesis.

First, from the book of MARKET OVER MAO， private enterprise in currently China has grown, thrived and increasingly occupied a substantially big part of economic growth, in particular FDI. Comparing deals operating by SOEs based on the source and its background of the government, the private ones are more flexible and acceptable by target firms outside of their country. As a matter of fact, the synergy effect on financial performance may result better if implemented by private enterprises in China concerning cross-border M&A.

Second, one of striking features of the fast growing Chinese outward FDI is that domestic firms, mostly private ones, have started at a great pace to acquire well-known firms worldwide as a new form of transnational investment. They are so urgent to be engaged in strategic-asset-seek FDI so as to catch up with the global giants (Deng 2009).However, according to the Mckinsey's research, before the 2008, 67% of China's cross-border M&A have not been successful. One of important reasons is post-merger integration risk. Chen & Wang (2012) stated that conclusion that stronger external resource complementarities and stronger internal resource similarity between the acquirer and target firms will make integration in cross-border M&A less risky. We further assume the Chinese private enterprise have better performance based on this point of view, this is going to be tested in the following hypothesis.

Third, the resource of value in international M&A lies in the ability to conduct a "reverse internalization", which means acquiring competencies and resource in host countries in order to use them afterwards in the home market. Speaking of private firms in China, in the view of Adriana, Maria & Sheng (2012) , there is a potential possibility that private entity would like to use the resource and technology they acquired into Chinese market.

Therefore, the synergy hypothesis that characterizes this study assumes the idea that executives make decisions with the purpose of increasing financial performance based on the creation of synergy. Private firms in China have more synergy effectiveness, less integration risk in post-merger process and, moreover, they have cognitive ability to create synergies.

So we build our first hypothesis:

H1: Cross-border merger and acquisitions increase the financial performance of acquiring firms, especially private ones in China.

Acquiring firms gain experience from the past events, activities and capabilities. (Zahra and George 2002) and they should deliberately study and learn from their own acquisitions, as well as acquisitions of other companies studied by the researcher (Hit et al.2001). Most theories state that for , minimizing the integration problems after the acquisition, there is a need to approach the effects of a company's past experience on a new acquisition move, since this is necessary for both individual and organizational experience.

This chapter of constructing hypothesis is based on the background of emerging market, as the example of Chinese private enterprises. Besides showing the significance of the experience, we posit two different points of view to establish the hypothesis followed.

We are going to focus on the previous experience that impacts the emerging market in CBMA: for a long period of time, the acquirers from emerging countries and their alliance incorporated with each other and their experience from Original Equipment/Design/Brand Manufacture became an indispensable factor in worldwide M&A. As a matter of fact, like we presented in literature, outsourced business activities in China offered opportunities for the development of new competence areas and strategic resources. According to the advantages that emerging market have, including private enterprises, the experience from working with their alliance form a possibility to explore the options of becoming a full service provider (Morck, Yeung &Zhao, 2008).

Instead of simply locking in supplies of key resource, Chinese companies are engaging in cross-border M&A to gain market share and enhance their core capabilities and tap the skills of globally competitive leaders. Today, furthermore, a growing number of private-sector deal makers are looking for obtain cutting-edge technology as well as brand and management experience in overseas market.

Mostly, Chinese deal makers fundamentally have obtained the advantages presented. However, according to the survey of BCG concerning Chinese firms that entered hunting ground, challenges arise, after a short period of time, these problems appeared in the integration process because of their insufficient preparation in PMI plans: the acquirer and target are unable to align on cost and revenue synergies and share best practice, reporting lines are unclear and inconsistent and poorly defined roles and responsibilities often but paralyze the combined organization.

Due to the description and analysis we stated, this relation would have an initially up or increase, and later, after taking use of those advantages, issues between acquirer and target would reach a “saturation” point, then it begins to drop, which could explain the lack of consensus on their effect on post-acquisition performance.

Based on the theory developed above, we build the second hypothesis:

H2: There is an initially up and then following a drop between cross-border acquisition experience and financial performance of the acquiring company.

From the literature review, we can learn the institution as a factor from two different perspectives to go deeper with acquisition from emerging market to developed countries: the democratization concerning the institutional risks and another one of important determinants: the financial market size.

In this chapter point of view that constructing the hypothesis with the examples of Chinese private enterprises engaged in cross-border M&A, we have to, first, admit the deficiency that they encountered in the process of cross-border M&A at the beginning of post-merger integration, but, as a result, the increasing number of deals of cross-border M&A from emerging markets, in particular the Chinese one have happened with developed countries attracting our attention. Based on these facts, several advantages that we concluded can contribute to establishing the hypothesis.

Democratization and cross-border M&A may appear to have an endogenous relationship: the degree of democratization in host country affects the flows of CBMA, and alternatively, the CBMA or FDI will influence the democratization process as well. To certain extent, although with a lack of experience and having distinctive characteristics, the private enterprise from China still can be regarded as one of valuable and initial samples of multinational enterprises in developed countries due to its recent worldwide success. Specifically, they may be confronted by some institutional uncertainties, however, the bonus they obtained from developed systems also support them for further CBMA deals. Olson (1993) indicated that in a well-established democratic country, independent judiciaries and electoral challenges help to guarantee property rights, which contributes to reducing institutional risk and promotes the inflows of FDI.

Furthermore, the outcome is confirmed in various empirical studies that focus on emerging market acquirers' performance analysis. Chernykh et al. (2010) show that the abnormal return for targets acquired by emerging market firms is on average positive, the magnitude more than doubling when the target is from a developed market.

Aybar and Ficici (2009) find for their sample of 422 emerging market firm acquisitions that the market reaction to acquisitions of targets in developed markets is positive, while it is negative to acquisitions in other emerging market countries.

Financial market size is another important determinant of cross-border M&A from emerging economics. There are increasingly researches concentrated on financial market size, as the financial wealth of the country is positively associated with the ability of emerging market firms to create firm-specific advantages, which have been identified as necessary to international acquisitions. Dunning, (1995), Kyrkilis & Pantelidis (2003), Sun, Peng, Ren, & Yan (2012) and Duanmu (2012) found that financial market size measured as host country's market capitalization is an important attraction for Chinese OFDI. According to these researches, it is expected that the size of the financial market in a host nation would positively affect the number of CBMAs. Generally understanding, developed economics such as U.S., U.K., and Europe are the priorities that Chinese private enterprises have as targets, because the developed and large financial markets contribute to more demand in the input and output markets that creates more purchasing potential for investors to identify opportunities and possessing the resources to explore those chances (Globerma & n & Shapiro, 2005).

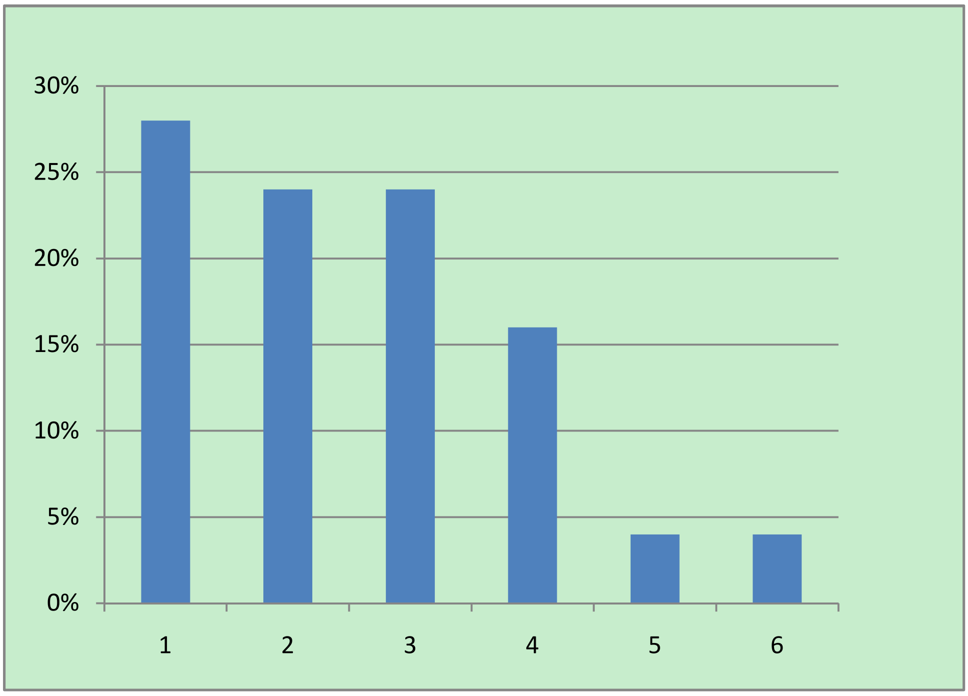
H3: When operating a Cross-border M&A, the higher financial performance will be generated in a country with more developed institutions than in one where targets are located in a less developed institutional environment.

In addition to the impact of the target country, each cross-border acquisition is related to cultural differences or distance between the emerging parties. Stahl and Voigt (2008) argue that a company's ability to create value by exploiting intangible assets in distant cultures is determined by its capacity to overcome and taking use of this distance, since cultural distance affects the synergy and learning stimulus.

Regarding to the concept of cultural distance, there exists several opinions towards to it: Stulz and Williamson (2003) state that variations in investor right protection across countries is to a great extent attributable to differences in culture, especially in terms of the main religion and language. However, considering the dimension of time period, Chakrabarti et al. (2005), using a sample of more than 400 cross-border mergers and acquisitions during the 1991-2000 period, find that "contrary to general perception" cross-border acquisitions perform better in the long-run if the acquirer and the target come from culturally more different countries. While Fang, Feng, Bin & Chen, (2008) support the idea that short-run outcomes made by developing countries on targeted developed countries with CBMA, and long-run post-event performance as well, might significantly depend on the level of cultural harmony or conflict between the two nations in which the acquirer and target are located.

Speaking of relationship between cultural distance and China's CBMA, we are mostly focusing on the fact that the situations of Chinese international acquisitions. Key challenges with cultural clash, the research from the BCG find that the difference in culture can trouble and cause Chinese buyers to feel uncertain about whether to proceed with PMI. Though some choose to forge ahead, it is hard to achieve the expected results.(see Table 4 & 5)

Table 4 Cultural differences loom a huge wrinkle that hesitates Chinese Buyers from PMI



Source: BCG survey among Chinese buyer 2014(n=33)

1=Cultural or management gap

2=Lack of experienced integration team and resources

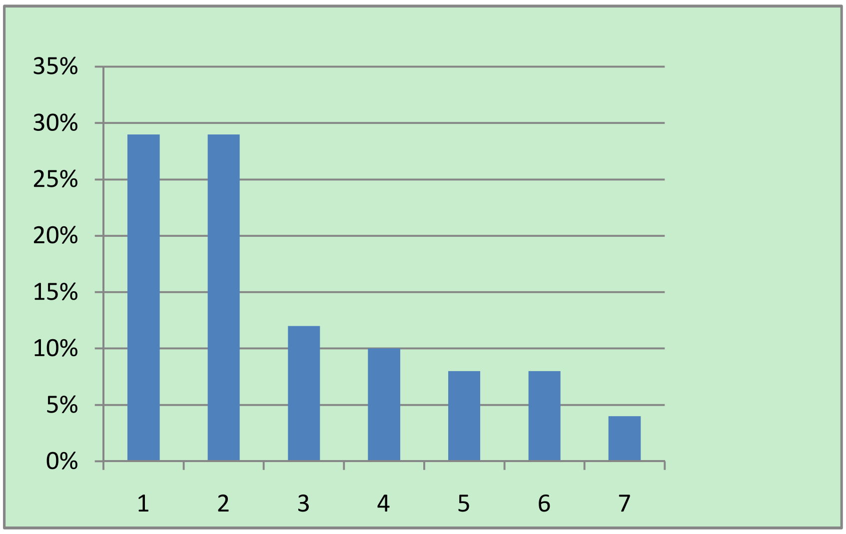
3=Target has superior management capability

4=Lack of integration expertise

5=the target doesn't want to be integrated

6=Others

Table 5 Chinese companies found PMI difficult mainly due to cultural difference and lack of management experience



Source: BCG China Outbound M&A Survey 2014, N=33

1=Cultural difference

2=Lack of multinational Mgmt experience

3=Misalignment of management structure

4=PMI cost very high

5=Unable to implement the planned changes

6=Unable to achieve the planned M&A goals

7=Incapable of developing effective integration plan

On the one hand, it is passive for a Chinese company due to lack of the integrated human resource that is proficient with international regulations, laws and the knowledge of finance and management. On the other hand, the traditional and aging experience from the Chinese market is not appropriate for overseas integrated management, which, if unsuitably handled, would provoke the conflict of races, religions and society.

However, when target firms are located in the countries with low and medium levels of cultural diversity or harmony, such as BRIC and South-East Asia, the international acquisitions from China would be positively affected with potential value of intangible assets, resource exchange and learning.
Therefore, we construct the hypothesis that:

H4: In certain time periods, cross-border M&As characterized by low and medium level of cultural diversity or harmony tends to generate a higher financial performance than the ones with higher levels.

3.2 Methodology

3.2.1 Sample

The sample used in this study was taken from the PEDATA which is made by the group of Zero2IPO, one famous private Investment & Consultant institution in China. It is available in its website through an application downloaded with sufficient payment including the affairs and statistics mainly from Chinese markets, state-owned or private ones. According to the definition and the motivation as stated in the previous section 2.2, only private companies operating CBMA in China were selected as key data and it contains the detailed financial information, namely balance sheets and income statement accounts, as well as some introductive information for the period of 2008-2014, considering the potential development and to answer the question of this study.

These samples proposed filter only for transactions where the percentage of the stock held by acquirer after the transaction was higher than 50%, and selected by non-state-owned enterprise and most importantly, cross-border M&A. As a result, according to the database, specifically, we obtained a total of 60 (nearly 25% in all) negotiations since 2008 to 2014 after making some adjustments and eliminating outliers due to the limited information from certain public companies that were unwilling to publish their financial data, as well as the insufficient amount of private firms going abroad. Moreover, 157 more observations of domestic M&As have been conducted from the same database for testing the further hypothesis in comparing with previous 60 cross-border M&As, therefore, forming a total sample with 217 observations.

Cross-border M&A data showed a concentration of operations from perspective of their nationality with 20 of Asia (32.7%) into 60, 10 of Europe(16.3%),10 of U.S.(18.08%), 15 of other developed countries(24.5%) including 7 of Australian cases and finally, 5 of Africa and South America(8%). Furthermore, speaking of industry, there is a concentration in several industries such as Manufacturing, Finance, Mining and Agriculture among the 13 industries we managed to distinguish with private firms or enterprises, showing with specific percentage: Manufacturing(20.7%), Mining (15.1%), Real Estate(10.3%), Finance (9.4%), Automobile (6.9%), IT (5.2%), Transportation (5.2%),Consulting(3.4%), Retail(1.7%), and Hotels(1.7%). For more details on the cross-border M&A sample, see table 7. Based on the sample selected, we can state that the private enterprises in China from 2008 to 2014 can be relatively reflected by the data collected.

Alternatively, the samples used in prior studies of Cross-border M&A using relatively similar methods are presented in Table 6 below. In comparison, it is apparent that the sample used in our study including exclusive public private enterprises instead of public companies containing both SOEs and no-SOEs. Additionally, this sample also corresponds to a more recent period of analysis, which allows us to further explore the topic and anticipate the future relevant and potential trends of the Chinese market.

Table 6: Author and sample used in previous study of Cross-border M&A

Study	Sample	Period	Source	Notes
ADRIANA BRUSCATO BORTOLUZZO(2012)	67 negotiations	1994-2008	Thomson Reuters' M&A Database.	Brazilian public companies
Our research	60 observations	2008-2014	PEDATA Database	Chinese public private companies

Table 7 Number of Cross-border M&A over time, by target's country and industry

Period	Numbers of CBMA	Target's country(or area)	Numbers of CBMA	Target's industry	Numbers Of CBMA
2008-2009	2	Hongkong	13	Manufacturing	10
2009-2010	5	U.S.	10	Mining	8
2010-2011	4	Australia	7	Finance / Automobile	7
2011-2012	6	Germany Canada	3	Agriculture	6
2012-2013	11	new Zealand Singapore Libreville	2	Gas	5

			Kazakhstan France				
2013-2014	23		Belgium TheBritish Virgin Islands United Kingdom Israel Ukraine Thailand Taiwan Saudi Arabia Sweden Peru Cayman Islands Czech Denmark Poland	1		Building& Real estate& IT& Consulting	4
2014-2015	9					Transportation	1

3.2.2 Data

3.2.2.1 Dependent Variables: ΔROA and ΔROIC

One of the most important factors that need to be analyzed is profitability, which is also in the proposed theoretic model and literature review, creating value in cross-border M&As would be our first priority to further analyze private enterprise in China as the response variable of profit. Based on the two fundamental accounting variables: Operating ROA (return on assets) and operating ROIC (return on invested capital), both of which were calculated for a three-year time period, these variables that impact the operationalization of the model are directly affected by M&A events, whether through operational and management improvements or through a correct allocation of the company's resources (Zollo& Meier, 2008).

Before we introduce the operating ROA and operating ROIC, the original background of ROA and ROIC is needed to state:

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. Using its assets to generate earnings of how's efficient management going is presented by ROA. Calculated by dividing a company's annual earnings by its total assets, the formula for Return On Assets is:

$$ROA = Net\ Income / Total\ Assets$$

A calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments. In order to have a sense of how well a company is using its money to generate returns, we have to consider Return On Invested Capital. The formula is:

$$ROIC = (Net\ Income - Dividends) / Total\ Invested\ capital$$

The variable ΔROA and ΔROIC were created as post-merger financial performance proxies in order to measure variations in the metrics of return on assets and return on invested capital, respectively, calculated for the acquirer between year-1 and year+2 (year 0 means the acquisition was executed) , subtracting the group of companies in the same industry (Brush 1996), which is another 157 observations related. According to the formulas below:

$$\Delta ROA = (ROA_{i,t+2} - ROA_{c,t+2}) - (ROA_{i,t-1} - ROA_{c,t-1}) \quad \text{and}$$

$$\Delta ROIC = (ROIC_{i,t+2} - ROIC_{c,t+2}) - (ROIC_{i,t-1} - ROIC_{c,t-1})$$

Where ROAi, t+2 and ROAi,t-1 represent the return on assets of acquirer company "i" in year t+2 and t-1, respectively, and ROAc,t+2 and ROA c,t-1 represent average/mean return on assets for the rest of companies in the sample(for each ROA data we have 2 to 3 another same industry and of similar size observations for calculating) in year t+2 and t-1.

We corrected variables according to their similar samples' means, thus to control relatively macroeconomic and industry-related effects of the competitive environment, which simultaneously impact the performance of other companies in a same industry (Delong & Deyoung, 2007)

As we described in the definition and calculation above, the dependent variable operating ROIC(ΔROIC) is appropriate and necessary in the model to verify Hypothesis1, due to ROIC's calculation considers the value of the capital invested in the company, making it more sensitive to cases of acquisition as it considers the amount spent to buy the company. Meanwhile, to verify Hypothesis 2 to 4, we chose the variable operating ROA (ΔROA) as the response, since it reflects more specifically the impacts of acquisition on the company's operations as it is more directly affected by gains from synergies.

3.2.2.2 Independent variables

According to the findings outlined in the literature review chapter, to test the formulated hypotheses were used four major explanatory variables, and four control variables that might affect the dependent ones. We are going to use the following independent variables, classified in explanatory variables and control variables.

For Hypothesis 1 :
Profit

To verify the Hypothesis 1 of the model, we built with first explanatory variable of profit: Cross-border M&As, which was used by using a dummy indicator for the companies that conducted cross-border M&A in the sample. There is a calculation of profit, considering the increase/decrease between the year t+2 and year t-1 of the company (t means the year of acquisition was executed)

Formula: profit = profit (t+2) –profit (t-1)

For Hypothesis 2 to 4

The model for verifying Hypothesis 2 to 4 used four independent variables in order to measure the influence of the companies involved in a cross-border M&A on these performance: International experience (Inter Exp), Institutional Environment (Inst Env), Cultural Distance (Cult Dist) and Company size (Sales).

Experience

First of all, based on the article of Nadolska and Barkema (2007), the variable of experience in international M&A was conducted using the number of acquisitions that the Private companies in China completed the deals since 1992, the year when government literally opened their market and the year when the information is available in the database, when the announcement date of the deals was executed in a previous session.

Institutional Environment

The components of the Heritage Foundation's Economic Freedom Index will be used as proxies of a tool to reflect a country's market-supporting institutions. We chose the indices that best indicate the efficiency of a market: Business freedom, trade freedom, investment freedom, financial freedom and property rights and it is calculated by the mean of values obtained for five economic freedom indices in the target's country. In the end, a dummy variable of value one will be used that indicates whether the country was classified as one with a "developed institutional environment", setting up a number of 70 or above when the mean for indices was calculated.

Cultural Distance

Four cultural dimensions of a nation: power distance, individualism, masculinity and uncertainty avoidance were operationalized based on the Kogut and Singh's (1988) index as the factors of the variable of cultural distance. The measure of cultural distance is given by the arithmetic mean of differences between each cultural dimension in the acquirer's and the target's countries, then comparing and calculating it by the variance of each distribution associated with a particular cultural dimension. A dummy variable will be created again this time indicating whether the countries involved in the acquisition obtained a higher cultural distance level than the value of third quartile of the sample distribution.

3.2.2.3 Control variables

For Hypothesis 1

Company Size

As mentioned previously in section 2.5.5, size is considered an important determinant of Cross-border M&A. In accordance with the recent literature of CBMA, this variable can be measured as the logarithm of the company's market value, calculated by the value of its stocks multiplied by the number of stocks in circulation on the last day of latest year.

Formula: Size= Ln(company's market value)

Operational Cost Increase

Concerning the operational cost increase variable, prior studies are the section 2.5.6. We are going to conduct company's operational costs following percentage variation between years t+2 and t-1, with t as mentioned in the previous section.

Formula: Operational Cost Increase= Total Operational Cost(t+2) – Total Operational

Cost(t-1)

Sales Growth

The relationship between growth and CBMA, the percentage variation of the company's sales between t+2 and t-1 is used in our research, with t as the year when the acquisition was executed.

Formula: Sales Growth= Sales(t+2) – Sales(t-1)

For Hypothesis 2 to 4

Company Size (Sales)

As mentioned previously in section 2.5.5, size is considered an important determinant of Cross-border M&A. In accordance with the recent literature of CBMA, this variable can be measured as logarithm of acquirer's sales.

Company Size(Sales)= Ln(Sales) (t)

t= the year of execution

3.2.3 Data analysis

In order to characterize the determinants that might affect the Cross-border M&A and test our study's hypotheses, we used Ordinary Least Squares (OLS) model with two different samples. The first, is for verifying whether the companies that conducted cross-border M&As that created long-term value for their stockholders. The second, is to determine another possible determining factors of the CMBA-generated value.

For the first model to verify hypothesis 1, the OLS multiple linear regression model was made for the multivariate analyses, based on multiple regression analyses. In statistics, ordinary least squares(OLS), or linear least squares is a method for estimating the unknown parameters in a linear regression model, with the goal of minimizing the differences between the observed responses in some arbitrary dataset and the responses predicted by the linear approximation of the data. The resulting estimator can be expressed by a simple formula, especially in the case of a single regressor on the right-hand side.

The only difference of the OLS Model using between Hypothesis 1 and Hypothesis 2 3 & 4 is the number of the sample, which 217 samples organized in the Hypothesis 1 combining the 157 domestic M&A in China and rest of international ones and 60 international samples only for analysis in Hypothesis 2 to 4.

In order to verify Hypotheses 2 to 4, we used a Ordinary Least Squares(OLS) model with the sample of the 60 cases that conducted cross-border M&As in the analyzed period. To correct the model's selection bias, we chose to use Heckman's (1979) procedure.

Heckman's correction is conducted in two phases: At first, a probit model is created to evaluate the likelihood of a company to conduct an international acquisition according to certain explanatory variables (in this case, we used the control variables from the Hypothesis 1 verification model, since the literature recognizes these variables as possible determinants of a cross-border acquisition decision).

In the second phase, the selection bias was corrected using the inclusion of an additional regressor in the equation of determinants of an international M&A performance: the variable, calculated through a transformation in the individual possibilities of model probit.

Table 8 . Dependent, explanatory, and control variables used in the models

	H1: OLS Regression model	Expected effect	H2 to H4: OLS Regression model	Expected effect
Dependent	ΔROIC: the variation for		ΔROA: ROA for the	

variable	the acquirer company, between year -1and +2,adjusted for industry mean Source: Zollo &Meier （2008）；Brush(1996)		acquirer company, between Year-1 and +2, adjusted for industry mean Source: Zollo and Meier(2008); Brush(1996)	
Explanatory variables	CBMA: a dummy that assumes value 1 whenever the company conducted a cross-border M&A in the year t	+	Inter Exp: number of cross-border M&A by the acquirer until the date of the operation in question Source: Nadolska and Barkema(2007)	
			Inst Env: a dummy that assumes value 1 when target's country has a developed formal institutional environment	+
			Cult Dist: a dummy that assumes value 1 for high levels of cultural distance between the acquirer's and target's countries. Sources: the index from Kogut and singh(1988)	
Control variables	Sls growth: percentage variation of the firm's sales between year t+2 and year t-1		Sales: logarithm of the acquirer's sales (in R$ millions) Source: Ruckman (2005)	

	Source: Danzon et al(2007)			
	Operational cost: percentage variation in the firm’s operational cost(in relation to sales) between years t+2 and t-1 Source: Danzon et.al(2007)			
	Mkt Cap: the loganithm of the company’s market value, calculated by the value of its stock multiplied by the number of stocks in circulation on the last day of each year Source: Salis(2008)			

4、EMPIRICAL STUDY: RESULTS

In order to understand which determinants have impact on enterprise's cross-border M&A and the relation of the Cross-border M&A and the control variables, in the present chapter is conducted an empirical research that can be summarized in four sections. On the one hand, it corresponds to the major descriptive statistic for all the variables used, in order to observe the major tendencies and evolutions of variables and to give an overview of the sample for the period for 2008-2014. On the other hand, we use the Pearson correlation and hypothesis testing for each variable with the purpose to indicate the possible relation between the variables.

4.1 Sample characterization

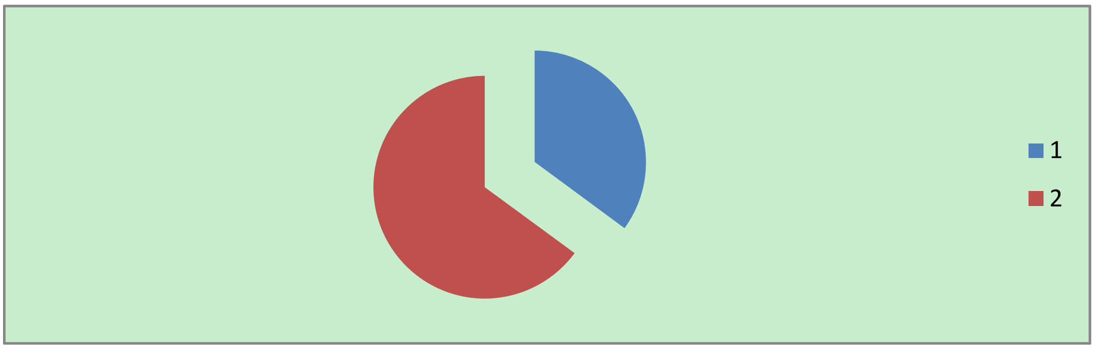
Table 9 presents the sample of 217 Chinese public private firms based on its industry and by its target's locations when acquisitions happened for the year 2008-2014. As we can see, capturing the most percentage of number of acquisition is the Manufacturing (20.28%), then following Service (14.75%) and Mining(14.29%), all of three are the major represented industries in the research sample. The rest representative industries we found in terms of firms are including Oil & Resources, Automobile, Agriculture, Finance, Transport & Storage and Real Estate, the specific numbers are presented in the Table 9 below.

Considering the difference of acquisitions between the cross-border and domestic ones, this study only approaches private firms that access to cross-border acquisitions for 60 cases while 157 cases in local one, respectively, with percentage of 27.64% and 72.36%. Furthermore, the total number of private firms in China during the 2008 to 2014 is available for the database in operating Acquisitions is 1020 cases, which limited with item that "higher than 50% shareholder equity", thus, we can calculate the percentage of the number of private acquisition that are included in our research: 21.27%. and 60 cross-border M&As in 111 cases of Overseas M&A in total represents 54.05% (Table 10), and 157 domestic ones represent 17.27% of local acquisitions.

Table 9 Overall sample according to Industry and Cross-border or not

Industry	Overseas		Domestic		Total	
	Count	%	Count	%	Count	%
Service	8	13.33%	24	15.29%	32	14.75%
Mining	8	13.33%	23	14.65%	31	14.29%
Oil & Resources	8	13.33%	9	5.73%	17	7.83%
Automobile	3	5.00%	13	8.28%	16	7.37%
Manufacturing	12	20.00%	32	20.38%	44	20.28%
Agriculture	5	8.33%	12	7.64%	17	7.83%
Finance	5	8.33%	15	9.55%	20	9.22%
Transport and Storage	6	10.00%	14	8.92%	20	9.22%
Real estate and others	5	8.33%	15	9.55%	20	9.22%
Total	60	100%	157	100%	217	100%

Table 10: Sample of Chinese private firms that operating the Cross-border M&A based on Total number



1=Our cross-border M&A samples we found

2=the total number of private enterprise operating the Cross-border M&A in 2008-2014

4.2 The characterization of variables in Hypothesis 1

Table 11 provides the descriptive statistics for the hypothesis 1 including the dependent and control variables for the whole samples from 2008 to 2014. Regarding to the operating ROIC, as shown in this table, the companies that conducted a cross-border merger or acquisition presented a higher mean value for the performance, compared to the ones including domestic one. On the other hand, the performance variation mentioned in the literature among companies that conduct this kind of operation is obvious since their standard deviation is greater, specifically, the CMBA have slightly higher results than the domestic one. However, we can clearly verify that operating ROIC both in domestic and CBMA are highly dispersed (standard deviation around 37%).

As expected, Operational Cost increase, Company Size (Market Cap) were greater in the cases of organizations that carried out some acquisition in the research period. The greater sales growth of companies that conducted an international M&A can be explained by the fact that growing companies have more resources and operational efficiency, which allows expanding their business into new markets (Ramamurti, 2012); or by the fact that these companies acquire other companies out of their country of origin precisely in order to keep at least constant expansion rates through an increase in their potential customer base, which corresponds to "market seeking" (Dunning, 2000).

Table 11 Descriptive analysis of the variables used in testing Hypothesis 1

variables	Domestic M&A		CBMA		Total	
	Mean	Std. Dev.	Mean	STDEV	Mean	STDEV
ΔROIC	0.123676393	0.371611389	0.219076	0.378818368	0.171777	0.376727087
Sales growth	0.879996656	1.047871972	0.850895	1.351733721	0.865324	1.205619334
Operational Cost increase	0.251827371	0.922637214	0.004279	0.344528871	0.127013	0.702292326
Market Cap	9.394322264	0.793656867	10.03871	1.459662689	9.719222	1.216386216
Profit(M)	214.0310169	1258.76093	-1095.1175	15988.51433	-446.0438655	11359.01

Table 11 also presents the only one explanatory variables：Profit, in Hypothesis 1 for the same sample description mentioned above. As can be seen in table, the mean values for the profit in domestic one have a great higher number with around 214 comparing with -1095 that the data come from the CBMA deals. Furthermore, the data of standard deviation from the CBMA shows its substantially unstable disperse while the domestic one got lower disperse.

4.3 The characterization of variables in Hypothesis 2, 3 and 4

Table 12 presents the major descriptive statistic on the variables in hypothesis 2 to 4 for the samples of 60 Chinese private firms in cross-border M&A over the period of 2008-2014.

As we can see in Table 12, the mean value for the dependent variable ΔROA is 1.27%, the mean International experience following with amount of M&A of the acquirer company since 1992 is 10, and the institutional environment based on the Index of Economic Freedom is around 80, as well as cultural distance using the Power Distance Index shows its mean value of 56.78. The natural logarithm of the Sales in the year when acquisition executed has a average of 8.9 calculated in all 60 samples.

We found that ΔROA values reveal a high dispersion with standard deviation around 5%, being the minimum and maximum values equal to -12.3% to 12%, respectively. In terms of Experience, the values are highly dispersed showing around 7 between 60 samples, ranging from 2 to 39 for the minimum and maximum numbers. In what institutional environment concerned, on the average of 80 units being the smallest value equal to 42 and the major to 91, median value indicates that 50% of observation have a number equal or above 86. Concerning the cultural distance, the standard deviation touched 17.15, 50% of the observations show a cultural distance of 60.5 units, ranging from 16.5 to 96.5 units. Finally, the control variable Sales of natural logarithm has a minimum value of 6.22 and a maximum value of 14.6, with a standard deviation of 2.18 million.

Table 12 Descriptive analysis of the variables used in testing Hypothesis 2 to 4

	Mean	Std. Dev.	Min	Median	MAX
ΔROA	0.0127	0.0506232	-0.1233	0.0171	0.1197
Experience	10	6.6298418	2.0000	9	39
Institutional Environment	80.227667	13.261638	42.12	85.88	91.24
Cult. Dis.	56.783333	17.157327	16.5	60.5	96.5
Sales(M)	8.8957229	2.1783524	6.2182016	8.331369	14.60183

4.4 Correlation analysis

In this section we are going to show you two different Pearson correlations based on the Hypothesis 1 and Hypothesis 2 to 4 according to the different model analyses.

4.4.1 Correlation analysis for Hypothesis 1

Table 13 shows the first Pearson correlation effects of the dependent variables, explanatory variables and control variables. The purpose of this analysis is to verify the relationship between the different variables of the research.

Taking into consideration the Pearson coefficients from the table, it is possible to observe that there is a weak negative significant relation between ΔROIC and the variables profit+/- and the one of the control variable Sales growth, regarding to the relation between ΔROIC and profit +/-, it is expected that positive relation in previous analysis. There is also, a moderate negative significant relation between operational cost increase and the ΔROIC. The variable Market cap (company size) is highly significant and weak positively correlated with ΔROIC.

Table 13 Pearson correlation matrix

	ΔROIC	Profit+/-	Sales growth	Operational cost +	Market cap
ΔROIC	1				
Profit +/-	-0.099 （0.284）	1			
Sales growth	-0.018 （0.843）	0.165 （0.074）	1		

Operational cost +	-0.216* （0.018）	-0.011 （0.902）	-0.351** （0.000）	1	
Market cap	0.240** （0.008）	-0.177 （0.055）	0.037 （0.689）	-0.112 （0.224）	1

4.4.2 Correlation analysis for Hypothesis 2, 3 & 4

The variable Institutional Environment shows its non-significance with the dependent variable ΔROIC, which is inconsistent with the expectation as we previously stated. However, all of remaining three variables, including two explanatory variables- experience and cultural distance and one control variable-Sales are not significant for the ΔROA, suggesting that all four variables have not influenced the cross-border M&A performance.

There are also interesting associations between the explanatory variable and the control variable: the Experience and the Sales. More experience has a bigger impact on the sales, the relation with experience and the sales is highly significant and relatively highly positive related.

Table 14　Pearson correlation matrix

	ΔROA	Experience	Institutional Environment	Cultural Distance	Sales(M)
ΔROA	1				
Experience	-0.120 (0.360)	1			

Institutional Environment	-0.060 （0.649）	-0.087 （0.508）	1		
Cultural Distance	0.037 （0.777）	-0.072 （0.585）	-0.106 （0.419）	1	
Sales(M)	0.143 （0.275）	0.498^{**} （0.000）	-0.055 （0.678）	0.088 （0.502）	1

4.5 Empirical Models

In this section multiple regression analysis is conducted in order to test the research hypotheses. This type of methodology will help to understand the effect of the explanatory variable in the ∆ROA and ∆ROIC. Model 1 was used in order to test Hypothesis 1 and model 2 was considered to test Hypothesis 2, 3 and 4. With different observations, a set of different methodologies were applied in order to test the hypotheses.

According to the hypotheses built, we expected positive signs for the coefficients of variables experience and institutional environment. As to international experience's square analysis, we expected to find a negative coefficient, indicating, in combination with the linear form of the variable, the negative relation between the experience and performance of an acquirer company. Finally, the variable used to measure cultural distance should have a negative sign, indicating that high levels of it would decrease the performance of an acquisition.

4.5.1 Model 1

In this model, the purpose is to test empirically the Hypothesis 1. The hypothesis testing model was used taking into consideration that methodology described in section.

Regression using multiple linear model

Equation was regressed taking in account the OLS method using the SPSS to organize the results below in the table.

Table 15 Result using the OLS model, the basic data

Model	R	R^2	Ajusted R^2	Standard error
1	0.326	0.106	0.075	0.362327909693

Variables: Marketcap, slsgrowth, profit +/-, operationalcost

Table 16 Result using the regression model, the coefficient

	Non-standardized coefficients		Standardized Coefficients	T	Significance
	B	Stad. error	Beta		
Constant	-0.419	0.276		-1.518	0.132
Profit	-1.604E-6	0.000	-0.048	-0.529	0.598
Sales growth	-0.031	0.030	-0.098	-1.021	0.309
Operational cost +	-0.122	0.051	-0.228	-2.394	0.018
Company size	0.065	0.028	0.210	2.317	0.022

[1] Other details for analysis of variance in Model 1

Concerning the adjusted coefficient of determination, it can be stated that the explanatory variables explain around 10.6% (the adjusted R^2).

According to the results generated from model 1 (table16), each ΔROIC's determinant might

[1] See Appendix 1

have different relation and significance. The impacts throughout the variables and relation with the explanatory variable are discussed and pointed below:

Profit: The explanatory variable of profit for verifying Hypothesis 1, CBMA (profit), representing the execution of a cross-border merger and acquisition, was showing a moderate negative relation but non-significance results to the dependent variable ΔROIC and it did not have the expected sign. i.e. there is statistical evidence that conducting a cross-border merger or acquisition barely has a possibility of increasing the acquirer's performance, besides the limited observations in the hypothesis 1.

Sales Growth: the estimated coefficient obtained for the Sales growth in table is greatly and negatively related with the variable ΔROIC, presenting a Beta=-0.098 and significant at a 30% level of significance. This non-significance might be due to the cross-border M&A is not the mainly method in these sample companies as we mentioned in literature, which also state that there is a time still occupied by the State-Owned Enterprises.

Operational Cost Increase: The variable operational cost increase is significantly negatively correlated with the variable ΔROIC, with a Beta=-0.028.

Company Size: the results for the variable Company Size show a significant positive correlation at 5% level of significance in our table stated. It has a Beta with 0.2310.

4.5.2 Model 2

For model 2, the empirical research is concerned in testing the Hypothesis 2, 3 and 4, the methodology employed is detailed on the section described of this research.

Testing using the OLS multiple linear regression models that equation was regressed taking in consideration the OLS method using the SPSS to organize the results below in the table.

Table 17 Result using the OLS model, the basic data

Model	R	R^2	Adjusted R^2	Standard error
2	0.272	0.074	0.007	0.0504522

Table 18 Result using the OLS model, the basic data

Model 2	Non-standardized coefficients		Standardized coefficients	T	Significance
	B	Stad. error	Beta		
Variables	-0.001	0.055		-0.012	0.991
Experience	-0.002	0.001	-0.262	-1.732	0.089
Institutional Environment	0.000	0.001	-0.069	-0.529	0.599
Cultural Distance	-3.762E-5	0.000	-0.013	-0.096	0.924
Sales(t)	0.006	0.004	0.271	1.794	0.078

[2] Other details for analysis of variance in Model 2

Concerning the adjusted coefficient of determination, it can be stated that the explanatory variables explain around 0.7% (the adjusted R^2)

According to the results generated from Model 2 (table18), each ΔROA's determinant might has different relation and significance. The impacts throughout the variables and relation with the explanatory variables are discussed and pointed below.

Hypothesis 2: We can stated that based on the results above that only one model's explanatory

[2] See Appendix 2

variables for verifying Hypothesis 2 to 4 showed coefficients consistent with the expected signs and proved relevant, that is international experience. With the negative relation and is the almost significant at 10% level of significance.

In accordance with Hypothesis 2, since the coefficient of variable Experience in its linear form has a negative sign, the inverted-U relation between international experience and performance is relatively supported.

Hypothesis 3, which mainly states that a more developed institutional environment would bring the better outcomes to an international M&A, however, it was not found any significant relation between the variable Institutional Environment and the dependent variable ΔROA, even though it is negative related. The significant presented is higher than the maximum level of the study(10%), there exists barely a possibility that developed institutions contribute to a higher degree to financial performance than less developed ones.

Hypothesis 4: Based on the coefficient of cultural distance and its statistic insignificance, Hypothesis 4 is not supported. i.e. for high levels of cultural distance between two countries, the result of an international acquisition would not be inferior to that of medium and low distance.

With regard to the control variable the Sales showing its highly positive significance relation with the dependent variable ΔROA, with the Beta of 0.271, it indicates that larger private corporations in China present higher returns in their cross-border M&A moves.

4.6 Discussion and hypothesis verification

From the estimated coefficients obtained by regressing the Model 1 and 2 with the difference of samples, it is possible to observe the relationships between ΔROIC and ΔROA held by the

Chinese private firms and each explanatory variable. The estimated coefficients sign establishes the impact of each explanatory variable and control variables on ΔROIC and ΔROA, which can be positive, negative or not significant.

The table 19 below relates the expected impact of the determinants of ΔROIC and ΔROA according to the guidance of literature review, and the obtained sign by using the research model regressed by OLS methodologies.

Table 19 Expected and observed impact ΔROIC and ΔROA

Variables	Expected sign	Model 1 OLS regression		Model 2 OLS regression	
		Observed sign	Significant?	Observed sign	Significant?
Profit	+	-	NO		
Sales Srowth	?	-	NO		
Operational Cost+	?	-	Yes		
Company Size	?	+	Yes		
Experience	+			-	Yes
Institutional Experience	+			-	No
Cultural Distance	+			-	No
Sales	?			+	Yes

The results obtained for the model 2 reveal a negative and significant relationship between experience and ΔROA, which implies the non-rejection of the null of Hypothesis 2. The relation suggests that firms with more experience (no matter what domestic or international) with M&A tend to have a negative impact on the financial performance. In terms of Chinese private firms operating the cross-border M&A, the experience from the most of local M&As turns out not to be enough for at least the research period 2008-2014 to go abroad and operate acquisitions.

However, the results obtained for the model 1 reveal a negative relation but do not find any significant coefficient proposed by the first model, suggesting that Profit or the profit from the Cross-border M&A does not affect ΔROIC .Consequently, Hypothesis 1 is rejected.

Also, for the explanatory variables Institutional Environment and Cultural Distance are not significant for the coefficients regressed by the each methodology. This goes in the same direction as findings. These suggest that both Institutional Environment and Cultural Distance as external factors measure for macroeconomic, especially for the cross-border merger and acquisitions in Chinese private firms, it does not have a significant relation with ΔROA, as a result, Hypothesis 3 and 4 is rejected.

As for the control variables showing in the model 1, it was found that a significant negative relation between the variable Operational Cost Increase and ΔROIC and a significant positive relation with Company Size. For the first and former one, indicating that the Operational Cost Increase negatively affect the financial performance of an international acquisition. As to the metrics used to represent company size, it turns out as a conclusion that larger firms present higher returns in cross-border acquisitions.

Finally, the last control variable, Sales has a significant positive relation with the dependent variable ΔROA, which support us on another direction, the better financial performance on the cross-border M&A might be related to growing sales of the acquirer company.

5、CONCLUSION

Based on the result found, the presented chapter states the main conclusions derived from the research and the relevance of the study for the Chinese Company in International acquisitions, especially private ones. Furthermore, the following chapter will present the limitation of this study, as well as suggestions for future research.

5.1 General conclusions

The purpose of this study was to analyze the financial performance resulting from cross-border M&A in the context of Chinese private companies. We try to prove that conducting cross-border M&A generated a higher financial performance for companies which had already used internationalization strategies.

It was found that only one of the four explanatory variables, experience on the performance of a new acquisition move, is the determinant of Cross-border merger or acquisitions considering the Chinese private firms, since the operationalization of the experience is normally made using the number of previous M&As. As for private firms in China, the high experience level in the domestic market cannot represent a high rate of operations conducted in a short period. On the contrary, the acquirer's performance tends to decline due to the excess of simultaneous and resulting in a difficulty to coordinate and integrate them. This relation was confirmed by the data, representing a significant contribution to the literature, which had found a negative relation for Chinese firms.

With regard to the impact of the institutional environment on acquirer companies from Chinese private sector, we have already known that most of state-owned enterprises in China confront a lot of problems when they dealt with foreign government or institution in cross-border M&A, because the government outside are worrying about the political effect on their companies besides cultural and technological impact. Comparing the smaller but flexible private enterprises from China as well, geographically, even though the institution force may way too far from the China, they are still welcoming the healthy capital to invest their company especially after the financial crisis. Therefore, although we reject the hypothesis concerning the institutional environment, we may make a conclusion that the institutional factor is becoming less and less important as the private enterprises from China operate cross-border M&A.

Finally, the hypothesis related to the informal aspect of institutions--their culture--was constructed based on the latest contributions to the literature. The study segregated low to medium levels of cultural distance from high ones, as we believe that high levels always generate outcomes inferior to those generated by low and medium distances between cultures. Empirical evidence provided support to this idea and it becomes clearly necessary for executives to analyze in advance, particularly regarding issues that organization areas in charge of acquisitions usually neglect. However, in practice, as analyzed by the BCG group, the emerging private enterprise in cross-border M&A is aiming at the relatively high technology and famous brands' companies, so that the culture distance may not be suitable for the current situation of Chinese outbound investment analysis. It also can proved by the empirical research that Chakrabarti (2005) using s sample of more than 400 cross-border mergers and acquisitions during the 1991~2001 period, found that "contrary to general perception, cross-border acquisitions perform better in the long-term if the acquirer and target come from countries that are culturally more disparate".

However, the result might be explained by the achievement of the synergies by means of other three control variables, the operational cost increase and company size. In accordance with the previous findings, the financial performance act better when the acquirer company has lower operational cost. Private firms or enterprises from China go abroad to catch efficiency enhancement, there is no doubt that the labor cost increase accelerates the acquiring pace to seek the opportunities existing outside of their own countries.

As for the company size it is one of the significant control variables showing the positive relation, we can also conclude that the larger size companies enjoy cost-based advantages on the factor of low-cost of production and economies of scale, as well as scope. Moreover, the information asymmetry with the resource and experience they occupied would make them develop more efficient. Regarding the private firms in China operating Cross-border M&A, it is identical that lower cost and sufficient resources and information, without any doubt, would also increase their financial performance.

5.2 Importance of the study

Although the literature is very extensive on this field, this empirical study tries to fill some gaps concerning the Chinese private firms or enterprises when they thrived after the financial crisis. First, the sample chosen includes financial information for the necessary number of Chinese private firms covering the main industries that performed M&A.

In the process of searching for the relevant information, we surprisingly found that most researches on Private enterprise from China operating cross-border M&A were carried by the professional consultant companies instead of by academic entities. We believe that this study gives an important contribution to the Chinese private firms or enterprises especially after the financial crisis in 2008.

5.3 Limitations and Future research

As a limitation of the study, we can cite the lack of available data considering a few variables used in the model, additionally, we know that the model proposed considers only few international M&A performance-determinant variables and, as a matter of fact from the analysis and calculation, those are not the main variables applied in the cross-border M&A, there exists other more important variables that affect the financial performance

Several studies based on different theories identify other possible factors that should be considered both by academy and managers in the future research on the subject.

For further researches, more dependent variables, sufficient samples and a longer period of analysis will be included in order to investigate specifically the trend that CBMA works in China's private firms.

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APPENDIX

Appendix 1 - Analysis of variance of Model 1

Model	sum of square	df	Mean square	F	Significance
Regression for model 1	1.781	4	0.445	3.391	0.012[b]
Residuals	14.966	114	.131		
Total	16.747	118			

b. variables， Marketcap, slsgrowth, Interest +/-, operationalcost

Appendix 2 - Analysis of variance of Model 2

Model	sum of square	df	Mean square	F	Significance
Regression for model 1	.011	4	.003	1.100	.366[b]
Residuals	.140	55	.003		
Total	.151	59			

b. variables：LN(Sales), Institutional environment, Cultural distance, Experience