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Financial Advisors and Corporate Investment

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DEDICATION

This thesis is dedicated to
my family

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ABSTRACT

China is now the world second largest capital market and mergers & acquisitions (M&As) have taken up a large share of investment. With the rapid growth of China's M&As, the value of consulting business of financial advisors also greatly increased. Understanding and evaluating the role of financial advisors in the unique Chinese financial market can potentially benefit firms, investors and market regulators. This thesis uses Chinese M&As as empirical setting to examine the role and mechanism of value-creation of Chinese financial advisors, specially, I focus on the financial advisors' external political connections, the reputation, as well as the advisors' teamwork. My thesis document that political connected, and top-tier financial advisors create value for shareholders, and the underlying mechanism of this value creation mainly from advisors' ability to design and negotiate better deal term. In addition, small-size advisor team benefits firms and investors because of their lower co-ordination costs. The main results remain hold after addressing endogeneity and carrying out additional robustness check. The findings of this thesis have important implications to academics and practitioner: financial advisors' reputation, their networks (i.e. political connections) and teamwork do matter in corporate takeover process.

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LIST OF PUBLICATIONS AND CONFERENCE PRESENTATIONS

The following publications and conference presentations are derived from this thesis:

Referred Journals

Wang, D.N, (with X.Bi), 2018, Top-tier financial advisors, expropriation and Chinese mergers & acquisitions, *International Review of Financial Analysis*, 57: 157~166

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CHAPTER ONE: INTRODUCTION

1.1 Introduction

Mergers and acquisitions account a large proportion of corporate investment in China, and in recent years, their numbers have increased dramatically. With the rapid growth of China's M&As, M&A transactions facilitated by financial advisors has also greatly increased, with a market value increased from 425 billion yuan in 2012, to 1.2 trillion yuan by the end of 2018¹.

The existing mergers & acquisitions literature primarily focuses on firms' characteristics and takeover procedure with limited attention on its' financial advisors. First, the literature talks about *acquiring firms' characteristics* in takeovers; for example: Field and Mkrtchyan (2017) use data from 1998 to 2014 to examine the relationship between acquirers' board experience and their acquisition results. Second, the literature looks at the *takeover process*; for instance, researchers are still enthusiastic about the method of payment (MOP). Huang et al. (2016) argue that the method of payment in cross-border mergers and acquisitions (M&As) can mitigate country-level governance risk for the acquirer. The third strand of the literature mainly discusses the *target firm* in the M&A process, with very little attention on shareholders. Bodnaruk and Rossi (2016) note that in M&As, a considerable part of the target company is owned by financial institutions. Moreover, researchers have also extensively studied *the outcomes* of M&As in terms of cumulate abnormal return (CAR), buy and hold abnormal return (BHAR), operating performance, premiums, completion time, productivity, investment efficiency, innovation, etc. Finally, the *external environment* impact on M&As has also attracted considerable academic

¹ Data Source: "2018 China M&A Report" by Zero2IPO.

interest. When considering the external environment, researchers often look at culture, industry environment, external shocks, the business life cycle, governments, product markets, policies, etc.

My thesis investigates financial advisors in Chinese financial market, especially their unique characteristics in Chinese M&A transactions. This thesis will answer this question as follows.

Political connections of financial advisors

Politically connected firms reveal lower costs of financing, better preferential tax rates and greater government's subsidies (Feng et al. 2015). On the other hand, it is not without costs, especially when the firm has poor corporate governance and top managers are with less stock incentives (Yu et al. 2010b; Kostovetsky 2015b; Shen et al. 2015). This explains why existing studies find that political connections create value (Brockman et al. 2013; Civilize et al. 2015; Conyon et al. 2015), while others show no positive effects in this regard (Peng & Luo 2000; Mitchell & Joseph 2010). Due to the ambiguous findings of earlier studies the first empirical chapter of this thesis examines another form of enterprises' political connection, namely external financial consultants.

The reputation (top-tier) of financial advisors

Despite the increasing importance of financial consulting services in China, whether and how financial advisors, especially top-tier consultants, add value to M&A transactions is still a controversial issue. For example, Rau (2000) finds that an acquirer advised by a top-tier investment bank achieve higher short-term abnormal market return. In addition, Francis et al. (2014) point out that the consultant role in certifying target firm that allows acquirer to achieve more synergies and create value. However, Sibilkov and McConnell (2014) determine that over 80% of consulting fees are paid only upon completion of the acquisition, and these fees do not depend on whether the deal creates

value for the acquirer; therefore, the quality of the consultant should not be linked with shareholder returns. This view is supported by empirical research, for example, Bowers and Miller (1990), Michel et al. (1991) and Rau (2000) measure the quality of advisors by reputation or market share, but they did not find any link between advisor quality and returns to the purchaser. Based on this conflicting empirical evidence, I review the role of high-quality financial advisors in the tightly controlled Chinese M&A market, and examine their reputation and relations with service quality.

Financial advisor's teamwork

An investment bank's advice will have a significant impact on the company's decision-making, and the consulting projects are normally conducted by a group of financial advisors. There is rich corporate finance literature on the role of investment banks; however, we know little about the impact of financial advisors' team characteristics on a company's investment activities. Financial advisors are defined as project-based teams in investment banking department in Chinese securities companies. There are project-based teams in different investment banking department formed with various team size, and each one is engaged in different consulting projects. Each team member involved in a specific acquisition transaction must sign an application form submitted to the CSRC², thus making them fully responsible for the accuracy and adequacy of acquisition-related information disclosed to regulators and investors. I am interested in understanding the influence of team size on the MA outcomes. A large team does not necessarily signal for "high-quality service", because coordination costs may reduce the efficiency of team co-operation. Therefore, the main team characteristic to be investigated in this thesis is team size, because the larger team may not benefit

² China Securities Regulatory Commission.

shareholders, due to the potential high coordination costs. Furthermore, if the coordination cost of a large team does have a negative impact on team performance, we should observe that this negative impact has been greatly reduced in teams where team members have worked together for a long time.

1.2 Institutional background

1.2.1 Chinese mergers and acquisitions as an empirical setting

This thesis uses M&As to address the above issues for the following reasons. First, China's M&A activities are strictly controlled by the government, and their success depends largely on the approval of Chinese regulators. An M&A proposal must be submitted and examined by the acquisition committee of the CSRC, which assesses each transaction in accordance with its own legal and accounting requirements, so advisors' past experience and potential relationship with regulators will help throughout the approval process. Che and Qian (1998b) highlight the way in which government-business relations shape business strategy and performance in China.

Second, the appointment of external consultants is a key and common practice in the acquisition of companies in financial markets, as an acquisition is a complex process, and financial advisors have the expertise to help companies select suitable targets, conduct due diligence and negotiate preferential terms on behalf of the acquirers. The complex tasks performed by financial consultants are always completed by a group of consultants, therefore, M&As provide an ideal platform for reviewing the co-operation of corporate financial teams.

Third, an M&A is one of the most important corporate investment decisions, as it has a significant impact on the wealth of shareholders. For example, Shleifer and Vishny (2003) and Bi and Gregory (2011) study the US and UK markets and found that M&As

usually damage shareholder value in the short and the long term. On the other hand, Boateng and Bi (2014) and Bi and Wang (2018b) find that M&As create value for shareholders in the Chinese market, so using them in an empirical setting allows us to examine directly team characteristics and deal outcomes.

1.2.2 Chinese financial markets

First, the Chinese government is known for its active participation in companies' business operations through ownership and market regulation (Du et al. 2016). In capital markets, government regulators set rules to regulate financing and investment, making it easier for companies in the “support industry” to obtain external funding and to make acquisitions in regulated industries. In this environment, it is crucial for businesses to understand the rules set by the government and to seek help from external advisors, which will benefit firms in the emerging market, such as China.

Second, due to inadequate disclosure and poor corporate governance standards, the Chinese capital market is known for its low level of available information (Piotroski & Zhang 2014). In this environment, the role of the financial advisor in the transmission of information in the acquisition transaction thus becomes very important.

1.3 Main findings and contributions

1.3.1 Main research findings

The empirical studies in this thesis offer the following key findings. Politically connected financial advisors (PC-financial advisors) create higher market value for acquirers, after controlling firm and deal characteristics. The value creation effect of these PC financial advisors is more significant for smaller acquirers and high-valuation (Tobin's Q value) acquirers. In addition, regarding the source of value creation, I find that the appointment of such financial advisors in the transaction can improve the

acquirer's long-term performance and help reduce the bid premium by adjusting the operating performance of the industry. In addition, the empirical study suggests that private companies that are less likely to have strong political ties with various government regulators are more likely to appoint politically connected financial advisors.

Next, I also found that acquirers who employ top-tier financial advisors in M&As generate more value than acquirers who use non-top teams. However, this positive effect is not obvious when the purchaser increases the possibility that the controlling shareholders encroach on the minority shareholders, indicating that the large shareholding of controlling shareholders may damage the service quality and value creation of top advisors. I also explored the potential value drivers for top-tier advisors in deals and found that acquisitions involving them had higher post-event performance, thereby indicating their ability to select the "right" target and create operational synergies for the bidding firm. I also investigated the influence of top consultants on the bid premium and transaction completion time. The results showed that they can help a buyer by designing better deal packages. Therefore, they can have rich experience in promoting the transaction process, with the best interests of shareholders as the starting point. However, the empirical evidence does not support the notion that top consultants shorten transaction completion times compared to non-top consultants.

Lastly, I found that the size of the financial advisory team has a significant impact on the outcome of the transaction. Specifically, the results show that the smaller the financial advisor team, the better the deal (the higher the short-term market response), especially when the team members have worked together for a longer period of time, which may be due to the lower coordination costs of smaller teams with more team experience. I also investigated the source of short-term value creation of the smaller

consultant team. My analysis showed that the possibility of information leakage before the official announcement was also significantly reduced for the smaller consultant team. Further analysis showed that team members with higher research degrees did not help their customers create more value.

1.3.2 Contributions

From the perspective of the political relations of financial advisors, the contributions of this paper are as follows. First, it contributes to the field of political economies by extending firm political relations to politically connected financial advisors. Existing empirical studies (Cull et al. 2015; Feng et al. 2015) support the idea that politically connected firms create higher value for businesses because they result in easier access to capital, lower financing costs and tax incentives. I contribute to literature that instead of focusing on internal political relations, I focused on external relationships and looked at whether appointing PC financial advisors would create shareholder value. This experiential setting allowed me to concentrate on the role of political relationships, independent of other corporate characteristics.

Second, this thesis extends the literature of financial intermediations via investigating the social network of financial advisor with political influence. The existing literature on financial intermediation is extended to the social network effect, namely the political influence thereof. As for the existing literature, for example, Liu et al. (2017)'s asses auditor quality with companies' political relevance, and my study adds new evidence to the financial intermediation literature highlighted the political influence in financial intermediaries.

The second empirical chapter contributes from several perspectives to the current debate about the influence of financial advisors on shareholders' wealth. First, it

provides an up-to-date analysis of unresolved issues regarding the role of top-tier advisors in the M&A market and identifies important channels through which they can increase shareholder value (Bowers & Miller 1990; Rau 2000; Sun et al. 2013; Sibilkov & McConnell 2014). Second, this study also contributes to a large amount of literature studying the performance of M&As (Rau 2000; Ismail 2010), with special attention given to the short-term effects and long-term performance of financial intermediaries on acquirers. By considering the acquisition of the company's shareholding structure, I expanded the scope of the study, beyond financial intermediaries' impact on the acquisition process alone.

Finally, the third empirical chapter also contributes to our understanding of how financial advisors work together. First, when the analysis in this study moves from the company level to the team level, it contributes to the broad finance literature on teamwork. While studies in the financial advisor literature generally use investment bank company-level analysis to represent the advisor, none of them considers financial advisor team-related characteristics. This study thereby makes an important contribution to the very limited teamwork literature in this field.

1.4 Structure of the thesis

The structure of this thesis is arranged as follows. In Chapter 2, I review the existing mergers and acquisitions literature. In Chapter 3, I study the influence of external forms of political connections, namely, the financial advisor's political connection, on the Chinese takeover performance. Chapter 4 investigates top-tier financial advisors, especially in terms of whether – and how – they add value. In Chapter 5, I examine the teamwork of a group of financial advisors and its impact on corporate activities, and Chapter 6 concludes the whole thesis.

CHAPTER TWO: LITERATURE REVIEW

This section covers the latest M&As literature in the following five strands:

- 1) Acquiring firms in takeovers
- 2) Targets in takeovers
- 3) Takeover process
- 4) The outcomes of takeover activities
- 5) External environments and policy change in takeovers

2.1 Literature on acquiring firms in takeovers

This first strand of the literature attempts to examine acquiring firms' characteristics in takeovers.

First, some papers focus on how *managerial characteristics* in acquiring firms affect M&As. For example, Field and Mkrtchyan (2017) apply data from 1998 to 2014 to examine the relationship between acquirers' board acquisition experience and their acquisition results. They provide fresh empirical evidence that directors increase the value of a company through acquisitions, indicating that firms with board acquisition experience can make better acquisition decisions. This suggests that there is a positive and significant relationship between board acquisitions and announced earnings, and so previous experience enables directors to supervise and advise their CEO in a more effective way. The authors also identified several channels of value creation. First, they prove that experienced acquirers' board of directors is unlikely to be a bad purchaser. Second, their results suggest that experienced directors assist the firm in target selection, as acquirers with higher board acquisition experience earn higher combined value-

weighted announcement returns. Ultimately, they found that an experienced board of directors can help target integration, because operating performance and total factor productivity improve significantly. The boards of directors in the above studies illustrate that buy-out experience helps to improve performance. The results suggest that if companies recruit experienced directors to improve future acquisition results, it may be better to select them based on acquisition experience and performance.

Kolasinski and Li (2013) point out that, in theory, a board of directors exists in order to alleviate the agency problem and choose managers, to help them make better strategic decisions. However, empirical studies of boards of directors are mainly concentrated on their agent for mitigation and management options. In this study, they found that, first, there is evidence that a strong, independent board of directors can help managers avoid honest mistakes when seeking to buy other companies. Second, managers' recent stock-trading experience improves their corporate-acquisition policies. As a result, they prove that a company's investment policy can be affected by managers' recent experience. In addition, the literature indicates that managers' personal characteristics are important determinants of company policy. (Leung et al. 2017) investigate whether chief executives' personal trading decisions are related to company purchase decisions, and they confirm that CEO's personal characteristics e.g. confidence and ability to avoid risks are consistent with corporate investment decisions. Researchers have also look at the role of specific characteristics of directors or CEOs on merger and acquisition activities. For example, Levi et al. (2014) use acquisition transactions by S&P 1500 companies between 1997 and 2009 and discovered that female directors are less likely to overstate merger gains, as such, less likely to make acquisitions and pay lower bid premia.

Second, increasingly more literature focuses on the relationship between *corporate governance* and M&As. For example, using data from 1997 to 2007, Kim and Lu (2013) provide comprehensive and detailed documentation of major corporate governance reforms (CGRs) undertaken in 26 developed and emerging economies. They found that, first of all, CGRs affected foreign buyers who target emerging markets tend to have better corporate performance. Second, one of the reasons for the selection is the gap in investor protection between the target country and the acquiring country. Third, the implementation of target countries' CGRs reduces the gap between intellectual property rights, thus diminishing the trend for cherry picking. Col and Sen (2019) examine whether the acquirer adopts the target country corporate governance practices using firm-level data from 2001 to 2010, they found that multinational acquisitions (acquirers in emerging economies, the target company in the developed market) offer acquiring firms certain benefits, particularly corporate governance and higher company valuations.

Third, *repetitive M&As and intellectual property rights* are the choices of some academic circles. Aktas et al. (2013), for instance, propose a simple model, using continuous trading data to infer their relative importance. The research results provide evidence of learning revenues from repeat purchases, especially in terms of CEO continuity and subsequent trading in more similar cases.

As for intellectual property rights, Alimov and Officer (2017) apply data, including all transactions announced between 1985 and 2012, to investigate their protection in cross-border M&As. The results of this study are consistent with the view that the acquirer is concerned about the protection of local intellectual capital when considering foreign acquisitions, and with the view that the target company is most

concerned when the industry makes intensive use of intellectual property and the protection thereof in the country is not as developed as in its own country.

Fourth, poor company performance to exit the market not only through the bankruptcy, which also can be bought by another company. When these mergers occur between companies, *employees and shareholders* are key factors to consider. Regarding employees, Bargeron et al. (2015) study employee trust in management and the relationship between enterprise merger and acquisition activity. They measured this trust through rankings compiled by the Workplace Association (GPWI) between 1998 and 2011 and found that firms with cultures of trust (“SCT firms”) announce relatively small acquisitions, bidder returns are lower for large acquisitions made by SCT firms than other firms. And the culture of SCT firms generally suffers after they make large acquisitions. In general, the results are consistent with the conclusion that M&A policy is influenced by the culture of trust between employees and management.

Fifth, researchers are also keen on *multi-bid activities*. For example, Calcagno and Falconieri (2014) suggest simulating talks before a bid is announced. The research results show that, first, the potential takeover premium increases in line with any increase in the degree of competition. Second, the premium resulting from negotiated deals equals that resulting from auctions. Third, when a takeover threat is credible, the two sides sign an agreement quickly. Fourth, termination fees affect expected negotiation time, but they do not affect the acquisition premium. Dimopoulos and Sacchetto (2014) evaluate two huge takeover premium sources: pre-emptive bids and target resistance. They developed an auction model, and the simulation experiments showed that the initial bidders on average were higher than the target company’s rival

valuation, so a relatively low initial offer was enough to prevent competitors from entering.

Sixth, *corporate social responsibility* has attracted the attention of researchers. Deng et al. (2013) use a large number of M&As in the US to examine the relationship between corporate social responsibility (CSR) and company value creation. The study found that compared with low corporate social responsibility acquirers, high corporate social responsibility acquirers achieved higher merger announcement returns and greater long-term operating performance as a result of M&A growth. They also found that the market did not immediately pay enough attention to the benefits of CSR. Second, high corporate social responsibility acquirers take less time and are unlikely to fail compare with low corporate social responsibility acquirers in M&As. These results indicate that the social performance of acquirers is an important factor in M&A performance, thus supporting stakeholders' value maximisation.

Seventh, *political connections* can benefit companies in many ways. For example, Karolyi and Liao (2017) examine the motives for and consequences of 4759 cross-border acquisitions constituting \$593 billion of total activity that were led by government-controlled acquirers over the period from 1990 to 2008. And find that compared with corporate buyers, government buyers are more likely to come from the higher levels of foreign exchange reserve countries, and they are more likely to be found in more natural resources industries.

Ferris et al. (2016) make great contributions to identifying of how cooperate political connections affect merger and acquisition which is one of the most important firm's investment decisions. The authors find that politically connected companies make more bids and acquisitions than non-connected acquirers. They also discover that

companies with better political connections acquire targets which normally are larger than non-connected bidders. In addition, connected companies can better identify high value targets, the possible reasons could be that they have insider information, or access to their political connections. As a result, these politically connected purchasers are willing to pay more for these targets because they expect the acquisition to generate synergies.

Eighth, in relation to the relationship between *strategic and financial bidders*, Gorbenko and Malenko (2014) use company auction data to estimate the valuations of strategic and financial bidders. They found that a typical target in strategic bidders' valuations is higher; however, 22.4% of targets in the sample were valued higher by financial bidders, and these were mature, underperforming companies. First, they find that valuations were more diversified among different strategic bidders; Second, the valuation of financial bidders is related to the overall economic situation. The results show that different targets are attractive to different types of bidders, rather than that strategic bidders always value targets more because of synergies. More recently, interest in corporate-sponsored pension plans has grown. And how their presence affects firms' actual (investment) and financial decisions.

Last but not least, I look at the relationship between *pensions* and M&As. Cocco and Volpin (2013) show that according to UK data, a company with a pension plan is unlikely to be an acquisition target, and thus they are unlikely to be acquired. The author's explanation is that uncertainty about the value of pension liabilities is a source of risk for acquiring firms. In order to support this explanation, they found that these companies are more likely to use cash, and cash announcements are associated with positive announcement effects.

2.2 Literature on the takeover process

First of all, I focus on the *M&A wave*. Xu (2017) uses data from 1990 to 2010 to study the effect of a wave of cross-border M&A valuations. Like domestic M&As, cross-border M&As cluster according to industry and time. It was found that, first, mergers inside waves create greater shareholder value than mergers outside waves. Second, in the wave of M&As, in late trading showed better performance than in early trading. Third, the decision of cross-border M&A depends on the performance of peers. Overall, the results of the survey show that multinational acquisition promoted the enterprise assets reconfiguration effectively. Maksimovic et al. (2013) using data from 1972 to 2004 found that: first, efficiency and financial access will affect the purchase decision. High-productivity enterprises are more likely to buy assets, and low-productivity businesses are more likely to sell assets. Second, the difference in participation between public and private firms is not simply driven by contemporaneous efficiency and valuation. Companies with higher productivity and higher expectations for future growth choose to go public and participate more in acquisitions when opportunities increase. Third, they found that the wave of mergers will result in greater efficiency. In addition, they also found that although the separation of ownership and the control of listed companies may lead to conflict, from the point of view of efficiency gains, the listed company is better than private firms in making purchase decisions. This finding suggests that gains from access to capital for productive firms may outweigh the potential costs from the separation of ownership and control.

Garfinkel and Hankins (2011) use merger data including mergers or tender-offer bids which meet the selecting criteria from Thomson Financials' SDC database between 1981 and 2006. The authors study the role of risk management in M&A activities,

especially the contribution of vertical integration decision to M & A wave. They suggest that mergers and acquisitions wave seem to be driven in part by a desire to hedge against uncertainty in cash flows. Their research directly links cash flow volatility and find that it increases with the start of merger waves. Overall, they find that due to vertical merger, the company's cash flow volatility is reduced.

Ahern and Harford (2014) also identify the important role of industry connections in merger waves. They applied data across 471 industries accounting for all sectors and using these industry definitions, they build up a network representing cross-industry mergers between 1986 and 2010. They apply the network topology and find that stronger product market connections lead to a greater cross- industry merger and this consolidation spreads through the network in that merger waves via customer-supplier links. In addition, they find that merger activity spread rapidly to more closely connected industries and delayed to distant industries. Moreover, merger wave in the economic scope is driven by the merger activities of industries located in the center of product market network. Overall, they show that the network in a real economy transaction supports to explain the merger wave.

Second, researchers are still enthusiastic about the *method of payment (MOP)*. Huang et al. (2016) show that the MOP can reduce an acquirer's risk at the national level. They used a sample ranging from 1990 to 2010 to study the determinants of payment options and how governance risk factors affect payment. They found that, first of all, the choice of payment method in M&As can reduce the risk of excess payments and transaction failures. Second, bidders use more stock in cross-border transactions, so relative management risk is bigger. Boone et al. (2014) examine acquisitions announced between 1985 and 2013, finding that the proportion of mixed pay increased from about 10% before the turn of the century to 30% in the new century, and the

proportion of stock (cash) paid peaked in the late 1990s (bottom) but then tumbled (surge). Second, they conformed to the adverse selection theory, in which the fraction of stock increases with the valuation uncertainty of the acquirer and the target firms. Third, they also state that capital gains taxation affects acquisition decisions and find compelling evidence that a looming tax rate increase expedites some pure cash deals. Finally, they reported that their findings can explain trends observed in some, but not all, payment methods.

Vermaelen and Xu (2014) relate the use of stock payment on capital structure and acquisition finance. The authors state that acquires would prefer to pay by stock if they thought their stock is overvalued, but target companies have the choice to choose if they would like to do so. They use mergers and acquisitions samples from the Securities Data Corporation (SDC) mergers and acquisitions database. And the sample should meet pre-defined criteria e.g. the first announcement date must lie between 1 January 1980 and 31 December 2005. Finally, there are 2987 acquisitions included, there are 787 cash transactions, 1396 equity transactions, and 795 hybrid transactions. They find that stock payment is readily accepted only when the buyers can prove the rationality of the financing decision according to the economic fundamentals such as the optimal capital structure. Even if fundamentals justify stock payments, cash payments are common. In this way, companies can avoid paying with undervalued stocks and are more likely to obtain positive long-term excess returns.

Third, to some extent, a *reverse merger* relates to M&As. Greene (2016) analyzes reverse mergers (RMs) in terms of the wealth of private business owners, and they argued that reverse mergers act as exit mechanisms. Compared with initial public offering (IPOs), typical RMs after exiting are smaller for company owners. The authors

reported that the change in wealth from before to after an RM is usually positive. In addition, the fair opinion valuation is higher than the industry size-matching valuation.

Fourth, a *financial advisor* plays an important role in an M&A. Song et al. (2013) report that between 1995 and 2006, about a quarter of M&A companies hired boutique banks to advise them on M&As. A boutique consultancy is generally divided according to industry, and it usually smaller than a full-service banking organisation and is strongly independent. Their paper studied the choice between boutique and full-service consultants and the influence of consultant selection on transaction results. They found that in complex transactions, acquirers and target companies are more likely to choose a boutique consultancy, thus indicating that boutique advisors are chosen based on their skills and professional knowledge. After controlling for the consultant's endogenous choice when an acquirer hires a boutique consultancy, they found that the premium is lower. In addition, a boutique consultancy expends more time, perhaps in due diligence and negotiation, in order to complete the transaction. Overall, the results show that boutique consultancies deal with more complex transactions, and they obtain better results.

Golubov et al. (2012) use a large and comprehensive sample of U.S. acquisitions of public, private, and subsidiary firms announced over the period from 1996 to 2009 from the Thomson Financial SDC Mergers and Acquisitions Database to examine the impact of choice of external financial advisors in M&A activities. They find that employing financial advisors from top-tier investment banks are associated with higher returns to bidders in the M&A transaction, which only for the acquisitions of public firms. They further find that in these transactions, acquires pay a relatively higher bid premium to their top-tier financial advisors. Which will assist the top-tier advisors to

keep building up and protect their reputation and in turn to provide a high-quality service to their clients.

Fifth, the *laws, regulations and contracts* in M&As have been studied. Cain et al. (2017) use datasets of 17 different acquisition laws and court decisions from 1965 to 2014 to measure changes in these laws and their long-term impact on hostile activities. They found that certain acquisition methods, such as the poison pill and consolidation methods, had no obvious effect on hostile activities, while other purchasing methods, such as the fair price method, reduced hostile takeovers. The author also established that company value in terms of acquisition sensitivity is increasing, whilst a company in a protective environment is associated with a higher bid premium, which is consistent with the bargaining power hypothesis.

Karolyi and Taboada (2015) study the impact of the banking supervision of cross-border acquisition flows and stock price reactions to cross-border trade bulletins. Using a sample of 7,297 domestic deals announced between 1995 and 2012, and most of the 916 cross-border deals, they found evidence of a “regulatory arbitrage” in which takeover flows involved acquirers from countries with more aggressive regulations than those of the targets. When the receiving institution comes from a more stringent bank regulatory environment, targets and aggregate abnormal returns around the trading announcement are positive and larger. The authors believed that the evidence indicated a more benign form of regulatory arbitrage, rather than a potentially damaging type.

Sixth, some of the literature has focused on *research and development (R&D)* in M&As. Bena and Li (2014), for example, using large and unique patent merger data, collected during the period 1984 to 2006, showed that companies with large patent portfolios and low R&D expenses are acquirers, while companies with high R&D expenses and slow growth in patent output are targets. In addition, any overlap between

technologies has a positive effect on the incidence of trading, and when enterprises overlap in the product market, the impact decreases. The study also shows that acquirers with prior technological linkage to their target firms produce more patents afterwards. So that synergies obtained from combining innovation capabilities are important drivers of acquisitions.

Seventh, the *accounting method* plays an important role in the M&A process. CustÓDio (2014) uses US stock market data from 1984 to 2007. The author states q-based measures of the diversification discount are biased upward by mergers and acquisitions and its accounting implications. Under purchase accounting, in relation to the purchase of assets according to the transaction value report, the trade value is usually more than the book value of the target company before the merger. Therefore, measurement of the combined company q portfolios is often lower than before the merger. Conglomerates tend to have lower q values, because they are more acquisitive than concentrated companies.

Eighth, some studies have also examined *media and negotiations*. Ahern and Sosyura (2014) note that a company is motivated to manage reports during a period of important company activities, thus affecting its share price. Using a combination of data on media coverage and merger negotiations from 2000 to 2008, they studied press releases, i.e. one of the main channels through which companies actively communicated with investors during some of the biggest investments. The results were as follows. First, when management has a strong incentive to have a favourable valuation, it highlights interesting patterns of communication between companies and investors. Second, find that our evidence is most consistent with an active media management explanation. In addition, they also investigated investors and target companies' responses to acquirers' media management strategies, and they found that the

effectiveness of media management does not necessarily mean investor irrationality. The research results show that the timing of financial media content may be limited by those trying to manipulate the stock price of the company. Used in negotiations, Betton et al. (2014) examine whether a pre-emptive price target increased a bidder's acquisition cost. They tested this idea on a model-based foundation, assuming that the follow-through was caused by signals informing investors of potential acquisition synergies. If merger negotiations force bidders to raise the offer with the runup—a costly feedback loop where bidders pay twice for anticipated target synergies—markups become strictly increasing in runups.

2.3 Targets in takeover process

The third strand of the literature mainly discusses the target firm in the M&A process.

First to catch researchers' attention are the *target company's shareholders*. Bodnaruk and Rossi (2016) note that in M&As, a considerable part of the target company is owned by financial institutions. Target companies with larger equity stakes, held by dual owners, have lower equity premiums and higher returns on abnormal bonds, especially when these dual holders gain more benefits from the appreciation of their bond shares, for example when they have larger bond holdings in the target company with a non-investment grade credit rating. In addition, dual holders are more likely to vote in favour of the proposed merger. The research results show that there are decision-making and coordination problems in dual holding financial groups.

Second, researchers are interested in studying how the *political connections of target companies* affect M&As. For example, Croci et al. (2017) argue that political connections complicate M&As. The authors used data ranging from 1991 to 2010 and

found that firms contributing to political action committees or involved in lobbying are less likely to be acquired and their takeover process is lengthier. As they empirically show, this can be explained by the fact that politicians have motives to interfere with the takeover process due to career concerns, in terms of getting re-elected and raising funds for future campaigns. The study also demonstrated that politically-related target companies receive higher acquisition premiums from bidders who lack political expertise, which is consistent with the market's perception of the target company's relationship as a means of enhancing growth opportunities for the acquired company, and that the target company's relationship is not easily copied by bidders.

Third, the literature has studied the *managerial teams* of target firms. Bates and Becher (2017), for example, utilise US market data from 1990 to 2008 to analyse the motivation of management to reject a takeover offer and the associated shareholder wealth effect. They developed a way of measuring the quality of initial bids and found a significant negative correlation between bid quality and rejection. As the quality of bids improves, subsequent offers are less likely to be higher, but they are more likely to be higher when the target company's board and chief executive have substantial personal wealth tied to the deal. If the target CEO fails to complete a high quality of work, they will face a lot of forced turnover attempts. Overall, the results support a price improvement motive for contested bids. Jenter and Lewellen (2015) discuss the impact of target CEO retirement preference on acquisitions. Using the retirement age as a CEO private acquisition cost indicator, they found strong evidence that target CEOs' preferences affect M&As. When the target CEO is close to 65 years old, this will greatly improve the possibility of a successful bid. Retirement-age and younger CEOs' takeover premiums and target announcement returns are similar, which means that retirement-age CEOs increase firm sales without sacrificing premiums. Better

corporate governance is associated with more acquisitions led by younger CEOs and less growth in retirement-age deals.

Fourth, some papers have studied the influence of the *target company's capital structure* on M&As. Jandik and Lallemand (2014), for instance, found that existing financial theory predicts that target managers will improve the leverage ratio, in order to strengthen management and control. What the authors also determined was that the target company often issued large amounts of debt when it withdrew its acquisition. Second, the poor performance of the target company in terms of issuing bonds will have a negative return. Third, the issuance of bonds by underperforming target companies leads to underperformance in the long term. Fourth, the negative impact of debt issuance can be offset by a good target. Overall, the findings suggest that as bond issuance increases, management's incentives to block takeover attempts differ, and these differences are recognised by the market.

Fifth, the literature looks at the *connection between acquirers and targets*. For example, Ishii and Xuan (2014) employ data from 1999 to 2007 to investigate the impact of the social relationship between the acquirer and the target company on M&A performance. It is discovered that the degree of cross-company social contact between the directors and senior managers of the acquirer and the target company has a significant negative impact on the abnormal returns of the acquirer and the target after the merger announcement. In addition, the acquirer's social relationship with the target company significantly increases the likelihood that both the CEO of the target company and a significant portion of the target company's pre-acquisition board will remain on the combined company's board after the merger. Moreover, they found that the acquiring company's chief executive was more likely to receive a bonus, to be paid

more after completing a merger of a target company with which the acquiring company had a close relationship, that acquisitions were more likely to take place between two companies that were closely linked through social ties, and that such acquisitions were more likely to be subsequently spun off for performance-related reasons. To sum up, the research results indicated that a social relationship between the acquirer and the target company leads to a decline in decision-making ability and overall value creation for shareholders. Sun et al. (2013) and Renneboog and Zhao (2014) use data from 1995 to 2012 to study the impact of corporate networks on the acquisition process. In the first instance they noted that companies with one or more general directors were more likely to merge. Second, companies with higher concentrations are more aggressive acquirers. Third, negotiations between affiliates take less time and are often completed more successfully. Fourth, associated bidders make equity offers more frequently. Fifth, the market relationship does not recognise the impact of the acquisition process.

Cai and Sevilir (2012) use 1664 US acquisitions between 1996 and 2008 from the Securities Data Company's (SDC) US Mergers and Acquisitions database to examine the relationship between acquires and targets current board connections. They study two types of board connections, and both situations lead to a higher announcement returns in such transactions. They are, first the acquirer and target share a common director before the deal announcement; second, one acquirer's director and one target's director are in the same board in a third firm before the deal announcement. Their result suggest that the first situation benefits acquires with lower transaction premiums sine the board member represents both parties; while in the second case, since the two directors worked together although they represent their own party as acquirer and target, they will have less scope for conflict of interest therefor create great value.

Sixth, *financial constraint and liquidity* sit within this strand of the literature.

Erel et al. (2015) establish that managers often claimed that the target company was subject to financial constraints before an acquisition, and that these constraints were alleviated thereafter. Employing a large sample of European acquisitions and observing these companies for up to 10 years, usually between 2000 and 2009, the authors recorded a decline in the level of cash held by the target company, the sensitivity of cash to cash flows and the sensitivity of investments to cash flows, while investments increased after the acquisition. These effects are stronger in deals that are more likely to be related to improved financing. The results show that acquisitions can ease the financial friction suffered by target companies, especially when they are relatively small. Recently, Greene (2017) examines 557 cases of sellouts, from 1992 to 2000 as sample to examine acquisitions of private firms by public acquirers to better understand the effects of financial constraints on the division of economic gains in takeovers. Empirical tests exploit interstate bank branching deregulation, which relaxes financial constraints on private firms and can strengthen their bargaining position in an acquisition. Using an indicator to measure the target's reliance on acquirer financing, the author found that private targets are less dependent on acquirers, due to the deregulation of interstate bank branches. The relaxation of the target's private financial constraints will lead to objective valuation multiples. For liquidity, Massa and Xu (2013) study the value of stock liquidity in the market for corporate control, indicating that the target firm's liquidity has an impact on the transaction itself and on the resulting merged entity. They used sample M&As (1987-2007) to show that public acquirers are more likely to buy additional liquid targets than private acquirers. Liquidity also means deals are more likely to be completed, and compensation provided to target companies is higher.

Almeida et al. (2011) establish a model of "liquidity mergers" considering the

relationship between the liquidity of the target company and the bidder. They suggest that financially distressed target companies may not be able to obtain financing to avoid a liquidation. However, even in the absence of operational synergies, liquid bidders can acquire these targets to prevent their ineffective termination. They empirically confirmed this effect and find that it was strongest in industries with high asset specificity, but among companies where assets were less specific to firms. Their work adds evidence of the relationship between merger and corporate financial policies, especially, on the management of liquidity instruments such as cash and credit lines.

2.4 The outcome of takeover activities

The fourth strand of the literature focuses on the *outcomes of takeovers*. Researchers have mainly studied the results of M&As by considering aspects such as cumulative abnormal returns (CARs), buy and hold abnormal return (BHARs), operating performance, premiums, completion time, productivity, investment efficiency and innovation.

Herein, I take BHAR, CAR, premiums and productivity as examples to explain further the results of M&As. Two main methods were used to measure company performance. *The BHAR method* is based on the difference between the buy and hold returns of the event company and the control company. Bessembinder and Zhang (2013) point out that the well-documented abnormal long-run buy-and-hold returns (BHAR) to firms issuing equity in initial public offerings and seasoned equity offerings, firms bidding in mergers, and firms initiating dividends can be attributed to imperfect control-firm matching. In addition to firm size and market book ratio, the average differences between event and control firms in terms of trait volatility, liquidity, return dynamics and capital investment also explain returns. The authors proposed a simple regression-

based approach to control for differences in enterprise characteristics between event firms and control firms, and they showed that the long-term abnormal returns of event firms from 1980 to 2005 are not significantly different from zero. As a result, event firms' returns are consistent with known patterns in the broader stock market and do not require an event-specific explanation. Chan et al. (2015) use data from 1996 to 2010 to test the information content of the announced returns of option trading to the receiving institution. Their study showed that implied volatility spread predicts positively on the *cumulative abnormal return (CAR)*, and the implied volatility skew has a negative effect on the CAR. Compared with the false event day, the actual M&A announcement day is more predictable. If the share price contains some information before an M&A, this prediction is weak. Finally, they found that the higher the relative volume of the options relative to the stock, the higher the absolute value of the CARs. The relationship also exists between target companies.

Alexandridis et al. (2013), using data between 1990 and 2007, examine the conflicting predictions between the premium paid for acquisitions and the size of the deal. They recorded the price premium and target size, a strong negative correlation relationship showing that acquirers tend to pay less for big companies, not more. They also find that the overpayment potential is lower in acquisitions of large targets. The study provides evidence in favor of this interpretation.

Ahern (2012) using data on mergers from the Securities Data Corporation (SDC) US Mergers and Acquisitions database between 1980 and 2008 to indicate that the average dollar return of the target company is only slightly higher than the dollar return of the acquirer. After considering a number of restrictions, eventually the author received a sample of 4,102 mergers. Using a standard external option argument, the author shows that the distribution of proceeds in vertical M&A is partly explained by

the product market relationship between the buyer and the target. Companies with more unique assets and fewer substitutes are expected to reap a larger share of the combined proceeds. In addition, he finds that compared with the situation where the target company relies on the acquirer through the product market or has fewer scarce assets, in the forward vertical mergers as a supplier or customer, the target company relies less on the acquirer and has a relatively large dollar gain from the merger. In the backward mergers, the greater the scarcity of enterprises, the greater the relative benefits. These results provide new evidence for an unexplored role of product markets on bargaining outcomes in mergers.

Dimpopoulos and Sacchetto (2017) quantify merger activity's impact on production efficiency. They developed and calibrated a dynamic industry equilibrium model characterised by the mergers, entries and exits of heterogeneous firms. Mergers affect productivity directly through realized synergies, and indirectly through firms' incentives to enter or exit the industry. Their adjustment showed that economies with active combined markets, on average, were 4.8% more productive than those where firms could not merge. They also suggested that merger activity has important effects on the productivity of the whole business cycle.

2.5 External environment and policy changes in takeovers

Finally, the fifth strand focused on the *external environment impact* on M&As. When considering the external environment, researchers often look at *culture, industry environment, external shocks, the business life cycle, governments, product markets and policies* etc. Recent research has shown that *cultural* values influence a range of impressive financial outcomes in global markets. Ahern et al. (2015) for instance, using data from 1985 to 2008, uncovered strong evidence that the national cultures of the

three key dimensions (trust, grade and individualism) affect the combination of quantity and income. Second, when the national culture is far away, the number of cross-border M&As is low. Third, in terms of trust and individualism, the greater the cultural distance, the lower the merger announcement returns. These findings are robust for year- and country-level fixed effects, time-varying, country-pair and transaction-level variables and instrumental variables for cultural differences based on genetic and somatic variations. The results are the first large-scale evidence, which suggests that various aspects of cultural differences in cross-border M&As have a significant effect.

The acquisition premium is the main statement made by the acquisition company about expected synergies, considered a complex function of many factors. Many of these factors (Lim et al. 2016) focus on the role of national culture and distance (CD), by considering an objectively (economic, rational) and subjectively (cognitive, irrational) unique combination of characteristics. Using data from 1990 to 2009, the analysis found that, first of all, national culture and the relationship between the distance to the target premium are asymmetric. Second, U.S. bidders pay lower premiums for culturally distant foreign targets. Third, this “cultural discount” is not observed when foreign bidders assess US targets. Fourth, asymmetry and the bidder’s familiarity with the culture of the target country are related. The findings highlight the existence, as well as the source, of the asymmetric property in the relationship between CD and target premiums in CB M&A.

There is research about how the *industry environment* affects M&A activities. For example, Ovtchinnikov (2013) investigates the industry environment which based on a sample of companies operating in unregulated industries between 1960 and 2008. The analysis found the endogenous factors of deregulation are evident in industry

performance. Second, the industry underperforms before deregulation. Third, after deregulation, a merger is associated with poor business performance. Fourth, mergers that occur after industry deregulation are exit mergers. The research results show that in the wave of deregulation, M&As have an important effect.

Rice and Rose (2016) note that government-sponsored Fannie Mae and Freddie Mac and other enterprises were placed under supervision in September 2008, which was a real *external shock*. To sum up, a number of unprecedented shocks placed the banking industry under extreme stress. The focus of their study was a pirate producer, who had an impact on the US banking industry. The authors combined information from three sources: the health of commercial banks and balance sheet data on income reports (call reports), 8,000 documents and related press releases provided by publicly listed commercial banks and information from the Independent Community Bank of America (ICBA). They found that, in response, the share price fell sharply, and as a result, many banks that held sizable amounts of the preferred stock of the two GSEs recognized substantial losses.

Existing theories on the role of M&As and diversification in the enterprise *life cycle* posit two completely different viewpoints, one of which is agency theory. Arian and Stulz (2016) describe agency theory which predicts that older firms make value-destroying acquisitions to benefit managers. Using data from the US market from 1975 to 2008, this paper examined changes in M&A rates over the life cycle and to what extent these changes support the predictions of institutional and neoclassical theories. They found strong support for the neoclassical theory's prediction that acquisitions are achieved by companies with better performance and growth opportunities, and that they create value. Through IPO cohorts, they found that while younger companies make more relevant and diversified acquisitions than older ones, the acquisition rate is U-

shaped over the life of the company. This is consistent with the neoclassical theory, which shows that the acquisition of the company has a better performance and growth opportunities and create wealth through acquisitions of nonpublic firms throughout their life. In line with agency theory, the stock price of the old company is negative in relation to the acquisition of the listed company.

Nguyen and Phan (2017) study the impact of *policy uncertainty* on corporate M&As, the time required to complete the merger and acquisition transaction and corporate M&As. From 1986 to 2014, it was found that there was a negative correlation between policy uncertainty and corporate acquisitiveness, and a positive correlation with the time required to complete the acquisition transaction. In addition, the uncertainty in a policy enables acquirers to use stock to pay, and thus pay a lower bid premium. On average, M&As made by acquirers during periods of high policy uncertainty created greater value for shareholders, as a result of their prudence and the transfer of wealth from financially constrained targets to acquirers.

Sheen (2014) by investigating the novel data on product market of the acquired companies, the source of value creation in the merger and acquisition is discussed. Based on the data collected from Consumer Reports magazine, the author introduced the quality characteristics, design, reliability, and price of more than 9000 brand products in 20 consumer products categories sold by 372 companies between 1980 and 2009. Eventually, 88 mergers within this sample were identified. He found that in a product market when two competitors merge, their products converge in quality, and prices fall relative to the competition. There is no price decline, however, when the acquirer is entering to a new product market. The straightforward evidence of actual changes caused by merger activities is consistent with mergers undertaken by the merging companies to achieve operational efficiency and cost reduction.

CHAPTER THREE: FINANCIAL ADVISORS' POLITICAL CONNECTION

3.1. Introduction

Political connections can benefit companies, such as low-cost financing, preferential tax and subsidies (Feng et al. 2015). On the other hand, there are potential cost, especially the poor corporate governance and lower equity compensation levels (Yu et al. 2010b; Kostovetsky 2015a; Shen et al. 2015). These explain why existing studies have found that political connections create value (Brockman et al. 2013; Civilize et al. 2015; Conyon et al. 2015), while others found no positive effects in this regard (Peng & Luo 2000; Mitchell & Joseph 2010).

For the reason of uncertainty bought by political connections, this research examines an alternative form of enterprises political connection, the external financial advisor's political connection. I investigate acquires' determination to assign politically connected financial advisors (PC advisors) in Chinese M&A and how such advisors affect value creation. PC advisor plays a vital role in the Chinese M&A market, the reasons are as following. First, in China, all major takeover transactions must be approved by the mergers and acquisitions committee of the China securities regulatory commission (hereinafter referred to as the "committee"). The committee focus on the legal and accounting disclosure of each transactions. So, a good relationship with government regulators would clearly help the approval process. Several studies emphasize the "helping hand" view of the relationship between the government and enterprises in helping firms maintain higher growth (Che & Qian 1998a).

Second, the outside advisors are crucial in helping firm completing the complex transaction. For example, the advisor can help the company search and pick-up the right target, and negotiate favorable terms. In addition, Chinese financial advisors help

companies to get in touch with regulators to facilitate the approval process. In developing financial market, such as China, relations with the regulators especially the government is another important factor for companies to consider when choosing advisors. In this context, it is crucial to understand the influence of financial advisors on mergers and acquisitions to facilitate management decisions in emerging countries. Mergers and acquisitions are an important enterprise activity, which also is an area of insufficient research.

Thirdly, M&A, as one of the most distinguished investment decisions of enterprises, has a significant impact on the shareholders' value. For example, Bi and Gregory (2011) and Shleifer and Vishny (2003) conduct a survey of the US and UK markets and generally found that takeovers cannot create shareholder value in the short and long term. On contrary, Boateng and Bi (2014) and Bi and Wang (2018a) find that takeovers benefit Chinese shareholders in both short term and long term. Using takeovers as an empirical setting allows us to look directly at the value creation role of the aspect of external political connections.

This research investigates the Chinese market because of the following reasons. First, as we all know, the Chinese government closely monitors and actively participates in business operations of local firms (Du et al. 2016). In the capital markets, government regulators set regulations to manage financing and acquisitions, making it easier for companies in the "supported industries" category to get outside financing and make acquisitions in regulated sectors. In this background, it is important to build political relationships by recruiting a politically connected management team or seeking outside resources to help the company achieve its desired business goals. Second, a remarkable feature of China's stock market is the limited information availability (Piotroski & Zhang 2014). In this situation, the role of financial advisors in the communication of

acquisition transactions becomes very important.

In 1,623 acquisitions between 2004 and 2014, I found that the PC-financial advisors created higher market value for the acquirers after controlling firms and deals characteristics. The value creation effect of PC-financial advisors was more significant for small size acquirers and high valuation (Tobin's Q value) acquirers. In addition, regarding the source of value creation, I find that the appointment of such financial advisors to the transaction can improve the long-term performance of the acquirer, industry-adjust the operating performance, and help to reduce the bid premium. Moreover, this empirical research shows that private companies that are less likely to establish strong political ties with a variety of government regulators, as well as in complex transactions such as stock payment takeovers, are more likely to appoint PC-financial advisors to take advantage of their active role. In my empirical study, using the following two methods to deal with endogenous, the results remain the same: year and industry fixed effects to tackle the problem of missing variables, and tended to propensity score matching (PSM), solve the sample selection bias based on observable characteristics.

This research contributes to the existing academic research in the following areas: first, it contributes to the political economies area by extending the political connections to external relations of the firms. Existing empirical studies have been found with some literature (Cull et al. 2015; Feng et al. 2015) support the idea that they create higher value for businesses because of easier access to capital, lower financing costs and tax incentives. However, other empirical studies have found that this has had a negative impact on the value creation of companies due to higher volatility, higher leverage, and poor corporate governance (Kostovetsky 2015a; Shen et al. 2015). Therefore, instead of focusing on internal political relations, I focus on the external relation of the firms,

and examine whether appointing PC-financial advisors can create shareholder value. This empirical setting allows us to focus on the role of political relationships without being influenced by other corporate characteristics.

Second, the research also extends existing financial intermediation literature, considering the social network effect, namely the political influence of financial intermediation. Financial advisors, especially the high quality financial advisors, whether or not to add value is still a controversial issue; For example, Rau (2000), Francis et al. (2014) and Ismail (2010) argue that because of its excellent professional knowledge in the M&A market, they do have value to the company and other companies (Bowers & Miller 1990; Michel et al. 1991). The study of the role of financial advisor in mergers and acquisitions provides additional evidence, emphasis on their political connections.

The remaining of this study proceeds as follows. The second part summarizes the literature review and institutional background. Data and variables used in the empirical analysis will be discussed in section 3. Section 4 provides politically relevant empirical evidence on the impact of financial advisors on the performance of mergers and acquisitions. Finally, section 5 reports of robustness test, and the findings are discussed in conclusion section 6.

3.2. Literature Review and Institutional Background

3.2.1 Literature review of political connections

This paper looks at four aspects of literature related to politics. First of all, some empirical studies support the idea that political relations create shareholder value. For example, Civilize et al. (2015) manually collected data from 1985 to 2008, found that the company related to political connections more likely enjoys higher actual returns

than politically un-related company, especially in the competitive and regulated industries. Conyon et al. (2015) study the "star CEOs" of China's listed companies, and found that the company has a higher announcement return and higher CEO pay, and the premium is mainly driven by the "star CEO" political connections. In the field of transnational mergers and acquisitions, Brockman et al. (2013) using the M&A samples from more than 20 countries, found that the acquirer abnormal returns associated with political connections are more than 15% higher than unrelated company, and the abnormal returns in the weak legal system or highly corrupt countries are much higher.

Some papers also explore the reasons for the creation of political relevance value. For example, Cull et al. (2015) suggest that political ties can make it easier to obtain financing from state banks. More specifically, Feng et al. (2015) determine the relationship between the Chinese politics to appreciation of four ways: better access to debt financing, tax breaks, more government subsidies and better access to the regulated industry. Boubakri et al. (2012) according to 1997-2001 data show that the political connection can significantly reduce the cost of equity of the company, as a result, political affiliates are considered less risky than the non-affiliated companies. In addition to the growth, political association can also increase the number of successful IPO (Li & Zhou 2015), and is unlikely to participate in the SEC³'s enforcement action (Correia 2014), in line with the above evidences, and in support to the notion that political connected financial advisors do make a great contribution to the M&A activities.

Political relations also have some downside effects. Faccio (2010) uses 47 countries 16,191 companies to show that the company's operating performance and

³ the U.S. Securities and Exchange Commission

market valuations are much lower, because their leverage ratio is higher than similar companies. Mitchell and Joseph (2010) also prove from their experience, the company performance which related to political connection are more losses during the crisis. Peng and Luo (2000) empirically document that political connections indeed create value in China.

Empirical studies also recorded the political relations could undermine the organization's value. Kostovetsky (2015a), for example, studies how they affect exposure, found that the company has higher leverage associated with political connections, as well as high volatility and high beta. Shen et al. (2015) document that the enterprise is more likely to show the bad governance practices, in the long term damage the value of the company, and Yu (2010) also provides empirical evidence to show that the CEO equity compensation level of these companies is low, which will affect the interests of senior management and shareholders.

3.2.2 Financial advisors and value gain

Financial advisor in mergers and acquisitions plays the key role in the processing and evaluation on the market information, and then provides technical and tactical assistance to the competitors (Chang et al. 2016) . Beatty and Ritter (1986) show that a financial advisor can collect information, and as a mediator to solve the problem of asymmetric information. Graham et al. (2017) find that target industry experience can help acquire to buy a company to identify and evaluate potential synergies of the target company. In addition, the experience also enables financial advisor in a specific industry to establish a wide range of networks, so that the consultant has competitive advantage in terms of access to information in the process of acquisition. Their result in favor of this hypothesis and found that financial advisors with rich experience have

higher CARs and lower premiums. Song et al. (2013) record "boutique advisor" with its skills and professional knowledge to create value in the complex transactions, and to help acquire to achieve a better outcome in the transaction, such as lower premiums. In addition, Francis et al. (2014) propose a financial advisor in cross-border mergers and acquisitions in the role of "certification" because they determine that the target countries trading experience which financial advisor familiar with by will improve shareholders value, and the financial advisor can choose appropriate goals and achieve a higher performance to enhance shareholders' value. All these studies support the financial advisor "information advantage" point of view, they can improve the target candidate screening, and make a better deal.

3.2.3 Regulated M&A market in China

Unlike the developed capital market, China's financial markets remain under strict government and/or market regulators regulation (i.e. CSRC) (Calomiris et al. 2010; Chen & Young 2010) In the IPO market, for example, the government still controls the number of institutions which can be listed each year, new issues company's P/E ratio must be lower than the limit stipulated by the CSRC (Chan et al. 2004). In the SEO market, the CSRC issues guidance on a regular basis, about which industry will be supported (Ni et al. 2010; Chen et al. 2017). Similarly, in the M&A market, the government also plays a vital role on how to make acquisitions of listed companies, because which success or not largely depends on the Chinese regulatory approval. Acquisition in China is upon the approval of the CSRC takeover panel, mergers and acquisitions committee of CSRC will review all the submitted documents to make the final decision, which according to the existing accounting system, the laws and regulations in China's capital market (Bhabra & Huang 2013; Zhou et al. 2015). In the

decision-making process, the key is to protect shareholder value. Therefore, understanding the latest acquisition regulations, and appropriate response to regulator's requiring, is particularly important to ensure the success of the committee's approval.

3.3. Data and Variables

3.3.1 Sample Construction

My sample of 1623 domestic M&A transactions in China was selected from the GTA corporate restructuring and acquisition database from 2004 to 2014. I adopt the following criteria to select the sample (1) the merger types include mergers, acquisition and asset acquisition; (2) the purchaser is a listed company in China; (3) deal should be worth at least 1% of the acquirer's total assets; (4) related party transactions, financial and public utilities sectors are not included in due to different financial reporting methods, ; (5) the same company announced a number of transactions within a year of observations are not included, in order to reduce pollution; (6) levels of financial and accounting data will choose from CSMAR database.

【Insert Table 3.1 here】

Table 1 shows the 1623 acquisition deals of observing the industry distribution of samples. The sample includes every major industries of the China Securities Regulatory Commission, which does not have financial and utility companies. Manufacturing has the highest number of deals (993), followed by the real estate industry (146) and the IT industry (141). Because of the importance of IT technology to various industries, the acquisition of IT industry has increased dramatically. The sample industry was distributed similar with (Deng et al. 2013) in the United States market, that highest manufacturing operations on the number of transactions. Table 1 also shows the 340 political connected advisory industry distribution of the samples, manufacturing

industry still rank number 1 with 220 deals among all others. In the IT industry, political related advisor deal has increased to 61.

3.3.2 Measure of Key Variables

If the acquirer designates a politically relevant financial advisor in the transaction, the primary interest variable is a dummy variable equal to 1; Otherwise, the dummy variable is equal to 0. In China's M&A market, the securities firm plays the role of financial advisor in every transaction, so if at least one member of the senior management team of a securities firm has political connections, then it is defined that the financial advisor with political connections. According to the existing empirical research (Liu et al. 2013; Civilize et al. 2015; Feng et al. 2015), the definition of political affiliation is that members of the securities firm's executive team are current or former members of the National People's Congress (including members of the CPPCC⁴), or former government officials. Each senior management team member's resume is collected manually from the company's annual report and website. As shown in tables 1 and 2, about 21% of acquirers have appointed politically relevant financial advisors to their deals.

To determine whether to appointing a PC advisor can increase shareholder value through a takeovers, I examined whether the acquisition with a PC advisor affects the capital markets' response to the deal announcement, as measured by the cumulative abnormal returns (CARs) on various event Windows. I adopt the standard event research method based on the benchmark of standard market model, and the market rate of return is provided by the Shanghai composite index. Specifically, the market model calculates the abnormal rate of return of company i on day t as follows:

⁴ the Chinese People's Political Consultative Conference

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \quad (3.1)$$

Wherein, R_{it} is the return of company i on day t , and α_i and β_i are the estimated in the 250-day period, in this case, from event date - 310 to event date -61. I focus on a variety of activity windows, and the activity day is designated as the announcement day of the acquisition.

3.3.3 sample statistics

Table 3.2 shows summary statistics on the characteristics of the major acquiring companies. See the appendix for a detailed definition of the variables. All continuous variables are winsorized at their 1% level to reduce the effects of outliers. The results show that in two event periods, the mean CARs of the acquiring companies are between 1.7% and 1.8%, and that the median CARs of the acquiring companies are between 0.6% and 0.8%. The short-term abnormal return rate reported in this paper is consistent with the research results of (Yang et al. 2019), who found that Chinese acquires owned 1.85% to 2.16% of significant positive CARs over three to five event days from 1998 to 2015.

The main reason for the significant positive returns for these Chinese acquisitions is that acquisitions have the potential to improve the long-term profitability and competitive advantage of the acquiring companies and less competition in Chinese takeover market.

The median market capitalization of the acquirer was 3.64 billion yuan, and the median leverage ratio of the acquirer was 0.338. The average cash holding rate of my sample acquirer also reached 20.7%, which supports (Boateng & Bi 2014)'s view that most Chinese acquirer companies are cash-rich. In this sample, the buyer's median Tobin Q is 1.59, the book-to-market ratio is 0.629, and the price increase (as measured by BHAR in the 12 months prior to the event) was 0.1%. In terms of operating

performance measurement, the acquisition companies in this sample have relatively high median industry adjusted ROA and ROE, which are 1.2% and 1.5% higher than the industry median respectively. The Tobin Q ratio of the acquirers is similar to that reported by Schmidt (2015) and (Yang et al. 2019) , but it was more leveraged than the US acquirer. In terms of corporate governance proxy, 14.3% of the acquirers in China have management shareholding, 36.7% of the board members are independent directors, and the controlling shareholders of the sample acquirers in China hold more than 49% of the outstanding shares, which indicates that the shareholding structure in China's capital market is very concentrated.

【Insert Table 3.2 here】

3.3.4 Univariate test

Table 3.3 shows the univariate test of the characteristics of the key acquiring companies through the presence of PC consultants in M&A transactions. I observe that the companies in the two subgroups have different corporate characteristics. Table 3.3 shows that compared with no PC consultant company, with PC consultant buy-out firms have a greater relative scale, the higher prices rise, the higher the Tobin Q ratio, and is unlikely to be paid in cash. Moreover, there is no significant difference between management shareholding and ex ante operating performance. In addition, the announcement (CARs) before and after the market reaction of two subsamples are positive, and PC advisors subsample of short-term market reaction was significantly higher than the non-PC sample advisors. Overall, these univariate results suggest that the market is responding positively to buyers who appoint PC advisors to their deals.

【Insert Table 3.3 here】

3.4, Empirical Analysis

3.4.1 Announcement Effect

If compared with the PC consultant trading, appointed PC consultants can create value for the deal, I hope that such companies to buy better, and experience the higher market reaction in these events. In the next section, I will use CAR (-1/1) as the dependent variable, dummy variable as the key independent variables of the PC advisors, through multiple regression estimate to check whether the PC advisors had a better deal. The acquirers' political relations return to previous research shows the determinants of the acquirer announcement returns (Huang et al. 2014b; Phalippou et al. 2014). To be specific, the ROA measures the accounting performance (Harford 1999), and the pre - event price run up measures the share price performance. I also include cash holdings, to control the agency cost of free cash flow (Jensen 1986), as well as book-to-market ratio, to control the investment opportunities (Officer 2003). Other companies and trading characteristics include the company size, leverage ratio, Tobin Q ratio (growth) and the method of payment. Except in mergers and acquisitions literature contains common control variables, I will control the Chinese market available corporate governance variables into the regression analysis, including the CEO duality, management equity, independent directors, ownership concentration and Z index (Boateng & Bi 2014). This regression also controls for industry and yearly fixed effects. I use the following multiple regression:

$$CAR_{(-1,1),i} = \beta_0 + \beta_1 PCadv_i + \gamma_1 DealControl_i + \gamma_2 CGControl_i + \varepsilon_i \quad (3.2)$$

where the dependent variable $CAR_{(-1,1),i}$ is the announcement cumulative abnormal return calculated from the market model during the (-1,1) event window for

firm i . The main interest variable is $PCadv_i$, if the deal is made up of political related financial advisor recommended, the dummy variable is equal to 1, otherwise zero.

【Insert Table 3.4 here】

The results are shown in table 3.4. Estimates of the first column shows the political advisor related coefficient, without any control variables. The coefficient is 0.041, indicating a significant positive correlation at the 1% level. The results show that the average car of the M&A companies that appointed PC consultants was 4.1% higher than that of the M&A companies that did not appoint PC consultants. The second column is the estimated value after controlling the acquirer's political relationship, as well as the determinants of the acquirer's reported return in early research. These control variables include the size of the receiving institution, the leverage ratio, the cash holdings of the receiving institution before the event, the Tobin Q ratio of the receiving institution, the book-to-market ratio, the percentage held after the transaction, and the performance of the receiving institution before the event. I found that the PC consultant's coefficient estimate reduced to 0.019 but remained positive and significant at the 1% level. Thus, even after controlling for specific characteristics of different companies and transactions, acquisitions with PC advisors generate higher returns than those without PC advisors. In the Chinese market adding additional corporate governance variables, including management ownership, CEO duality and the proportion of independent directors (Boateng & Bi 2014); I am interested in the main explanatory variables, namely the PC advisors dummy, still positively related to the acquirer's announcement returns. Table 3.4 provides strong evidence to support the political association consultant to create shareholder value.

Announcement CARs are also significantly correlated with certain company-specific and transaction-specific characteristics. The results are consistent with (Yang

et al. 2019), cash paid acquisitions in China reduced shareholder value (significantly negative for CARs). In this sample, the acquisition of CARs was also negatively correlated with the book-to-market ratio and positively correlated with the relative size of the transaction.

3.4.2 When are PC advisors most valuable?

The dep. variable in table 3.5 is the CAR (-1/1) of the acquirers, with firm and deal control variables same as those in Table 3.4. The PC consultant's estimate remained significantly positive. More importantly, as shown in columns 1 and 2 of table 5, the significant positive coefficient of the interactive term PC advisors × small acquires indicates that the value creation effect of PC financial advisors is more pronounced for small acquires who are young and unlikely to be closely associated with the government or market regulators. To sum up, the results in table 3.5 show that the value-creation effect of appointing a PC consultant can be valuable to a small acquirer.

【Insert Table 3.5 here】

3.4.3 The source of value gain

In the next section, I will discuss related to the acquisition of potential sources of value of earnings to determine associated with political mechanism of financial advisors for the acquirer shareholder value. In particular, I assume that they can help the buyer to choose the "right" targets, greater synergies, and improve operating performance.

$$OP_i = \beta_0 + \beta_1 PCadv_i + \gamma_1 DealControl_i + \gamma_2 CGControl_i + \varepsilon_i \quad (3.3)$$

The dependent variables are ROE and ROA in the 1-year following the acquisition, is defined as the difference between the original data and industry median. All regression controls for acquiring company characteristics and transaction

characteristics as defined in the appendix.

【Insert Table 3.6 here】

Furthermore, I controlled for additional corporate governance variables in the regression, and the results in table 3.6, show that the coefficient of PC consultants remains significantly positive at least at the 5% level, thus indicating that the appointment of PC consultants can bring an acquirer an advantage over its peers in the industry.

Instead of using industry adjusted ROA/ ROE, I also use change of ROA/ ROE, defined as the change of raw number from one-year before event to one-year after event, as the dependent variables. The robustness check show that these two alternative proxies generate quantitatively similar coefficients, but significance level is reduced to 10% level.

I further assume that financial advisor has a good relationship with local government can help the acquirers negotiate better terms, especially with private acquirers, thereby reducing the bid premium in the deal.

$$Premium_i = \beta_0 + \beta_1 PCadv_i + \gamma_1 DealControl_i + \gamma_2 CGControl_i + \varepsilon_i \quad (3.4)$$

The dependent variable is the bid premium, defined as the offer price divided by the target book value. All regression controls for acquiring company characteristics and transaction characteristics as defined in the appendix.

【Insert Table 3.7 here】

After controlling for transaction and company-level characteristics, the coefficient of the PC consultants' virtual model in column (2) of table 3.7 is not statistically significant, suggesting that from an independent point of view the PC

consultants had no significant effect on the bid premium. However, at the 5% level, the interactive term PC-advisors×private buyer is significantly negative, even after I include additional transaction and company-level control variables, suggesting that the appointment of PC advisors can reduce the private buyer's bid premium.

3.4.4 The likelihood of appointing a PC advisor

If politically connected financial advisors are appointed to create value for the shareholders of the acquiring company, does the company recognize this and rationally choose to appoint them? In this section, I will take a closer look at the factors that determine the appointment of a PC consultant by a buy-out firm. The following logit regression is performed:

$$Prob(PCAdv)_i = \beta_0 + \gamma_1 FControl_i + \gamma_2 DControl_i + \varepsilon_i, \quad (3.5)$$

Where the dependent variable Prob (PCAdv) is a dummy variable that is equal to 1 if the acquiring company appoints a PC consultant, otherwise it is zero. I use various company and transaction characteristics as explanatory variables.

【Insert Table 3.8 here】

The results are shown in table 3.8. The main variables I am interested in are private acquirer dummy. China's state-owned enterprises already have potential political interests because of their natural links with central or local governments. However, private acquirers are unlikely to have this advantage, so I assume they are more likely to appoint PC advisors to do deals. The results are shown in table 3.8 and confirm this prediction. Column 1 shows that at the 1% level, the coefficients of the private buyer dummy model are significantly positive, indicating that private buyers are more likely to appoint PC consultants. Column 2 shows that at the 5% level, the

dummy coefficient of private acquirers is also significantly positive, indicating that the private acquirer is more likely to appoint a PC advisor.

3.5. Robustness Check

3.5.1 Identification Concerns

In this section, I discussed the issue of endogeneity and solved it in my empirical research through using the following methods: year and industry fixed effects, addressing missing variables, propensity score matching (PSM), and addressing sample selection biases based on observable firm characteristics.

First, the decision to appoint a politically relevant financial advisor may be an endogenous one and related to other corporate characteristics that may influence the return on merger announcements. This possibility can also lead to the omission of variable biases (Fich et al. 2015). I correct the missing variable bias by including the year and industry dummy in each multivariate test, as industry and/or time trends may influence the incidence of mergers and acquisitions and the decision to appoint PC consultants. As shown in tables 3.4 and 3.5, all the key variables were significant at the 1% level.

Another approach to deal with the endogeneity issue is to use the propensity score matching (PSM) method, which corrects the sample selection bias due to the significant differences between the treatment and control groups (Dehejia & Wahba 2002). I compared the average vehicle in a portfolio composed of transactions, where the PC advisor was used with the control group. I followed the procedures outlined in (Jha & Cox 2015) and use the propensity score matching (PSM) process to determine control of the transaction. I first use logit model to build a propensity score model, which estimates the use of PC advisor in the acquisition. If the PC advisor exists, then the

dependent variable is equal to 1, otherwise it is zero. For each observation in the treatment and control groups, I calculated the propensity score using the logit model described above. I use the following company level variables to build the following propensity score: the company size, leverage, cash holdings, Tobin Q ratio, Book-to-market ratio, price rise, operating performance and Z index before events. Then, for each observation of the treated sample, I found the closest neighbor from the control group, the observation of the control group with the smallest absolute difference in propensity score.

【Insert Table 3.9 here】

The selection model estimates Panel A in table 3.9. High leverage acquirers are less likely to appoint PC advisors and higher cash holding acquirers are more likely to appoint PC advisors to the deal; However, the coefficient of Z index is significantly negative. In panel B in table 3.9, I report the average difference of CARs between the treated and control samples. The results are the same as those in table 3.3. The average CAR of the processing sample on two different event windows is 6.1% to 7.0%, while the average CAR of the control sample on the same event window is 0.6%-0.8%. The difference between these two groups is significant. Therefore, the results of the PSM method confirm the results of the univariate analysis in table 3.3 and the multivariate regression analysis in table 3.4. Overall, these findings found that when PC advisors were used for acquisitions, the acquirers had higher abnormal returns.

3.5.2 Alternative measurement of CARs

When calculating the regression analysis is used in abnormal profits, another concern is the deviation model specification, because China's domestic market liquidity is lower than the western market. In order to solve this problem, I use another kind of

market adjustment model to calculate the CAR. Using market models and longer event window, I rerun the baseline regression in table 3.4. The dependent variable in column 1 of table 3.10 is 5-day CARs. Column 2 reports the results, using a market adjustment model that includes transaction levels and corporate governance control variables, with fixed effects also controlled by annual and industry dummies. PC advisors of the dummy coefficient remained significant at the 1% and 5% level respectively and is positive, therefore suggests that PC advisors really create the value for the acquiring firm's shareholders, even if I use a different model and event cycle.

【Insert Table 3.10 here】

3.6. Conclusion

Through empirical research, this paper analyzes the relationship between the appointment of politically connected financial consultants and the merger and acquisition of Chinese enterprises. I find that after addressing the endogeneity problem in my empirical investigation, they create significantly higher market value for the acquiring company. For small acquirers and acquirers with high Tobin Q ratio the value creation role of politically connected financial advisors is more obvious. In addition, I have found that including PC advisor as part of a transaction improves the acquisition company's long-term, industry-adjusted operating performance and helps to reduce the bid premium. Finally, I found that private acquirers were more likely to appoint PC advisors in the transaction. In summary, this article helps us to understand the political relevance of a takeover. The practical significance of this article is self-evident to the management team considering the acquisition of the company. In addition, this research highlights the important role of financial advisors in emerging countries with underdeveloped capital markets and high degree of information asymmetry.

CHAPTER FOUR: TOP-TIRE FINANCIAL ADVISORS

4.1, Introduction

Mergers and acquisitions in China enterprise occupy a large share of investment, in recent years, the number and volume of mergers and acquisitions increased sharply. As China's rapid growth of mergers and acquisitions, consulting the trade value also increased significantly, from 425 billion yuan in 2012 to 1.2 trillion yuan by the end of 2018. Though the increasing importance of firm growth, China's advisory services also increased dramatically, but financial advisors, especially top advisor whether and why to value-added, is still a controversial issue. For example, Rau (2000) finds that the acquirer recommended by the top investment bank achieved higher shorter market reaction, while Francis et al. (2014) prove that consultant role in target countries certification and experience particularly valuable to the company. The empirical evidence and (Ismail 2010) points of view is consistent, namely a high quality of the consultant, because in the M&A market has excellent professional knowledge, has the ability to find a better target for shareholders to create more synergies. However, Sibilkov and McConnell (2014) find that over 80% of consulting fees are paid only upon completion of the acquisition, and these fees do not depend on whether the deal creates value for the acquirer. Therefore, the quality of the consultant should not be linked with shareholder returns. This view is supported by empirical research: Bowers and Miller (1990), Michel et al. (1991) and Rau (2000) measure the quality of advisors by reputation or market share, but they did not find any link between quality of advisors and returns to the purchaser. If advisors only depend on the merger completion, and previous customer performance has nothing to do with the consultant selection (Forte et al. 2010), So why bother to hire a quality consultant and pay more?

Based on this conflicting empirical evidence, I review the role of the high-quality financial advisor in mergers and acquisitions, I looked at them in the Chinese market reputation and consulting the relationship between the service quality. Specifically, the question I would like to discuss is whether and how top-tier advisors have a different impact on acquisitions in the financial markets, which are known for the possibility that large shareholders may encroach on small shareholders.

High quality financial advisor can use their industry experience to help buyer search and select the appropriate takeover targets, they can also help the acquirers to negotiate a better deal terms and lower bid premium. However, while these high-quality financial advisors act only as "advisors", it is the controlling shareholders themselves who really decide on specific M&A deals, that is, choosing the target company and financing options. Though the reputation of the financial advisors may heavily influence the wealth of the acquirer, but the possibility of a controlling shareholder being expropriated could be linked to the use of top advisors and have a negative impact on wealth. The "positive" role played by top advisors can be undermined by the market's perception of controlling shareholder behaviour, and this, in turn, generates a conflict empirical evidence about its value. In addition, the centralized holding of controlling shareholders serious agency problems may arise, especially in countries with weak corporate governance mechanism, where tunneling the interests of minority shareholders by large shareholders is a major problem (Sun et al. 2013).

I focus on top advisor to the role of mergers and acquisitions in China, the reason are as follows: first, China's M&A sample provides us with an ideal environment, in this environment, I can examine the quality of consultants and the role of controlling shareholders, because one of the most striking aspects of China's listed companies is the largest shareholder. On average, nearly 50% of outstanding shares are hold by

controlling shareholders in mainland China market (Sun et al. 2013), and the significant difference between the largest shareholders and minority shareholders may lead to serious agency problems. In China, various ways are used to tunnel the minority shareholders, such as surplus manipulation (Wang & Yung 2011), false financial disclosure (Zou et al. 2008), the related party transactions (Cheung & Wei 2006), the loan guarantee (Berkman et al. 2009), and merger and acquisition (Sun et al. 2013). In such a market environment, financial advisors are less likely to work for the best interest of shareholders, because they will get compensation by successful completion of the transaction, rather than for trading performance compensation (Wang & Whyte 2010). Through the study of China's M&A market, I can examine whether the possibility of expropriation by the controlling shareholder of the acquiring company will affect the service quality and market response of top advisors.

Second, as one of the most important enterprise investment decision, merger and acquisition has an important influence on shareholder wealth, for example, Shleifer and Vishny (2003) and Bi and Gregory (2011) of the US and the UK market found that mergers and acquisitions in the short term and long term can destroy shareholder value. On the other hand, Boateng and Bi (2014) find that M&A is to create value for shareholders in China. As described in the existing literature, in a market environment with weak legal protection, the influence of the value of high-quality consultants can be directly tested through the market reaction after controlling factors.

If institutions (that is, top advisors) have better information, the existence of quality advisors and their role as communicators become extremely important for acquisitions, target companies, and other investors.

This paper explores whether and why quality financial advisors generate shareholders value in China's M&A market. I found that acquires who employ top

financial advisors on M&A deals generate more value than those who use non-top teams. However, when the acquirer increases the possibility of controlling shareholders encroach on minority shareholders, this positive effect is not obvious, suggesting that large holdings by controlling shareholders may undermine the quality of service and value creation of top advisors. I also explored the potential value drivers for top advisors in deals and found that acquisitions involving them had higher post event operating performance, indicating their ability to select the "right" target and create operational synergies for the bidding firm. I also investigated the top advisors to offer premium and transaction completion time, the influence of the results showed that they can help buyer to design better deal terms, lower bid premium, therefore, they can to get the best interest of shareholders as a starting point, and has rich experience in promoting trading process. However, the empirical evidence does not support that top consultants shorten transaction completion times compared to non-top consultants. About identifying problems, because most enterprise decision-making is not random, thus this paper faces a potential problem of sample selection bias. Therefore, I used Heckman (1979) 's two-stage selection model to test the relationship between the selection of top advisors and the announced returns of the acquiring firm, in addition to OLS regression. I also conducted robustness tests using another definition from the top consultant and confirmed that the results are robust to various specification bias.

This paper contributes from several aspects to the current debate about the influence of financial advisors on shareholders' wealth. First, it provides an up-to-date analysis of unresolved issues regarding the role of top advisors in the M&A market and identifies important channels through which top advisors can increase shareholder value in China's M&A market. Secondly, the study also contributes to a large amount of literature on acquisition performance, pay special attention to financial

intermediaries to the acquirer short-term effects and long-term performance. By considering the acquisition of the company's shareholding structure, I expanded the scope of the study, and beyond the financial intermediaries' impact on acquisition process alone. And, more importantly, this research has increased, more and more research, analyzes the controlling shareholders in China's capital market, the influence of large shareholders, and I prove from the experience, investors in mergers and acquisitions, even the top advisor recommended transaction, which holding the main large blocks of shares held by a controlling shareholder to give lower valuations.

The rest of the paper is arranged as follows. The second part is the institutional background and literature review. Section 4.3 discusses the data and variables, and section 4.4 provides empirical evidence on the impact of top advisors on acquisition performance and possible value drivers. Finally, section 4.5 is the conclusion.

4.2, Literature Review and Institutional Background

4.2.1 Literature review

This paper discusses several aspects of takeover literature. Most notably, this is related to a growing number of "investment banking" literature, which focuses on whether financial advisors can improve the performance of M&A transactions, and then emphasize any reason for potential returns. For example, Bao and Edmans (2011) use data between 1998 and 2007, 15344 transactions, and their empirical studies show that investment banks do affect the result of the merger, especially in the high quality consultant handling cases. Golubov et al. (2012) show top-tier financial advisors and the non-top financial advisors, in mergers and acquisitions create value, their empirical evidence shows that the former for the acquisition of the company's shareholders to

create more value, and this kind of value creation comes from their ability to find more synergies for bidders. Ismail (2010) studies 6379 M&A transactions in the United States and found that the value created by tier-two advisors was higher than that created by tier-one advisors, which was mainly driven by the huge losses of the primary advisors. They further point out that investment bankers have different motivations for advising on big and small deals. By contrast, using 2,016 transactions between 1995 and 2006, Song et al. (2013) find that "boutique" advisors had more favorable trading results than "omni-directional" investment bankers, because boutique advisors had more experience and skills in complex transactions in their selected industries.

The second part studies the factors determine the possibility of the acquirer/target company choosing a financial advisor. Sibilkov and McConnell (2014) find that the previous client performance is an important decision factors, market forces will adjust the consultant and client interest in trading. Forte et al. (2010) study 473 EU mergers and acquisitions, and found that previous client relationships, advisors' reputation and transaction complexity were the main factors. The results indicated the "certification role" of financial advisors. (Francis et al. 2014) using 1,792 U.S. transactions between 1990 and 2003, to evaluate whether and how relationship of financial advisor affects the bidder's choice, and evidence shows that the bidder's experience in mergers and acquisitions and the method of payment are important considerations.

Finally, empirical research will also be consultant "certification role" extended to IPO and bond issue market. For example, Fang (2005) studies more than 3,000 bonds issued in the US market and found that the reputation of advisors was closely related to the quality of bond issuance. In the IPO market, Carter and Manaster (1990), Beatty and Ritter (1986) and Carter et al. (1998) find that the reputation of consultants was significantly correlated with the first day returns of IPO companies.

The available empirical literature on the wealth impact of quality advisors is inconclusive,

However, these studies do not examine the impact of expropriation on acquiring companies. This paper links expropriation and the use of top advisors to the impact of wealth on shareholders of Chinese buy-out firms.

4.2.2 Mergers & Acquisitions and Securities Companies in China

With the development of the strategy of "going out" of China's state council, China's M&A market appeared the explosive growth in 2014. According to Zero2IPO database, there were 1,929 transactions in 2014, up 56.6% from 2013, with turnover up 27.1% year-on-year. Ninety percent of those deals were domestic, totaling \$81.32 billion.

Through M&A, Chinese enterprises optimize asset allocation, expand business and realize strategic transformation. China accounted for 10.6% of the value of mergers and acquisitions in the world as of 2013 (only 2.4% in 2005), and is now home to the world's second-largest M&A market, according to the China Securities Regulatory Commission.

Financial advisors in China's M & A market generally refer to a team of investment bankers from securities companies acting as deal advisors and brokers in the capital market. By the end of 2014, a total of 120 securities companies in mainland China. The traditional brokerage business is still a Chinese securities company's main source of income, accounting for about 36% of its total revenue. However, investment banking advisory services have grown dramatically over the past five years and are now the second-largest source of revenue for most securities firms. The securities company provides financial advisory services including IPO, mergers and acquisitions, bond

issuance and other related services.

4.3, Data and Variables

In this section, I discuss samples, major variables, and sample characteristics. I also present a univariate test to compare the trading characteristics grouped by top and non-top financial advisors.

4.3.1 Sample Construction

From 2012 to 2014, since the market share data of reliable financial advisors in the WIND database is only available in 2012, 924 samples of mergers and acquisitions in China are selected from corporate restructuring and acquisition database of GTA companies. I use the following criteria to select the final M&A sample :(1) transaction types include mergers, tender offer and major asset acquisition; (2) The purchaser is a listed company in China; (3) The transaction value shall be at least 1% of the market value of the acquirer; (4) related party transactions, due to different financial reporting methods, the financial and utility sectors will be excluded; and (5) company-level financial and accounting data will be selected from the CSMAR database.

【Insert Table 4.1 here】

Table 4.1 shows a sample of industry distribution for 924 acquisition observations. The sample covers all major industries of the CSRC, excluding financial & public utility companies. The manufacturing sector had the largest number of transactions (613), followed by the real estate sector (102) and the IT industry (44). Because of the importance of IT technology to various industries, the acquisition activity of IT industry has increased sharply. The industry sample distribution is very similar to that reported in the US market, where 57.19% of US acquirers operate in the manufacturing sector

(Deng, 2013).

4.3.2 Measure of Key Variables

The main variable I am interested in is the reputation of the financial advisor. The financial advisors' information on each transaction was manually collected from each company's M&A announcements published by the China Securities Regulatory Commission

Market share is the most widely used measure of reputation in the underwriting market (Megginson & Weiss 1991); However, there has been little research into the reputation of consultants in the M&A market. This study follows (Rau 2000) and (Wang & Whyte 2010) and divides securities companies into different levels according to their market share in consulting services. Specifically, I use the rankings provided by the WIND database, and each financial advisor's year-end ranking matches each deal in this sample before the deal is announced. By now, there were 83 securities companies who actively participate takeover advisor services in the Chinese market. I define a top consultant as someone with a top 30% market share. If I use the top 10% as alternative measures, all the results of this article are still valid. However, for the sake of brevity, I only report the top 30% of results (the results defined in the top 10% are available on request). As a robustness check, I define a "top-tier" advisor based on the number of transactions, and all of the results are still valid.

To determine whether "top" advisors can add shareholder value through acquisitions, I examined whether their proposed deals affect the capital market reaction to deal announcements, as measured by the cumulative abnormal returns (CARs) across different event windows. I follow a standard event-study approach and use market index as the model benchmark. Specifically, the market model calculates the abnormal return

AR_{it} for firm *i* on day *t* as:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \quad (4.1)$$

where R_{it} is returns for firm *i* on day *t*, and α_i and β_i are estimated regression parameters over the pre-event 250-day period: event day -310 to event day -61. I focus on various event windows, and the event day 0 is the announcement date of the deal.

4.3.3 Sample Statistics

Table 4.2 shows summary statistics on the characteristics of major acquisition companies. A detailed definition of a variable is provided in the appendix. All continuous variables are sorted at their first and 99th percentiles to reduce the impact of outliers. The results show that the median CARs of the acquisition companies are between 2.7% and 3.2% over three different observation periods, and median CARs of the acquisition companies is between 1.3% and 1.5%. The average market value of acquirers is 5.59 billion yuan, and the average leverage ratio of acquirers is 0.33. Acquirers in this sample hold 22.3% cash on average, which supports the view of (Boateng & Bi 2014) that most Chinese buyout companies are flush with cash. In this sample, the average Tobin Q ratio of the acquirer is 2.05, the book-to-market ratio is 0.6, and the price rise (as measured by BHAR in the 12 months prior to the event) is 14.3%. In terms of the measurement of operating performance, the acquired companies in this sample have higher industry-adjusted ROA and ROE, respectively 1.5% and 1.8% higher than the industry median.

The Tobin Q ratio of the acquirer represents the over/under valuation of acquirers, which is similar to that reported by (Schmidt 2015), but its leverage ratio is higher, suggesting that Chinese acquirers use more external debt/ bank borrowing to finance the transactions. The average relative value of the transaction is 14.1% of the acquirer's

assets, indicating that the acquisition in this study is a non-trivial investment.

【Insert Table 4.2 here】

4.3.4 Univariate test

Table 4.3 shows a univariate test of key acquisition company characteristics through top financial advisors in M&A transactions. I observed that the companies in the two subgroups had different corporate characteristics. Table 4.3 shows that acquisitions firms appoints quality financial advisors borrow less debts, reserve higher percentage of cash holdings, a relatively higher valuation (Tobin Q ratio), and are less likely to finance the deal with cash than firms with non-top financial advisors. In addition, there were no significant statistical differences in the size of acquirers and pre-event operational performance. In addition, the average market response of the two sub-samples is positive, while the short-term market response of the top sub-samples is significantly higher than that of the non-top sub-samples. Overall, these univariate results suggest that top financial advisors prefer acquisitions with higher growth opportunities and that the market responds positively to these acquisitions.

【Insert Table 4.3 here】

4.4, Empirical Analysis

4.4.1 Announcement Effect

Top financial advisors are expected to make better acquisitions and respond more to these events than non-top teams if they create value for their clients. In the next section, I will take CAR (-2/2) as the dependent variable and the dummy variable of the top financial advisor as the key independent variable to test whether the financial advisor can make better acquisition deals through multiple regression estimation. In

addition to including common control variables in the merger acquisition literature (Huang et al. 2014a). In this regression, I also control the fixed effects of the industry and the year. I used the following multivariate regression:

$$CAR_{(-2,2),i} = \beta_0 + \beta_1 TopAdvisor_i + \gamma_1 DealControl_i + \gamma_2 firmControl_i + \varepsilon_i \quad (4.2)$$

where the dependent variable $CAR_{(-2,2),i,t}$ is the announcement cumulative abnormal return calculated from the market model during the (-2,2) event window for firm i. The main variable of interest is $TopAdvisor_i$, a dummy variable (see appendix for detailed definition).

【Insert Table 4.4 here】

The results are shown in Table 4.4. Estimates of the first column shows the top advisor coefficient, without any control variables, the coefficient is 0.070, significant positive correlation at 1% level. The results showed that the average CAR of acquisition firms employing top financial advisors was 7% higher than that of firms using non-top financial advisors. Column 2 is the estimate after controlling for the acquirer's announced return determinants in previous studies, including the acquirer's size, leverage ratio, the acquirer's cash holdings prior to the event, the acquirer's Tobin Q ratio, book-to-market ratio, the percentage of shares held after the transaction, and the acquirer's prior performance. I find that the coefficient estimate for top financial advisors was down to 0.027, but still positive and significant at the 5% level. As a result, even after controlling for various company-specific and deal-specific characteristics, acquisitions recommended by top financial advisors generated higher returns than those using non-top advisors. Table 4.4 provides strong evidence to support the view that top financial advisors create value for shareholders.

Announcement CARs is also significantly associated with certain company-

specific and deal characteristics. Consistent with previous findings, such as those presented by (Faccio et al. 2006a), there was a significant negative correlation between the purchaser's CAR and the purchaser's size. In my sample, acquirer CARs are also negatively correlated with price increases and pre-acquisition ownership.

4.4.2 Top-tier advisors and expropriation

The results in Table 4.4 show that top financial advisors do add value to shareholders; But would the market react differently to top financial advisors if the acquiring company might suffer serious agency conflicts between controlling and minority shareholders? My sample of Chinese mergers and acquisitions provides an ideal environment to answer this question. I use two ways to represent the possibility of expropriation. The first is the high-control dummy, the controlling shareholder holds more than the median, it is equal to 1, otherwise it is zero. The increase of the controlling shareholder's shareholding ratio increases the chance of being seized by the controlling shareholder. In this regard, the second measure is the Z index, where the holdings of the largest shareholder are divided by those of the second-largest investor. The Z index represents the relevant control of the largest shareholder relative to the second largest shareholder. The higher the index, the more likely it is to invade. If the receiving mechanism's Z-index is higher than the median, the pseudo-value of the high Z-index is equal to 1, otherwise zero.

【Insert Table 4.5 here】

I perform the CAR regression in equation (4.1) by interacting the top advisor dummy with the *high ControlHld* dummy and the high Z-index dummy. The dep.variable in Table 4.5 is the CAR (-2/2) of the acquirers, and all other control variables are the same as those used in Table 4.4. The estimated coefficients of top

financial advisors remain significantly positive. More importantly, the significant negative coefficients of the interaction term *Top-tier * High ControlHld* indicate that the value creation effect of top-tier financial advisors decreases when the major shareholders of the acquirer hold more shares. Moreover, the interaction term of the *Top-tier * High Z-index* remains significantly negative, meaning that the relative control of the largest shareholder does undermine the value-creating role of top advisors in Chinese takeovers. To sum up, the results in Table 4.5 show that the value-creating effect of top consultants decreases when the possibility of major shareholder encroachment increases.

4.4.3 Source of value gain

In the next section, I will explore potential sources of value return associated with an acquisition to identify mechanisms by which top financial advisors add value to the acquirer's shareholders. In particular, I assume that top financial advisors can help acquires pick the "right" targets and improve their management skills, thereby improving post-acquisition operational performance.

$$Prof_i = \beta_0 + \beta_1 TopAdvisor_i + \gamma_1 Control_i + \varepsilon_i \quad (4.3)$$

The dependent variable is *ROA* in the 12 months following the acquisitions, defined as the difference between raw data and the industry median value. All regressions control for the acquiring firm's characteristics and deal characteristics, as defined in the Appendix.

【Insert Table 4.6 here】

Coefficients for the top-tier advisor dummy in columns (1) and (2) of Table 4.6 are significantly positive at the 5% level, suggesting that, on average, the presence of a

top-tier financial advisor can improve industry-adjusted operating performance over a post-acquisition 12-month period.

I further investigate whether the top financial advisors by promoting trade processes create value for the acquirer shareholder, because they has rich experience in dealing with market regulator, in addition, they can also help acquiring firms to buy a company through a detailed due diligence, and negotiate a reasonable market price. Therefore, I further assume that they can help the acquiring company reduce the bid premium and shorten the closing time. I investigated the impact of top financial advisors on the bid premium by running the following multiple regression:

$$BidPrem_i = \beta_0 + \beta_1 TopAdvisor_i + \gamma_1 Control_i + \varepsilon_i \quad (4.4)$$

where the dependent variable is *Bid Premium* paid by acquirers, measured by the price paid scaled by the target book value.

【Insert Table 4.7 here】

The results are reported in Table 4.7. As seen in column 1, without controlling variables the coefficient for the top-tier dummy is significantly negative at the 10% level. More importantly, after I add deal-level control variables in column 2 the coefficient for the top-tier dummy remains significantly negative, thus suggesting that top tier advisors can help acquiring firms reduce bid premiums by 14.7% compared with deals advised by non-top-tier advisors.

I investigate the impact of top-tier financial advisors on deal completion time by running the following multivariate regression:

$$ComTime_i = \beta_0 + \beta_1 TopAdvisor_i + \gamma_1 Control_i + \varepsilon_i \quad (4.5)$$

Where the dependent variable is the number of days it takes (natural logarithm) to complete the transaction. Column 1 of Table 4.8 shows that only top-tier dummy values are significantly positive at the 1% level; However, when I added control variables to the regression, the top-level dummy value was still negative, but not significant, indicating that the top-level advisor might conduct more detailed due diligence on the target company, which in turn would require longer trading time; Therefore, there was no significant difference in transaction completion time between the two groups.

To sum up, I find evidence that top advisors help acquisition firms select suitable targets and reduce the bid premium, although my empirical evidence does not support the hypothesis that they can significantly shorten the completion time.

【Insert Table 4.8 here】

4.4.4 Identification Concerns

Kai and Prabhala (2007) argue that most business decisions are non-random, and sample-induced endogeneity is particularly important in M&A studies (Certo et al. 2016). In this context, acquirer returns are available only for firms that decide to make an acquisition, and a firm's acquisition decision might be influenced by a set of firm characteristics. To solve the sample selection bias problem, I rerun the above regression using the two-stage model. Specifically, in the first stage, I used a set of variables recorded in (Gao 2011) to estimate the probability of an enterprise making an acquisition decision. Explanatory variables include the size of the acquirer, book-to-market ratio, leverage ratio, pre-acquisition cash holdings, and the acquirer's price run-up. Then, in the second stage of regression, a fitting value (inverse Mill's ratio - Lambda) is used, where the dependent variable is the short-term abnormal return on each event

window, and all other control variables are the same as table 4.4.

【Insert Table 4.9 here】

The results in Table 9 show that the coefficients of the top financial advisors are still significantly positive, and none of the Lambdas in the first-stage regression are significant, so there is no sample selection bias in the sample. Overall, these major findings remain largely unchanged compared to the two-stage regression model.

Another issue raised in this study is the endogeneity problem caused by missing variables, as missing variables may actually be some unobservable business characteristics that affect the selection of top advisors and the performance of acquirers. To mitigate the potential problem of missing variables, I add a fixed effect to the above regression. In this case, the coefficient estimation of the top-level dummy is still positive and significant, indicating that the result is robust for the control of the omitted variables that are ignored. This evidence once again strongly supports this contention that top advisors have a significant impact on acquisition value creation.

4.5, Conclusion

This paper makes an empirical analysis of the relationship between top financial advisors and mergers and acquisitions of listed companies in China. I find that acquires who employ top advisors experience a higher short-term market response, while the positive effect is less pronounced for acquires whose controlling shareholders are more likely to seize them. Further research on the source of value creation suggests that top financial advisors can help acquires choose the "right" target, generate greater synergies and improve management skills, which in turn improve post-event business performance and reduce the bid premium. Finally, the significant positive coefficients of the top consultants remained significant even after correcting for the sample selection

bias. In general, this paper demonstrates that in China's M&A market, the top financial advisors hired by the acquirer are beneficial to shareholders, while the top financial advisors are beneficial to improving the equity quality.

CHAPTER FIVE: TAKEOVER ADVISORS' TEAMWORK

5.1, Introduction

Advice provided by investment banks has a significant impact on firms' decisions, and this consulting work is carried out by a team of investment bankers. There is a rich body of empirical corporate finance literature on the role of investment banks; however, we know very little about the teamwork of a group of investment bankers and its impact on corporate activities.

Nowadays, many business decisions are made by teams; for example, the mutual fund literature documents there is a higher performance when the fund is managed by a team of fund managers compared to an individual manager (Groh & von Liechtenstein 2011; Han et al. 2017; Patel & Sarkissian 2017). There is also a rich vein of literature on financial advisors in the financial market, looking at, amongst others, their reputation and performance (Bao & Edmans 2011; Golubov et al. 2012). However, we still do not know whether and how team characteristics affect deal outcomes; for instance, will team size, educational background and the length of time they work together (team tenure) make a difference? To fulfill this gap, this research moves one step further to gather biographical information on the individuals affiliated with each investment bank and to address these questions by examining teams of financial advisors in the Chinese mergers and acquisitions (thereafter M&As) process.

Financial advisor teams in takeovers deals refer to a team of individuals from an investment banking department of securities companies in China. There are several teams in specific investment banks, and these teams work simultaneously on different consulting projects (i.e. IPO or M&As). Each team is expected to search their own

clients and compete with other teams for potential business opportunities. The roles of financial advisors in the M&A process include: helping a firm pinpoint potential acquisition targets, evaluating targets in terms of potential synergies, designing and negotiating acquisition contracts with target managerial teams, after due diligence, and preparing the required documents for government approval. How each team is remunerated also depends on the numbers and volumes of transactions they execute every year. The size of each takeover advisory team also varies, with the minimum number two and the largest eight (in our sample). Every team member who participates in a specific takeover deal is required to sign the applications form submitted to thus CSRC for review, and thus they take full responsibility for the accuracy and adequate disclosure of takeover-related information to both regulators and investors.

Larger teams can be advantageous, in that they can share the heavy workload involved in the due diligence process and reach more potential targets. However, a large team does not equate to a “quality service”, and as the team sizes increase, costs also increase. For example, *coordination costs* might reduce the efficiency of teamwork, and expensive *travel costs* might prevent advisor teams from going regularly to acquirers and targets to perform thorough due diligence. However, it is almost impossible to accurately measure the cost when team size increases.

The coordination cost was first formally introduced by (Becker & Murphy 1992), who describe it thus: “a variable of great importance is the cost of combining specialized workers. Modern work on principal-agent conflicts, free-riding, and the difficulties of communication imply that the cost of coordinating a group of complementary specialized workers grows as the number of specialists increases.” In this financial advisor teamwork context, the coordination cost refers to the cost of coordinating various tasks among large team members, such as assigning these tasks,

monitoring the progress of each team member, and ensuring they work to the same standard. An empirical study set in the Chinese capital market by (Bi & Wang 2015) document that hefty coordination costs reduce the monitoring effects of institutional investors and destroy firm performance.

In addition to the coordination cost, larger teams also have higher travel costs⁵. As shown in the table of 5.12 Appendix B, the average distance between acquirers and targets in the takeover samples is 1145 km, it takes about 743 minutes (about 12 hours) from the acquirers' city to the target's city, if travelling by train, and the average ticket cost is around 330 yuan. It would be much faster to travel by air (the average travel time 117 minutes), but the ticket price would be much higher, on average 1060 yuan if the member were to fly economy class. Thus, longer travel times and higher travel ticket prices also prevent larger teams from commuting regularly on these takeover projects.

Thus, a primary team characteristic examined in this paper is team size, as a larger team may not benefit shareholders, due to potential higher coordination and travel costs.

This study uses M&As to address this issue, and for the following reasons. First, Chinese M&As are tightly controlled by the government, and their success depends principally on the approval of Chinese regulators. M&A proposals have to be submitted and reviewed by *The Acquisition Committee* of the China Securities Regulatory Commission (CSRC). This committee judges each deal based on legal and accounting requirements set by the CSRC, and thus bidders' past experiences and potential relations with regulators are helpful in the overall approval process; for instance, Che and Qian (1998b) highlight the way in which government-business relations shape business strategy and performance in China.

⁵ Refer to the table in Appendix B for a full description of travel costs (times and ticket prices) between acquirer and target cities.

Second, appointing external advisors is a crucial and common practice for acquiring companies in financial markets, as an acquisition is a complex process and financial advisors have the expertise to help companies select suitable targets, conduct due diligence and negotiate favourable terms on behalf of the acquiring company. The complex tasks carried out by these financial advisors are always done by a team, and the *acquisition reports* released by the CSRC also include the printed name of each team member and their signatures. Thus, the accurate and detailed team-level data in Chinese M&A process provide an ideal platform from which to examine teamwork in corporate finance.

Third, as one of the most important corporate investment decisions, M&As can have a significant impact on shareholders' wealth. For example, Shleifer and Vishny (2003) and (Bi & Gregory 2011) study the US and UK markets and found that mergers and acquisitions generally destroy shareholder value in the short and the long term. On the other hand, Boateng and Bi (2014) and Bi and Wang (2018b) find that mergers and acquisitions created value for Chinese shareholders. Using takeovers as an empirical setting allows us to directly examine team characteristics and deal outcomes.

This study scrutinizes the Chinese market for the following reasons. First, the Chinese government is known for its active participation in company business operations through ownership and market regulation (Du et al. 2016). In capital markets, government regulators (i.e. CSRC) set rules to regulate financing and investment, making it easier for companies in the 'support industry' category to obtain external financing and make acquisitions. In this environment, it is crucial to understand the rules set by the government and to seek help from external advisors who can benefit firms in an emerging market such as China. Second, due to inadequate disclosure and poor corporate governance standards, the Chinese capital market is known for its low

level of available information (Piotroski & Zhang 2014), and in this environment, the role of the financial advisor in the transmission of information in the acquisition transaction becomes very important.

Using 475 financial advisor teams (consisting of 1,330 individual advisors) from 69 securities companies in 475 Chinese M&As transactions between 2008 and 2016, I found that the financial advisor team size has significant impact on deal outcomes. Specifically, the results show that smaller teams make better deals (higher short-term market reactions), especially when team members have been working together longer, possibly due to the low co-ordination and travel costs in smaller team with longer teamwork experience. I also identified the source of short-term value creation by smaller size advisory teams, and analyses show that they have a significantly lower likelihood of information leakage prior to the formal announcement. Further analyses show that team members with a research degree (Master/ PhD) do not help their clients generate higher value, and smaller teams are as good as their larger counterparts in terms of searching for and picking up quality targets (statistically indifferent in terms of operating performance). The main results continue to hold after I control for the reputation of (top-tier) investment banks in the baseline regressions and use propensity score matching (PSM) and the Heckman two-stage model to address any potential endogeneity issues.

This research contributes two main aspects to the literature. First, it adds to the financial advisory literature, as the analysis herein moves from the company level to the team level. Despite the growing importance of teamwork in financial sectors, so far only a small number of empirical studies have addressed this issue in the mutual fund literature, and studies have generally found that “team-managed” mutual funds outperform “individual-managed” mutual funds (Prather & Middleton 2002; Chen et al.

2004; Prather & Middleton 2006). Moreover, studies in the financial advisor literatures generally use investment bank company-level analysis to proxy the advisor. For example, Bao and Edmans (2011) and Golubov et al. (2012) examine the reputation of financial advisors, and (Yu et al. 2010a; Feng et al. 2015; Kostovetsky 2015a; Shen et al. 2015) discuss how the political connections of financial advisors influence corporate decisions. None of above research efforts, however, considers financial advisor team-related characteristics.

Second, this study also contributes to the very limited teamwork literature in the finance field. Different from previous studies (Cici & Gibson 2012; Patel & Sarkissian 2017), which consider the mutual fund managerial team, this study examines takeover advisor teams in corporate finance. The data show that the average size of an advisor team in a takeover transaction is three, with the largest team having eight team members, and the smallest team just two. The large variation in size enabled me to carry out more meaningful analyses in teamwork-related hypotheses.

The rest of the paper is organised as follows. Section 5.2 presents an institutional background and literature review; section 5.3 discusses the data and variables, and section 5.4 presents empirical evidence on the impacts of the takeover advisor team on acquisition performance and addresses concerns about endogenous problems. Section 5.5 describes other considerations necessary when appointing smaller size advisory team, and finally, section 5.6 presents the study's conclusions.

5.2, Literature Review and Institutional Background

5.2.1 Literature review on teamwork

There is very limited literature on teamwork in the finance field. Several papers have examined the teamwork of fund managers and how this affects mutual fund

performance, and generally they have found that they do indeed offer some benefits. For example, Patel and Sarkissian (2017) use Morningstar data and found that funds managed by the team performed better against various performance indicators than individual-managed funds. The relationship between team size and fund performance is nonlinear. Moreover, funds managed by teams do not take on more risk than individual-manager funds, and overall, team management is good for the performance of the fund industry. Han et al. (2017) find that compared with single-manager funds with the same characteristics, team-managed funds performed better and deviated less from benchmark allocation. Cici and Gibson (2012) point out that when money flows and is managed by a team of portfolio managers, it is easier for them to sell disproportionate winners rather than losers. In addition, Dass et al. (2013) describe that the funds managed by the team showed higher returns in a professional way, in the form of better performance of security options than those funds managed alone.

On the other hand, Bär et al. (2010) use US stock mutual funds data and found that team management funds follow a less extreme investment style, and their portfolios industry concentration is also low. Thus, this eventually reduces the possibility of extreme performance and supports the diversification of opinions hypothesis.

5.2.2 Literature review on financial advisors

There is a rich body of literature on financial advisors in the financial markets. First, the reputation of financial advisors plays an important role in takeovers, according to Chemmanur and Fulghieri (1994). In contrast, Ismail (2010) studies the US M&As market and found that second-tier advisors created more value than first-tier advisors. In addition, Song et al. (2013) find that compared with “full-service” investment bankers, “boutique” advisors can obtain more favorable transaction results, while

Graham et al. (2017) find that a large proportion of value creation comes from small- and medium-sized financial advisors, rather than large top investment banks.

Another strand of the financial advisor literature has examined factors determining the likelihood of choosing a financial advisor. Chang et al. (2016) find that acquiring companies tend to hire former advisors of the target company, and they also tend to pay a lower acquisition premium, in order to secure a larger proportion of merger synergies. Graham et al. (2017) use a sample of M&A transactions in the US and found that when there is significant information asymmetry in the target industry, the choice of expert financial advisors in the target industry is most beneficial to the acquirer.

Finally, in a third strand, empirical research also extends the advisor's 'certification role' to other events in capital markets. For example, Fang (2005) uses more than 3,000 bond issues in the US market and found that the reputation of advisors had a positive effect on the quality of bond issues, whilst for the IPO market, (Carter & Manaster 1990; Beatty & Welch 1996; Carter et al. 1998) find that the reputations of financial advisors have a positive relationship with the first-day returns of IPO companies. All of the above results indicate the 'certification role' of the financial advisor.

5.2.3 Institutional backgrounds

The Chinese financial market is still heavily regulated (Calomiris et al. 2010; Chen & Young 2010); for example, Tian (2011) states that in the SEO market, the CSRC regularly issues guidance on which industry to support, and in the IPO market, the government still controls the number of organizations that can be listed each year, and the price-earnings ratio of new issuing companies must be lower than a certain limit set by the CSRC (Chan et al. 2004; Ni et al. 2010; Chen et al. 2017). Similarly, in the

M&A market, the government plays a vital role in how listed companies make acquisitions, and an acquisition proposal requires undergoing the formal review procedure set by the CSRC (Bhabra & Huang 2013; Zhou et al. 2015); thus, the chance of successfully completing a deal depends crucially on the approval of Chinese regulators.

Furthermore, the Chinese M&A market differs from the Western market in the listing status of target companies. In the Chinese takeover market, majority of targets firms are not listed, so acquirers in China face a severe information asymmetry problem in the takeover process (Boateng & Bi 2014). When publicly available information is limited, it is expected that financial advisors in China will help acquiring companies find potential targets, provide valuation services and, if necessary, obtain external funding. In addition to these traditional services provided by investment bankers, financial advisors also help companies prepare the necessary documents to seek regulatory approval and respond to regulatory inquiries. Therefore, understanding up-to-date takeover rules and responding appropriately to regulators' inquiries are particularly important for receiving a successful approval from the committee.

5.3. Data and Variables

In this section, I discuss the sample selection process, major variables and sample characteristics. I also provide the results of a univariate test to compare transaction characteristics grouped by small-team and large-team financial advisors.

5.3.1 Sample Construction and Data

The Chinese domestic M&A deal sample was selected from the GTA Corporate Merger, Acquisition and Restructuring Research (CSMAR) database from 2008 to 2016, as GTA only collects and records reliable financial advisors and board member CVs

from 2008. The stock return data and firm-level financial and accounting data were also collected from the CSMAR database.

I use the following criteria to select the final M&A sample: (1) the transaction type includes mergers, tender offers and acquisitions of assets; (2) the acquirer is a domestic listed company in China; (3) the transaction value is at least 1% of the buyer's total assets; (4) due to different financial reporting methods, finance and public utilities will be excluded; (5) related-party transactions are also excluded, as related-party M&As are not market-based transactions; (6) transactions announced by the same company within one year period are excluded and (7) the takeover transaction is advised by one of securities companies (investment banks) in China.

Advisor team-level data, including numbers of members in this specific takeover transaction and the name of each advisor, were manually collected from the *Acquisition Report* published by the CSRC. In addition, the CSRC also publicly discloses each individual advisor's past working experience, the starting/ending dates of each previous position and their educational background (Bachelor, Master, PhD etc.). These detailed personal data enabled me to trace accurately each advisor's job history and calculate how long they had worked together (team tenure). The numbers and volume of acquisition deals advised by an investment bank (company level) in a specific year were collected from the WIND database. After matching personal advisor data with each M&A transaction, I have a final available 475 M&A transactions for this study. These M&A samples cover 475 advisor teams from 69 securities companies (investment banks), with a total 1,330 individual advisors.

Table 5.1 presents the sample distribution by year and industry for the 475 acquisition observations. Panel A reports the numbers and percentages of acquisition deals by year, with the numbers (values) of acquisitions increasing dramatically to 138

deals by the end of 2016. The number of deals in the early years is very small, possibly due to the financial crisis around 2008, and it might have taken several years to recover from this impact. Panel B in Table 5.1 shows the numbers and values of acquisitions by the acquirers in the CSRC industry. Manufacturing had the highest numbers and values of transactions (299, 62.95%), followed by IT (81, 17.05%). Acquisitions in the IT industry increased dramatically because of the importance of this technology to various industries. The industry distribution of this sample is very similar to that reported by (Deng *et al.* 2013) in the US market, where 57.19% of the buyers in the US are from the manufacturing industry.

【Insert Table 5.1 here】

5.3.2 *Measure of Key Variables*

The main variable of interest is advisor team size, and I define the dummy variable, *small advisor team*, as equating to 1 if the number of team members in a specific takeover transaction is equal to or smaller than 3 (the median value); otherwise, it is equal to 0. Instead of using a dummy variable method to construct the main variable of interest, I also directly use *number of team members* (the continuous variable) in the regression analysis, and the main results continuously hold⁶.

In order to determine whether the appointment of a smaller advisor team can improve shareholder value through acquisition, I examine whether the acquisition affects the capital market's response to the announcement of the transaction, as measured by the cumulative abnormal returns (CARs) of various event windows. I report CAR on four event windows around the deal announcement date: 3 days, 5 days, 7 days and 11 days. The event date is designated as the announcement date for the

⁶ Results using number of team members are not reported in this paper, due to space limitations, but they are available upon request.

acquisition transaction. I adopt the standard event-study method, based on the standard market model benchmark, and the market returns provided by the Shanghai Composite index. Specifically, the market model calculates the abnormal return AR_{it} for firm i on day t as:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \quad (5.1)$$

where R_{it} is the return on day t for company i , α_i and β_i are the company-specific regression parameters estimated over the 250-day period, in this case from event day -310 to event day -61.

5.3.3 Sample Statistics

Table 5.2 provides summary statistics on the characteristics of acquiring companies (see table 5.11 Appendix A for detailed variable definitions). All continuous variables are winsorised in their first and 99th percentile to reduce the effect of outliers. Table 2 also shows the CAR over the (-1,1), (-2,2), (-3,3) and (-5,5) event windows for acquiring companies. The acquirer's average CARs are significantly positive for all event windows, ranging from 5.7% to 11.3%. The results show that, on average, the mergers and acquisitions in this sample create value for the shareholders of the acquiring company, consistent with previous findings (Fuller et al. 2002) for instance, found that, on average, bidder shareholders benefit when buying a private company. The significant positive returns of these Chinese acquirers are due primarily to the fact that acquisitions may improve long-term profitability and enhance the competitive advantage of the acquiring company. In addition, Chi et al. (2011) believe that low M&A competition in China is another reason for these positive CARs.

Regarding financial advisor team characteristics, the average team size is three, the minimum two and the maximum eight. On average, they have worked with each

other for 32 months prior to the deal announcement (the average team tenure is 32 months), and around 50% of team members have a higher academic degree (Master and PhD), thereby suggesting that financial advisor teams in China are generally well-educated. About 50% of acquirers appoint top-tier investment banks as their advisors, measured by either deal numbers or deal values. Regarding firm and deal characteristics, the sample shows that the median market capitalization of acquirers is 21.2 billion yuan, and the median leverage ratio of the acquiring company is 0.319, higher than that reported by Schmidt (2015) and (Yang et al. 2019). My sample acquirers also have an average cash holding of 15.3%, which supports Boateng and Bi (2014)'s argument that most Chinese acquirers are cash-rich. In terms of pre-event operating performance measures, the industry median-adjusted average *return on assets (ROA)* of the sample acquisition companies is 1%, suggesting that acquirers in this sample perform better than their industry peers.

As for the proxies of corporate governance, 25.4% of the shares are held by acquirers' managerial teams, 37.7% of the board members are independent directors and the controlling shareholders of this sample acquirers hold more than 13.8% of outstanding shares, which indicates that the sample acquirers have a very concentrated ownership structure in the Chinese capital market.

【Insert Table 5.2 here】

5.3.4 Univariate test

Table 5.3 shows a univariate test of the characteristics of the acquiring companies when appointing a small- or a large-sized advisor team. I observed that the companies in these two sub-groups have different characteristics. Table 5.3 indicates that acquiring companies hiring smaller advisory teams have greater relative size, higher leverage and

higher shareholding concentration, and they are less likely to pay cash than companies using larger advisory teams; however, the differences between these two subgroups are not test-significant. In addition, the average market responses around announcements (CARs) are positive for both sub-samples, while the short-term market responses advised by the small advisor team are significantly higher than those of the larger team sub-sample, and all of them are test significant. Overall, these univariate results suggest that the market responded positively to the smaller advisory teams in the transactions.

【Insert Table 5.3 here】

5.4, Empirical Analysis

5.4.1 Announcement Effect

If appointing a small advisor team rather than a large team of advisors creates higher value for an acquisition, I expect to see these companies making better acquisitions and experiencing a higher market response to these events. In the following section, I examine whether a smaller advisor team produces a better acquisition, by presenting multiple regression estimates, using CAR (-1/1), CAR (-2/2) as the dependent and dummy variables for a smaller advisory team. This regression of the acquisition announcement period return controls for firm- and deal-level characteristics, which are well-documented in the current literature (Huang et al. 2014b; Phalippou et al. 2014). Specifically, *ROA* measures accounting performance (Harford 1999). I also included *Cash Holding*, to control for the agency cost of free Cash flow (Jensen 1986). Other company and transaction characteristics include company *size*, *leverage* and *payment methods (100% cash payment)*. In addition to common control variables included in the M&A literature, I also included corporate governance variables that could be used in the Chinese market regression, including *CEO duality*, *management shareholding*, *independent directors*, *shareholding concentration ratio* and *Z index*

(Boateng & Bi 2014). All regressions also controlled for industry and year fixed effects, and I used the following multiple regressions:

$$CAR_{(-1,1),i} = \beta_0 + \beta_1 STadv_i + \gamma_1 DealControl_i + \gamma_2 CGControl_i + \varepsilon_i \quad (5.2)$$

where the dependent variable $CAR_{(-1,1),i}$ is the cumulative abnormal return of announcements calculated using the market model during the 3-day and 5-day event windows of company i . The main variable of interest is $STadv_i$, a dummy variable equal to one if the transaction is advised by a smaller advisor team, and zero otherwise.

【Insert Table 5.4 here】

The results are reported in Table 5.4. Column 1 shows an estimate of the small advisor team coefficient without any control variables. The coefficient is 0.034, which is significantly positive at the 1% level, indicating that the average CARs of acquiring companies that appointed a small advisory team were 3.4% higher than those of companies using a large team. Column 2 provides estimates after including the key control variables documented in previous studies, and the results show that the coefficient for the small advisor team reduced to 0.031, but it remains positive and significant at the 1% level. As a result, even after controlling for various companies and specific deal characteristics, acquisitions with a small advisor team still yield much higher returns than those attributed to a larger team. In column 3, I repeat the regression analysis run in column 1, and I change the event window to (-2,2) while column 4 also uses the event window (-2,2) to repeat the procedure in columns 1 and 2. The coefficients for the *Small Advisor Team* Dummy are 0.047 and 0.044, respectively, and they remain positive and significant at the 1% level. Table 4 provides strong empirical evidence on the value creation role of a small advisor team in corporate takeover

decision.

Announcement CARs are also significantly related to certain firm- and deal-specific characteristics. Consistent with previous findings, such as those presented by (Faccio et al. 2006b), there is a negative relationship between acquirer CARs and acquirer size. CARs are also significantly positive in relation to the acquiring leverage ratio, indicating the corporate governance role of external debt financing. In addition, acquirers' CARs are also positively related to pre-event run-ups and relative deal size.

In an unreported table, I also include the investment bank fixed effect, in addition to year and industry fixed effects in the baseline regressions, while the main results remain quantitatively similar to the results reported in Table 5.4.

5.4.2 The mechanism for short-term value creation by a smaller team

In the following section, I explore the potential source of value creation by appointing a smaller advisor team in the investment bank. Specially, I hypothesis that smaller teams have lower costs (i.e. lower coordination cost and travel cost), especially when team members have worked together longer. In addition, the likelihood of information leakage prior to a formal announcement is also low in a smaller advisory team.

The empirical evidence in Table 5.4 shows that smaller teams create value, possibly due to the lower coordination costs between team members. If lower coordination costs and lower travel cost facilitate the efficiency of teamwork, and generate higher value, value creation should be observed mainly in teams whose members have worked together longer. To examine this hypothesis empirically, I repeat the regression analysis in Table 5.4 and divide all samples into two groups according to the length of time of team members have worked together; the cut-off point is the

median value of the number of months, in this case 30 months (shown in Table 5.2). In Table 5.5, I run similar regressions, which include all control variables used in Table 5.4 and use the 3-day and 5-day event windows as dependent variables.

【Insert Table 5.5 here】

The results are reported in Table 5.5. Columns 3 and 4 present coefficients for the *working-together-longer* subgroup, the estimates are 0.045 and 0.062, respectively, for both event windows and all of them are significantly positive at the 1% level. Although I did not find significantly positive results in the *working-together-shorter* subgroup, the results nevertheless suggest that a small advisory team, aligned with team members working together longer, generates much higher value, because it is easy to coordinate the work and share the responsibility among all team members, and teamwork is far more efficient due to members' familiarity with each other.

The second possible channel of value creation is the low chance of information leakage prior to a formal announcement, due to the smaller number of advisors involved in this transaction. Each M&A is a significant and complex transaction for any firm, and the choice of potential targets and detailed transaction terms is the key determinant of the success of each transaction; consequently, acquisition arrangements are always treated as top secret by firms. Furthermore, firms will always try their best to protect their business secrets, for example by signing confidentiality agreements with anyone who might participate in the M&A negotiation process. However, I still observe cases of information leakage prior to an announcement, which attracts the attention of minority shareholders, regulators and even takeover competitors, and eventually drives significant changes in the stock price. Thus, I further hypothesise that the fewer people who actually know about the deal, the less likelihood of information leakage. Keown and Pinkerton (1981) state that systematic abnormal price movement can be interpreted

as evidence of the market's reaction to information in advance of its public announcement, and Agapova and Madura (2011) use abnormal returns over the announcement period as a proxy for information leakage.

In this paper, I follow Agapova and Madura (2011)'s method and use abnormal share price changes over a one-month period prior to the announcement to proxy for information leakage. I measure information leakage use the abnormal share price changes prior to event, and I define an abnormal price change (information leakage) as a dummy variable equal to 1, if the market index-adjusted abnormal return of the acquiring firm is either in the top 30% or the bottom 30% of all event firms' returns; otherwise, it is equal to 0. In regression analysis of Table 5.6, I also control for media coverage and the external monitoring of financial analysts, to rule out the alternative explanation that information leakage comes from more analysts and media coverage of the acquiring firms. It is believed that the more analysts follow and media coverage on acquirers, the higher the information transparency. If a smaller team does make a difference in terms of possible information leakage, the dummy variable for the small team should still be significant after considering the information environment of the bidders. Table 5.6 reports that the coefficients for multi-variant regressions between leakage and the small team dummy are significantly negative at 5% after considering the information environment and other control variables. These findings suggest that the likelihood of information leakage is significantly low if appointing a smaller team, and therefore protecting business secrets does indeed create value for shareholders.

【Insert Table 5.6 here】

5.4.3 Endogeneity concerns

In this section, I address concerns about endogenous problems and apply the

propensity score-matching (PSM) approach to address sample selection bias based on observable firm characteristics bias (Dehejia & Wahba 2002). To examine whether a smaller advisor team indeed creates higher value than a larger team, I compare the short-term market returns of smaller advisor team acquisitions to identical deals appointing a larger cohort, by following the procedures outlined in (Jha & Cox 2015) and using PSM to identify the control samples. I first use the logit model to estimate the likelihood of appointing a smaller team, and then I calculate the propensity scores for each deal in the treatment and control groups, using above logit model. I follow the model specification in (Bi & Wang 2018b) to build the logit model, and I include the following control variables: *company size*, *leverage*, *cash holdings*, *payment methods*, *price increases* and *relative size*. Then, for each observation from the treatment group, I find the nearest neighbour from the control group (the absolute value of the difference in propensity scores is the minimum).

【Insert Table 5.7 here】

Panel A of Table 5.7 reports the results of the logit model. Acquirers with higher leverage and all-cash payments are more likely to appoint a smaller team; however, the acquirer's size and deal complexity (relative deal size) do not have a statistically significant impact on the decision to appoint this team. In Panel B of Table 5.7, I report the mean difference in CARs between the treated and the control samples. Similar to the results reported in Table 5.3, the treated samples have an average CAR of 6.8%-13% in four different event windows, while the control samples have much smaller event period returns, in the range 3% to 6.7%, and the differences between the two groups are test-significant in all four event windows. Therefore, the results of the PSM method confirm the results of the univariate analysis in Table 5.3 and the multivariate regression

analysis in Table 5.4. Overall, these findings again support the hypothesis that smaller advisor teams provide better service to their clients.

These results might also suffer from another form of endogeneity bias, as corporate takeover decisions are not random, and thus the M&A sample-induced endogeneity issue should also be addressed. I therefore deal with this bias by adopting the Heckman two-stage model, where the first-stage logit model estimates the likelihood that a firm may make an acquisition decision, using all listed firms in China across our sample periods. I follow the empirical settings by Renneboog and Zhao (2014) and include the following explanation variables: *acquirer size*, *book-to-market ratio*, *leverage*, *cash holding prior to acquisition* and *acquirer's price run-up* in the first-stage logit regress. The inverse Mill's ratio (Lambda) from first-stage regression is then used in the second-stage regression model, where the dependent variable is short-term abnormal returns, and all other control variables are the same as those in Table 5.4.

【Insert Table 5.8 here】

Results reported in Table 5.8 are consistent with the baseline regressions in Table 5.4, and they confirm that smaller teams do indeed create value in takeovers after addressing the M&A sample selection bias in my empirical settings, while the *Smaller Team* coefficient dummy is still significant positive at the 1% level. I also notice that the coefficients for the Lambda variable in my second-stage regressions are not significant in Column 1 and are very marginally significant in Column 2, thereby suggesting that potential sample selection bias has not had a significant impact on the baseline regression results.

5.5, Other considerations

Do team members with an advanced degree (percentage of team members with a Master or PhD degree) make a difference? Educational background plays a very important role in corporate decision-making. For example, Graham and Harvey (2001) show that executives with MBA degrees use more sophisticated methods for value projects and are able to reduce firm-level risk. Bertrand and Schoar (2003) and Bhagat et al. (2010) also report that executives with MBAs tend to be more aggressive and engage in more riskier projects.

Professional financial advisors are expected to carry out industry-wide and company research, and they are also responsible for preparing acquisition reports submitted to the CSRC for review and approval; thus, research training and report-writing skills might be important determinants of team performance, especially for smaller advisory teams in which each member takes greater responsibility than his or her counterpart in a larger team.

I additionally collect information on the educational background of each team member, and I calculate the percentage of team members with a research degree (Master/PhD) as the independent variable. I re-run the baseline regression in Table 5.4 with exactly the same control variables, and the results are presented in Table 5.9. The coefficients for the research degree are not test-significant, no matter whether I include control variables or not, and the robustness check using the alternative event windows does not change the results, thereby indicating that the research degree of team members does not make any difference.

【Insert Table 5.9 here】

Are positive returns driven by the reputation of investment banks (company level)? Another concern when interpreting the results is that the reputation of

investment banks (top-tier advisors) may also play an important value creation role in the above analysis, and the superior performance of small advisor teams might come from investment banks' reputation in takeover transactions. For example, Rau (2000) finds that the acquirer advised by the first-tier investment bank enjoys higher abnormal returns, while (Francis et al. 2014) document that the advisor's certification role and experience in the target country are particularly valuable to the company. This empirical evidence is consistent with the argument proffered by (Ismail 2010), as quality advisors are able to find better targets and create greater operational and financial synergies for shareholders, due to their superior expertise in the M&A market.

To solve this concern, I additionally control for investment banks' reputation (top-tier advisor) in this regression models, in which I define top-tier advisors as those who are ranked in the top 30% in China in terms of volume of M&A deals executed⁷, or in the top 30% in terms of numbers of M&A deals executed. I re-run the baseline regression in Table 5.4 and include both the *small advisor team dummy* and the *top-tier investment bank dummy* in every regression, and the results are presented in Table 5.10. The coefficients for the smaller advisor team dummy all remain significant and positive at the 1% level, thereby indicating that the teamwork of financial advisors contributes most to the overall performance.

【Insert Table 5.10 here】

Do smaller advisor teams make a difference to long-term value creation?

Empirical studies suggest that long-term value creation, measured by either a post-event long-term buy and hold abnormal return (BHAR) or operating performance (i.e. ROA, ROE), is mainly due to the synergy generated in the takeover process, such as the cost

⁷ Data were collected from the WIND database.

reduction and efficiency increases (Wangerin 2019). If a smaller team were indeed disadvantaged when searching for and picking up quality targets for acquiring firms (a best-fit target with the acquiring firm, which generates synergies after integration), we should see that the smaller team dummy is significantly negative related to post-event operating performance, because smaller teams have few team members, which potentially reduces the chance of identifying quality and suitable targets. To examine this hypothesis, I repeat the baseline regressions, by using industry median-adjusted ROA/ROE as dependent variables and observe the statistical significance of the coefficient for my key interested variable, *Smaller Team (0/1)*. In the un-tabulated table, these results show that the *Smaller Team* dummy is not significantly negative related to long-term post-event operating performance (12-month & 36-months after event), thus indicating that there is no empirical evidence to support the argument that a larger team can reach and pick up more suitable targets for acquirers compared to a smaller team, due to their larger number of team members.

5.6. Conclusion

This paper uses team-level data and biographical information on individual advisors affiliated with each investment bank to examine empirically the importance of financial advisors' teamwork. The study shows that the size of an advisor team plays a very important role in terms of value creation, due to the potential coordination cost of a large team. I further identify the source of this value creation: low coordination costs and less likelihood of information leakage. In addition, I also consider whether team members' research degrees and the reputation of investment bank drive positive returns, with empirical analyses showing that the size of an advisory team makes important contributions to the value-creation roles of takeover advisors. The results hold when I address endogeneity issue in the empirical settings, and so the findings have important

implications for academia and practitioners, in that selecting an appropriate advisor team is more important than choosing a reputable investment bank.

CHAPTER SIX: CONCLUSION

This thesis has attempted to investigate the role of financial advisors in the fast-growing Chinese capital market. Specifically, it examined the unique characteristics of financial advisors and their impact on a firm's investment decisions. I used mergers & acquisitions as empirical settings in which to examine whether – and how – Chinese financial advisors create value for shareholders, and the mechanisms behind these value creation processes.

Due to the weak corporate governance system and information disclosure environment, this thesis focused on three unique aspects pertinent to Chinese financial advisors, namely political connections, reputations (top-tier) and how they work together (teamwork). I find that both politically connected financial advisors and top-tier financial advisors create significantly higher value for acquiring firms, and the mechanism behind this value creation largely derives from financial advisors' role in designing better transaction terms with target firms. In addition, I also documented that smaller advisor teams have lower co-ordination costs, which benefits acquiring firm shareholders.

The main findings of each empirical chapter can be summarised as follows.

6.1 Findings in relation to financial advisors' political connections

The aim of Chapter 3 was to ask (and answer) whether financial advisors' political connections help Chinese enterprises to create value in M&A activities. I find that after controlling for firm characteristics and addressing the endogeneity problem in my empirical investigation, they create significantly higher market value for the acquiring company. For small acquirers and acquirers with a high Tobin's Q, the value creation role of politically connected financial advisors is more obvious. In addition, I found that politically connected financial advisors improve the acquisition company's long-term,

industry-adjusted operating performance and help reduce the bid premium. Finally, I find that private acquirers are more likely to appoint PC advisors to the transaction.

In summary, this article helps us understand the political relevance of a takeover. The practical implications of this article are self-evident to any management team considering the acquisition of a company. In addition, this research highlights the important role of financial advisors in emerging countries with underdeveloped capital markets and a high degree of information asymmetry.

6.2 Findings in relation to a financial advisor's reputation

This chapter empirically analysed the relationship between top-tier financial advisors and M&As of listed companies in China.

I found that acquirers who appoint top-tier advisors experience a higher short-term market response, while the positive effect is less pronounced for acquirers whose controlling shareholders are more likely to seize them. Further research on the source of value creation suggests that top-tier financial advisors can help acquirers choose the “right” target, generate greater synergies and improve management skills, which in turn improves post-event business performance and reduces the bid premium.

Finally, the significant positive coefficients of the top consultants remained significant even after correcting for the sample selection bias. In general, this chapter demonstrated that in China's M&A market, top-tier financial advisors hired by an acquirer are beneficial to shareholders.

6.3 Findings in relation to financial advisor's teamwork

This chapter employed team-level data and biographical information on the individual advisor affiliated with each investment bank, in order to examine empirically the importance of financial advisors' teamwork.

The study showed that the size of the advisor team is the most important factor in terms of value creation, due to the potential coordination costs of large teams. I further identified the source of this value creation: good quality reporting and less likelihood of information leakage. In addition, I also considered whether team members' higher research degrees and the reputation of investment banks drive positive returns, and empirical analyses showed that the size of the advisor team makes important contributions to the value-creation role of takeover advisors. As for financial advisors' higher research degree and the reputation of investment bank, neither adds value to the acquiring firms. The results held when I used the propensity score-matching (PSM) approach and Heckman model to address the endogeneity issue in the empirical settings.

6.4 Overall contributions of this thesis

This thesis contributes to the existing academic research in the following areas. First, it contributes to political economies studies by extending political connections to the external relations of firms. Existing empirical studies have found mixed evidence on the role of political connections; therefore, instead of focusing on internal political relations, I focused on the external relation of the firms, and examined whether appointing PC financial advisors can create shareholder value. This empirical setting allowed us to concentrate on the role of political relationships without being influenced by other corporate characteristics.

Second, this thesis contributes to the current debate about the influence of financial advisor's reputation on shareholders' wealth. It also provides an up-to-date analysis of unresolved issues regarding the role of top advisors in the M&A market and identifies important channels through which these top advisors can increase shareholder value in China's M&A markets. In addition, by considering the acquisition of a

company's shareholding structure, I expand the scope of the study, and beyond the financial intermediaries' impact on the acquisition process alone. And, more importantly, this research emphasises the influence of controlling shareholders in China's capital market.

Finally, this thesis adds to the financial advisory literature, as the analysis herein moves from the company level to the team level. Despite the growing importance of teamwork in financial sectors, so far only a small number of empirical studies have addressed this issue in the mutual fund literature, and studies have generally found that "team-managed" mutual funds outperform "individual-managed" mutual funds (Prather & Middleton 2002; Chen et al. 2004; Prather & Middleton 2006). Moreover, studies in the financial advisor literature generally use investment banks and company-level analysis to proxy for advisors; however, none of above research efforts considers financial advisor team-related characteristics.

The findings of this thesis have important implications for academics and practitioners, in that the reputations and their networks (i.e. political connections) of financial advisors do matter in corporate takeovers; moreover, selecting an appropriate advisor team is more important than picking up a reputable investment banks.

TABLES

Table 3.1: Sample distribution by CSRC industry classification

This table reports our sample distribution by acquirer industry. The sample consists of 1623 M&A deals from GTA M&A databases. The industry classification follows CSRC industry code.

	All Samples	Political- Connected Advisors Samples	% of all Samples
CSRC Industry Classification	N	N	%
Manufacturing	993	220	22.16%
Real estate	146	10	6.85%
IT	141	61	43.26%
Wholesale and retail trade	92	5	5.43%
Mining	60	10	16.67%
Transportation, storage	39	3	7.69%
Leasing and other business service	25	6	24.00%
Agriculture, forestry, livestock farming, fishery	24	4	16.67%
Other communication and cultural industries	24	4	16.67%
Construction	22	7	31.82%
Professional, scientific research service	19	2	10.53%
Public facilities service	18	6	33.33%
Catering and Hotels	9	2	22.22%
Comprehensive	8	0	0.00%
Hygiene, health care , nursing service and other social services	3	0	0.00%
Total	1623	340	20.95%

Table 3. 2: Sample variable summary statistics

This table reports the number, mean, standard deviations, 1st percentile, median, 99th percentile of acquirer and deal characteristics. See Appendix for the detailed definition of variables.

Variable	N	MEAN	STD	P1	P50	P99
Cumulative Abnormal Return from Market Model						
CARmkt (-1,1)	1549	0.017	0.075	-0.197	0.008	0.210
CARmkt (-2,2)	1555	0.018	0.096	-0.247	0.006	0.298
Acquirer and Deal Characteristics						
PC Advisor	1623	0.209	0.407	0.000	0.000	1.000
Size (in Billions)	1623	5.632	6.452	0.625	3.637	36.100
Lev	1623	0.363	0.224	0.023	0.338	0.906
Cash Holdings	1620	0.207	0.180	0.000	0.152	0.752
Tobin's Q	1547	1.970	1.116	0.944	1.590	7.244
BM	1547	0.612	0.216	0.138	0.629	1.059
Run-up	1538	0.100	0.532	-1.061	0.001	2.139
ROA	1589	0.014	0.056	-0.186	0.012	0.193
ROE	1589	0.020	0.093	-0.380	0.015	0.322
Pre-holdings (%)	1467	13.481	25.564	0.000	0.000	90.000
Post-holdings (%)	1471	71.046	29.494	4.667	75.821	100.000
Relative Size	1623	0.112	0.232	0.010	0.038	1.399
All-cash (0/1)	1623	0.860	0.348	0.000	1.000	1.000
Managerial Holdings	1590	0.143	0.214	0.000	0.000	0.698
CEO Duality (0/1)	1511	0.310	0.463	0.000	0.000	1.000
Independent Directors	1583	0.367	0.050	0.300	0.333	0.571
Shareholding concentration (%)	1590	49.927	15.209	17.304	51.021	80.929
Z Index	1590	10.122	20.175	1.000	3.625	138.762

Table 3.3: Univariate tests

This table reports acquirer and deal characteristics for PC-advisor sample and the non-PC-advisor sample, respectively. See Appendix for the detailed definition of variables.

	Non-PC Adv	PC-Adv	Diff	P-Value
Cumulative Abnormal Return from Market Model				
CARmkt (-1,1)	0.012	0.066	-0.054	0.000
CARmkt (-2,2)	0.012	0.078	-0.066	0.000
Acquirer and Deal Characteristics				
Size (in Billions)	5.700	4.500	1.200	0.001
Lev	0.348	0.279	0.070	0.000
Cash Holdings	0.213	0.248	-0.034	0.005
Tobin's Q	2.005	2.158	-0.153	0.096
BM	0.612	0.566	0.046	0.007
Run-up	0.124	0.191	-0.067	0.068
ROA	0.014	0.016	-0.002	0.542
ROE	0.018	0.020	-0.002	0.789
Pre-holdings (%)	15.325	7.775	7.549	0.000
Post-holdings (%)	72.343	80.137	-7.795	0.000
Relative Size	0.086	0.283	-0.197	0.000
All-cash (0/1)	0.908	0.469	0.439	0.000
Managerial Holdings	0.172	0.261	-0.088	0.000
CEO Duality (0/1)	0.362	0.381	-0.020	0.583
Independent Directors	0.371	0.375	-0.004	0.257
Shareholding concentration (%)	49.921	50.069	-0.148	0.893
Z Index	10.055	5.632	4.423	0.001

Table 3.4: PC-advisor and value creation

This table presents results from the regression of acquirer CARs on the political connected-advisor dummy and other acquirer and deal-specific characteristics for a sample of China M&As. The dependent variable is acquirer CAR(-1,1). Variables are defined in Appendix. All regressions control for year and industry fixed effects. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity and clustered at the firm level. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Dep.var = CAR(-1/1)	(1)	(2)
Political Connected Advisor (0/1)	0.041*** (0.000)	0.019*** (0.005)
Size		-0.013*** (0.000)
Leverage		-0.009 (0.486)
Cash Holding		-0.028 (0.103)
Tobins' Q		-0.003 (0.313)
BM		-0.033* (0.069)
Run-up		-0.002 (0.733)
ROA		-0.019 (0.398)
Pre-holdings		-0.007 (0.387)
Post-holdings		0.005 (0.527)
Relative Size		0.018* (0.077)
All-cash		-0.044*** (0.000)
Managerial Holdings		-0.004 (0.710)
CEO Duality		-0.002 (0.688)
Independent Directors		-0.013 (0.724)
Shareholding concentration (%)		0.030** (0.024)
Z index		-0.000 (0.343)
Intercepts	-0.003 (0.855)	0.266*** (0.000)
N	1549	1206
R sqr	0.081	0.131
Year Dummy	Y	Y
Industry Dummy	Y	Y

Table 3.5: PC-advisor and small acquirer

This table presents results from the regression of acquirer CARs on the PC-advisor dummy, its interaction with small acquirer, and other acquirer and deal-specific characteristics. The dependent variable is acquirer CAR(-1/1). Variables are defined in Appendix. All regressions control for year and industry fixed effects. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity and clustered at the firm level. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Dep.var = CAR(-1/1)	(1)	(2)
Political Connected Advisor (0/1)	0.030*** (0.000)	0.005 (0.580)
Smaller acquirers	0.014*** (0.001)	0.000 (0.956)
PC Advisor × Small Acquirer	0.020* (0.075)	0.027** (0.025)
Size		-0.010** (0.026)
Leverage		-0.010 (0.438)
Cash Holding		-0.028* (0.100)
Tobin' Q		-0.003 (0.282)
BM		-0.035** (0.049)
Run-up		-0.002 (0.662)
ROA		-0.021 (0.370)
Pre-holdings		-0.006 (0.436)
Post-holdings		0.005 (0.459)
Relative Size		0.016* (0.094)
All-cash		-0.046*** (0.000)
Managerial Holdings		-0.004 (0.730)
CEO Duality		-0.002 (0.681)
Independent Directors		-0.015 (0.694)
Shareholding concentration (%)		0.030** (0.026)
Z index		-0.000 (0.342)
Intercepts	-0.017 (0.310)	0.227*** (0.002)
N	1549	1206
R sqr	0.095	0.136
Year Dummy	Y	Y
Industry Dummy	Y	Y

Table 3.6: PC- advisor and operating performance

This table presents results from the regression of post-event operating performance on the PC-advisor dummy and other acquirer and deal-specific characteristics. The dependent variable is post-event industry median adjusted one-year ROE & ROA. Variables are defined in Appendix. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity and clustered at the firm level. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Dep.var = Operating performance 1 year following	(1) ROA	(2) ROE
Political Connected Advisor (0/1)	0.006** (0.032)	0.012*** (0.006)
Size	0.018*** (0.000)	0.033*** (0.000)
Leverage	-0.018** (0.049)	0.017 (0.381)
Cash Holding	0.036*** (0.000)	0.022 (0.119)
Tobins' Q	0.002 (0.472)	0.005 (0.211)
BM	-0.052*** (0.000)	-0.042* (0.068)
Run-up	-0.001 (0.614)	0.001 (0.876)
ROA	0.032 (0.272)	0.190*** (0.000)
Pre-holdings	0.001 (0.843)	0.009 (0.299)
Post-holdings	-0.001 (0.907)	0.001 (0.927)
Relative Size	0.001 (0.890)	-0.013 (0.199)
All-cash	0.005 (0.220)	0.002 (0.794)
Managerial Holdings	0.011** (0.029)	0.009 (0.204)
CEO Duality	-0.006** (0.021)	-0.009* (0.052)
Independent Directors	-0.012 (0.681)	-0.001 (0.985)
Shareholding concentration (%)	0.051*** (0.000)	0.076*** (0.000)
Z index	-0.000* (0.086)	-0.000 (0.303)
Intercepts	-0.257*** (0.000)	-0.544*** (0.000)
N	1249	1249
R sqr	0.274	0.280
Year Dummy	Y	Y
Industry Dummy	Y	Y

Table 3.7: PC-advisor and bid premium

This table presents results from the regression of bid premium on the PC-advisor dummy and other acquirer and deal-specific characteristics. The dependent variable is acquirer bid premium. Variables are defined in Appendix. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity and clustered at the firm level. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)
Dep.var = Bid premium		
Political Connected Advisor (0/1)	0.754*** (0.003)	0.370 (0.150)
PC Advisor * Private acquirer	-0.652** (0.012)	-0.469* (0.071)
Private acquirer	0.154 (0.107)	0.074 (0.486)
Size		0.201*** (0.000)
Leverage		-0.178 (0.326)
Cash Holding		0.029 (0.913)
Tobins' Q		-0.105** (0.013)
BM		-0.425 (0.103)
Run-up		0.031 (0.513)
ROA		-0.310 (0.207)
Pre-holdings		-0.192 (0.296)
Post-holdings		0.074 (0.583)
Relative Size		0.294*** (0.003)
All-cash		-0.263** (0.011)
Managerial Holdings		0.300 (0.132)
CEO Duality		0.004 (0.962)
Independent Directors		0.055 (0.941)
Shareholding concentration (%)		0.119 (0.606)
Z index		-0.003* (0.073)
Intercepts	0.626** (0.039)	-1.103 (0.267)
N	861	713
R sqr	0.080	0.136
Year Dummy	Y	Y
Industry Dummy	Y	Y

Table 3.8: Probability of hiring PC-advisors

This table presents results from the logit regression of the decision appointing PC-advisor on acquirer and deal-specific characteristics. The dependent variable is a dummy variable that equals one if the acquiring firm appoint PC-advisor and zero otherwise. Variables are defined in Appendix. The p-values are reported in parentheses. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Dep. var. = Prob(hiring political connected advisors)	(1)	(2)
Private acquirer	0.718*** (0.000)	0.557** (0.040)
Size		-0.038 (0.763)
Leverage		-1.440*** (0.009)
Cash Holding		-0.206 (0.726)
Tobins' Q		-0.323* (0.059)
BM		-0.766 (0.380)
Run-up		-0.315* (0.052)
ROA		0.135 (0.910)
Pre-holdings		-1.231*** (0.002)
Post-holdings		0.340 (0.256)
Relative Size		2.028*** (0.000)
Managerial Holdings		1.009*** (0.009)
CEO Duality		0.143 (0.405)
Independent Directors		-1.276 (0.433)
Shareholding concentration (%)		-0.666 (0.244)
Z index		-0.005 (0.348)
Intercepts	-16.085 (0.974)	-12.536 (0.975)
Observations	1533	1219
Adjusted R ²	0.111	0.202
Fixed Effects	Year, Industry	Year, Industry

Table 3.9: Addressing endogeneity – propensity score matching (PSM)

This table presents results from the propensity score matching approach. We build propensity score matching process using a logit model that estimates the usage of PC-advisor in the acquisition, with dependent variable equal to one if a PC-advisor is present and zero otherwise. CARmkt is cumulative abnormal return based on market model.

Panel A: Predicting the likelihood of appointing PC-advisor		
Variables	Coefficients	P-value
Size (in Billions)	-0.130	0.195
Lev	-1.605	0.000
Cash Holdings	1.516	0.001
Tobin's Q	-0.077	0.494
BM	-0.987	0.125
Run-up	-0.056	0.638
ROA	-1.007	0.241
Post-holdings (%)	0.815	0.001
Z-index	-0.011	0.043
Intercepts	1.048	0.530
Pseudo R2		0.067
N		1318.000

Panel B: CARs difference between treatment and control groups				
	(Control)	(Treatment)	Diff	P value
CARmkt (-1,1)	0.006	0.061	-0.055	0.000
CARmkt (-2,2)	0.008	0.070	-0.063	0.000

Table 3.10: Alternative event window and models

This table presents results from the regression of acquirer CARs on the *Political connected-advisors* dummy and other acquirer and deal-specific characteristics for a sample of China M&As. The dependent variable is acquirer CAR(-1,1) and CAR (-2/2). Variables are defined in Appendix. All regressions control for year and industry fixed effects. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity and clustered at the firm level. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Dep.var = CAR	(1) Alternative Window CAR(-2/2)	(2) Market Adjusted Model CAR(-1/1)
Political Connected Advisor (0/1)	0.018** (0.028)	0.021*** (0.003)
Size	-0.022*** (0.000)	-0.013*** (0.000)
Leverage	-0.016 (0.355)	-0.001 (0.968)
Cash Holding	-0.035* (0.092)	-0.014 (0.441)
Tobins' Q	-0.005 (0.249)	-0.005 (0.141)
BM	-0.046** (0.042)	-0.042** (0.020)
Run-up	-0.001 (0.842)	0.003 (0.222)
ROA	-0.012 (0.615)	-0.008 (0.700)
Pre-holdings	-0.005 (0.615)	-0.006 (0.444)
Post-holdings	0.005 (0.561)	0.003 (0.645)
Relative Size	0.030** (0.036)	0.016 (0.101)
All-cash	-0.057*** (0.000)	-0.037*** (0.000)
Managerial Holdings	-0.009 (0.555)	0.005 (0.687)
CEO Duality	-0.001 (0.850)	-0.000 (0.976)
Independent Directors	-0.027 (0.621)	-0.033 (0.393)
Shareholding concentration (%)	0.027* (0.095)	0.033** (0.014)
Z index	-0.000 (0.338)	-0.000 (0.262)
Intercepts	0.405*** (0.000)	0.267*** (0.000)
N	1210	1092
R sqr	0.149	0.128
Year Dummy	Y	Y
Industry Dummy	Y	Y

Table 3.11: Appendix A (variable definitions)

Variables	Definitions
CAR(-1,1)	Cumulative abnormal return during the event window (-1,1)
CAR(-2,2)	Cumulative abnormal return during the event window (-2,2)
Bid premium	Transaction value paid / target book value
Size (in billions)	Acquirer market capitalization (in Billions) at year end prior to acquisition announcements
Smaller acquirers	Acquirer market capitalization is smaller than the median value of all acquirers in the sample
Leverage	Acquirer leverage ratio, defined as total liability scaled by total assets, at year end prior to acquisition announcements
Cash holdings	Acquirer cash-to-total assets ratio at year end prior to acquisition announcements
Tobin's Q	Acquirer Tobin's Q at year end prior to acquisition announcements
BM	Acquirer book-to-market equity ratio at year end prior to acquisition announcements
Run-up	Acquirer 12-month buy and hold abnormal return prior to acquisition announcements
ROA	Acquirer industry-adjusted return-to-asset prior to acquisition announcements
ROE	Acquirer industry-adjusted return-to-equity prior to acquisition announcements
Pre-holdings	Percentage shares of target firm held by acquirers before acquisitions
Post-holdings	Percentage shares of target firm held by acquirer after acquisitions
Relative Size	Deal transaction value scaled by acquirer total assets prior to acquisition announcements
All-cash	A dummy variable that equals one when payment is 100% cash and zero otherwise
Managerial holdings	Percentage shares held by managerial team of acquirers prior to acquisition announcements
CEO Duality	A dummy variable that equals one if CEO and Chairman are the same person and zero otherwise
Independent Directors	Percentage of independent directors on the board of directors
Controlling Shareholding Concentration	Percentage shares hold by controlling shareholders
Z-index	Shares held by the largest shareholder divided by shares held by the second largest shareholder
Private acquirers	Acquirers are not state-owned companies
Political Connections	Advisors are political connected. A board member or CEO is a former government official, OR, a current or former member of the Provincial People's Congress, OR, a current or former member of the People's Political Consultative Conference.
Political Connected Advisor (PC-advisor)	Advisors are political connected.

Table 4.1: Sample distribution by CSRC industry

This table reports our sample distribution by acquirer industry. The sample consists of 924 M&A deals from GTA M&A databases. The industry classification follows CSRC industry code.

CSRC Industry Classification	N
Manufacturing	613
Real estate	102
IT	44
Wholesale and retail trade	33
Mining	27
Transportation, storage	19
Leasing and other business service	18
Agriculture, forestry, livestock farming, fishery	16
Construction	15
Other communication and cultural industries	11
Public facilities service	11
Professional, scientific research service	9
Catering and Hotels	5
Comprehensive	1
Total	924

Table 4.2: Acquirer and deal characteristics

This table reports the number, mean, standard deviations, min, median, max of acquirer and deal characteristics. See Appendix for the detailed definition of variables.

Variable	N	MEAN	STD	Min	P50	Max
Cumulative Abnormal Return from Market Model						
CARmkt (-1,1)	868	0.027	0.083	-0.197	0.013	0.212
CARmkt (-2,2)	873	0.031	0.104	-0.257	0.015	0.298
CARmkt (-5,5)	884	0.032	0.143	-0.391	0.014	0.501
Acquirer and Deal Characteristics						
Top-tier (0/1)	924	0.190	0.393	0.000	0.000	1.000
Size (in Billions)	718	5.585	5.425	0.731	3.866	51.700
Lev	924	0.329	0.210	0.018	0.287	1.196
Cash Holdings	924	0.223	0.167	0.001	0.175	0.755
Tobin's Q	860	2.046	1.201	0.944	1.627	7.599
BM	860	0.600	0.223	0.132	0.615	1.059
Run-up	892	0.143	0.494	-1.061	0.029	2.401
ROA	913	0.015	0.050	-0.262	0.011	0.193
ROE	913	0.018	0.083	-0.380	0.015	0.322
Pre-holdings (%)	870	13.181	25.488	0.000	0.000	92.380
Post-holdings (%)	871	74.562	28.536	4.667	85.000	100.000
Relative Size	924	0.141	0.265	0.010	0.043	1.731
All-cash (0/1)	924	0.785	0.411	0.000	1.000	1.000

Table 4.3: Univariate tests of top-tier financial advisors

This table reports acquirer and deal characteristics for top-tier advisor sample and the non-top-tier financial advisor sample, respectively. See Appendix for the detailed definition of variables.

	Non-Top -Tier	Top-Tier	Diff	P-Value
Cumulative Abnormal Return from Market Model				
CARmkt (-1,1)	0.016	0.074	-0.057	0.000
CARmkt (-2,2)	0.017	0.089	-0.072	0.000
CARmkt (-5,5)	0.017	0.093	-0.075	0.000
Acquirer and Deal Characteristics				
Size (in Billions)	5.600	5.100	0.570	0.376
Lev	0.340	0.278	0.062	0.000
Cash Holdings	0.218	0.245	-0.027	0.056
Tobin's Q	1.999	2.262	-0.263	0.014
BM	0.614	0.536	0.078	0.000
Run-up	0.108	0.287	-0.179	0.000
ROA	0.014	0.017	-0.003	0.473
ROE	0.018	0.020	-0.002	0.782
Pre-holdings (%)	14.350	8.297	6.054	0.006
Post-holdings (%)	72.521	83.104	-10.583	0.000
Relative Size	0.106	0.293	-0.188	0.000
All-cash (0/1)	0.874	0.403	0.471	0.000

Table 4.4: Top-tier financial advisors and M&A announcement effects

This table presents results from the regression of acquirer CARs on the top-tier financial advisor dummy and other acquirer and deal-specific characteristics for a sample of China M&As. The dependent variable is acquirer CAR(-2,2). Variables are defined in Appendix. All regressions control for year and industry fixed effects. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)
Dep.var = CAR(-2/2)		
Top-tier (0/1)	0.070*** (0.000)	0.027** (0.039)
Size		-0.015*** (0.006)
Leverage		-0.012 (0.710)
Cash Holding		0.009 (0.730)
Tobins' Q		0.001 (0.719)
BM		-0.021 (0.477)
Run-up		-0.061*** (0.004)
ROA		0.021 (0.621)
ROE		-0.007 (0.150)
Pre-holdings		-0.007 (0.641)
Post-holdings		0.026** (0.033)
Relative Size		0.003 (0.880)
All-cash		-0.046 (0.115)
Intercepts	-0.018 (0.682)	0.221** (0.015)
N	873	597
R sqr	0.067	0.291
Year Dummy	Y	Y
Industry Dummy	Y	Y

Table 4.5: Financial advisors, expropriation and M&A announcement effects

This table presents results from the regression of acquirer CARs on the top-tier financial advisor dummy, its interaction with measures of possibility of expropriation, including higher holding by controlling shareholder dummy and high Z-index dummy, and other acquirer and deal-specific characteristics. The dependent variable is acquirer CAR(-2/2). Variables are defined in Appendix. All regressions control for year and industry fixed effects. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)
Dep.var = CAR(-2/2)			
Top-tier (0/1)	0.055*** (0.001)	0.039*** (0.006)	0.074*** (0.001)
High Controlling Shareholding (0/1)	0.011 (0.159)		0.011 (0.139)
Top-tier * High ControlHld	-0.046* (0.087)		-0.057** (0.041)
High Z index		-0.005 (0.485)	-0.006 (0.392)
Top-tier * High Z index		-0.068** (0.039)	-0.072** (0.034)
Acquirer and Deal Controls	Y	Y	Y
N	571	596	571
adj. R-sq	0.296	0.298	0.304
Year Dummy	Y	Y	Y
Industry Dummy	Y	Y	Y

Table 4.6: Financial advisors and operating performance

This table presents results from the regression of post-event operating performance on the top-tier financial advisor dummy and other acquirer and deal-specific characteristics. The dependent variable is post-event industry median adjusted one-year ROA. Variables are defined in Appendix. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)
Dep.var = Indu adjusted post-acq ROA		
Top-tier (0/1)	0.007** (0.036)	0.009** (0.033)
Size		0.020*** (0.000)
Leverage		-0.039** (0.010)
Cash Holding		0.026* (0.056)
Tobins' Q		0.003 (0.245)
BM		-0.011 (0.442)
Run-up		0.000 (0.794)
ROA		0.158* (0.086)
ROE		-0.010* (0.050)
Pre-holdings		-0.001 (0.818)
Post-holdings		0.003 (0.599)
Relative Size		0.013* (0.091)
All-cash		0.013** (0.022)
Intercepts	0.017 (0.174)	-0.320*** (0.000)
N	924	618
R sqr	0.007	0.342
Year Dummy	Y	Y
Industry Dummy	Y	Y

Table 4.7: Top-tier financial advisors and bid premiums

This table presents results from the regression of bid premium on the financial advisor dummy, and other acquirer and deal-specific characteristics. The dependent variable is bid premium, which is defined as the natural logarithm of (buyer offer price/target book value). Variables are defined in Appendix. All regressions control for year and industry fixed effects. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)
Dep.var = Bid Premium		
Top-tier (0/1)	-0.073*	-0.147*
	(0.086)	(0.092)
Size		0.021
		(0.535)
Leverage		-0.255
		(0.414)
Cash Holding		0.432
		(0.446)
Tobins' Q		-0.029
		(0.558)
BM		-0.312*
		(0.100)
Run-up		0.029
		(0.359)
ROA		0.053
		(0.846)
ROE		-0.005
		(0.806)
Pre-holdings		0.544
		(0.166)
Post-holdings		-0.231
		(0.241)
Relative Size		0.084
		(0.314)
All-cash		-0.027
		(0.826)
Intercepts	0.782***	0.951**
	(0.000)	(0.013)
N	577	368
R sqr	0.016	-0.023
Year Dummy	Y	Y
Industry Dummy	Y	Y

Table 4.8: Top-tier financial advisors and deal completion time

This table presents results from the regression of deal completion time on the top-tier financial advisor dummy, and other acquirer and deal-specific characteristics. The dependent variable is the natural logarithm of the number of days to complete the deal. Variables are defined in Appendix. All regressions control for year and industry fixed effects. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)
Dep.var = Deal Completion Time		
Top-tier (0/1)	0.380*** (0.001)	-0.154 (0.412)
Size		0.142 (0.191)
Leverage		0.233 (0.575)
Cash Holding		-0.433 (0.333)
Tobins' Q		-0.101 (0.245)
BM		-0.165 (0.780)
Run-up		0.137 (0.286)
ROA		2.611 (0.136)
ROE		-2.278*** (0.008)
Pre-holdings		-0.221 (0.410)
Post-holdings		0.208 (0.410)
Relative Size		0.718*** (0.005)
All-cash		-0.852*** (0.001)
Intercepts	4.889*** (0.000)	3.736** (0.038)
N	426	264
R sqr	0.048	0.123
Year Dummy	Y	Y
Industry Dummy	Y	Y

Table 4.9: Top-tier financial advisors and M&A announcement effects (Heckman Model)

This table presents Heckman 2-stage results from the regression of acquirer CARs on the top-tier financial advisor dummy and other acquirer and deal-specific characteristics for a sample of China M&As. The dependent variable is acquirer CAR(-2,2). Variables are defined in Appendix. All regressions control for year and industry fixed effects. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)
Dep.var = CAR(-2/2)		
Top-tier (0/1)	0.034*** (0.003)	0.027** (0.014)
Size		-0.015 (0.142)
Leverage		-0.012 (0.620)
Cash Holding		0.009 (0.804)
Tobins' Q		0.002 (0.811)
BM		-0.023 (0.789)
Run-up		-0.061*** (0.000)
ROA		0.021 (0.695)
ROE		-0.007 (0.363)
Pre-holdings		-0.007 (0.621)
Post-holdings		0.026** (0.041)
Relative Size		0.003 (0.836)
All-cash		-0.046*** (0.007)
lambda	0.099 (0.226)	-0.009 (0.985)
Intercepts	-0.056 (0.292)	0.225 (0.356)
N	681	627
R sqr	0.011	0.297
Year Dummy	Y	Y
Industry Dummy	Y	Y

Table 4.10: Appendix A (variable definitions)

Variables	Definitions
CAR _{Mktadj} (-1,1)	Cumulative abnormal return adjusted by the market return during the event window (-1,1)
CAR _{Mktadj} (-2,2)	Cumulative abnormal return adjusted by the market return during the event window (-2,2)
CAR _{Mktadj} (-5,5)	Cumulative abnormal return adjusted by the market return during the event window (-5,5)
Size (in billions)	Acquire market capitalization (in Billions) at year end prior to acquisition announcements
Lev	Acquirer leverage ratio, defined as total liability scaled by total assets, at year end prior to acquisition announcements
Cash holdings	Acquirer cash-to-total assets ratio at year end prior to acquisition announcements
Tobin's Q	Acquirer Tobin's Q at year end prior to acquisition announcements
BM	Acquirer book-to-market equity ratio at year end prior to acquisition announcements
Run-up	Acquirer 12-month buy and hold abnormal return prior to acquisition announcements
ROA	Acquirer industry-adjusted return-to-asset prior to acquisition announcements
ROE	Acquirer industry-adjusted return-on-equity prior to acquisition announcements
Relative Size	Deal transaction value scaled by acquirer total assets prior to acquisition announcements
All-cash	A dummy variable that equals one when payment is 100% cash and zero otherwise
Pre-holdings	Percentage shares of target firm held by acquirers before acquisitions
Post-holdings	Percentage shares of target firm held by acquirer after acquisitions
Z-index	Shares held by the largest shareholder divided by shares held by the second largest shareholder
Controlling Shareholding	Percentage shares hold by controlling shareholders
Top Tier	A dummy variable that equals one if the financial advisor is ranked as the top 1/3 of financial advisors based on the value of deals reported in WIND.

Table 5.1: Sample distribution by CSRC industry and year

This table reports our sample distribution by acquirer industry and event year. Our sample consists of 475 M&A deals from GTA M&A databases. Our industry classification follows CSRC industry code.

YEAR	N	%
2008	1	0.21%
2009	2	0.42%
2010	5	1.05%
2011	2	0.42%
2012	21	4.42%
2013	43	9.05%
2014	107	22.53%
2015	156	32.84%
2016	138	29.05%
Total	475	100.00%

CSRC Industry Classification	N	%
Manufacturing	299	62.95%
IT	81	17.05%
Wholesale and retail trade	19	4.00%
Construction	12	2.53%
Other communication and cultural industries	12	2.53%
Mining	11	2.32%
Leasing and other business service	11	2.32%
Real estate	6	1.26%
Professional, scientific research service	5	1.05%
Public facilities service	5	1.05%
Comprehensive	5	1.05%
Agriculture, forestry, livestock farming, fishery	3	0.63%
Transportation, storage	3	0.63%
Catering and Hotels	2	0.42%
Educations	1	0.21%
Total	475	100.00%

Table 5.2: Sample variable summary statistics

This table reports the number, mean, standard deviations, min, median, max of acquirer and deal characteristics. See Appendix A for the detailed definition of variables.

Variable	N	MEAN	STD	Min	P50	Max
Cumulative Abnormal Return from Market Model						
CARmkt (-1,1)	475	0.057	0.105	-0.176	0.081	0.227
CARmkt (-2,2)	475	0.080	0.153	-0.236	0.096	0.324
CARmkt (-3,3)	475	0.095	0.189	-0.311	0.090	0.407
CARmkt (-5,5)	475	0.113	0.235	-0.383	0.085	0.560
Team Characteristics						
Number of team members	475	3.181	0.917	2.000	3.000	8.000
Team tenure (months)	472	32.303	18.999	1.000	30.000	107.000
% team member with Master/Ph.D degree	475	0.575	0.244	0.000	0.500	1.000
Top-tier investment bank by deal number (0/1)	475	0.531	0.500	0.000	1.000	1.000
Top-tier investment bank by deal value (0/1)	475	0.432	0.496	0.000	0.000	1.000
Acquirer and Deal Characteristics						
Log Size (in Billions)	475	21.253	0.862	19.357	21.203	24.323
Lev	475	0.349	0.197	0.031	0.319	0.929
Cash Holdings	473	0.153	0.155	0.000	0.095	0.712
Run-up	468	0.265	0.777	-1.086	0.093	3.326
ROA	472	0.010	0.047	-0.191	0.009	0.158
Relative Size	475	0.427	0.464	0.010	0.267	2.029
All-cash (0/1)	475	0.282	0.450	0.000	0.000	1.000
Managerial Holdings	472	0.254	0.231	0.000	0.253	0.710
CEO Duality (0/1)	472	0.394	0.489	0.000	0.000	1.000
Independent Directors	471	0.377	0.054	0.300	0.333	0.714
Shareholding concentration (%)	472	0.138	0.111	0.008	0.104	0.640
Z Index	472	7.182	13.014	1.000	3.246	149.244

Table 5.3: Univariate tests

This table reports acquirer and deal characteristics for smaller team and larger team sample, respectively. See Appendix A for the detailed definition of variables.

	Larger Team	Smaller Team	Diff	P-Value
Cumulative Abnormal Return from Market Model				
CARmkt (-1,1)	0.060	0.101	-0.041	0.055
CARmkt (-2,2)	0.067	0.127	-0.060	0.031
CARmkt (-3,3)	0.069	0.140	-0.071	0.037
CARmkt (-5,5)	0.081	0.151	-0.070	0.078
Acquirer and Deal Characteristics				
Size (in Billions)	21.223	21.167	0.056	0.731
Lev	0.265	0.327	-0.062	0.107
Cash Holdings	0.187	0.183	0.004	0.910
Run-up	0.431	0.340	0.091	0.484
ROA	0.011	0.007	0.003	0.724
Relative Size	0.407	0.416	-0.010	0.908
All-cash (0/1)	0.212	0.203	0.009	0.907
Managerial Holdings	0.301	0.257	0.043	0.355
CEO Duality (0/1)	0.455	0.370	0.085	0.371
Independent Directors	0.376	0.374	0.002	0.856
Shareholding concentration (%)	0.144	0.169	-0.025	0.253
Z Index	4.171	9.024	-4.853	0.105

Table 5.4: Small-size advisor team and value creation

This table presents results from the regression of acquirer CARs on the small advisor team dummy and other acquirer and deal-specific characteristics for a sample of Chinese M&As. The dependent variable is acquirer CAR(-1,1) and CAR(-2/2). Variables are defined in Appendix A. All regressions control for year and industry fixed effects. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity and clustered at the firm level. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
Dep. var = CARs	CAR	CAR	CAR	CAR
	(-1/1)	(-1/1)	(-2/2)	(-2/2)
Smaller Team (0/1)	0.034*** (0.003)	0.031*** (0.007)	0.047*** (0.005)	0.044*** (0.010)
Size		-0.008 (0.213)		-0.014 (0.155)
Leverage		0.060** (0.049)		0.100** (0.033)
Cash Holding		0.019 (0.633)		0.039 (0.486)
Run-up		0.013** (0.048)		0.020** (0.035)
ROA		-0.120 (0.295)		-0.103 (0.536)
Relative Size		0.020 (0.107)		0.041** (0.034)
All-cash		-0.010 (0.316)		-0.006 (0.722)
Managerial Holdings		-0.008 (0.723)		-0.004 (0.914)
CEO Duality		-0.010 (0.333)		-0.013 (0.366)
Independent Directors		0.025 (0.768)		-0.031 (0.814)
Shareholding concentration (%)		0.049 (0.337)		0.025 (0.736)
Z index		-0.000 (0.714)		-0.000 (0.787)
Intercepts	-0.016 (0.842)	0.084 (0.610)	0.035 (0.786)	0.176 (0.492)
N	475	464	475	464
Adj R sq	0.102	0.133	0.091	0.126
Year Dummy	Y	Y	Y	Y
Industry Dummy	Y	Y	Y	Y

Table 5.5: Small-size advisor team, length of time and value creation

This table presents results from the regression of acquirer CARs on the small team dummy, in two subgroups, and other acquirer and deal-specific characteristics. The dependent variable is acquirer CAR(-1/1) and CAR(-2/2). Variables are defined in Appendix A. All regressions control for year and industry fixed effects. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity and clustered at the firm level. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
	Work together shorter		Work together longer	
Dep.var = CARs	CAR (-1/1)	CAR (-2/2)	CAR (-1/1)	CAR (-2/2)
Smaller Team (0/1)	0.013 (0.532)	0.017 (0.591)	0.045*** (0.005)	0.062*** (0.008)
Size	-0.016 (0.103)	-0.024 (0.128)	-0.003 (0.747)	-0.007 (0.609)
Leverage	0.073 (0.110)	0.103 (0.151)	0.026 (0.582)	0.070 (0.314)
Cash Holding	0.042 (0.466)	0.062 (0.432)	0.018 (0.772)	0.045 (0.622)
Run-up	0.021** (0.016)	0.034** (0.017)	0.004 (0.708)	0.005 (0.735)
ROA	-0.133 (0.463)	-0.134 (0.624)	-0.204 (0.265)	-0.162 (0.536)
Relative Size	0.018 (0.270)	0.038 (0.155)	0.013 (0.565)	0.031 (0.320)
All-cash	-0.013 (0.375)	-0.009 (0.702)	-0.018 (0.267)	-0.014 (0.554)
Managerial Holdings	0.006 (0.853)	0.028 (0.583)	-0.041 (0.245)	-0.055 (0.261)
CEO Duality	-0.009 (0.567)	-0.016 (0.485)	-0.010 (0.543)	-0.011 (0.619)
Independent Directors	0.088 (0.514)	0.063 (0.761)	0.043 (0.692)	-0.038 (0.824)
Shareholding concentration (%)	-0.108 (0.158)	-0.155 (0.186)	0.114* (0.069)	0.078 (0.373)
Z index	0.001** (0.014)	0.002* (0.071)	-0.001** (0.022)	-0.001 (0.129)
Intercepts	0.060 (0.795)	0.056 (0.874)	0.158 (0.480)	0.349 (0.288)
N	238	238	223	223
Adj R sqr	0.125	0.099	0.124	0.132
Year Dummy	Y	Y	Y	Y
Industry Dummy	Y	Y	Y	Y

Table 5.6: Small-size advisor team and likelihood of information leakage

This table presents results from the regression of likelihood of information leakage on the small advisor team dummy and other acquirer and deal-specific characteristics. The dependent variable is dummy variable of information leakage. Variables are defined in Appendix A. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity and clustered at the firm level. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(2)
Likelihood of leakage over pre-event 30-days			
Smaller Team (0/1)	-0.675** (0.043)	-0.704** (0.035)	-0.673** (0.044)
No of Analysts follows	0.028 (0.323)		0.027 (0.327)
Newspaper coverage		-0.000 (0.490)	-0.000 (0.527)
Size	0.447* (0.052)	0.490** (0.025)	0.448* (0.051)
Lev	-1.076 (0.344)	-1.074 (0.348)	-1.086 (0.340)
Cash Holding	0.048 (0.958)	0.133 (0.885)	0.044 (0.962)
ROA	-4.140 (0.207)	-3.583 (0.271)	-4.103 (0.212)
Relative Size	-0.276 (0.721)	-0.286 (0.711)	-0.276 (0.721)
All-cash	2.760*** (0.000)	2.739*** (0.000)	2.757*** (0.000)
Managerial holdings	-0.138 (0.870)	-0.036 (0.966)	-0.144 (0.864)
% hold by institutional investors	-0.001 (0.893)	0.001 (0.883)	-0.001 (0.896)
Past experience	0.052 (0.432)	0.050 (0.443)	0.052 (0.433)
Intercepts	-11.662** (0.021)	-12.514*** (0.010)	-11.676** (0.020)
N	455	455	455
Pesu R sqr	0.265	0.264	0.265
Year Dummy	Y	Y	Y
Industry Dummy	Y	Y	Y

Table 5.7: Addressing endogeneity - propensity score matching (PSM)

This table presents results from the propensity score matching approach. We build propensity score matching process using a logit model that estimates the likelihood of selecting small advisor team in the acquisition. *CAR_{mkt}* is cumulative abnormal return based on market model.

Panel A: Predicting the likelihood of appointing smaller advisor team		
Variables	Coefficients	P-value
Log of Size (in Billions)	-0.208	0.204
Lev	1.717	0.020
Cash Holdings	0.461	0.564
Run-up	0.039	0.788
ROA	0.680	0.792
Relative Size	-0.219	0.438
All-cash	0.464	0.083
Intercepts	4.779	0.169
Pseudo R2		0.020
N		464

Panel B: CARs difference between treatment and control groups				
	(Control)	(Treatment)	Diff	P value
CAR _{mkt} (-1,1)	0.030	0.068	-0.038	0.001
CAR _{mkt} (-2,2)	0.042	0.094	-0.052	0.001
CAR _{mkt} (-3,3)	0.051	0.112	-0.061	0.002
CAR _{mkt} (-5,5)	0.067	0.130	-0.063	0.011

Table 5.8: Addressing endogeneity - Heckman Sample Selection Model

This table presents results of the Heckman two-stage procedure for acquirer CARs during M&A announcements. The dependent variable is acquirer CAR and the inverse Mills ratio adjusted for potential sample-selection bias. Variables are defined in Appendix A. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity and clustered at the firm level. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Dep.var = CARs	(2) CAR(-1/1)	(4) CAR(-2/2)
Smaller Team (0/1)	0.031*** (0.006)	0.043*** (0.008)
Size	-0.008 (0.254)	-0.014 (0.182)
Leverage	0.066* (0.050)	0.123** (0.013)
Cash Holding	0.023 (0.536)	0.055 (0.312)
Run-up	0.011 (0.134)	0.012 (0.263)
ROA	-0.117 (0.311)	-0.091 (0.587)
Relative Size	0.019 (0.142)	0.037* (0.055)
All-cash	-0.011 (0.359)	-0.007 (0.658)
Managerial Holdings	-0.009 (0.711)	-0.004 (0.904)
CEO Duality	-0.011 (0.291)	-0.015 (0.287)
Independent Directors	0.027 (0.764)	-0.026 (0.841)
Shareholding concentration (%)	0.049 (0.340)	0.023 (0.759)
Z index	-0.000 (0.727)	-0.000 (0.787)
Lambda	-0.083 (0.475)	-0.306* (0.072)
Intercepts	0.067 (0.772)	0.328 (0.329)
N	464	464
Adj R sqr	0.132	0.130
Year Dummy	Y	Y
Industry Dummy	Y	Y

Table 5.9: Team members' research degree and value creation

This table presents results from the regression of CARs on the percentage team member with research degree and other acquirer and deal-specific characteristics. The dependent variable is percentage team member with Master/PhD degree. Variables are defined in Appendix A. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity and clustered at the firm level. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
Dep.var = CARs	CAR	CAR	CAR	CAR
	(-1/1)	(-1/1)	(-2/2)	(-2/2)
% team member with research degree	-0.018 (0.383)	-0.025 (0.229)	-0.016 (0.598)	-0.024 (0.416)
Size		-0.008 (0.203)		-0.015 (0.140)
Leverage		0.070** (0.020)		0.114** (0.015)
Cash Holding		0.017 (0.674)		0.036 (0.518)
Run-up		0.013** (0.041)		0.020** (0.031)
ROA		-0.110 (0.343)		-0.091 (0.591)
Relative Size		0.020 (0.117)		0.040** (0.041)
All-cash		-0.009 (0.380)		-0.003 (0.834)
Managerial Holdings		-0.004 (0.856)		0.003 (0.935)
CEO Duality		-0.010 (0.312)		-0.014 (0.335)
Independent Directors		0.021 (0.807)		-0.037 (0.779)
Shareholding concentration (%)		0.056 (0.282)		0.038 (0.611)
Z index		-0.000 (0.829)		-0.000 (0.887)
Intercepts	-0.007 (0.925)	0.122 (0.452)	0.047 (0.715)	0.237 (0.347)
N	475	464	475	464
Adj R sq	0.085	0.120	0.074	0.112
Year Dummy	Y	Y	Y	Y
Industry Dummy	Y	Y	Y	Y

Table 5.10: Small-size advisor team, top-tier investment bank and value creation

This table presents results from the regression of CARs on the small advisor team dummy, top-tier investment bank dummy and other acquirer and deal-specific characteristics. Variables are defined in Appendix A. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity and clustered at the firm level. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Dep.var = CARs	(1) CAR (-1/1)	(2) CAR (-1/1)	(3) CAR (-2/2)	(4) CAR (-2/2)
Smaller Team (0/1)	0.031*** (0.007)	0.032*** (0.006)	0.044** (0.010)	0.045*** (0.009)
Top-tier investment bank by deal number (0/1)	0.086*** (0.000)		0.125*** (0.000)	
Top-tier investment bank by deal value (0/1)		0.097*** (0.000)		0.143*** (0.000)
Size	-0.008 (0.250)	-0.007 (0.314)	-0.013 (0.184)	-0.012 (0.235)
Leverage	0.059* (0.053)	0.055* (0.069)	0.098** (0.037)	0.092** (0.049)
Cash Holding	0.019 (0.638)	0.020 (0.620)	0.039 (0.492)	0.040 (0.475)
Run-up	0.014** (0.038)	0.014** (0.037)	0.021** (0.027)	0.021** (0.026)
ROA	-0.143 (0.212)	-0.149 (0.198)	-0.137 (0.412)	-0.145 (0.389)
Relative Size	0.020 (0.110)	0.022* (0.083)	0.041** (0.035)	0.043** (0.025)
All-cash	-0.009 (0.396)	-0.009 (0.379)	-0.003 (0.830)	-0.004 (0.812)
Managerial Holdings	-0.007 (0.774)	-0.005 (0.845)	-0.001 (0.971)	0.002 (0.953)
CEO Duality	-0.011 (0.294)	-0.010 (0.311)	-0.014 (0.324)	-0.014 (0.342)
Independent Directors	0.030 (0.726)	0.035 (0.684)	-0.024 (0.854)	-0.017 (0.899)
Shareholding concentration (%)	0.044 (0.383)	0.039 (0.449)	0.018 (0.807)	0.010 (0.894)
Z index	-0.000 (0.699)	-0.000 (0.846)	-0.000 (0.772)	-0.000 (0.913)
Intercepts	0.074 (0.653)	0.053 (0.748)	0.162 (0.530)	0.131 (0.613)
N	464	464	464	464
Adj R sqr	0.138	0.139	0.131	0.132
Year Dummy	Y	Y	Y	Y
Industry Dummy	Y	Y	Y	Y

Table 5.11: Appendix A (variable definitions)

Variables	Definitions
CARMkt(-1,1)	Cumulative abnormal return calculated from the market model during the event window (-1,1)
CARMkt(-2,2)	Cumulative abnormal return calculated from the market model during the event window (-2,2)
CARMkt(-3,3)	Cumulative abnormal return calculated from the market model during the event window (-3,3)
CARMkt(-5,5)	Cumulative abnormal return calculated from the market model during the event window (-5,5)
Size (in billions)	Acquire market capitalization (in Billions) at year end prior to acquisition announcements
Leverage	Acquirer leverage ratio, defined as total liability scaled by total assets, at year end prior to acquisition announcements
Cash holdings	Acquirer cash-to-total assets ratio at year end prior to acquisition announcements
Run-up	Acquirer 12-month buy and hold abnormal return prior to acquisition announcements
ROA	Acquirer industry-adjusted return-to-asset prior to acquisition announcements
Relative Size	Deal transaction value scaled by acquirer total assets prior to acquisition announcements
All-cash	A dummy variable that equals one when payment is 100% cash and zero otherwise
Managerial holdings	Percentage shares held by managerial team of acquirers prior to acquisition announcements
CEO Duality	A dummy variable that equals one if CEO and Chairman are the same person and zero otherwise
Controlling Shareholding Concentration	Percentage shares hold by controlling shareholders
Z-index	Shares held by the largest shareholder divided by shares held by the second largest shareholder
Small advisor team	Dummy variable = 1 if number of team member is lower or equal to 3.
No of analysts follows	Number of analysts follow the acquirers
Newspaper coverage	Number of newspaper cover the acquirers
Top-tier investment bank by deal number (0/1)	Dummy variable =1 if investment bank M&A business is ranked in top 30% in term of number of deals executed.
Top-tier investment bank by deal volume (0/1)	Dummy variable =1 if investment bank M&A business is ranked in top 30% in term of volume of deals executed.
% team member with research degree (Master/PhD)	Number of team member with research degree / total number of team member in this advisor team.

Table 5.12: Appendix B (travel distance, travel Time and ticket price when travel between acquirers and targets)

This table presents summary statistics of travel distance from acquirers' city (AcqCity) to target's city (TarCity). Travel from AcqCity to TarCity can take train and plane. 0 means acquirers and targets are in the same city. Travel by air availability (0/1) means whether there is plane (direct flight or indirect flight) available between AcqCity and TarCity. Data in this table is provided by Baidu Map.

Variable	MEAN	STD	Min	P25	P50	P75	Max
City Distance between AcqCity and TarCity (km)	1145	854	0	486	1105	1604	4563
Travel Time between AcqCity and TarCity by Train (minutes)	743	722	0	231	540	1090	4440
Ticket Price travel between AcqCity and TarCity by Train (<i>Second class ticket, Yuan</i>)	330	288	0	102	246	538	1038
Travel by air availability (0/1)	1	0	0	0	1	1	1
Travel Time between AcqCity and TarCity by Air (minutes)	117	139	0	0	105	165	830
Ticket Price travel between AcqCity and TarCity by Air (<i>Economics class ticket, Yuan</i>)	1060	1037	0	0	1145	1900	4778

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