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Do Cross-border M&As by Chinese Media and Entertainment Firms Create Value?

Evidence from US-targeted and Korea-targeted Deals[☆]

Shuying Yang^a, Seongcheol Kim^{b,*}

I. Introduction

The recent decades have witnessed a booming trend in cross-border M&As by firms from emerging economies as a strategy for realizing internationalization (Nicholson & Salaber, 2013). China, one of the most important emerging economies, has become the world's largest assets acquirer in place of the United States for the first time in 2016 (Xie, 2016). PwC (2016b) indicates that outbound M&As by China has reached \$221 billion, increasing 142% in volume and 246% in value. Chinese firms are strategically adopting cross-border M&As to enter new markets, realize diversification, and acquire advance resources (Boateng, Qian, & Tianle, 2008).

Meanwhile, the focus of cross-border M&As by China is experiencing a shift due to growing domestic desire for the update of high-quality consumer goods and the country's transition to a consumption-driven and service-oriented economy (FIT Consulting, 2016). Chinese firms' emphasis has shifted from energy and resources sectors to the technology and consumption-focused sectors when carrying out cross-border M&As (J. P. Morgan, 2016). In line with this shift, developed countries with abundant strategic assets such as technologies are becoming rising targets for China (J. P. Morgan, 2016). The US and Korea, have become important targets for Chinese media and entertainment firms' cross-border M&A deals (Kim, Yang, & Kim, 2017). Notable cases include Tencent's purchase of 28% Stake in Korea's CJ Games for \$500 million (Shu, 2014) and 14.6% Stake in US' Glu Mobile for \$126 million (Shu, 2015). These transactions are consistent with

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Tencent's ongoing Korea and US market expansion. They are beneficial to CJ Games and Glu Mobile as well in terms of expanding Chinese market through their cooperation with Tencent.

Despite the surge in cross-border M&As by Chinese media and entertainment firms, studies regarding this emerging phenomenon are limited. Though Kim et al. (2017) has provided some descriptive evidence about cross-border M&As by Chinese media and entertainment firms in the US and Korean markets, whether those deals create value for stakeholders remains under-researched. Therefore, this study aims to examine both the short-term and long-term performance of US-targeted and Korea-targeted M&As by Chinese media and entertainment firms. Besides general evaluation, the determining factors which affect the value creation of cross-border M&As by Chinese media and entertainment firms will be investigated from nation, firm, and deal level as well. Through the case of the US and Korea, results of this study will enrich our current knowledge about cross-border M&As performed by emerging economies in the global market. More importantly, this study will give implications for both Chinese government and Chinese media and entertainment firms through suggesting future directions for internationalization.

The remainder of this paper is organized as follows. Section 2 discusses the relevant literature on internationalization of China's media and entertainment firms and cross-border M&A performance; In this part, research hypotheses will be developed. Section 3 presents the methodology and data. Section 4 reports hypothesis-testing results of the study. Finally, Section 5 concludes the study.

II. Literature review

2.1 Internationalization of Chinese Media and Entertainment Firms

China has experienced a rapid growth in the media and entertainment industry in recent years. The gross output value of the Chinese media and entertainment industry reached approximately \$173 billion in 2015, and is forecasted to reach \$264 billion in 2020 (PwC, 2016b). The great growth begins to challenge the leading position of the US in some sectors such as box office revenue (PwC, 2016a). Together with the rapid growth, domestic desire for the update of high-quality consumer goods and the country's transition to a consumption-driven and service-oriented economy are driving Chinese

media and entertainment firms to speed up their internationalization through aggressive cross-border M&As (FIT Consulting, 2016). In the first half of 2015, the volume of China's cross-border M&As in the Technology, Media and Telecommunications sector constituted 43% of outbound M&A deals, an increase of 209% in comparison with the same period last year (Deloitte, 2015). Kim et al (2017) has offered descriptive evidence of China's "reverse Marco Polo Effect" in the US and Korean market, demonstrating that China have transferred from a target to an active acquirer in the global media and entertainment industry through cross-border M&As.

Meanwhile, government plays an important role in practice of cross-border M&As by Chinese media and entertainment firms. The "Go Out Policy" initiated in 1999 has encouraged the internationalization of Chinese firms tremendously by providing support mechanism and reducing bureaucratic constraints (Du & Boateng, 2015). Moreover, regulations specifically guiding the media and entertainment industry also became a great push behind the cross-border M&As by Chinese media and entertainment firms. In the 12th Five Year Plan Period, the government established the "Outline of the Cultural Reform and Development Plan", pointing out the media industry's importance as a vanguard in the transformation of economy (The State Council, 2012). Specifically, the government made clear in the plan that it will continue to stimulate mergers and reorganizations of media firms from different regions, sectors and ownership systems. Media firms are encouraged to invest overseas by government's refined policies such as tax policies. With great support from the government and abundant capital, cross-border M&As by Chinese media and entertainment firms persist in restructuring the landscape of global media and entertainment industry in the future.

However, since the end of 2015, Chinese government has started to monitor cross-border M&As in media and entertainment industry more closely out of the fear for fall of renminbi and foreign exchange reserves brought about by large cash outflows. Additionally, bad outcome of cross-border M&As by some state-owned companies became another reason for the Chinese government to tighten related regulations (Weinland, 2016; Wildau, Weinland, & Mitchell, 2016). Together with worries shared by domestic regulators, aggressive cross-border M&As by China have also provoked backlash from target countries. For example, the US society is experiencing the so-called "China fear" due to fear for China's growing political and economic power, and the uncertainty about cross-border M&A deals' influence on national security, and safety (He & Lyles, 2008).

2.2 Cross-border M&A Performance

Cross-border M&A refers to the action of acquiring a foreign firm's shares or assets (Changqi & Ningling, 2010). Post-cross-border M&A studies can be classified based on the perspective of the study, i.e., the bidder perspective or the target perspective. Though there exist many studies supporting that target firms of cross-border M&As have better wealth effect compared with domestic acquisition cases, value creation of bidding firms remained relatively ambiguous (Goergen & Renneboog, 2004; Lowinski, Schiereck, & Thomas, 2004). Therefore, this current study will try to shed light on the performance of cross-border M&As from the bidder- China's perspective.

Extent researches regarding the post-cross-border M&A performance can be classified into three academic streams (Shimizu, Hitt, Vaidyanath, & Pisano, 2004). The first stream focuses on the integration between bidding firms and target firms. The other two streams concentrate on the value creation of cross-border M&A deals, one on short-term wealth effect and another on long-term wealth effect. Short-term performance often focuses on stock returns over the period during which a M&A deal was announced (Agrawal, Jaffe, & Mandelker, 1992). On the other hand, studies on long-term performance attempt to offset the weakness of short-term performance studies by adopting longer term measures instead of stock price responses (Shimizu et al., 2004), such as the comparison of changes in acquiring firms' operating performance (Francis, Hassan, & Sun, 2008).

Previous studies have reached no consensus regarding the performance of cross-border M&As for the bidding firms. Some studies using developed countries' data, usually the US data, demonstrate that cross-border M&A deals do create value for bidding firms around the announcement period (e.g., Benou, Gleason, & Madura, 2007; Cakici, Hessel, & Tandon, 1996; Chari, Ouimet, & Tesar, 2009; Eun, Kolodny, & Scheraga, 1996; Francis et al., 2008; Markides & Ittner, 1994; Martynova & Renneboog, 2011; Morck & Yeung, 1992), while others have provided evidence for bad wealth effect of cross-border M&As by developed countries (e.g., Aw & Chatterjee, 2004; Bris & Cabolis, 2008; Datta & Puia, 1995; Moeller & Schlingemann, 2005). On the other hand, studies using developing countries' data are relatively limited with mainly negative results for both short-run performance (e.g., Aybar, & Ficici, 2009; Feito-Ruiz & Menéndez-Requejo, 2011) and long-run performance (e.g., Bertrand, & Betschinger, 2012).

Same as studies discussed above, studies about performance of cross-border M&As by China have drawn mixed conclusions (e.g., Chen, 2010; , Chen & Young, 2010, Chen, 2011; Deng, 2010; Du & Boateng, 2015; Gu & Reed, 2011; Nicholson & Salaber, 2013), and those studies seldom include long-term performance into the research scope. Besides, previous studies tend to focus on a wide range of industry areas rather than exploring the cross-border M&As within the media and entertainment industry in depth. Despite Chinese media and entertainment firms' emergence in cross-border M&A deals, evaluation about those deals exist exclusively in consulting firms' reports. Thus, this study attempts to use an academic approach to evaluate Chinese firms' cross-border M&As in the media and entertainment industry, both in the short run and long run. Considering the increasing worries shared by both domestic and foreign regulators towards cross-border M&As by Chinese media and entertainment firms, it is hypothesized that cross-border M&As will have a negative wealth effect on Chinese media and entertainment firms.

Hypothesis 1: Cross-border M&As will have a negative wealth effect on Chinese media and entertainment firms.

2.3 Factors Affecting Cross-border M&A Performance

The value created by M&A deals is a function of attributes of the transaction, the target industry, the bidding firm, and the macroeconomic environment (Markides & Ittner, 1994). In other words, factors affecting the performance of cross-border M&As can be studied from nation, industry, firm, and deal level. As this study has limited the focus to the media and entertainment industry, factors from the industry level are excluded from the scope of the current study. This study will examine how geographical origins, a frequently studied nation-specific factor, affect the outcome of cross-border M&As at a macro-level by focusing on the US and Korea. Industry relatedness between the bidding and target firms, and the prior experience of the bidding firm will be explored from firm level. Lastly, this study considers relative deal size to be important factor and attempts to explore how it influences the performance of cross-border M&As by Chinese media and entertainment firms.

2.3.1 Target nation

When expanding global market through cross-border M&As, firms face challenges brought about by new economic, legal, administrative, and cultural environments (Bertrand & Betschinger, 2012). Varying geographical origins of target firms imply variance in degree of the aforementioned challenges (Aybar & Ficici, 2009).

Chinese firms have a preference to undertake cross-border M&As in other Asian countries due to the geographical and cultural proximity with these countries (Chen, 2010). In the first half of 2015, China carried out 15 Korea-targeted cross-border M&A deals, increasing by three times the amount from the same period last year. Additionally, media and entertainment related sectors such as technology, telecommunications and consumer business sectors, have become the focus of large-sized cross-border M&As by China in the Korean market (Deloitte, 2015). Korea-targeted deals only compose small share of total Chinese cross-border M&A volume, but it will be able to provide meaningful results considering cross-border M&As' rapid growth and Chinese firms' emphasis on the media and entertainment industry in the Korean market. On the other hand, the US is a key target for China's outward FDI as well (He & Lyles, 2008). US-targeted M&A deals reached \$35.7 billion and 124 deals in the first three quarters of 2016 (Dealogic, 2016). Though some US firms actively embrace Chinese capital, Chinese firms are still experiencing difficulties caused by culture distance, liability of foreignness, and limited knowledge about the US market (He & Lyles, 2008).

This study considers US and Korea ideal research objects for comparison not only because they present different entertainment trend markets, but also due to their different characteristics as China's M&A partners in the media and entertainment industry. Kim et al (2017) has pointed out that the US and Korea share common ground in their growing partnership with China as targets for cross-border M&As by Chinese media and entertainment firms; however, the US was more of a target for strategic deals than financial deals while Korea is the contrary. Based on the literature discussed above, this study hypothesizes that US-targeted deals and Korea-targeted deals will be different in the value they created for Chinese media and entertainment firms.

Hypothesis 2: The wealth effect of cross-border M&As by Chinese media and entertainment firms will be different according to the target nation.

2.3.2 Industry Relatedness

Industry relatedness has been widely used as an important predicting factor for the M&A performance (Morosini & Singh, 1994). The general notion is that higher degrees

of relatedness between the bidder and the target generally leads to better performance of M&A deals (Martynova & Renneboog, 2011). The elemental theoretical reasoning behind this notion is the synergy operation in overlapping businesses (Muehlfeld, Sahib, & van Witteloostuijn, 2007). Related acquisitions can enjoy economies of scale and market power through conduction of M&As (Uddin & Boateng, 2009), while unrelated acquisitions are susceptible to industrial diversification discount (Dos Santos, Errunza, & Miller, 2008).

Cross-border M&A studies that adopt relatedness as a predicting factor have supported the general notion, showing cross-border M&As create more value when the bidding firm and target firm are from related industries (e.g., Dos Santos et al., 2008; Moeller & Schlingemann, 2005; Uddin & Boateng, 2009). Therefore, this study proposes that the wealth effect of cross-border M&As by Chinese media and entertainment firms will be different according to the relatedness of target to bidding company.

Hypothesis 3: The wealth effect of cross-border M&As by Chinese media and entertainment firms will be different according to the relatedness between the bidder and the target.

2.3.3 Prior Experience

When expanding foreign market, firms will meet many challenges brought about by the context of internationalization such as information asymmetries (Bertrand, & Betschinger, 2012) and culture distance (Morosini, Shane, & Singh, 1998). However, obstacles in the context of cross-border M&As can be minimized by prior experience of the bidding firms (Diovan & Rao Sahib, 2013; Stahl & Voigt, 2004), ultimately leading to better cross-border M&A performance (Markides & Ittner, 1994). Through cross-border M&A as a dynamic learning process (Shimizu et al, 2004), firms can accumulate knowledge about how to integrate and manage their acquisition efficiently (Markides & Ittner, 1994), which is referred to as 'learning by doing' (Kolb, 2014). Thus, firms with former cross-border M&A experience will be more adept in figuring out acquisition related risks and solving acquisition related conflicts (Dikova & Rao Sahib, 2013).

A firm's prior experience of cross-border M&As include prior experience within a host country, and prior experience outside of the host country. Collins et al (2009) has proved that the former is a stronger predictor than the latter. Thus, this study will focus on Chinese firms' prior experience in the host country rather than firms' general cross-border M&A experience. It is predicted that the wealth effect of cross-border M&As by

Chinese media and entertainment firms will be different according to prior experience in the local market.

Hypothesis 4: The wealth effect of cross-border M&As by Chinese media and entertainment firms will be different according to prior experience.

2.3.4 Relative Deal Size

Relative deal size has been frequently used to reflect the size of both the acquirer and the target through calculating the ratio of transaction value and market value of the acquiring firm's equity (e.g., Dutta & Jog, 2009; Fuller, Netter, & Stegemoller, 2002). When the target firm is huge in size, transaction with it will result in large relative deal size due to the expensive price and greater bargaining power of the target firm (Eckbo, Maksimovic, & Williams, 1990). Although large targets can be more difficult to manage and monitor (Morck & Yeung, 1992), many studies have shown that acquirer gains increase with the relative size of the transaction (e.g., Moeller & Schlingemann, 2005; Feito-Ruiz & Menéndez-Requejo, 2011; Fuller et al., 2002). It can be explained by synergy and economic benefits brought about by higher relative size of target (Aybar & Ficici, 2009). The fact that large deals can substantially change the future size of the acquiring firm and are more likely to attract publicity could be another reason for large deals' huge impact on the firms' market value (Dikova & Rao Sahib, 2013). Zhou, Guo, Hua, & Doukas (2012) and Du & Boateng (2015)'s studies using China's data supported prior studies, showing that large cross-border M&As appear to have positive wealth effect on Chinese firms' market value. It is thus assumed that large-size deals and small-size deals will have different wealth effect on Chinese media and entertainment firms.

Hypothesis 5: The wealth effect of cross-border M&As by Chinese media and entertainment firms will be different according to the relative deal size.

III. Methodology

3.1 Data Collection

By using Thomson SDC Platinum database, US-targeted and Korea-targeted cross-border M&A cases by Chinese media and entertainment firms from 2008 January to 2017 January were collected. 309 cases in total were collected and the data included

information on announcement date, transaction value, shares acquired by the bidder, SIC code of the bidder and the target, etc. The year 2008 was selected as the starting year because the Chinese government has been encouraging local firms to conduct cross-border M&As since the financial crisis in 2008 and in the process deals aimed at acquiring market resources, technology, and brand become the major deal type (The Boston Consulting Group, 2015). Meanwhile, there is a need to classify the definition of media and entertainment firms adopted by this study. Allowing for developing technologies' influence on the erosion of the existing frontiers between traditional media sector and other media-related sectors (Peltier, 2004), this study considered firms to be media and entertainment firms if their target firms are from media, entertainment, telecommunications, and relevant service industry categories (see Appendix).

Then firms compiled from the SDC Platinum database were searched in the Thomson Datastream to see if they are public firms and if there exists stock price data in the database during the event window and estimation window. In this process, 196 cases were dropped. Among the remaining 113 cases, those announced by the same firm on the same date were considered as one case. Through this process, 102 cross-border M&A deals by Chinese media and entertainment firms for short-term performance evaluation in this study were determined ultimately. Of the 102 deals, 83 were US-targeted deals and 19 were Korea-targeted deals. Bidding firms are listed on 6 stock exchanges, including Shanghai, Shenzhen, Hong Kong, Taiwan, NYSE, and NASDAQ stock exchanges. Sample description for short-term performance evaluation is presented in Table 1.

Besides stock price data for short-term performance, financial data of firms were collected from the Thomson Datastream database over periods between one year before and three year after the cross-border M&A deals for further long-term performance evaluation.

Table 1. Sample description

		N	Percentage (%)
Time period <i>Source: SDC Platinum</i>	2008~2010	14	13.73
	2011~2013	27	26.47
	2014~2016	61	59.80
Stock exchange <i>Source: Datastream</i>	Shanghai	5	4.90
	Shenzhen	27	26.47
	Hongkong	40	39.22
	Taiwan	13	12.75
	NASDAQ	12	11.76
	NYSE	5	4.90
Target nation <i>Source: SDC Platinum</i>	US	83	81.37
	Korea	19	18.63
Relatedness	Related	41	40.20

<i>Source: SDC Platinum</i>	Unrelated	61	59.80
Prior experience	With experience	27	26.47
<i>Source: SDC Platinum</i>	Without experience	75	73.53
Relative deal size	Small	57	55.88
<i>Source: SDC Platinum,</i>	Large	5	4.90
<i>Datastream</i>	Info. not available	40	39.21

3.2 Event Study

To evaluate the short-term performance of US-targeted and Korea-targeted cross-border M&As by Chinese media and entertainment firms, this study adopts event study to calculate the abnormal stock returns. First applied by Fama, Fisher, Jensen, & Roll (1969), event study is based on efficient market hypothesis such that stock prices adjust rapidly to a given information. The basic notion for event study is to compare stock price movement caused by an event with estimated stock price movement supposing said event had not occurred (Mitchell & Netter, 1994).

Event study has been widely applied to the area of corporate finance, particularly in the examination of wealth effects caused by M&As. These studies typically concentrate on the abnormal return around the announcement date (MacKinlay, 1997). In recent years, cross-border M&As' wealth effect has been frequently explored by using event study as well (e.g., Aybar, & Ficici, 2009; Boateng et al, 2008; Bhagat, Malhotra & Zhu, 2011; Chen & Young, 2010; Dikova & Rao Sahib, 2013; Lowinski, Schiereck & Thomas, 2004; Uddin & Boateng, 2009). These studies are based on the idea that if a cross-border M&A event announcement offers the market with positive information, the stock price will react positively. On the contrary, negative information provided by a cross-border M&A event will result in negative stock price.

Following the general flow of analysis suggested by Mitchell & Netter (1994), the current study conducts event study to evaluate the wealth effect of cross-border M&As by Chinese media and entertainment firms through three steps. The first step is to decide the event window. Event window refers to the period during which we examine the stock price influenced by the events of interest (MacKinlay, 1997). This study applied event window over a 3-day period. In consideration of possible leakages in the information system of China (Sehgal et al., 2012), three days prior to the event was included in the study. Therefore, this study set four 3-day period event windows: (-3,-1), (-2,0), (-1,1), (0,2). Day 0 refers to the day when the cross-border M&A event was announced.

Following up, the abnormal stock price reflecting the cross-border M&A event announcement is calculated. Abnormal return refers to the difference between the predicted return and the actual return on a given date during the event window. Thus, this study estimated normal return first by applying market model. To calculate normal return, estimation window, which is a comparison period against event window, should be decided. This study chose a 150-day period (-180 ~ -31) prior to the event announcement as the estimation period. The normal return is estimated as:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad (1)$$

R_{it} : the return of a stock i at time t

R_{mt} : market return

ε_{it} : a random error term uncorrelated with market return

α_i : intercept

β_i : parameters of the regression equation

Then the abnormal return is calculated as follows:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) = \varepsilon_{it} \quad (2)$$

As event windows used in this paper extend beyond one trading day, total impact of the events should be calculated by cumulative abnormal returns (CARs). The cumulative abnormal returns capture the whole impact of the events from the first day of the event window (t_0) to the last day of the event window (t_1).

$$CAR(t_0, t_1) = \sum_{t=t_0}^{t_1} AR_{it} \quad (3)$$

The last step would be the test for statistical significance of the abnormal stock price performance, which will be specifically discussed in the data analysis section.

3.3 Accounting Approach

Though abnormal stock returns can reflect investors' expectations about wealth effect of cross-border M&As, they are unable to provide evidence on the real economic gains in the long run (Healy et al. 1992). To capture the actual value creation effect of cross-border M&As by Chinese media and entertainment firms in a longer term, this study uses the accounting approach to explore the changes in firms' financial and operating performance.

Though there exist many long-term performance proxies such as profitability, operating efficiency, output etc., this study only chose profitability out of these proxies to explore long-term performance considering that the focus of this study is the value creation of cross-border M&As. Following studies such as D'souza & Megginson (1999) and Huang & Song (2005), this study employed three ratios, i.e. return on sales (ROS), return on assets (ROA), and return on equity (ROE) to measure profitability. That is, return on sales (ROS), return on assets (ROA), and return on equity (ROE) were used as indicators of long-term performance in this study. All accounting data was collected from the Thomson Datastream from 1 year before the M&A deals to 3 years after the deals.

3.4 Data Analysis

The dependent variables of this study can be concluded as CAR for short-term performance evaluation and ROS, ROE, ROA for long-term performance evaluation. Independent variables include target nation, relatedness, prior experience, and relative deal size. Specific description and measurement of variables are presented in Table 2.

Table 2. Summary for variables and measurement

	Variables	Measurement
IV	Target nation	Deals will be divided into two categories coded with “0” for US-targeted deals and “1” for Korea-targeted deals.
	Relatedness	If bidding firm and target firm have the matching four digit SIC codes, they are considered to be from related industry, taking the value “0”. If otherwise, taking the value “1” (Aybar, & Ficici, 2009)
	Prior experience	Cases will be divided into two categories, taking the value “0” if the bidder has carried out M&A deals in the host country over the period 2008 January to 2017 January and “1” if otherwise.
	Relative deal size	Relative deal size is measured by the ratio of transaction value and market value of the acquiring firm’s equity (Moeller & Schlingemann, 2005; Dutta & Jog, 2009). The market value of the acquiring firm will be measured using the data one week before the announcement date (Feito-Ruiz & Menéndez-Requejo, 2011). 10% is chosen as the relative deal size cutoff for large-sized deals and small-sized deals as Moeller and Schlingemann (2005) has shown that the average relative deal size of cross-border M&A deals is 10%. Deals will be coded as large-sized deals with “0” if their relative deal size is larger than 10%. If otherwise, coded as small-sized deals with “1”.
DV	CAR	$CAR(t_0, t_1) = \sum_{t=t_0}^{t_1} AR_{it}$
	Return on sales	Net income/Sales
	Return on assets	Net income/Total assets
	Return on equity	Net income/Market value of equity

The statistical package STATA 14.1 was used to calculate the cumulative abnormal returns (CARs). The statistical package SPSS 24.0 was used to examine the research hypotheses for short-term performance and long-term performance respectively.

For short-term performance evaluation, Hypothesis 1 was tested by using one-sample *t*-test to see if CAR differs significantly from zero. If so, it means cross-border M&A events announced by Chinese media and entertainment firms have impact on their market value in the short run. Hypothesis 2 - Hypothesis 5 were tested by conducting independent sample *t*-tests on groups divided according to each independent variable.

As for long-term performance evaluation, hypothesis testing was done by following the method used by various previous studies on long-term financial and operating performance (D'souza & Megginson, 1999; Huang, & Song, 2005; D'Souza, Megginson, & Nash, 2007). To test Hypothesis 1, average ROS, ROA, and ROE ratios from 1-year pre-M&A period and 3-year post-M&A period were calculated, and Wilcoxon signed-rank test was used to see whether the median difference between pre-M&A ratios and post-M&A ratios is significant. In addition, a proportion test was conducted as well to see if there exists overwhelming proportion of firms generating long-term performances changes in the same direction. For Hypothesis 2 - Hypothesis 5, the total sample was divided into sub-groups based on affecting factors included in this study, and Kruskal-Wallis test was used to test if there is significant difference between sub-groups. If so, it can be concluded that the affecting factors are important predictors of long-term success of cross-border M&As by Chinese media and entertainment firms.

IV. Results

4.1 Short-term performance

Hypothesis 1 predicted that cross-border M&As will have a negative wealth effect on Chinese media and entertainment firms. A one sample *t*-test was carried out to see if the CARs of Chinese media and entertainment firms are significantly higher than 0 in the event window. As shown in Table 3, CARs were significantly negative at 5% level in the (-3,-1) and (-2,0) event window, with results of $t(101) = -3.079$ and $p = .003$ and $t(101) = -2.188$ and $p = .031$. Cross-border M&As by Chinese media and entertainment firms produced an abnormal return of -1.9% for the event window (-3, -1) and an abnormal

return of -1.4% in event window (-2,0). Therefore, it can be concluded that Hypothesis 1 is supported. This implies that cross-border M&As by Chinese media and entertainment firms were not perceived as good news in the market before the announcement.

To draw more meaningful findings, deals were divided into three groups based on period and was tested by using one-way ANOVA test to see if pattern of value creation changes with time. However, no significant result was found.

Table 3. One sample *t*-test on the overall short-term performance

Event window	<i>n</i>	<i>M</i>	<i>SD</i>	<i>t</i>	<i>df</i>	<i>p</i>
(-3,-1)	102	-0.019	0.061	-3.079	101	0.003***
(-2,0)	102	-0.014	0.063	-2.188	101	0.031**
(-1,1)	102	-0.003	0.100	-0.325	101	0.746
(0,2)	102	0.001	0.089	0.135	101	0.893

Note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Hypothesis 2 expected that the wealth effect of cross-border M&As by Chinese media and entertainment firms will be different according to the target nation. Independent sample *t*-test was conducted to compare the CAR of US-targeted deals with that of Korea-targeted deals. As shown in Table 4, there were no significant results in the event window (-3,-1), (-1,1) and (0,2). There was statistically significant difference between the CAR of US-targeted deals ($M = -0.006$) and Korea-targeted deals ($M = -0.045$) in the event window (-2,0) at 5% level, therefore, supporting Hypothesis 2. Specifically, in the event window (-2,0), both US-targeted and Korea-targeted deals failed to create value for Chinese firms, while firms targeting US suffered less from conducting cross-border M&As than those targeting Korea. This implies that the market is less optimistic about cross-border M&As targeting Korea rather than those targeting the US.

Table 4. Independent sample *t*-test on US-targeted and Korea-targeted deals

Event window	Target nation	<i>n</i>	<i>M</i>	<i>SD</i>	<i>t</i>	<i>df</i>	<i>p</i>
(-3,-1)	US	83	-0.015	0.063	1.134	100	0.26
	Korea	19	-0.033	0.050			
(-2,0)	US	83	-0.006	0.064	2.499	100	0.014**
	Korea	19	-0.045	0.042			
(-1,1)	US	83	0.001	0.106	0.898	100	0.371
	Korea	19	-0.022	0.066			
(0,2)	US	83	0.001	0.088	0.008	100	0.994
	Korea	19	0.001	0.099			

Note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Hypothesis 3, Hypothesis 4 and Hypothesis 5 predicted that the wealth effect of cross-border M&A deals by Chinese media and entertainment firms will be different according to the relatedness between the bidder and the target, prior experience in the local market and relative deal size. The result of independent *t*-test is reported in Table 5, Table 6, and Table 7. There was no significant result in all the four chosen event windows. Hypothesis 3, Hypothesis 4 and Hypothesis 5 are rejected. This implies that relatedness, prior experience in the local market, and relative deal size are not that important in the success of M&A deals in the short run.

Table 5. Independent sample *t*-test on related deals and unrelated deals

Event window	Relatedness	<i>n</i>	<i>M</i>	<i>SD</i>	<i>t</i>	<i>df</i>	<i>p</i>
(-3,-1)	Related	42	-0.009	0.032	1.285	100	0.202
	Unrelated	60	-0.025	0.075			
(-2,0)	Related	42	-0.006	0.042	0.986	100	0.326
	Unrelated	60	-0.019	0.073			
(-1,1)	Related	42	-0.004	0.114	-0.037	100	0.971
	Unrelated	60	-0.003	0.090			
(0,2)	Related	42	-0.001	0.099	-0.212	100	0.832
	Unrelated	60	0.003	0.082			

Note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 6. Independent sample *t*-test on firms with experience and without experience

Event window	Prior experience	<i>n</i>	<i>M</i>	<i>SD</i>	<i>t</i>	<i>df</i>	<i>p</i>
(-3,-1)	With experience	27	-0.005	0.062	1.327	100	0.187
	Without experience	75	-0.024	0.061			
(-2,0)	With experience	27	-0.013	0.045	0.069	100	0.945
	Without experience	75	-0.014	0.068			
(-1,1)	With experience	27	-0.019	0.048	-0.954	100	0.342
	Without experience	75	0.002	0.113			
(0,2)	With experience	27	-0.012	0.070	-0.913	100	0.363
	Without experience	75	0.006	0.095			

Note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 7. Independent sample *t*-test on small-size deals and large-size deals

Event window	Relative deal size	<i>n</i>	<i>M</i>	<i>SD</i>	<i>t</i>	<i>df</i>	<i>p</i>
(-3,-1)	Small	57	-0.025	0.054	0.595	60	0.554
	Large	5	-0.010	0.043			
(-2,0)	Small	57	-0.021	0.057	-0.074	60	0.941
	Large	5	-0.023	0.039			
(-1,1)	Small	57	-0.010	0.068	1.503	60	0.623
	Large	5	0.061	0.298			
(0,2)	Small	57	-0.001	0.068	1.645	60	0.559
	Large	5	0.069	0.246			

Note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

4.2 Long-term performance

ROS, ROA, and ROE ratios were used to test the long-term performance of cross-border M&A deals by the Chinese media and entertainment industry. The results of Wilcoxon signed-rank test on total samples are summarized in Table 8. All the three ratios experienced statistically significant decrease after acquisition at 1% level, with 73.91%, 76.81%, 66.13% of deals showing the same decreasing pattern in terms of ROS, ROA, and ROE respectively, and the proportion test results were also significant at 1% level. In the following Table 9 ~ Table 12, most of the Wilcoxon signed-rank test on sub-samples showed the same statistically significant negative results. Therefore, the results of long-term performance support former results regarding short-term performance that cross-border M&As by Chinese media and entertainment firms failed to create value, thus supporting Hypothesis 1.

Table 8. Summary of the tests on long-term performance change

Variables	N	Mean (Median) before	Mean (Median) after	Mean (median) change	Z-Statistic for difference in medians (after- before)	Percentage of firms that decreased after M&A (%)	Z-Statistic for significance of Proportion Change
Return on sales (ROS)	69	-0.069 (0.124)	-0.007 (0.115)	0.062 (-0.01)	-3.949***	73.91	-3.852***
Return on assets (ROA)	69	0.050 (0.081)	0.059 (0.0648)	0.009 (-0.016)	-4.792***	76.81	-4.334***
Return on equity (ROE)	62	0.012 (0.028)	-0.1762 (0.027)	-0.188 (-0.002)	-2.682***	66.13	-2.413***

Note: * p<0.1, ** p<0.05, *** p<0.01

Based on the results of Kruskal-Wallis test on sub-groups, no significant results were found in terms of target nation, relatedness, and prior experience, thus rejecting Hypothesis 2, Hypothesis 3, and Hypothesis 4. However, there was significant difference in the median changes of all the three ratios between large-size deals and small-size deals, supporting Hypothesis 5. Specifically, 4 large-size deals generated significantly more median decrease than the other 32 small-size deals.

Table 9. Summary of the tests on long-term performance change for the US and Korea

Variables	N	Mean (Median) before	Mean (Median) after	Mean (median) change	Z-Statistic for Difference in Medians (after - before)	Kruskal–Wallis results for differences between subsamples		
						Mean rank		KW test statistic 'p' value
						US	Korea	
<i>Return on sales (ROS)</i>								
US	57	0.012 (0.127)	-0.017 (0.099)	-0.029 (-0.028)	-3.881***	33.84	40.5	0.296
Korea	12	-0.418 (-0.098)	0.039 (-0.137)	0.457 (-0.039)	-0.941			
<i>Return on assets (ROA)</i>								
US	57	0.049 (0.088)	0.058 (0.065)	0.009 (-0.023)	-4.485***	34.04	39.58	0.384
Korea	12	0.058 (-0.064)	0.063 (-0.064)	0.005 (0.000)	-1.49			
<i>Return on equity (ROE)</i>								
US	51	0.004 (0.030)	0.021 (0.027)	0.017 (-0.003)	-2.006**	32.53	26.73	0.333
Korea	11	0.044 (-0.026)	-1.091 (-0.023)	-1.135 (0.003)	-2.045**			

Note: * p<0.1, ** p<0.05, *** p<0.01

Table 10. Summary of the tests on long-term performance change for the related and unrelated deals

Variables	N	Mean (Median) before	Mean (Median) after	Mean (Median) change	Z-Statistic for Difference in Medians (after - before)	Kruskal–Wallis results for differences between subsamples		
						Mean rank		KW test statistic 'p' value
						Related	Unrelated	
<i>Return on sales (ROS)</i>								
Related	34	0.169 0.222	-0.009 0.170	-0.178 -0.052	-3.001**	34.56	35.43	0.857
Unrelated	35	-0.238 0.067	-0.005 0.037	0.233 -0.030	-2.604***			
<i>Return on assets (ROA)</i>								
Related	34	0.044 0.112	0.072 0.068	0.027 -0.044	-4.027***	36.09	33.94	0.657
Unrelated	35	0.055 0.054	0.046 0.038	-0.008 -0.015	-2.948***			
<i>Return on equity (ROE)</i>								
Related	31	0.057 0.026	0.023 0.027	-0.035 0.001	-1.568	34.19	28.81	0.24
Unrelated	31	-0.020 0.030	-0.375 0.025	-0.355 -0.005	-1.960**			

Note: * p<0.1, ** p<0.05, *** p<0.01

Table 11. Summary of the tests on long-term performance change for firms with and without experience

Variables	N	Mean (Median) before	Mean (Median) after	Mean (median) change	Z-Statistic for Difference in Medians (after - before)	Kruskal–Wallis results for differences between subsamples		
						Mean rank		KW test statistic 'p' value
						With experience	Without experience	
<i>Return on sales (ROS)</i>								
With experience	18	0.082 (0.142)	0.169 (0.142)	0.087 (0.001)	-2.638***	30.28	36.67	.245
Without experience	51	-0.124 (0.099)	-0.069 (0.105)	0.055 (0.006)	-2.990***			
<i>Return on assets (ROA)</i>								
With experience	18	0.118 (0.132)	0.083 (0.077)	-0.034 (-0.055)	-3.684***	30	36.76	.219
Without experience	51	0.026 (0.069)	0.050 (0.063)	0.025 (-0.007)	-3.374***			
<i>Return on equity (ROE)</i>								
With experience	17	0.025 (0.025)	0.022 (0.024)	-0.003 (-0.001)	-1.398	32.94	30.96	.699
Without experience	45	0.006 (0.031)	-0.251 (0.033)	-0.258 (0.002)	-2.162**			

Note: * p<0.1, ** p<0.05, *** p<0.01

Table 12. Summary of the tests on long-term performance change for large-size and small-size deals

Variables	N	Mean (Median) before	Mean (Median) after	Mean (median) change	Z-Statistic for Difference in Medians (after - before)	Kruskal–Wallis results for differences between subsamples		
						Mean rank		KW test statistic 'p' value
						Small	Large	
<i>Return on sales (ROS)</i>								
Small	35	0.005 -0.138	0.079 -0.115	0.074 (-0.023)	-3.079***	21.03	11	0.096*
Large	4	-0.035 -0.298	-1.485 (-1.190)	-1.45 (-1.488)	-1.826*			
<i>Return on assets (ROA)</i>								
Small	35	0.035 -0.082	0.056 -0.059	0.021 (-0.023)	-3.686***	21.4	7.75	0.023**
Large	4	0.13 -0.008	-0.069 (-0.044)	-0.199 (-0.052)	-1.826*			
<i>Return on equity (ROE)</i>								
Small	32	0.051 -0.025	-0.356 -0.022	-0.407 (-0.003)	-2.244**	19.38	3.33	0.01***
Large	3	0.136 (-0.033)	-0.11 (-0.165)	-0.246 (-0.133)	-1.604			

Note: * p<0.1, ** p<0.05, *** p<0.01

V. Conclusions and implications

This study empirically examines whether cross-border M&As by Chinese media and entertainment firms create value in the short run and long run. Focusing on US-targeted and Korea-targeted deals carried out from January 2008 to January 2017, this study has adopted event study to evaluate short-term performance, and analyzed long-term performance by using accounting data. The main finding is that these deals failed to create value for Chinese firms both in the short run and long run. This finding confirms our assumption that the market does not consider cross-border M&A deals by Chinese media and entertainment firms to be good news in the beginning, and Chinese firms are not capable of taking advantage of cross-border M&A deals to create value after acquisition.

Besides the overall evaluation, this study has made effort to investigate how different factors, i.e. (1) Target nation (2) Relatedness (3) Prior experience (4) Relative deal size, influence the outcome of the cross-border M&A deals by Chinese media and entertainment firms. US-targeted deals experienced less negative abnormal returns than Korea-targeted deals in the short run while there was no evidence showing the advantage of US-targeted deals over Korea-targeted deals in the long run. As for relative deal size, small-size M&A deals performed better in the long run when compared with large-size M&A deals. In terms of relatedness and prior experience, it was proven that relatedness and prior experience has no strong relationship with the success of cross-border M&A deals by Chinese media and entertainment firms.

The findings of this research have some important implications for both the Chinese government and firms. First, the overall bad performance warns that though there has been a surge in cross-border M&As in recent years and the government has done a lot to encourage M&A deals, the outcome of deals in the global media field is unsatisfactory. It is necessary for the Chinese government and firms to review past M&A experiences and reconsider what kind of M&A policies and strategies are truly needed currently. The government should make effort to revise the regulations and rules regarding cross-border M&As to provide a better environment for carrying out cross-border M&As. Second, large-size deals' bad performance indicates that Chinese media and entertainment firms are not capable of taking advantage of the synergy effect created by large-size deals. At the early stage of cross-border M&As, it would be better for Chinese firms to target smaller foreign firms and carry out small-size deals which may be less risky.

While this study offered some meaningful results and implications regarding cross-border M&As by China, it is not without limitations. First, as this study only included listed firms in the research, the results may fail to capture the performance of cross-border M&As by private firms, which account for a quite large proportion in total deals. Second, though this study adopted the accounting approach to overcome limitations resulting from event study, the sample size of accounting data for long-term performance analysis is quite small due to the lack of data. Lastly, evaluation of performance was provided, but the explanation for the results stays quite unclear. Future studies that can shed light on the reason for the results, and case study on successful M&A deals would be meaningful.

Appendix

1. Included industry categories for target firms

Category	Target Industry Sector
Media & Entertainment	Amusement and Recreation Services, Hotels and Casinos, Motion Picture Production and Distribution, Radio and Television Broadcasting Stations, Printing, Publishing, and Allied Services
Telecommunications	Prepackaged Software, Telecommunications, Communications Equipment, Miscellaneous Retail Trade (e-commerce)
Service	Advertising services, Business services, Personal services, Miscellaneous service

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