COMPARISON OF PREMIUMS OF CHINESE AND EUROPEAN COMPANIES IN MERGERS AND ACQUISITIONS IN EUROPE

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Abstract: *The goal of the study is to analyse whether Chinese Mainland companies were paying higher premiums for similar target companies in Europe in comparison with Europe-based companies during the period of 2000-2013. To determine the difference between premiums paid by Chinese and European companies, two samples were analysed: one represented all Chinese acquisitions in Europe which matched the set criteria, another included comparable European targets acquired by European companies. Quantitative research methods were applied to measure statistical difference in the premiums of the two samples. Results of the research indicate that the average premiums paid by Chinese companies are double the size of the European acquisition premiums for the similar target company in Europe. Significant evidence suggests that premiums of Chinese and European companies for similar targets in Europe are not equal.*

Key words: mergers and acquisitions, Chinese companies, European companies, premiums

Introduction

In this global economy, companies are looking for possibilities to expand their businesses to foreign markets and one of the possible ways to do this is through mergers and acquisitions (M&A). The total value of M&A in 2013 was US$ 2215bn, with US$ 774.4bn coming from cross-border deals. In comparison with 2012, the market was slightly contracting in the USA and Europe, but growing very fast in Asia.

China as one of the booming emerging markets is showing a growing interest in cross-border M&A. The volume of Chinese outbound M&A deals rose by 40-50 times

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since the year 2000, and currently China is one of the leading countries in Asia by this parameter. Chinese companies' appetite is especially growing in developed countries – Europe, the USA and Australia.

Most of the research on M&A is focused on motives and value creation, thus these topics are quite well covered. However, premiums paid in M&A transactions and premium drivers seem to be still new and uncovered phenomena. Researchers found out that acquiring firms from emerging economies compared to those from developed economies have a tendency to offer higher premiums in order to acquire assets in developed countries. However, there is no unanimous opinion among researchers whether premiums, in particular paid by Chinese acquirers, can be justified. Therefore, this paper analyses premiums paid by Chinese acquirers in M&A transactions in Europe.

The study **aims** to investigate whether Chinese Mainland companies in comparison with Europe-based companies were paying higher premiums for the acquisition of similar target companies in Europe during the period of 2000-2013. It reviews the previous research carried out on the topic of M&A premiums, analyses Chinese M&A in Europe, compares Chinese and European premiums paid for similar targets in Europe and the factors which might have influenced the sizes of these premiums, as well as identifies the main M&A motives and premium drivers for Chinese companies.

Quantitative research methods are used to examine the difference between the premiums paid by Chinese and European companies during M&A transactions in Europe. At first, the sample of Chinese deals is determined and for each Chinese deal a comparable set of European deals is identified. Then the comparison between premiums paid by China-based and Europe-based companies for similar targets in Europe is made. Other factors which might have influenced the difference in sizes of premiums paid by Chinese and European companies are identified and examined as well.

This paper is organised as follows: the first section reviews the literature on the topic of M&A, in particular premiums and peculiarities of Chinese deals. Next, the methods to be applied are indicated and a description of samples is provided. In the third section, a comparison between the premiums paid by Chinese and European acquirers for similar targets in Europe is presented. The influence of premium determinants on Chinese and European acquisition premiums are also described in the third section. In the last section, conclusions are made and directions for future research on the topic are provided.

1. Theoretical Research on M&A and their Premiums

Companies are always looking for new possibilities to expand, and one of the ways to enter a new market is through M&A. Results from the KPMG International (2013) research revealed that executives prefer acquisition strategy among others (e.g., joint venture, green field investment, alliance) due to the speed of entering the market and observed excellent opportunity. M&A strategy is believed to be more advantageous if the firm is seeking to enter a desired market where well-established incumbent enterprises exist and where global competitors are attempting to move (Wang, 2009).

Types of M&A. Most authors classify M&A into 3 main types – horizontal, vertical and conglomerate. John C. Narver (1967) noticed that sometimes it is hard to distinguish whether companies are related or not, and therefore offered a new definition: conglomerate merger is any merger in which two or more products in the merger neither compete nor are vertically related'. Thus, if by acquiring a new firm, the bidder gains new external geographic or external product market, this merger can be called conglomerate (Narver, 1967).

While some of the authors differentiate only horizontal, vertical and conglomerate mergers, others try to extend classification of conglomerate merger further. George G. Aragon (1989) divided conglomerate mergers into 3 subgroups – product extension, market extension and others. Conglomerate merger falls into the category of product extension if combined companies have functionally related production but their products are not competing, e.g., shoes manufacturer and clothes manufacturer. Market extension occurs when companies are manufacturing or selling similar products in different geographic locations. Others refer to 'pure' conglomerates where merging companies are related neither by geography nor by product (Aragon, 1989).

Following this definition, most of the Chinese acquisitions in Europe are expected to fall under the conglomerate class, while European companies' deals in Europe might be attributed to any of these classes. Motives of M&A are also expected to be different depending on the class into which the merger falls.

Motives of M&A. Rationale for M&A was examined by many authors. Arnold (2005) suggested classifying motives into 4 groups – synergy, bargaining power, managerial motives and third party motives. Another way of classifying M&A motives is by intrinsic and extrinsic motives (Skinner, 1953; Deci & Koestner, 1999). The third model suggests dividing motives into valid and questionable motives (Emery, Finnerty, Stowe, 2004). The latter reasoning appears to be contradictory because what is considered to be a valid motive in one type of business could be a questionable motive in another one and vice versa.

Even though researchers seem not to have a unanimous opinion on what is the most appropriate classification model, one model stands out from the rest due to its simplicity and clarity. R. Schoenberg (2006) classification model which is commonly used in M&A analysis divides motives into strategic, financial and managerial classes. According to the researcher, strategic motives for mergers include extension of business, change of competitive structure and improvement of business capabilities. However, the list is incomplete. The preemptive motive, which suggests that a company engages in an acquisition because it is afraid that the competitor might acquire the same target company, also belongs to the strategic class (Molnar, 2007). Financial efficiency, tax efficiency, asset stripping or unbundling are the three financial motives. Investment opportunity motive can be assigned to the same class as sometimes acquisition is made just because the target is undervalued (Damodaran, 2011). Thus, the financial efficiency class should be extended. Managerial motives are those that serve the managers' interest rather than that of shareholders. According to Schoenberg (2006), there are two managerial motives – personal ambition and bandwagon effect.

The Schoenberg classification model does not cover well the motives that are interrelated with more than one type of motives. Besides, external motives are hardly taken into consideration. Researchers argue that technological, economic and regulatory shocks (Mitchell & Mulherin, 1996), financial variables (Giovanni, 2005), customers and suppliers (Ahern & Harford, 2010) affect M&A significantly. Therefore the authors of this paper present an extended model of classification of the motives for M&A (Figure 1).
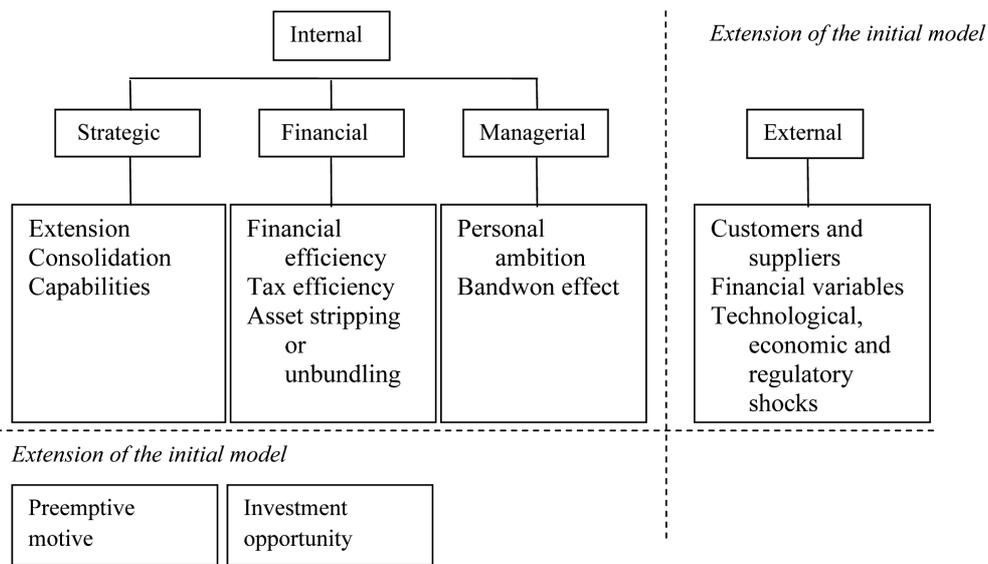

FIG. 1. **The extended Schoenberg model for classification of motives for M&A**
Source: Compiled by the authors based on R. Schoenberg (2006)

According to the surveys, strategic motives are the most important ones. KPMG International research (2013) suggests that the most popular rationales for acquisitions are consolidation and extension. Other 2 common motives are financial efficiency and investment opportunity. However, the results of the study are based on the surveys of the management of the merging companies. Therefore it is hard to measure the impact of managers' self-interest due to managers' reluctance to admit and share discrete information.

Wang and Moini (2012) investigated Danish firms and obtained the results similar to KPMG International (2013); they found that two main motives are strategic ones – extension and capabilities. Financial efficiency took the third place. Both Wang and Moini (2012) and the KPMG International (2013) studies showed that managerial motives are not among the most popular ones.

The acquisition motives of Chinese companies are similar to the motives of any other acquirer. Boateng, Qian and Tianl (2008) research results were consistent with KPMG International (2013) and Wang and Moini (2012) results and showed that strategic

motives for Chinese M&A are the main ones encouraging M&A deals. Detailed results of the study are depicted in Table 1.

TABLE 1. **Strategic Motives for M&A of Chinese Firms**

Motivational factor	Number	Percentage
To facilitate international expansion/diversification	17	39.0
To increase market share/power	12	27.0
To acquire strategic asset – technology & knowhow	12	27.0
To overcome trade barriers	3	7.0
Total	44	100.0

Source: Boateng, Qian and Tianl (2008).

Acquirers expect to increase their market share, enter new market or gain know-how. Financial motives, such as investment opportunity or economies of scale are also a popular explanation for M&A. However, as all studies were based on surveys of the managers, the underlying motives for transactions such as managerial hubris are hardly explored.

The concept of value and price in M&A. Value and price in M&A are frequently mixed terms. According to Price Waterhouse Coopers (2013), value is the individualistic perception of the worth of a company which is different for different buyers and sellers. Fernandez (2004) distinguished six different types of valuation methods: balance sheet based, income statement based, mixed, cash flow discounting, value creation and option based methods. All of these methods have their advantages and disadvantages.

The majority of authors stress the importance of discounted cash flow model (Damodoran, 2011; Fernandez, 2004). According to Imam, Barker and Clubb (2008), discounted cash flow model is most frequently used by buy-side financial advisers. On the other hand, many authors admit that it is impossible to calculate the 'correct' value because in discounted cash flow approach a lot of estimations and assumptions have to be used (Damodaran, 2011). Additionally, this method is complicated, time consuming, subjective and requires inside information (Havnaer, 2012).

Relative valuation is well appraised by many authors as it represents not only the value of the target company but also the condition of the whole market (Damodoran, 2011; Fernandez, 2004). With the help of various market multiples, it is possible to compare different M&A deals.

Market capitalisation of a company or the price at which listed companies shares are sold on the stock exchange is the most commonly used valuation method for calculating premiums (Hayward & Hambrick 1997; Gupta & Misra, 2007; Varaiya & Ferris, 1987; Guo, Clougherty & Duso, 2013). This valuation concept is popular due to the data availability, simplicity and objectiveness. Thus, to be consistent with other relevant researches on acquisition premiums (Hayward & Hambrick 1997; Gupta & Misra, 2007; Varaiya & Ferris, 1987; Guo, Clougherty & Duso, 2013), further research will assume that value of a target company's share is the listed stock price prior to the acquisition announcement.

In the majority of M&A, price contains the value of the target company to the acquirer plus a premium. Price is the monetary expression of stock or cash which was used to pay for the target company (Fernandez, 2004). The price of the deal is usually paid with a premium on the price at which the target's shares are traded in the market (Emery, Finnerty & Stowe, 2004). Sometimes M&A deals are completed with a discount. Discount could alert that currently the company is overvalued and it originally had a lower value in M&A market or that management of the target company is weak (Roll, 1986). Normally, the potential acquirer compares the value (what a company is worth to the acquirer) to the current market price and if the value is below the price, the bid is abandoned (Roll, 1986).

Premiums. An acquisition premium is a ratio of the negotiated price of one target's share and the price at which the target's share is traded in the market (Laamanen, 2007; Sirower & Sahni, 2006). This premium is sometimes called a *control premium* in the acquisitions of publicly traded companies (RSM Bird Cameron, 2010; Komiak, 2010). However, Damodaran (2011) argues that it is a premium paid for the acquisition, but not a *control premium*. The researcher states that a *control premium* appears as the acquirer believes it could make significant impact on the target company. Conversely, premiums for acquisitions can be paid for many reasons, and control is just one of them. Besides, acquirers tend to overpay (Damodaran, 2011). Thus, agreeing with Damodaran (2011), a premium paid for acquisitions should not be referred to as a *control premium.*

Research revealed that a high acquisition premium could be dangerous for the acquirer because it may overweight all the synergies acquisition might create (Sirower & Sahni, 2006; Varaiya & Ferris, 1987). There are many cases when the premium paid was too high and because of that the deal did not create additional value to its stakeholders. Sirower and Sahni (2006) stated that premiums paid for the acquisitions are negatively related with acquirers' returns and can still have an impact after up to four years. Moeller, Schlingemann and Stulz (2005) found in their research that shareholders of the acquiring firm lost 12 cents on every dollar spent on acquisition during 1998-2001 in the United States. The accumulated total loss was about $240 billion.

Even though many studies revealed that high acquisition premiums frequently destroy value (Sirower & Sahni, 2006; Moeller, Schlingemann & Stulz, 2005), companies continue to pay high premiums. Thomas Reuters report indicates that the world average premium for all industries in 2012 was 31.2% and 30% in 2013 (Thomas Reuters, 2013).

As a result, a natural question arises as to what the major premium drivers are. A number of determinants were identified by the existing literature in an attempt to justify the sizes of the premiums (Figure 2). One explanation for the large premium could be that the stock on the stock exchange does not represent the real value of the company (Myers & Majluf, 1984). Having performed comprehensive due diligence analyses of the potential target, acquirers might have a deeper understanding of the real value of a target firm than the market (Laamanen, 2007). However, similarly to the acquirer who notices the target's potential for value creation, the market can also recognise the
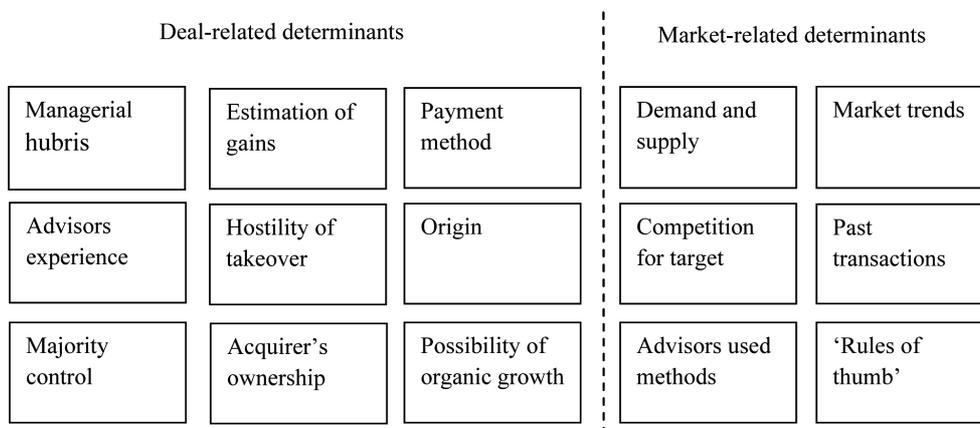
Deal-related determinants			Market-related determinants	
Managerial hubris	Estimation of gains	Payment method	Demand and supply	Market trends
Advisors experience	Hostility of takeover	Origin	Competition for target	Past transactions
Majority control	Acquirer's ownership	Possibility of organic growth	Advisors used methods	'Rules of thumb'

FIG. 2. **Premium determinants**
Source: Compiled by the authors

undervalued potential of the companies to be acquired. Thus, market prices might be adjusted with the possibility of acquisition even before the acquisition is announced (Crawford & Lechner, 1996).

Assuming that a company on the stock exchange is priced fairly, there are many other determinants for the high premiums. One of the speculative determinants for the size of the premium is believed to be managerial hubris (Hayward & Hambrick, 1997). Managers of the acquiring companies are willing to bid high to complete the deal. Research (Aktas, Bodt & Roll, 2011) proved that if the manager completed a few successful transactions in the past, he will tend to overpay for a new target company. Recent performance of the company, media praise and CEO self-confidence have a positive effect on premiums (Hayward & Hambrick, 1997). Agarwal and Zeephongsekul (2013) state that acquirers who are risk takers pay relatively more than the risk averse acquirers. There exists a contradictory opinion that premium is the result of either a valuation error or managerial hubris (Roll, 1986).

Varaiya and Ferris (1987) noticed that overestimation of acquisition gains could cause higher premiums as well. Capron, Dussauge and Mitchell (1998) supplemented this opinion by adding that if the acquirer believes that combined resources will generate high value, the acquirer tends to be more certain about the deal. John, Liu and Taffler (2008) proved that premiums are on average 7-9% higher if both the acquirer and the target are overconfident about potential synergies. In general, target companies' bargaining power is positively correlated with the size of the premium (Varaiya & Ferris, 1987).

Ownership of the acquirer also has an impact on the size of the premium. Guo, Clougherty and Duso (2013) research showed that state-owned companies in China are paying higher premiums in cross-border transactions in comparison with private companies.

Besides, the origin of both acquiring and target companies has an impact on the premium. This is believed to exist due to the differences in taxation and encouragement policies in the countries (Hope, Thomas & Vyas 2011; Bailey, Chung, & Kang, 1999). Hope, Thomas and Vyas (2011) found that acquiring firms from emerging economies in comparison with those from developed economies have a tendency to overpay in order to acquire assets in developed and therefore more stable economies. The author attributes this to the national pride – developing countries see acquisition price as ability to make national, social, or political decisions. A few researches have been conducted to find out whether the level of internationalisation has an impact on the premium. According to Rustige and Grote (2010), premiums of European cross-border transactions in 1985-2009 were 10 percent higher, thus companies acquiring a target from a different country are expected to pay more. However, most of the acknowledged researchers have focused on the acquirer's origin, such as a region or development level but have not explored the differences in premiums paid by the acquirers from particular countries.

Also, the higher stake is purchased, the higher the premium is paid. Walkling and Edmister (1985) estimated that on average premiums are 9% higher when the bidder seeks for the majority control.

Kim, Haleblianand, and Finkelstein (2011) revealed that acquirers are willing to pay higher premiums when the possibility of the acquiring company's organic growth is low. The same research also found out that premiums tend to be high if the acquirer's advisors have relatively small experience. According to Schwert (2000), hostility in the takeover has some trivial influence on the premiums.

The payment method can influence the size of the premium as well. However, researchers do not have a unanimous opinion whether payment in cash or in the acquirer's stock has a greater impact on the size of the acquisition premium. Damodaran (2011) argues that payment in the acquirer's stock will determine larger premiums. The acquirer whose stocks are overvalued will be willing to offer a higher premium for the target in exchange for the acquirer's stock (Hajbaba & Donnelly, 2013). However, other researchers (Pinkowitz, Sturgess & Williamson, 2013; Burch, Timothy, Nanda & Silveri, 2012) state that it is the opposite, and deals have a higher premium if the payment is in cash due to the potential tax gains.

There are other forces besides the ones dictated either by acquirers or targets that can determine the size of a premium. According to Gould (1998), the main premium determinants are M&A demand and supply, trends, similar past transactions and the industry's 'rules of thumb'. In cases when there are two or more acquirers who compete for the acquisition of one target, the winner usually pays an enormous premium (Varaiya & Ferris, 1987; Andrade, Mitchell, & Stafford, 2001). Walkling and Edmister (1985) found out that premiums in such cases were about 30% higher. Imitation of interlock partners which have homogeneous premiums experience influence the acquirer's willingness to pay more (Beckman & Haunschild, 2002). What is more, when relative valuation is applied, companies are frequently looking at the market

multiples of the companies from the same industry (McAfee & Morley, 2010; Minjina, Dussauge & Mitchell, 2010). Hence if other companies in the industry tend to pay high premiums, it is likely that a new deal which is based on relative valuation will generate similar premiums. Besides, according to Hanemann and Rosen (2012), asset valuation fluctuates with the global growth cycles and countries with higher growth perspective can offer higher premiums. All the determinants which are not influenced directly by either acquiring or target companies can be referred to as market determinants.

The above premium drivers are the major ones discussed and analysed by researchers. However, as the topic is relatively new and not much research has been conducted to explore this area, it is likely that there are still other underlying drivers for the sizes of premiums. Besides, no research has been conducted to examine the interrelation among these different premium drivers.

This paper will mostly contribute to the research on the acquirers' origin. The findings by Hope, Thomas and Vyas (2011) that emerging countries have a tendency to pay larger acquisition premiums will serve as a basis for the hypothesis about the difference in the premiums paid by Chinese and European companies. In contrast to Hope, Thomas and Vyas (2011) research, this paper provides findings on the level of particular countries and regions.

The peculiarities of M&A of Chinese companies. The reasons for Chinese cross-border M&A which determine the sizes of premiums can be divided into two categories: 1) willingness and capabilities of strong Chinese companies and 2) support from the government.

Peng (2012) indicates three main reasons why M&A are so popular among Chinese multinational companies. First, Chinese multinationals need a fast market entry, especially in natural resources area (Deng, 2009). To overcome branding capabilities, companies also tend to acquire existing world-class brands, such as recent acquisitions of IBM's PC division and Volvo. CEO hubris was identified as a third reason, as Chinese managers seek to make companies more sophisticated so that they could demand higher salaries (Peng, 2012).

In 1999, the Chinese government initiated the 'Going Global' strategy to promote Chinese investments abroad and became a country which actively supports both inward and outward FDI (Buckley, Clegg, Cross, Voss & Zheng, 2007; Guo, Clougherty & Duso, 2013). Favourable conditions such as a huge market size, low labour costs and large population let China become a dominant exporter in the world (Gao, Murray, Kotabe & Lu, 2010). Due to this, the country accumulated the largest portion of foreign reserves in the world, which accounted for US$3.4 trillion in 2012 (The World Bank, 2013). By having such huge amount of reserves China could support their FDI activities (Luo, Xue & Han 2010). As a result, M&A became a primary mode of entering new markets by Chinese multinationals (Peng, 2012; Sauvant, Maschek & McAllister, 2009).

The government promotes outward investments, which corresponds to the country's 'Going global' strategy (Buckley, Clegg, Cross, Voss & Zheng, 2007) in a few different

formats: better foreign exchange rates, lower interest for financing the projects, reduced taxation etc. (Peng, 2012; Musacchio, & Flores-Macias, 2009). The main strategic industries for receiving such benefits are natural resources (oil, gas, and minerals), services (e.g., banking, transportation, construction), and some industries involving high technologies such as computer, automobile manufacturing, and electricity power generation (Guo, Clougherty & Duso, 2013). Those Chinese companies which get the government support could afford a higher bid in the M&A process. However, Li, Li and Wen (2009) indicated that it is easier and more common for state-owned enterprises to get support from the government than from the private sector. The role of the government in China remains high, as most shares of Chinese publicly traded enterprises are controlled by the government (Lau, Fan, Young & Wu, 2007). Chinese state-owned enterprises (SOEs) sometimes have a 'must have it' attitude and pay higher premiums. SOEs are also motivated to achieve non-commercial objectives through M&A thus making these acquisitions of questionable value to the company (Globerman & Shapiro, 2009). According to Hanemann and Rosen (2012), acquisitions made by SOEs account for 44% of the deals by number and 79% of the deals by value of the deals. On the other hand, private Chinese companies are more rational and do not pay such large premiums (Guo, Clougherty & Duso, 2013). Therefore, support from the Chinese government is one of the explanations of high premiums paid for the target companies.

China's 12th five year plan sets a framework for Chinese M&A deals. It seeks for its outward FDI to grow on average by 17 percent and 7 industries are named as priorities: new energy, energy conservation and environmental protection, biotechnology, new materials, new IT, high-end equipment manufacturing, clean energy vehicles (KPMG China, 2011). Thus, it is likely that premiums for the targets from priority industries will be larger. However, Chinese multinational enterprises have a particularly poor record of completing cross-border acquisitions that they announce (Zhang & Ebbers, 2010). In 2000-2008 only 47% of all cross-border acquisitions announced were later completed, (e.g., 67% in India) (Sun, Peng, Ren & Yan, 2011).

With the government support and Chinese companies' willingness and capabilities to acquire companies in Europe, there is an underlying possibility that premiums for similar targets in Europe will be higher if the acquirer is a China-based company rather than a Europe-based company. This would comply with the findings of Hope, Thomas and Vyas (2011) that companies from emerging countries are paying larger premiums.

2. Research Methodology

The quantitative survey was performed by using two samples: the first represented Chinese acquirers, the second involved European acquirers. Figure 3 indicates the summarised research scheme.

The research is focused on 2 issues. First, it compares Chinese acquisition premiums with the premiums paid by European acquirers and identifies whether there
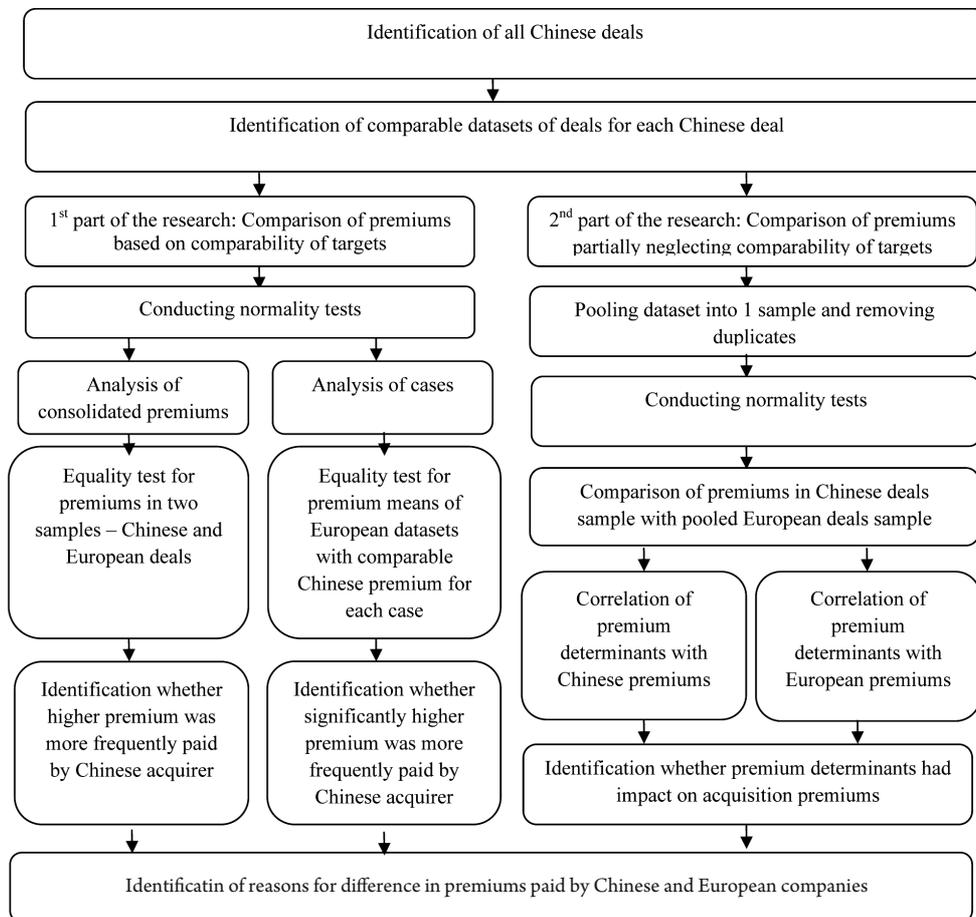
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FIG. 3. **Research scheme: comparison of the premiums of Chinese and European deals**
Source: Compiled by the authors

is a statistically significant difference in these premiums. Second, it investigates other premium determinants and their influence on the difference between the premiums paid by Chinese and European acquirers.

Data collection. Data for analysis was extracted from Mergemarket (a globally acknowledged database on M&A). The sample of Chinese deals was based on 7 criteria: one for identification of the acquirer, two for identification of the target and four for the identification of the deals (Figure 4).

First of all, only those acquirers which are Chinese Mainland companies were included in the sample, i.e. Hong Kong, Macao and Taiwan were not a subject of the research. Targets for these acquirers had to be only Europe-based companies which were listed on the stock exchange (at least during the period of acquisition).

The time frame of 14 years (2000-2013) was set so as to exclude earlier deals which might have been completed under slightly different conditions without the
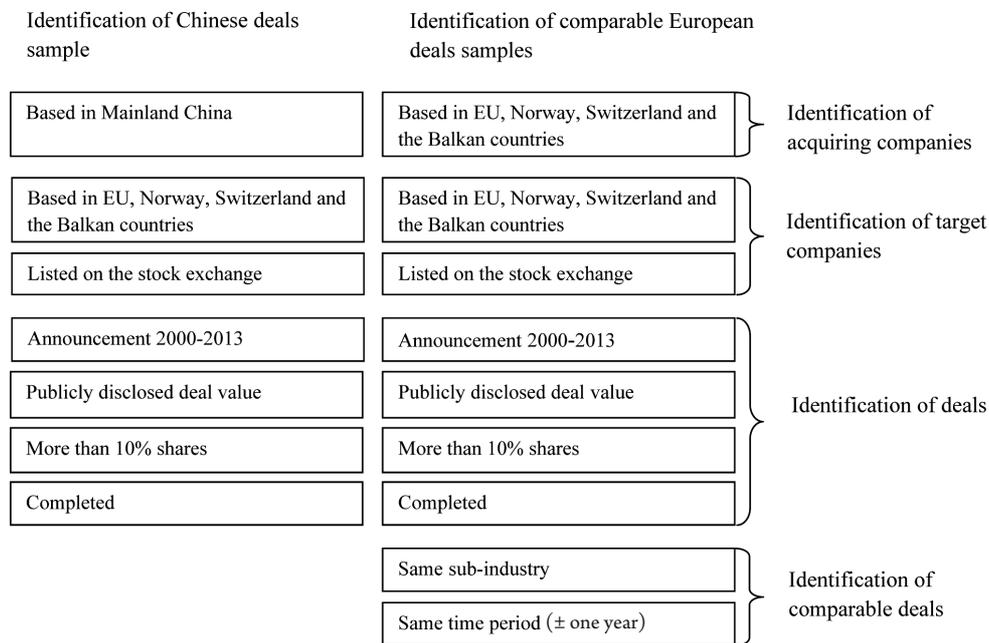
Identification of Chinese deals sample	Identification of comparable European deals samples	
Based in Mainland China	Based in EU, Norway, Switzerland and the Balkan countries	Identification of acquiring companies
Based in EU, Norway, Switzerland and the Balkan countries	Based in EU, Norway, Switzerland and the Balkan countries	Identification of target companies
Listed on the stock exchange	Listed on the stock exchange	
Announcement 2000-2013	Announcement 2000-2013	Identification of deals
Publicly disclosed deal value	Publicly disclosed deal value	
More than 10% shares	More than 10% shares	
Completed	Completed	
	Same sub-industry	Identification of comparable deals
	Same time period (± one year)	

FIG. 4. **Criteria for the identification of Chinese and European deals samples**
Source: Compiled by the authors

support from the Chinese 'Going global' strategy. Only the deals the value of which was publicly announced and only the ones in which more than 10% shares had been acquired are included in the sample. Due to the fact that only 47% of Chinese deals which are announced get completed (Zhang & Ebbers, 2010), only the deals that had both announcement and completion dates were included in the sample.

In total there were 117 Chinese deals in Europe with announced acquisition value from 01/01/2000 to 01/01/2014. After application of 7 criteria, 17 deals were recognised as eligible for further analysis and constitute the sample.

Due to a relatively small sample size (N=17) and the fact that each Chinese acquisition was unique and hardly comparable, each acquisition is analysed separately. Therefore a comparable set of deals for each Chinese acquisition was obtained by applying the same 7 criteria for European acquirers, which had to be a Europe-based company and its target company had to operate in the same sub-industry. In total 17 datasets covering 139 European deals were obtained.

Comparison of European and Chinese deals. Premiums in the database were computed using formula 1:

$$\text{Asquisition premium} = \frac{\text{Offer price per share}}{\text{Share price at time t}} \qquad (1)$$

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Share price at time *t* is a price in stock exchange 1 or 30 days before the announcement day. Two acquisition premiums are used: 1 day prior to the announcement day – to diminish the risk of taking into account events which were not related with the acquisition but influenced fluctuations of the stock price (Kim, Haleblian & Finkelstein, 2011, Jordan & Wort, 2009), and 30 days - because this pre-acquisition stock price is more representative as it is not influenced by possible information leakage about potential acquisition (Reuer, Tong & Wu, 2012). The 30 days period is widely used by many other researchers (Guo, Clougherty & Duso, 2013; Hayward & Hambrick, 1997; Kim, Haleblian & Finkelstein, 2011).

The research is composed of two parts. The first part seeks to identify whether premiums paid by Chinese acquirers are higher than European acquisitions premiums for the similar type of a company in Europe and is focused on comparison of 17 Chinese deals with 17 datasets of comparable European deals thus representing a purely comparative research.

The second part helps to identify whether there are any other factors besides regional ones which influence the size of the premiums. It complements the results gained in the first part and also tests whether premiums paid by Chinese acquirers are larger than those paid by European acquirers for similar targets in Europe. In the second part, 17 datasets were aggregated into one sample and 17 Chinese deals were compared with 139 European deals, therefore, comparability of deals was partially neglected as each Chinese deal was represented by a different number of comparable deals.

Before conducting parametric tests, the normality of distribution of each sample or dataset was examined by using the one-sample Kolmogorov-Smirnov test with significance level of 95% (Guo, Clougherty & Duso, 2013; Hayward & Hambrick, 1997; Kim, Haleblian & Finkelstein, 2011).

If the hypothesis of sample distribution normality was rejected, lambda (λ) values (square root, logarithm, square) were applied to transform non-normal data into normally distributed data. If the transformation did not succeed to obtain normally distributed data, only non-parametric tests were applied.

2.1. Comparison of premiums based on comparability of targets.

In order to compare whether premiums paid by Chinese acquirers are higher or lower than the mean of the premiums of comparable acquisitions by European companies, at first all 17 Chinese deals were compared with 17 datasets (based on comparability of targets). After that deeper analysis of the cases was executed. Table 2 summarises the methods and tools applied. The null hypothesis in both parts is the following:

H_0: Premiums paid by Chinese and European companies for similar targets in Europe were equal.

To test whether there is a significant difference between the premiums paid by European and Chinese acquirers for similar targets in Europe, the average premium paid by Europe-based companies of the representing dataset was subtracted from the premium paid by the Chinese acquirer. Binomial test is used to measure significance

TABLE 2. **Description of methods and tools used in the first part of the research**

Comparison between 2 variables	Applied tool	Objective
Premiums of 17 Chinese deals with premium means of 17 European datasets	Independent samples t-test	To measure whether there is a significant difference between sizes of premiums of Chinese and European companies for similar targets in Europe
	Binomial test	To measure whether the number of cases when Chinese premiums were higher than the mean of European premiums is significant
Premiums in 1 Chinese deal with premium means in 1 European dataset	One sample t-test	To measure the number of cases where Chinese premium was significantly higher than the mean of premiums of comparable European deals
	Binomial test	To measure whether the number of cases when Chinese premiums were significantly higher than the mean of European premiums is significant

Source: Compiled by the authors

of frequency of cases and independent samples t-test to measure whether there is a significant difference between sizes of premiums.

The number of cases with a statistically significant difference between the premiums of European and Chinese acquirers was identified by conducting one sample t-tests. The cases with significant difference where divided into two groups. One group consisted of cases where a higher premium was paid by European acquirers and the second one was comprised of Chinese acquirers; a binomial test was conducted to conclude whether there is a significant difference between premiums paid by Chinese and European companies. Chinese acquirers were found to pay larger premiums.

2.2. Comparison of premiums, partially neglecting comparability of targets

To prove that premiums paid by Chinese and European acquirers are different while taking into account other possible factors, the set of 17 Chinese deals is compared with 139 European deals. The second null hypothesis to be tested was the following:

$2H_0$: sizes of premiums paid by Chinese and European companies were not significantly influenced by other than regional factors.

The tests on whether there is a significant difference between premiums in the two samples, and whether the premiums paid by Chinese companies and European companies were correlated with potential premium determinants (the deal announcement date, stake in the target company, the deal value, the target country development level and payment method) were conducted (Table 3). Additional 2 variables were tested only for the European deals sample: the nature of the deal (domestic or cross-border) and the bidder's country development level (developed, frontier or emerging). The Kruskal Wallis Test was used to test whether the sector has an impact on acquisition premiums and partial correlation was used to test the correlation between the bidder's region (China or Europe) and paid premiums while controlling for other 5 variables. It

helped to identify whether other factors, in addition to region, have influenced acquisition premiums.

TABLE 3. **Premium determinants used for correlation with premiums**

Premium determinant	Possible value	Correlation with Chinese companies' premiums	Correlation with European companies' premiums
Deal announcement date	Scale from 2000 to 2013	X	X
Stake in the target company	Scale from 0 to 100	X	X
Deal value	Any number larger than 0	X	X
Target country development level	'1'-developed, '2'- frontier, '3'- emerging	X	X
Payment method	'1'-in cash, '2'-in acquirer's stock	X	X
Deal nature	'1'-domestic, '2'-cross-border		X
Bidder country development level	'1'-developed, '2'- frontier, '3'- emerging		X

Source: Compiled by the authors

3. Empirical findings on dissimilarity between the premiums of Chinese and European companies

The results of the research conducted by using the two methods described suggest that premiums paid by Chinese and European companies for similar targets in Europe were different. During 2000-2013, the average acquisition premium paid by Chinese acquirers was approximately two times higher than the average premium paid by European companies.

Description of the sample of Chinese deals. Most of the target companies which were acquired by Chinese companies are based in Western Europe (Figure 5). This complies with the findings of Hanemann and Rosen (2012) that more than 90% of all Chinese acquisitions were completed in Western Europe.
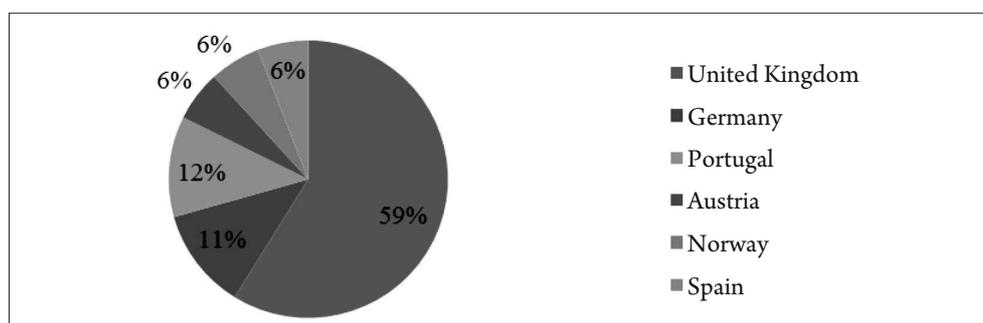
FIG. 5. **Distribution of the sample of Chinese deals by countries of target companies**
Source: Compiled by the authors

The dominant sectors of target companies in the sample are mining (N=6) and energy (N=4) (Figure 6). This corresponds to other research (Zhang & Ebbers, 2010; Hanemann & Rosen, 2012) where these sectors are indicated as the strategic ones for Chinese outbound investments.
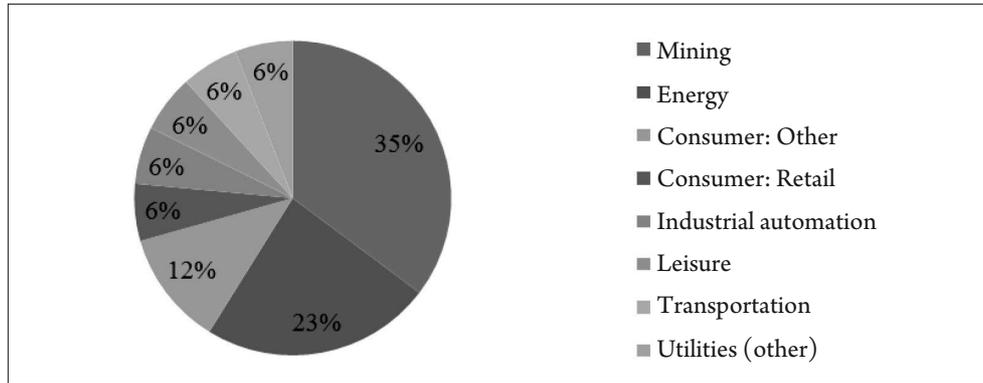
FIG. 6. **Distribution of the sample of Chinese deals by sectors**
Source: Compiled by the authors

As it can be seen from Figure 7, most of the deals were announced in 2011. The largest acquisitions by deal value took place in 2008.
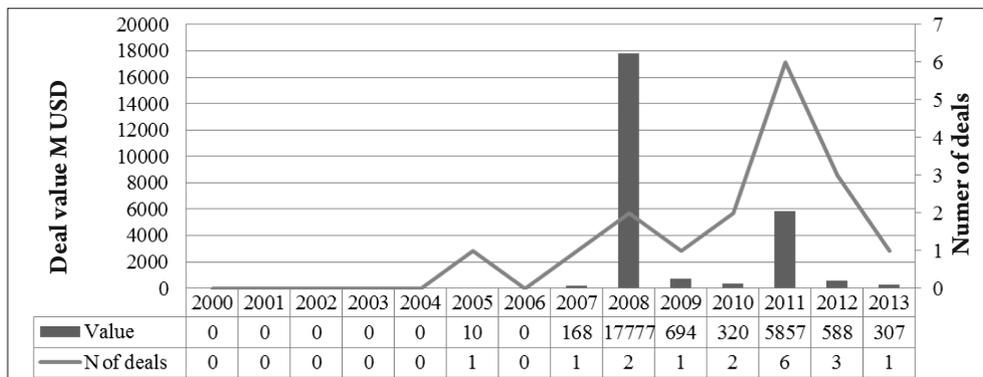
FIG. 7. **Distribution of the sample of Chinese deals by deal value and the number of deals in 2000-2013**
Source: Compiled by the authors

In general, most of Chinese deals had positive acquisition premiums (Figure 8). In 14 out of 17 deals, 30 days acquisition premiums were between 0% and 100% and in 2 deals the premium was more than double the stock price. The size of 30 days premiums varied between -32.2% and 175%. The mean of the 1 day acquisition premium (36.6%) was lower in comparison with the 30 days mean (42.2%).

This is consistent with other research (RSM Bird Cameron, 2010), which showed that due to the potential information leakages, markets anticipated the acquisition
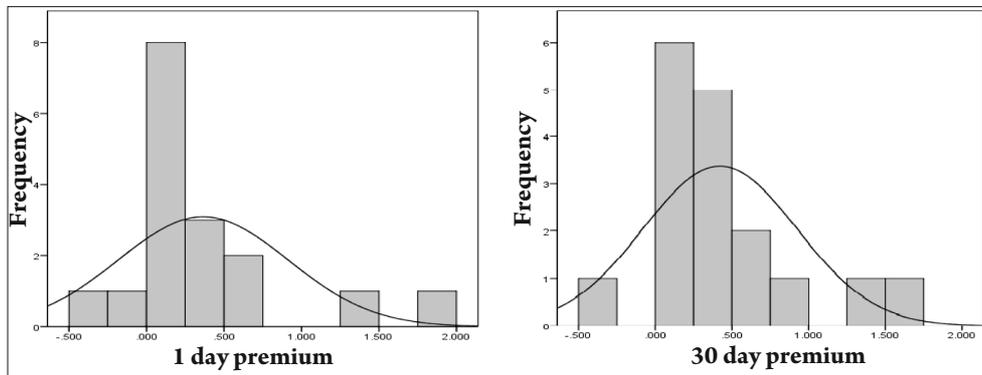
FIG. 8. **Distribution of 1 day and 30 days Chinese premiums**
Source: compiled by the authors

before its announcement date. More than 90% of deals were completed with positive acquisition premiums.

Table 4 indicates that there is no evidence of significant difference between 1 and 30 days Chinese acquisition premiums.

TABLE 4. Paired differences between 1 and 30 days premiums paid by Chinese companies

	Paired Differences					t	df	p-value
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
1 day premium – 30 days premium	-0.057	0.164	0.040	-0.141	0.027	-1.436	16	0.170

Source: compiled by the authors

The strong positive correlation between 1 and 30 days premiums (0.952) means that there is no significant market price fluctuation during the 30 days before the deal announcement day.

Description of the sample of European deals. The European sample (obtained by pooling all 17 datasets of European deals) contains 139 deals with specified 1 day premium and 138 deals with 30 days premium (the difference in the number of the deals in two samples appeared due to the fact that one target company had not been listed on the stock exchange 30 days before the deal announcement date). Consistently with the Chinese sample, most of the European targets were located in the developed European countries (87%) (Figure 9).
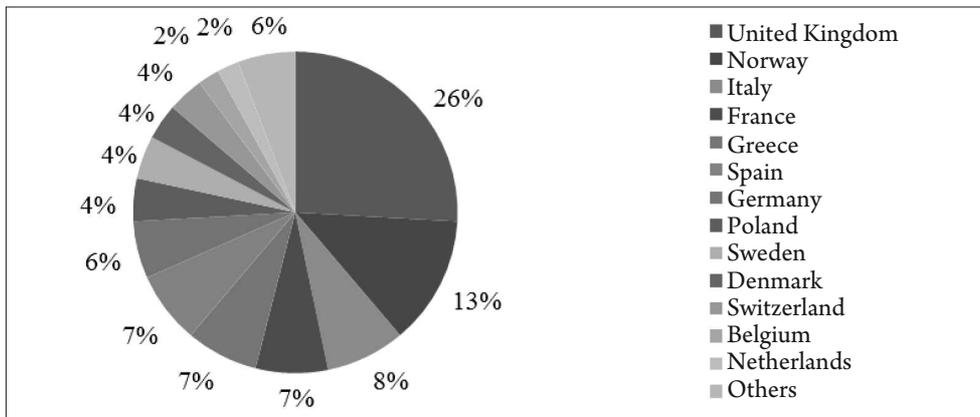
FIG. 9. **Distribution of the sample of European deals by countries of target companies**
Source: Compiled by the authors

Most of the acquirers in the European deals sample were located in the developed European countries as well (Figure 10). The most active acquiring country is the United Kingdom (33 bids). Bidders from Italy and France completed 15 acquisitions each, while bidders from Germany, Greece and Norway closed 10 deals each.
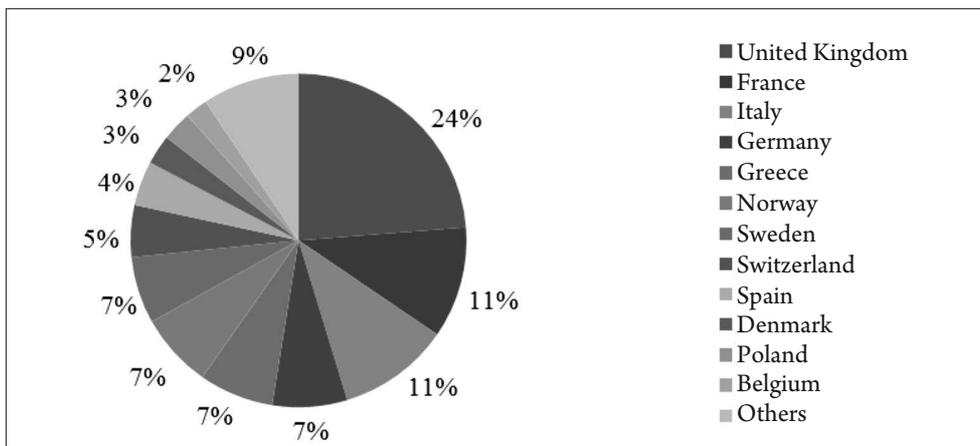
FIG. 10. **Distribution of the sample of European deals by countries of bidder companies**
Source: Compiled by the authors

In the European sample, most of the deals could be referred to as domestic rather than cross-border deals. 92 deals were completed by bidders and acquirers which are from the same country and 47 deals can be named as cross-border deals. Most of domestic deals were completed in the United Kingdom (N=25) and Italy (N=10).

Proportions of sectors of target companies in the sample of European deals were slightly different from the Chinese deals sample (Figure 11). Energy (N=43) and transportation (N=30) sectors were the main sectors of target companies in the
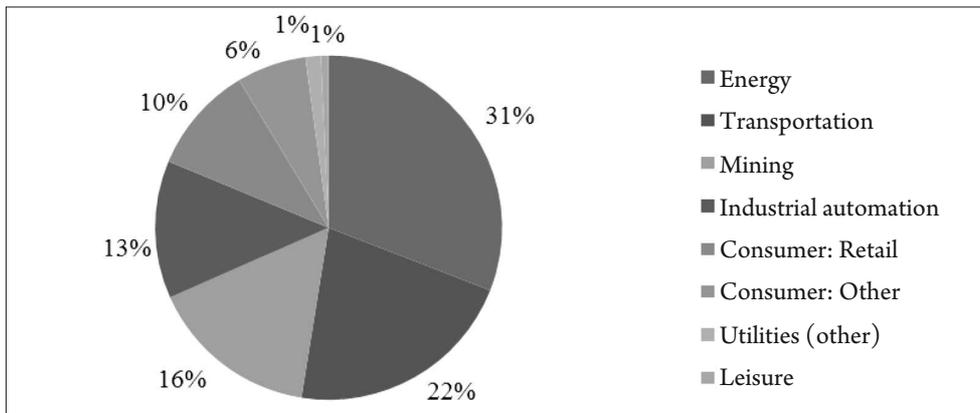
FIG. 11. **Distribution of the sample of European deals by sectors of the target companies**
Source: Compiled by the authors

European sample. Mining, which in the sample of Chinese deals was the largest target sector, ranked third (N=22) in the sample of European deals sample. Automation was a dominant sector (18 deals).
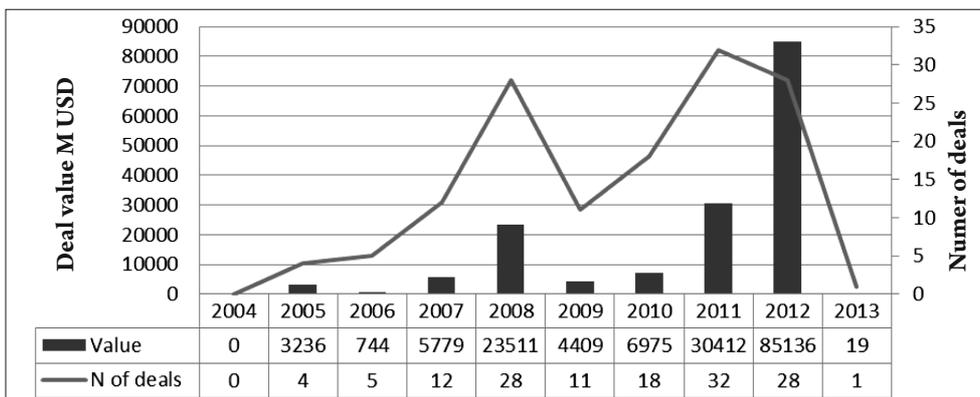
FIG. 12. **Distribution of the sample of European deals by value and the number of deals in 2004-2013**
Source: Compiled by the authors

The total value of European deals exceeded 160 billion US dollars (Figure 12). Most of the deals occurred in 2008, 2011 and 2012. The largest deals were made in 2012.

Analysis of the pooled European deals sample showed that similarly to Chinese deals, most of the European acquisitions were completed with a positive premium. For 70% of the deals premiums paid by European companies were between 0% and 50% (Figure 13). However, in contrast to the sample of Chinese deals, the European deals sample is more skewed, due to a few deals which were accomplished with extremely high premiums. The largest premium paid by European acquirers was 358%, while the

largest Chinese acquisition premium was only 150%. A positive extreme was observed in the 1 day premium. The comparison of the means of premiums complies with the results obtained from the analysis of the Chinese deals, which showed that the 1 day premium is lower than the 30 days premium, and is in line with RSM Bird Cameron (2010) research.
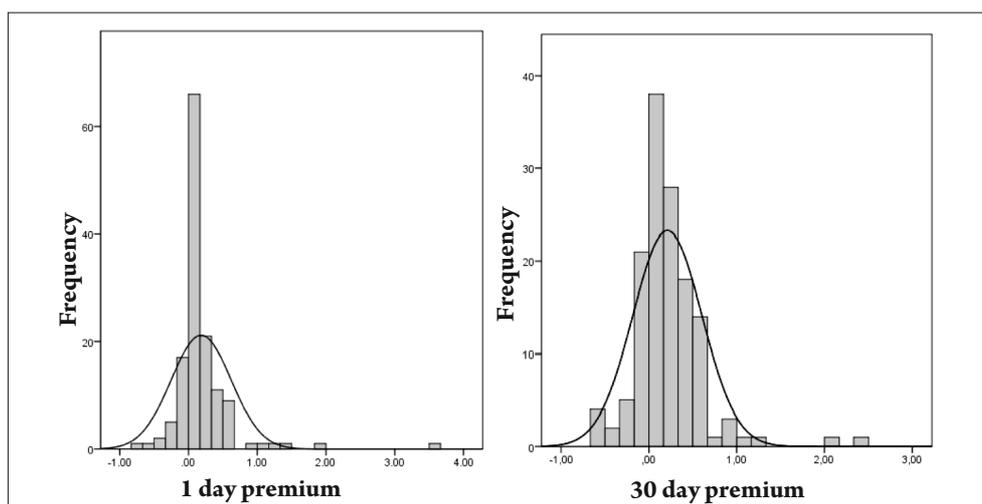

FIG. 13. **Distribution of 1 and 30 days European premiums**
Source: Compiled by the authors

3.1. Empirical evidence on the differences in premiums

The results of the analysis of consolidated premiums and cases are presented to show whether premiums paid by Chinese acquirers were larger than those paid by European acquirers.

Analysis of consolidated premiums showed that in 62% of the cases the premiums paid by Chinese acquirers were higher than the mean of representative premiums paid by European acquirers (Table 5). Chinese acquirers paid more both in 1 and 30 days acquisition premiums more frequently. In 8 cases, both premiums paid by Chinese acquirers were higher than the premiums paid by European acquirers and only in 4 cases both premiums paid by European acquirers were higher.

Table 6 summarises the results of the binomial test to measure whether the number of cases where Chinese paid higher premiums in comparison with European companies is sufficient to draw a conclusion that Chinese in general were paying higher premiums. Even though the observed probability for paying larger acquisition premiums is higher when the acquirer is a Chinese company (65% and 59% for 1 and 30 days premiums respectively), it provides insufficient evidence that all Chinese deals are more frequently completed with higher premiums. The binomial test provides results on the frequency of cases where the premium is higher/lower *neglecting the size of the premiums*.

TABLE 5. **Comparison of Chinese and European acquisition premiums**

No.	Chinese M&A Targets	Premium paid by Chinese acquirer (%)		Size of European deals sample	Mean of premiums paid by European companies (%)		Difference between European and Chinese premiums (pp)	
	Target company's name	1 day pre-mium	30 days pre-mium	(N)	1 day pre-mium	30 days pre-mium	1 day pre-mium	30 days pre-mium
1	ATB Austria Antriebstechnik AG	1.500	1.500	28	0.204	0.296	**1.296**	**1.204**
2	Harvard International	0.364	0.161	1	0.298	0.227	**0.062**	-0.067
3	Sunways AG	0.267	0.597	24	0.203	0.260	**0.067**	**0.34**
4	Medion AG	0.182	0.333	13	0.483	0.258	-0.303	**0.072**
5	Emerald Energy Plc	0.111	0.338	10	0.438	0.033	-0.328	**0.307**
6	Awilco Offshore ASA	0.187	0.154	31	0.112	0.156	**0.078**	-0.006
7	Monterrico Metals Plc	-0.119	0.336	3	-0.129	0.021	**0.009**	**0.319**
8	Kalahari Minerals Plc	0.724	0.786	3	0.210	0.169	-0.170	-0.119
9	Caledon Resources Plc	0.039	0.045	6	0.128	0.196	-0.098	-0.126
10	Faupel Plc	0.028	0.067	8	0.060	0.060	**0.660**	**0.730**
11	Oxus Gold Plc	-0.322	-0.311	10	0.103	0.409	-0.423	-0.719
12	Interbulk Group Plc	1.750	1.588	16	0.361	0.298	**1.389**	**1.292**
13	REN, SGPS, S.A.	0.191	0.242	8	0.075	0.145	**0.295**	**0.255**
14	Energias de Portugal, S.A.	0.374	0.401	8	0.064	0.176	**0.466**	**0.334**
15	NH Hoteles, S.A.	0.533	0.513	1	0.423	0.587	-0.233	-0.347
16	African Minerals Limited	0.196	0.282	8	0.179	0.578	**0.021**	-0.298
17	Rio Tinto Plc	0.211	0.142	7	-0.039	0.066	**0.249**	**0.074**

Source: Compiled by the authors

TABLE 6. **Results of the binomial test for significance of the difference in premiums**

Who is paying a higher premium?	Premium	Number of cases	Observed Proportion	Test Proportion	P-value
China	1 day premium	11	0.65	0.50	0.332
Europe		6	0.35		
Total		17	1.00		
China	30 days premium	10	0.59	0.50	0.629
Europe		7	0.41		
Total		17	1.00		

Source: Compiled by the authors

Analysis of consolidated premiums showed that the means of Chinese and European acquirers' premiums differ by nearly 50%. The means of the premiums paid by Chinese acquirers are 36.5% and 42.2% for 1 and 30 days premiums respectively, while the means of European acquirers' premiums are 18.7% and 23.1%, but the results from independent samples t-test have indicated that there is no significant difference between the means of two groups even when taking into account the sizes of the premiums (Table 7).

Nevertheless, the one-sample Kolmogorov-Smirnov test showed that with 95% confidence, the levels of both 1 day and 30 days premiums are distributed normally; the independent samples t-test and the binomial test are not statistically reliable due to the very small size of the samples, which varied between 6 and 17 companies. Due to the fact that the difference between the means is nearly 50% and the fact that tests were conducted for very small samples, it is very likely that, with a larger sample, statistically significant evidence that premiums are larger will appear. However, this could only be possible to confirm by either diminishing the set of criteria for the Chinese sample (e.g., including Hong Kong deals or deals with acquisition of less than 10% stake in the target company) or waiting for more Chinese deals to appear on the market in the future.

TABLE 7. **Results of independent samples t-test for significance of the difference in premiums**

		Levene's Test for Equality of Variances		t-test for Equality of Means	
		F	**P-value**	**t**	**P-value**
1 day prem.	Equal variances assumed	5.565	**0.025**	-1.322	0.195
	Equal variances not assumed			-1.322	0.202
30 days prem.	Equal variances assumed	6.091	**0.019**	-1.528	0.136
	Equal variances not assumed			-1.528	0.142

Source: Compiled by the authors

Although the results showed that Chinese acquirers were paying two times higher premiums in comparison with European acquirers for similar targets in Europe, it was not possible to prove that this difference in premiums is statistically significant due to the small sample size.

Analysis of cases was used to analyse separately all the 17 cases in order to find out whether there is a statistically significant difference between the Chinese acquirer and the representative sample of premiums paid by European acquirers. One-sample Kolmogorov-Smirnov test showed that in 15 cases, distribution of each European dataset was normal, 2 Chinese deals had only 1 representative European deal. The analysis of cases showed that Chinese acquirers completed the deals with significantly higher premiums than the acquiring European companies. One-sample t-tests presented in Table 8 have revealed that in 9 cases out of 15 there is statistically significant evidence

that the mean of premiums paid by European companies is not equal to the premium paid by the Chinese acquirer for a similar target in Europe.

TABLE 8. **Equal values of the means of European premiums and Chinese premiums**

Chinese M&A Targets	Sample size (N)	1 day premium			30 days premium		
		Chinese acquirer premium	Mean of European premiums	(p-value)	Chinese acquirer premium	Mean of European premiums	(p-value)
ATB Austria Antriebstechnik AG	28	1.500	0.204	**0.000**	1.500	0.296	**0.000**
Harvard International	1	0.364	0.298	-	0.161	0.227	-
Sunways AG	24	0.267	0.203	0.226	0.597	0.260	**0.000**
Medion AG	13	0.182	0.483	0.279	0.333	0.258	0.355
Emerald Energy Plc	10	0.111	0.438	0.179	0.338	0.033	**0.013**
Awilco Offshore ASA	31	0.187	0.112	0.196	0.154	0.156	0.987
Monterrico Metals plc	3	-0.119	-0.129	0.864	0.336	0.021	0.145
Kalahari Minerals Plc	3	0.724	0.210	0.531	0.786	0.169	0.443
Caledon Resources	6	0.039	0.128	0.142	0.045	0.196	0.103
Faupel plc	8	0.028	0.060	**0.000**	0.067	0.060	**0.000**
Oxus Gold Plc	10	-0.322	0.103	**0.002**	-0.311	0.409	**0.025**
Interbulk Group Plc	16	1.750	0.361	**0.000**	1.588	0.298	**0.000**
REN, SGPS, S.A.	8	0.191	0.075	**0.000**	0.242	0.145	**0.000**
Energias de Portugal	8	0.374	0.064	**0.000**	0.401	0.176	**0.000**
NH Hoteles, SA	1	0.533	0.423	-	0.513	0.587	-
African Minerals	8	0.196	0.179	0.870	0.282	0.578	0.359
Rio Tinto Plc	7	0.211	-0.039	**0.002**	0.142	0.066	0.505

Source: Compiled by the authors

There is significant evidence that 1 day premium was higher in 6 deals and lower in 1 Chinese case. The 30 days premium was significantly higher in 7 cases and lower in 1 Chinese deal. This proves that in more than a half of cases Chinese paid higher premiums than the average premium paid for a similar target company by European acquirers.

The binomial test (Table 9) was conducted for only those cases where the difference between premiums was statistically significant. In 86% of the cases Chinese were paying a higher 1 day premium and in 88% of cases a higher 30 days premium. At 90% confidence level, there is sufficient evidence that when there is a significant difference between the premiums paid by Chinese and European acquirers, Chinese are paying higher premiums.

TABLE 9. **Results of binomial test for significant 1 and 30 days premiums**

Who is paying a higher premium?		Number of cases	Observed Proportion	Test Proportion	P-value
1 day premi*um*	Chinese acquirers	6	0.86	0.50	0.125
	European acquirers	1	0.14		
	Total	7	1		
30 days premium	Chinese acquirers	7	0.88	0.50	0.070
	European acquirers	1	0.13		
	Total	8	1		

Source: Compiled by the authors

This binomial test has 2 shortcomings. First of all, it only measures frequency of cases, neglecting the size of the premium. Second, the sample size is very small and because of that it is very difficult to test any hypothesis. Supposedly, if the proportion of cases remains the same and the sample size increases, binomial test would show evidence that if there is a significant difference between the premiums paid by Chinese and European acquirers, Chinese acquirers would be the ones paying higher premiums.

Summarising the results, we can state that Chinese acquirers have paid higher premiums in comparison with European acquirers for similar targets in Europe. Also, Chinese acquirers were paying larger premiums more frequently. However, the small sample size was the major reason why this did not always prove to be statistically significant.

3.2. Comparison of premiums partially neglecting comparability of targets

After pooling 139 European deals in one sample and comparing it with the sample of 17 Chinese deals (partially neglecting comparability), the results indicate that Chinese acquirers were on average paying a premium which is double the premium paid by European acquirers. 17 Chinese acquirers on average paid 36.5% 1 day premiums and 42.2% 30 days premiums in comparison with 139 European acquirers who paid 18.4% 1 day and 21.1% 30 days premiums (Table 10).

Normality tests of samples indicate that the data from the European deals sample is not distributed normally. The main reasons why the one-sample Kolmogorov-Smirnov test rejected the hypothesis of normal distribution is skewness of the data. Attempts to transform data into normally distributed data using lambda (λ) functions did not succeed. As parametric tests required normality of distribution, only non-parametric Wald-Wolfowitz and Median tests which are equivalent to the parametric independent sample t-test were conducted while analysing the pooled European deals sample. The Wald-Wolfowitz and Median tests (Table 10) also show that premiums paid by Chinese acquirers are significantly larger than premiums paid by European buyers.

TABLE 10. **The comparison of the pooled European deals sample with the sample of Chinese deals**

	Acquirer	N	Mean	Std. Deviation	Wald-Wolfowitz test p-value	Median test P-value
1 day premium	European	139	0.184	0.435	**0.004**	**0.021**
	Chinese	17	0.365	0.531		
30 days premium	European	138	0.211	0.393	0.172	0.189
	Chinese	17	0.422	0.487		

Source: Compiled by the authors

The results of the pooled sample are slightly different from the ones obtained during the first part of the research where the difference in the means between the premiums of the deals of Chinese and European companies was not always significant. This difference might be due to enlarged number of deals in the sample, also because of the Median test which only measures the median, not the mean. However, both research methods indicated that the premiums paid by Chinese companies are twice as large as the average premium paid by a European acquirer. The only difference was that the first research method failed to prove that this difference in premiums is always statistically significant.

3.3. The effect of other variables

Further research aims to identify whether there are any other factors which have influenced the difference between the size of the premiums paid by Chinese and European companies.

As the data from the Chinese deals sample is distributed normally, a parametric Pearson correlation test was conducted to test whether the size of the premium is correlated with a year of the deal announcement, the stake in the target company or the deal value. It showed that none of the tested variables had a significant relationship with the premium paid by the Chinese. Correlation coefficients of all 3 variables were close to zero (Table 11). However, the sample size of 17 Chinese deals might be too small to reach reliable results. Thus, there is no evidence that Chinese companies' premiums were not influenced by other than regional factors.

Other 4 variables were not tested for correlation with the premiums paid by Chinese acquirers because all the 17 Chinese deals in the sample included targets from developed European countries, the payment method was cash, and the nature of the deal and the bidder's country development level was also the same.

As the data of the European deals was not distributed normally, non-parametric Spearman's rho correlation was applied to test this relationship. The correlation test

TABLE 11. **Results of the correlation test for Chinese acquisitions**

			1	2	3	4	5
1	1 day premium	Pearson Correlation	1.000				
		P-value	.				
2	30 days premium	Pearson Correlation	**0.952**	1.000			
		P-value	**0.000**	.			
3	Year of announcement	Pearson Correlation	0.097	0.022	1.000		
		P-value	0.711	0.934	.		
4	Stake in target company	Pearson Correlation	-0.096	-0.010	-0.200	1.000	
		P-value	0.713	0.968	0.440	.	
5	Deal value	Pearson Correlation	-0.106	-0.199	-0.280	-0.358	1.000
		P-value	0.686	0.444	0.277	0.158	

Source: Compiled by the authors

between the premiums paid by European companies and 7 variables showed that the premium size is correlated with 3 variables (Table 12): the stake in the target company, the deal announcement date and the payment method for the 30 days premium.

European companies' premiums do not depend on the deal value and this complies with the Guo, Clougherty and Duso (2013) research as they have not found the relationship either between the premiums or the transaction value.

In addition, there is no relationship between premiums paid and the fact whether the bidder and the target was of the same *origin* or they were registered in different European countries (Table 12). However, this contradicts Rustige and Grote's (2010) research that Europeans usually pay approximately 10% more in cross-border acquisitions than in domestic ones. This contradiction might be a result of a few reasons: first, in this research, only those cross-border acquisitions which were made within Europe were included in the sample. Rustige and Grote's (2010) research covered not only Europe. Also, it could be due to sectoral differences. The last reason could be the time frame. In this sample the time period is between 2004 and 2013 (to be consistent with the Chinese deals sample), while Rustige and Grote (2010) analysed deals which occurred in 1985-2009.

The positive relationship was observed between the premiums paid by European acquirers and the *deal announcement date* (Table 12), the more recent was the deal, the higher was the premium. However, this is not consistent with Mergermarket's (2013) review on premiums of all M&A in Europe. According to the statistics, premiums were growing between 2004 and 2008 and then were quite stable in 2008-2013. Statistics covered all acquisitions which took place in Europe not specifying the bidder country or region. Besides, all industries were included in the sample. These are the two reasons explaining the slight difference in the relationship of premiums and the deal announcement dates between this research and Mergermarket (2013) results.

TABLE 12. **Results of Spearman's rho correlation test for European acquisitions**

			1	2	3	4	5	6	7	8	9
1	1 day premium	Correlation	1.00								
		P-value									
2	30 days premium	Correlation	**0.73**	1.00							
		P-value	**0.00**								
3	Deal nature	Correlation	0.05	0.02	1.00						
		P-value	0.53	0.79							
4	Stake in target company	Correlation	**0.22**	**0.34**	-0.08	1.00					
		P-value	**0.01**	**0.00**	0.36						
5	Deal value	Correlation	-0.12	0.03	0.12	-0.10	1.00				
		P-value	0.18	0.70	0.15	0.26					
6	Bidder development	Correlation	0.05	-0.03	-0.13	0.01	-0.00	1.00			
		P-value	0.53	0.73	0.13	0.95	0.96				
7	Target development	Correlation	0.05	0.01	-0.10	0.01	-0.08	**0.77**	1.00		
		P-value	0.55	0.96	0.26	0.96	0.36	**0.00**			
8	Deal announcement date	Correlation	**0.22**	**0.21**	-0.12	-.070	-.047	-0.04	.039	1.00	
		P-value	**0.01**	**0.02**	0.17	0.41	0.56	0.62	0.66		
9	Payment method	Correlation	0.12	**0.20**	**-0.20**	**0.21**	-0.02	-0.05	-0.06	0.01	1.00
		P-value	0.17	**0.02**	**0.02**	**0.02**	0.82	0.59	0.52	0.90	

Source: Compiled by the authors

The same positive relationship was observed between the premiums of European companies and the purchased *stake* in the target company: the larger stake was purchased, the higher premium was paid. This complies with Walkling and Edmister (1985) who proved that the stake purchased in the target company has a positive influence on the acquisition premium. It could be associated with the benefits of owning the majority control and capability of making real changes within the acquired company. Besides, shareholders of the target company are expecting additional premium for abandoning their majority control.

Payment method was found to have a relationship with European acquisition premiums as well (Table 13). Positive relationship indicated that higher premiums were paid for the deals with payment in equity rather than in cash. This complies with Damodaran (2011) and Hajbaba and Donnelly (2013), who argue that payment in acquirers' stock will determine larger premiums. However, it does not comply with opinions of other researchers (Pinkowitz, Sturgess & Williamson, 2013; Burch, Nanda & Silveri, 2012) who stated that deals have a higher premium if the payment is in cash due to the potential tax gains. Besides, payment method has a relationship with the stake purchased in the target company. Deals with a larger value tend to be paid in the acquirer's stock. Also, the relationship between the payment method and the

nature of the deal (domestic or cross-border) was observed. More domestic deals were completed by paying for the target company in equity, while payment in cash was a more popular payment method during the cross-border deals. This corresponds to the Chinese sample as all the 17 cross-border deals were paid in cash.

TABLE 13. **Results of the sectors effect on acquisition premiums (the Kruskal Wallis test)**

Target dominant sectors	European deals					Chinese deals				
	Num-ber of deals	1 day premium		30 days premium		Num-ber of deals	1 day premium		30 days premium	
		Mean Rank	Mean	Mean Rank	Mean		Mean Rank	Mean	Mean Rank	Mean
Consumer (other)	9	60.00	0.086	51.00	0.079	2	**13.50**	**0.885**	**15.00**	**1.050**
Consumer (retail)	14	**86.21**	**0.459**	**84.43**	**0.276**	1	6.00	0.180	9.00	0.330
Energy	43	72.42	0.211	67.09	0.179	4	6.63	0.138	5.88	0.193
Industrial automation	18	**80.94**	**0.214**	**85.12**	**0.275**	1	3.00	0.030	3.00	0.070
Leisure	1	**119.00**	**0.423**	**126.00**	**0.587**	1	**13.00**	**0.370**	**12.00**	**0.400**
Mining	22	62.05	0.100	71.27	0.269	6	**10.08**	**0.452**	**8.33**	**0.397**
Transportation	30	60.10	0.090	60.83	0.185	1	**15.00**	**0.720**	**15.00**	**0.790**
Utilities (other)	2	62.50	0.068	49.50	0.068	1	2.00	-0.12	10.50	0.340
Total	139					17				
Chi-Square		8.531		10.579			8.485		7.734	
df		7		7			7		7	
P-value		0.288		0.158			0.292		0.357	

Source: Compiled by the authors

Premiums paid by both Chinese and European companies were not significantly influenced by the *sector* in which the target company operated (Table 13). To test the difference between premiums in 8 sectors, a non-parametric Kruskal Wallis test was conducted, which indicated that the highest premiums by European acquirers were paid for targets which operate in leisure, consumer-retail, and industrial automation sectors. Chinese acquirers paid highest premiums for targets which operate in consumer (other), leisure, transportation and mining sectors. However, significant difference between the means was neither observed in Chinese nor in European deals. The Kruskal Wallis test provides nearly the same results.

There is no evidence that Chinese acquirers are paying higher premiums for the priority industries such as energy, mining, transportation and automation (Guo, Clougherty, Duso, 2013). Predominance of the deals in energy and mining sectors indicates that even though it is hard to prove that premiums in these sectors were

significantly higher, there is evidence that Chinese companies were acquiring a significantly larger portion of companies from priority industries.

There is an underlying possibility that Chinese premiums were higher than European premiums due to other than the regional facts. To test the effect of other variables on the correlation between the region (China or Europe) and the size of premiums, Spearman's partial correlation was used (Table 14). Those variables which are relevant to both Chinese and European premiums – the deal announcement date, the stake in the target company, the deal value, the target sector, the target country development level and the payment method – were controlled in a row. Two other variables, the development level of the bidder's country (emerging, frontier or developed) and the deal nature (cross-border or domestic) were rejected due to the fact that Chinese acquisitions are only cross-border and the bidder's country development level is emerging for all deals.

The stake in the target company, the deal value, the target sector, the payment method and the target country development level did not have a significant positive influence on the difference between Chinese and European acquirers' premiums. The results in Table 14 show that when all the 5 variables were controlled, the correlation was even stronger than without controlling these variables. This means that there is sufficient evidence that after elimination of any effect of these 5 variables, the size of the premiums and the bidder's region will still correlate.

TABLE 14. **Results of Spearman's partial correlation test: effect of variables on correlation between sizes of premiums and the region**

Control Variables		1 day premium	30 days premium
-none-[a]	*Correlation*	**0.159**[*]	**0.160**[*]
	P-value	**0.047**	**0.047**
Deal announcement date	*Correlation*	0.151	0.152
	P-value	0.061	0.060
Stake in target company	*Correlation*	**0.162**[*]	**0.169**[*]
	P-value	**0.044**	**0.036**
Deal value	*Correlation*	**0.162**[*]	**0.160**[*]
	P-value	**0.044**	**0.047**
Sector	*Correlation*	**0.162**[*]	**0.161**[*]
	P-value	**0.044**	**0.046**
Payment method	*Correlation*	**0.175**[*]	**0.189**[*]
	P-value	**0.030**	**0.019**
Target development level	*Correlation*	**0.165**[*]	**0.159**[*]
	P-value	**0.041**	**0.049**
Deal announcement date & stake in target company & deal value & sector & payment method & target development level	*Correlation*	**0.176**[*]	**0.180**[*]
	P-value	**0.032**	**0.028**

* Correlation is significant at 0.05 level (2-tailed)

Source: Compiled by the authors

On the other hand, the deal announcement date seems to have slight influence on the difference between the premiums paid by Chinese and European companies. While controlling the deal announcement date, the correlation coefficient between the region and size of the premiums diminished from 1.59 to 1.51 for the 1 day premium and from 1.6 to 1.52 for the 30 days premium. Without controlling any variables, the p-value was 0.047, thus, even a slight decrease in the correlation coefficient would have caused a loss in significance. This loss in significance could have been caused by slight inconsistencies between the deal announcement dates in the Chinese and European deals samples. There were a different number of deals in each of the 17 European datasets and thus after pooling all datasets into one sample, slight dates inconsistencies might have occurred. However, after analysis of two samples, no significant difference in announcement dates was observed. Most of the deals in Chinese and European samples occurred in 2011 and 2012. Another European deals peak was in 2008, which is not consistent with the sample of Chinese deals. Therefore, the time frame had a slight influence on correlation between the size of the premium and the bidder's region.

If all the variables are controlled at the same time, the correlation between the bidder's region and the size of the premiums remains significant. The last row in Table 14 indicates that while controlling for 6 variables – the stake in the target company, the deal value, the target sector, the payment method and the target country development level, which increased the correlation coefficient, and the deal announcement date, which decreased correlation coefficient – the final correlation coefficient increased. Thus, there is insufficient evidence that correlation between the bidder's region and the size of the premiums was significantly influenced by these 6 variables. The bidder's origin is a reasonable explanation for the difference in the premiums paid by Chinese and European companies. Therefore, the previous findings gained through the Wald-Wolfowitz and Median tests that there is a significant difference between the medians of the Chinese and European deals should be retained. The results of this research suggest that the statistically significant difference between the premiums of Chinese and European companies for similar targets in Europe does exist.

Chinese acquirers' willingness to pay more in comparison with the premiums of European acquirers for the targets in Europe could be explained by 3 main reasons: Chinese companies' underlying motivational factors, support from Chinese government and China's growth.

According to Peng (2012), most Chinese companies complete mergers as they need a fast market entry and ability to increase branding capabilities. Also, national pride and managerial hubris are other major reasons for M&A as Chinese managers of sophisticated companies could demand higher salaries (Peng, 2012). Due to the underlying need for acquisitions and strong financial capabilities, Chinese companies are paying high premiums to acquire target companies in Europe and in other developed countries. What is more, about half of all Chinese cross-border deals were completed by state owned enterprises (Hanemann & Rosen, 2012). According to Guo, Clougherty and Duso (2013), state owned companies are frequently trying to reach

non-commercial objectives during the M&A and thus are paying significantly larger premiums in comparison with Chinese private companies.

Besides, Chinese government is actively promoting outbound investment through its 'Going Global' Strategy. A Chinese company which is willing to acquire a foreign company could expect such benefits as better foreign exchange rates, lower interest for financing the projects or reduced taxation (Peng, 2012; Musacchio, Flores-Macias, 2009). This support is likely to be one of the reasons why Chinese companies could afford higher bids in the M&A process.

According to Hanemann and Rosen (2012), asset valuation fluctuates with the global growth cycles, and countries with higher growth perspective can offer higher premiums. As China is currently one of the fastest growing economies in the word, it has stronger position in bidding for the targets. As a result, M&A became a primary mode of entering new markets by Chinese multinationals (Peng, 2012; Sauvant, Maschek & McAllister, 2009). Thus, these three reasons are believed to be the major ones influencing the significant difference in Chinese and European companies' acquisition premiums.

Conclusions and suggestions

The primary goal of this study was aimed at identifying whether Chinese Mainland companies were paying higher premiums for similar target companies in Europe during the period of 2000-2013 in comparison with Europe-based companies and whether it can be explained by other than regional factors. To determine the difference between the premiums paid by Chinese and European companies, two samples were analysed – one representing all Chinese acquisitions in Europe which matched the set of criteria, another sample representing comparable European targets acquired by European companies.

The analysis of literature revealed that premiums paid by Chinese acquirers might be higher than the premiums paid by European acquirers. The size of the premiums might be influenced by various deal-related and market-related factors such as managerial hubris, expected gains, origin and ownership of the acquirer, payment method, market trends, demand and supply etc. The findings of other researchers revealed that companies from emerging countries tend to pay larger acquisition premiums when acquiring companies in developed countries and that this is particularly popular among Chinese companies when entering foreign markets due to the government support, companies' motivational factors and expected high economic growth in China.

Two research methods employed provided similar results and showed that Chinese companies were paying larger premiums compared to European companies' premiums paid for similar targets in Europe. The average Chinese premium was double the size of the average European companies' premium paid for similar targets in Europe. In cases when there was a significant difference in premiums among comparable Chinese and European deals, there was about 90% probability that a higher premium was paid by a Chinese acquirer.

When partially neglecting comparability of deals, the significant correlation between the sizes of premiums and the bidder's region was observed. The results proved that there is a significant difference in the medians of Chinese and European premiums. When taking all the comparable deals, pooling them into one sample and controlling for other variables which might influence the size of premium, significant difference was found between the premiums paid by Chinese and European companies.

Even though the research which was aimed at comparison of 17 Chinese deals with 17 comparable datasets failed to find a significant difference in premiums, the comparison of 17 deals with a pooled European sample of 139 deals indicated significant difference in premiums. The inconsistency in the results of two studies was mainly caused by the sample size.

When comparability was partially neglected due to the fact that in the pooled sample there was a different number of European deals representing a particular Chinese deal and partial correlation helped to control for premiums determinants (sector, deal announcement date, payment method, target country's development level, stake in a target company and deal value), correlation between the sizes of premiums and the bidder's region was present even when controlling for all the named variables. Therefore it could be concluded that Chinese companies were paying higher premiums for similar targets in Europe during 2000-2013 in comparison with European acquirers and this large difference in premiums was not significantly influenced by other than regional factors.

This study contributed to the ideas of other researchers and provided new insights on the topic of premium determinants. It complemented the rather outdated research of Walkling and Edmister (1985) and showed that sizes of premiums were influenced by the stake purchased in the target company. What it more, the research backed up Damodaran's (2011) theory that premiums are higher when payment method is in equity, in contradiction to Pinkowitz, Sturgess and Williamson (2013) and Burch, Nanda and Silveri (2012) findings. Also, it was found out that domestic deals tend to be completed by paying for the target company in equity, while payment in cash was a more popular payment method during the cross-border deals. Research provided findings that deals with larger value tend to be paid in equity, but there is no significant relationship between the size of the premium and the deal value. What is more, results of the research provided insufficient evidence that there is a difference between European domestic and European cross-border acquisition premiums.

 The general trend shows that the number of Chinese acquisitions in Europe increases year by year. The European Union Chamber of Commerce in China (2013) also forecasts a potential jump in the acquisitions. With a larger sample it would be possible to conduct a broader research and examine the sources and reasons for such difference further.

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