

RESEARCH ARTICLE

The Study on the Impact of Political Connection on the Performance of Cross-border Mergers and Acquisitions

Yanjun Xu¹, Shan Miao^{2*}

International Business School, Jinan University, China.

***Corresponding Author: Email: 410946231@qq.com**

Abstract: With the development of economic globalization, more and more enterprises in China have exploited overseas markets through cross-border M&A activities and enhanced their international competitiveness. Compared with developed countries, China's distinctive political environment and policy changes in keeping pace with the times have a great impact on cross-border M&A activities. The relationship between enterprises and the government has an important impact on cross-border M&A performance. Based on the sample of 108 cross-border M&A cases of A-share listed companies from 2008 to 2014, this paper studies the impact of political connection on cross-border M&A performance, adopting the assignment method to measure the political connection. The results show that political connections have significant positive effects on cross-border M&A performance and the relationship is affected by the government intervention. The greater the degree of government intervention, the weaker the positive effect of political connections on cross-border M&A performance.

Keywords: *Cross-border Mergers and Acquisitions, Government Intervention, Political Connection.*

Article Received: 30 Dec. 2018

Revised: 15 Jan. 2019

Accepted: 04 Feb. 2019

Introduction

Economic globalization, the liberalization of capital markets, the rapid development of information technology and the increasing integration of countries' economic and trade have stimulated the growth of cross-border M&A activities in the past few decades. Cross-border M&A is a means of resource allocation all over the world. In addition, more and more countries have gradually relaxed the restriction on foreign investment admission, which provide a very favorable condition for cross-border M&A activities.

With the rapid economic development of China and the active participation in global economic activities, many Chinese companies have also opened up target markets, expanded market share, obtained stable strategic resources, and improved their voice

in the international market through cross-border M&A activities. The number and scale of cross-border M&A transactions in China have been increasing year by year until 2016. After more stringent regulations at the end of 2016, large-scale cross-border M&A transactions of more than \$1 billion received additional attention. In 2017, the number and scale of cross-border M&A transactions by Chinese companies declined. However, with the support of a series of government policies (such as the Belt and Road), the overall environment of China is still conducive to cross-border M&A activities. Compared with developed countries, special development stage of China determines that cross-border M&A activities of Chinese enterprises are significantly affected by domestic political factors and policy factors.

From the perspective of policy, at present, Chinese enterprises engaged in cross-border mergers and acquisitions must be examined and approved by the Ministry of Commerce and the State Administration of Foreign Exchange.

From the perspective of enterprise characteristics, large-scale cross-border mergers and acquisitions in China are mostly completed by state-owned enterprises with strong political relevance. The large-scale cross-border mergers and acquisitions of private enterprises often have government support.

Therefore, the relationship between the enterprise and the government, that is, the political connection of the enterprise, will affect the cross-border M&A behavior of it and its performance of cross-border M&A. At present, fewer literatures explicitly introduce the concept of “political connection” of enterprises into the study of the influencing factors of cross-border M&A performance. Closer to it is the ownership of enterprise (state-owned enterprise or private enterprise) as one of the factors affecting the performance of cross-border M&A [1-2].

However, different state-owned enterprises have different degrees of political connection. Private enterprises may also have political backgrounds or establish their political connections through other channels. Therefore, the simple distinction between state-owned enterprise and private enterprise cannot completely measure the degree of political connection of the enterprise.

This paper uses the assignment method to more comprehensively measure the degree of political connection of the enterprise, and study the impact of political connection on the performance of cross-border M&As. The impact of political connection on enterprise value is influenced by the external institutional environment of the country where the enterprise is located [3]. Therefore,

this paper takes into account the external government intervention (the degree of marketization of the enterprise's location), and proposes that the relationship between political connection and cross-border M&A performance will be affected. The research of this paper further consolidates the theoretical basis of the impact of political connection on the performance of cross-border M&As, and enriches the empirical content of the relationship between the two.

It also provides reference for how Chinese enterprises properly and rationally use political connections to improve the performance of M&As and the government to formulate relevant policies.

Theoretical Background

Political Connection

Fisman [4] proposed the concept of political connection for the first time, in which it was defined as the relationship between the company and Indonesian President Suharto and his family. Later, Faccio [5] made a significant contribution to the related study on political connection. Faccio pointed out that political connections of enterprises are universal in both Western countries with well-established legal systems, mature markets, and developing countries with inadequate institutions. In general, political connections include both formal and informal connections. Formal connections mean that the enterprise's major shareholders or executives are or served in government departments or councils [6-7]).

Informal connections mean that the enterprise's major shareholders or executives, although not directly in government, have close ties with government officials or members of Congress. Since the definition method of the latter is rather vague and related information is difficult to obtain, few studies use the latter definition method. There are differences in the meaning of political connection based on different national backgrounds, but many scholars

agree that political connections essentially explain a special relationship between government and enterprises. Regardless of the research perspective, political connections are a completely legal relationship between government and enterprises at the legal level.

Related Theories

The Resource Dependence Theory proposed by Salancik and Pfeffer [8] argues that an organization cannot be self-sufficient. The survival of an organization needs to draw resources from the surrounding environment, and it needs to be interdependent and interact with the surrounding environment to achieve the goal. As a typical organization, enterprises can gain more resources by establishing political connections, which reflects the viewpoint of Resource Dependence Theory.

At present, China is in a period of transition, and the government still has the right to allocate major production factors, such as land and capital. A large number of studies have shown that enterprises with political connections can more easily obtain government-controlled policy resources [9]. These resources are of high value, so political connections can help improve the performance of enterprises. Social capital theory can also be used to explain political connections of enterprises.

The sociologist Bourdieu proposed that the intricate network of relationships between members of society is also a kind of valuable resources that can be utilized. The establishment and maintenance of such resources can not only benefit the entire organization, but also members of society, and have the advantage that traditional capital cannot match. Under the background of Chinese transitional economic system, the government still plays an important role in the process of economic development and resource allocation. To a certain extent, a good relationship that an enterprise establishes and maintains with the

government can be called the "political social capital" of the enterprise. Rent-seeking theory is also often used to explain the impact of political connections on enterprises. Krueger [10] formally proposed the concept of rent-seeking in his groundbreaking research, pointing out that enterprises spend costs to establish relations with the government to obtain the relevant resources allocated by the government and benefits. Shleifer and Vishny [11] also saw the interaction between government officials and entrepreneurs as a rent-seeking behavior, arguing that government officials can satisfy their own interests by setting up various types of regulations or directly intervening in enterprises, that is, acquiring political rents, while entrepreneurs gain more policy benefits by establishing political connections for government officials to provide rents.

Related Studies

Scholars have come to different conclusions about the impact of political connections on cross-border M&A performance. On the one hand, political connections have a positive effect on cross-border M&A performance. Li Shanmin and Zhu Tao [12] analyzed the factors affecting the performance of 251 M&A events in capital market of China. The results show that political connections have a significant positive effect on M&A performance.

Pan Hongbo et al. [13] conducted an empirical study of the sample companies that had cross-border M&As in 2001-2005, indicating that political connections can help improve the M&A performance of loss-making enterprises. Shao Xinjian et al. [1] conducted a study on 54 companies that had cross-border mergers and acquisitions between 2006 and 2010. The results show that the company's ownership has a significant impact on M&A performance, and the company's state-owned nature has a positive effect on improving M&A performance. Because the purpose of M&A of enterprises is mainly to obtain more

strategic resources to benefit economic development of China, and political factors play an important role. The research by Wei Ping [14] found that political connections and overseas connections of corporate executives have a significant positive impact on cross-border M&A capabilities, but they do not alleviate the financing constraints faced by corporates in cross-border M&As, while financial connections can alleviate these. On the other hand, political connections can also have a negative effect on the performance of cross-border M&As.

Political connections are good for companies to obtain funds, having more cash in cross-border M&As, but there are still phenomena that the financing advantages cannot be fully utilized [9]. In the process of cross-border M&As, enterprises' over-investments and blind investments unilaterally meet political goals and weaken M&A performance. Gu Lulu [2] conducted a study on cross-border M&As of 157 companies from 1995 to 2000.

The results show that the performance of cross-border M&As of state-owned enterprises is lower than that of non-state-owned enterprises due to inefficiency and political purposes of state-owned enterprises. Yan Xueqin's [15] research show that the politically-affected companies with financing advantages in the process of cross-border M&As, based on their large amount of cash capital, are difficult to make careful decisions.

The decline in performance after M&As indicates the adverse effects of political factors on cross-border M&A performance. In addition, some scholars believe that the impact of political connections on cross-border M&A performance will be affected by other factors, such as external policy environment, financing facilities and so on, which will enhance or weaken the impact of political connections. Faccio's [3] study shows that the impact of political connections on cross-border

M&A performance is influenced by the external policy environment, that is, the impact of the same degree of political connections on M&A performance is different under different external policy environments.

Brief Summary

This section reviews existing studies from three parts political connection, the theories that political connections affect enterprises, and the relationship between political connection and cross-border M&A performance. As a kind of important resources of enterprises, the impact of political connection on cross-border M&A performance is worthy of attention.

In existing studies, scholars have not reached a consistent conclusion on it. This may be due to different measurement methods of political connection, different national conditions or possible moderating variables.

Hypothesis Development

Political Connection and Cross-Border M&A Performance

As an important social capital, political connections can make up for the lack of formal institutions, which is conducive to enterprises gaining advantages in taxation, financing, and M&A resources, and provides a good foundation for the smooth implementation of cross-border M&As. Enterprises engaged in cross-border M&As need a large amount of funds in the process of mergers and acquisitions and after the completion of mergers and acquisitions.

However, Chinese enterprises often lack experiences of cross-border M&As and face many unknown factors in the process of mergers and acquisitions, so the investment risk is high. Financial institutions have stricter restrictions on corporate lending. In order to avoid risks, they often raise the threshold of loans, demand more stringent conditions or higher interest rates for risk compensation, which makes it difficult for ordinary enterprises to obtain loans in time.

Nevertheless, the government support or guarantee provided by political connections will become an important reference for loans approved by financial institutions, such as banks.

The implicit guarantee can effectively reduce the difficulty and cost of obtaining external financing for enterprises, thus improve the M&A performance of enterprises. At the same time, enterprises with political connections are also more likely to obtain relevant subsidies and preferential loan policies provided by the government to alleviate financial pressures.

The cross-border M&A behaviors of Chinese enterprises are not completely market-oriented. Government approvals are required before mergers and acquisitions. Therefore, cross-border M&A are largely controlled by the government. Enterprises with political connections are likely to increase the likelihood of project approval through their relationship with the government. What's more, if the M&A behavior of the enterprise does not comply with the government's industrial development policies, it will be blocked by the government or not obtain the government's preferential policies.

Political connections can help enterprises get through government channels to obtain more valuable policy and business information, more easily identify possible investment opportunities, integrate more valuable resources, and ultimately achieve good performance in cross-border M&As. Therefore, this paper proposes the hypothesis H1: Political connections have significant positive effects on cross-border M&A performance.

The Moderating Effect of Government Intervention

Faccio [3] took enterprises from all over the world as a sample and found that the country's economic development is more backward and the corruption is more serious,

the negative impact of political connections on enterprises is greater. At present, all provinces of China have different levels of economic development and large gaps in marketization, resulting in large differences in the external market conditions and levels of government intervention [16].

Although enterprises have similar levels of political connections, the impact of it on cross-border M&A performance is different in regions with different levels of government intervention. In areas with less government intervention and high level of marketization, the market's fair competition mechanism has a stronger role, which is conducive to alleviating mismatches in funds, reducing capital waste, and inhibiting investing in projects with low-growth or even negative-growth.

It will increase the efficiency of enterprise capital use, optimize the enterprise's investment structure, and promote the positive impact of political connections on cross-border M&A performance. On the contrary, in areas with more government intervention and low marketization, on the one hand, the phenomenon of rent-seeking of government preferential policies is more serious, leading to lower operating efficiency and increasing the possibility of excessive investment.

On the other hand, the greater degree of government intervention, the higher cost of the enterprise to maintain political ties with the government in order to obtain greater benefits. Therefore, the greater degree of government intervention, more rent-seeking behaviors and higher costs of enterprises may lead to a decline in cross-border M&A performance. Therefore, this paper proposes the hypothesis H2: The government intervention influences the impact of the enterprises' political connections on their cross-border M&A performance. The greater the degree of government intervention, the weaker the positive effect of political

connections on cross-border M&A performance.

Research Design

Sample and Data Collection

The successful cross-border M&A transactions of listed companies in China between 2008 and 2014 were studied. The data on cross-border M&As was collected from the SDC Platinum Database of Thomson Financial. Corporate executive information, actual controller information, company performance, and related financial data are mainly derived from CSMAR Database.

The principles for sample selection are as follows: (1) Excluding B-shares and H-shares due to domestic and foreign double supervision and applicable legal differences. (2) Both the acquirer and its parent company are Chinese enterprises, and the target company and its parent company are not Chinese enterprises; (3) the transactions with missing data were excluded.

(4) Due to the study of long-term performance, listed companies that have multiple mergers and acquisitions within three years are excluded. After the above screening, 108 valid deals were obtained.

Measurement of Variables

The Cross-Border M&A Performance

The dependent variable of this paper is the cross-border M&A performance. Measuring M&A performance generally has two methods: accounting study method and event study method. Accounting study method refers to examining the financial indicators of enterprises represented by corporate profitability and cash flow, and comparing the financial indicators before and after M&As. This paper uses accounting study method, using rate of return on common stockholders' equity (ROE) (Correa, 2009; Li Mei, 2010) as an indicator to measure the performance of the company, setting to Y , and the performance of the year before M&As, the year of M&As, the first year after M&As, the

second year after M&As respectively is Y , Y_0 , Y_1 , Y_2 .

The cross-border M&A performance of the company is measured by the difference between the ROE of the year of M&As, the first year after M&As, the second year after M&As and the ROE of the year before M&As, namely $Y_0 - Y$, $Y_1 - Y$, $Y_2 - Y$. In order to investigate the reliability of the research results, this paper replaces ROE with rate of return on total assets (ROA) for robustness test.

Political Connection (PC)

The methods of measuring political connections mainly include: virtual variable method, proportional method and assignment method. The virtual variable method simply divides enterprises into two categories: politically related and non-politically related, assigned by 1 and 0 respectively [6].

The proportional method is a further refinement of the virtual variable method, which measures political connections by the proportion of people with political connections in the company's executives or on the board of directors [17].

In order to more fully and accurately describe political connections of enterprises, more scholars use the assignment method to try to further refine the political connection. This paper uses the assignment method to measure political connections of enterprises [5-13].

The political connections of Chinese enterprises are complex, and the political background of the company's chairman, general manager and other senior managers may bring political connections to the company. Since the chairman and general manager have the highest decision-making authority of the company, this paper assigns political connection (PC) of the enterprise according to the position that the chairman or general manager had or has been holding.

The specific assignment method is shown in Table 1 [18].

Table 1: The specific assignment of political connection (PC)

PC	Assignment condition	Number of enterprises
3	The general manager or chairman of the company formerly served or currently serves as a government official at the national or provincial level or a representative of the People's Congress or the CPPCC	15
2	The general manager or chairman of the company formerly served or currently serves as a government official below the provincial level or a representative of the People's Congress or the CPPCC at the provincial level.	17
1	The general manager or chairman of the company formerly served or currently serves as a representative in the People's Congress or CPPCC below the provincial level or is a principal official of another influential civil society organization.	22
0	The firm does meet the above conditions.	54

Government intervention (GOV)

In this paper, we assume that the degree of government intervention influences the impact of the enterprises' political connections on their cross-border M&A performance, introducing the degree of government intervention in the province where the acquirer is located. According to the practices of Zheng and Zhu and Zhang Jingjing [18], the government intervention is measured by the "the relationship between the government and market" indicator of the "Report on the Marketisation Index in China's Provinces" prepared by Wang Xiaolu and Fan Gang [16].

This indicator is the annual data, which is mainly composed of the proportion of market-distributed economic resources, the reduction of government intervention in enterprises, the reduction of farmers' tax burden, the reduction of corporate extra-tax burden and the reduction of government scale. It measures the government intervention in the market by provincial-level units across the country.

The higher the indicator score, the smaller the government intervention in the market. To facilitate the presentation of the empirical results, the government intervention (GOV) used in this paper is the reciprocal of the

indicator. Therefore, the larger the GOV, the greater the degree of local government intervention in the market.

Control Variables

This PAPER Chooses the Following Control Variables

Dev

The country which the target enterprise is located is also an important indicator effecting cross-border M&A performance. The economic environment and legal system of the target country will have an impact on the integration effect of M&A. This paper divides the target countries of M&As into two categories: developed countries and developing countries. $DEV = 1$, if the target enterprise is located in developed country, 0 otherwise.

Ex-Rate

Gu Lulu *Et Al.* [2] showed that the appreciation of the local currency relative to the target country's currency is conducive to the acquirer to buy overseas target companies at a lower price. And if the appreciation of the local currency is overvalued, the target company may be overvalued, having negative impact on performance. EX-RATEL is measured by the average exchange rate between the RMB and US dollars in the

month of the transaction.

Industry

A dummy variable was defined indicating whether the target and acquirer were in the same industry. INDUSTRY=1, if the target and acquirer are in different industries, 0 otherwise.

Soe

Due to the historical background, the property of ultimate controlling shareholders is an important factor effecting the operation of Chinese enterprises. In this paper, the ownership nature of the acquirer (state-owned enterprise or private enterprise) is taken as the control variable, and it is judged by the nature of the actual controller in the year of M&As. If the acquirer is state-owned enterprise, SOE = 1, 0 otherwise.

Size

Many studies have shown that the size and value of the enterprise have an impact on the M&A performance. This paper uses the natural logarithm of total assets in the previous year of M& as to measure SIZE.

Lev

The asset-liability ratio reflects the financial risk of the enterprise. Jiang Wei and Li Bin (2006) found that companies with higher asset-liability ratios are better able to obtain long-term loans from banks.

The funds required for the implementation of M& as can be effectively guaranteed, which will help improve the performance of the acquirers. This paper uses the asset-liability ratio of the acquirer in the previous year of M& as to measure LEV.

PB and PE

They are generally used to measure the market valuation of the company. The higher PB ratio and PE ratio generally reflect that the company's profitability is better, and investors give an optimistic evaluation of the company's development.

In cross-border M& as, a good PE ratio helps

to improve the company's performance. Price-to-book ratio (PB) is the share price divided by the book value per share. Price-to-earnings ratio is the share price divided by the earnings per share. In order to make the regression results consistent in magnitude, PE is the value of the original value divided by 100.

Model Setting

Model 1 is the baseline model. $Y_j - Y$ is the dependent variable that is used to measure the cross-border M&A performance. β_0 is the intercept term. β_1 is the regression coefficient of political connections, which represents the effect of political connections on cross-border M&A performance.

Controls are the control variables of the model. ε is the random disturbance term, which represents other factors that are not included in the model and affect the M&A performance.

Model 2 introduces the interaction term between GOV and PC, and β_2 indicates the moderating effect of government intervention on the relationship between political connections and cross-border M&A performance, that is, the effect of government intervention on the acquirers' cross-border M&A performance on political connections remaining constant.

Model 1

$$Y_j - Y = \beta_0 + \beta_1 PC + \beta_i \text{Controls} + \varepsilon \quad (Y_j = Y_0, Y_1, Y_2)$$

Model 2

$$Y_j - Y = \beta_0 + \beta_1 PC + \beta_2 PC * GOV + \beta_3 GOV + \beta_i \text{Controls} + \varepsilon \quad (Y_j = Y_0, Y_1, Y_2)$$

Empirical Results and Analysis

Descriptive Statistical Analysis

Table 2 - Table 4 are the classification statistics of some elements of cross-border M&A deals, and Table 5 is the descriptive statistics of all variables. In terms of industry distribution, the industries in which the acquirers are located are classified according

to the “Guidelines for the Classification of Listed Companies” issued by the CSRC in 2001.

As shown in Table 2, their industries mainly focus on manufacturing, information technology, construction, wholesale and retail

trade. Among them, the number of enterprises in the manufacturing industry is the largest, accounting for more than half of the total. This reflects that China's traditional manufacturing industry has a large advantage in scale and strength, and is the main force of cross-border M&As.

Table 2: industry distribution of the acquirers

Industry	number
Manufacturing	59
Information Technology	13
Construction	6
Wholesale and Retail Trade	6
others	24
Total	108

In terms of the distribution of target countries, as shown in Table 3, the top three countries are Hong Kong, the United States, and Canada. From the perspective of the economic development level of the target countries, the events of the target companies in developed countries are far more than in developing countries. From the perspective of

the geographical distance between the target countries and China, Hong Kong, Singapore and Taiwan are important areas for selecting targets. It may be because the cultures and customs of these countries are similar to those of China, which provides more conveniences for cross-border M&As.

Table 3: country distribution of the target companies

Target country	number
Hong Kong	20
United States	18
Canada	8
Singapore	6
Australia	6
Germany	5
others	45
Total	108

In terms of the distribution of provinces where the acquirers are located, as shown in Table 4, there are 23 acquirers in Guangdong Province, 15 in Beijing, 11 in Zhejiang, 10 in Shanghai, and 10 in Jiangsu. These are much

higher than other provinces, indicating that cross-border M&A enterprises are mostly concentrated in political and economic centers or coastal cities.

Table 4: The distribution of provinces where the acquirers are located

Province	number
----------	--------

Guangdong	23
Beijing	15
Zhejiang	11
Jiangsu	10
Shanghai	10
others	39
Total	108

Table 5 provides a descriptive statistical analysis of all variables. It can be seen that about 89% of the target companies are located in developed countries, about 32% of events are cross-industry M&As, and about 44% of the acquirers are state-owned enterprises. The average of SIZE, LEV, PB and PE were

22.91142, 0.474592, 3.079112, and 0.366321. In terms of exchange rate, during the sample period, the amount of RMB exchanged for one dollar was from the highest of 7.16 to the lowest of 6.1, and the standard deviation was 0.277. During this period, the value of the RMB was relatively stable.

Table 5: Descriptive statistical analysis

Variable	Mean	Median	Std.Dev	Min	Max	Obs
Y0-Y	-0.00846	-0.00226	0.071303	-0.30927	0.26448	108
Y1-Y	-0.15807	-0.01413	1.412113	-14.6568	0.289657	108
Y2-Y	-0.02632	-0.01991	0.082573	-0.35857	0.342211	108
PC	0.935185	0.5	1.104563	0	3	108
DEV	0.888889	1	0.315735	0	1	108
EX-RATE	6.365407	6.292692	0.276605	6.104252	7.160144	108
INDUSTRY	0.324074	0	0.47021	0	1	108
SOE	0.435185	0	0.498093	0	1	108
SIZE	22.91142	22.36138	2.076086	20.04452	30.363	108
LEV	0.474592	0.493207	0.223411	0.036106	0.94369	108
PB	3.079112	2.35953	2.127647	0.50341	11.26055	108
PE	0.366321	0.252644	1.157662	-6.59953	7.538564	108

Regression Results and Analysis

The regression results of the impact of political connections on cross-border M&A performance are shown in Table 6.

The dependent variable of model (1) (2) is Y0-Y, studying the impact of political connections on cross-border M&A performance in the year of M&As; the dependent variable of model (3) (4) is Y1-Y, studying the impact of political connections on performance in the second year after M&As. the dependent variable of model (5) (6) is Y2-Y, studying the impact of political connections on performance in the second year after M & As.

Model (1) (3) (5) are baseline models. Model (2) (4) (6) introduce the interaction term between GOV and PC to test the moderating effect of government intervention. The F values of the above tests are significant, indicating that all models passed tests. In model (1), the coefficient of political connection (PC) is positive and significant at 5% confidence level, indicating that political connections have a positive effect on cross-border M&A performance in the year of M& as, in line with the hypothesis 1 proposed above. That is, enterprises with high political connections have higher performance of cross-border M&A than those with low political connections. In model (2), the interaction

term PC*GOV and GOV are added. The coefficient of PC is positive and significant at the 5% level and the coefficient of the interaction term PC*GOV is negative and significant at 10%, indicating that the government intervention influences the impact of the enterprises' political connections on their cross-border M&A performance.

The greater the degree of government intervention, the weaker the positive effect of political connections on cross-border M&A performance. Hypothesis 2 is verified. In summary, enterprises with high political connections may improve cross-border M&A performance through low financing costs and access to favorable information and policies. But, when there is more government intervention, this positive effect may be aggravated by more rent-seeking behaviors and higher maintenance costs of enterprises.

In model (3) (4) (5) (6), the coefficient of PC and the coefficient of the interaction term PC*GOV are not significant. This indicates that over time, the impact of political connections on long-term performance of cross-border M&A as will diminish. In model (3) (4), the key factors effecting cross-border M&A performance are whether the target country is developed country (DEV) and the acquirer scale (SIZE), and the coefficients are positive and significant at 5% level. It indicates that the target country is a developed country and the larger scale acquirers are both more conducive to long-term performance of cross-border M&As of the acquirer. After completing cross-border M&A as, in the face of complex integration processes, larger scale enterprises are often more capable of controlling the various resources of target companies to achieve better long-term M&A performance.

Table 6: The results of Multiple Regression

	(1)	(2)	(3)	(4)	(5)	(6)
PC	0.0133** (2.0511)	0.0834** (2.0984)	0.09533 (0.7724)	0.6085 (0.7942)	0.0102 (1.4037)	0.0090 (0.19861)
PC* GOV		-0.0094* (-1.7896)		-0.06817 (-0.6754)		0.00015 (0.02567)
GOV		0.00859 (1.3276)		-0.00852 (-0.068)		0.00126 (0.1712)
DEV	0.0251 (1.1223)	0.02547 (1.1447)	1.1820*** (2.7755)	1.19401*** (2.7841)	0.00496 (0.1974)	0.00476 (0.18763)
EX-RATE	0.0280 (1.0710)	0.03140 (1.1638)	0.91846* (1.8422)	1.03578** (1.9790)	0.01998 (0.6796)	0.01811 (0.58464)
INDUSTRY	0.0052 (0.3481)	0.00043 (0.02851)	-0.29746 (-1.0556)	-0.32016 (-1.112)	0.01704 (1.0261)	0.016895 (0.9913)
SOE	-0.0127 (-0.7404)	-0.01375 (-0.7982)	-0.5790* (-1.7696)	-0.61286* (-1.8453)	0.00957 (0.49593)	0.01011 (0.5143)
SIZE	0.0015 (0.2981)	0.001297 (0.2635)	0.2346** (2.5091)	0.2419*** (2.5484)	-0.0018 (-0.3341)	-0.00201 (-0.3573)
LEV	-0.0129 (-0.3120)	-0.00817 (-0.1974)	-1.52946* (-1.9341)	-1.5186* (-1.9032)	-0.0331 (-0.7098)	-0.0327 (-0.6926)
PB	-0.0077** (-2.1478)	-0.00782** (-2.1925)	-0.03353 (-0.4911)	-0.03399 (-0.4945)	-0.0162*** (-4.0247)	-0.01621*** (-3.9851)
PE	0.0149** (2.2553)	0.01449** (2.1944)	0.2199* (1.7526)	0.2281* (1.7922)	0.01393* (1.8830)	0.01372* (1.82128)
Cons	-0.22717	-0.30933	-11.423***	-12.27***	-0.07443	-0.0680

	(-1.089)	(-1.4454)	(-2.8785)	(-2.9754)	(-0.3181)	(-0.2789)
R2	0.19295	0.195311	0.19731	0.2035	0.1839	0.1843
F	2.6264**	2.65381**	2.6767**	2.2304**	2.4538**	1.9723**

Notes: Values in parentheses are t values, *, **, ***significant at 10%, 5%, 1% level

Robust Test Results and Analysis

In order to ensure the reliability of the conclusions, this paper replaces ROE with rate of return on total assets (ROA) and re-evaluates models. The results are shown in Table 7. In model (7) (8), the coefficient of PC is positive and significant at the 5% confidence level; the coefficient of the

interaction term PC*GOV is negative and significant at the 5% confidence level. Consistent with the previous test results, the conclusions obtained above are still valid, indicating that the conclusions of this paper are robust.

Table 7: The results of Robust Test

	(7)	(8)	(9)	(10)	(11)	(12)
PC	0.012886*** (2.648471)	0.070381** (2.367158)	0.004474 (1.3843)	0.034188* (1.717896)	0.004669 (1.333988)	-0.00265 (-0.12185)
PC* GOV		-0.00767** (-1.95907)		-0.00396 (-1.5122)		0.000989 (0.345236)
GOV		0.002347 (0.724254)		0.004928 (1.0179)		-0.00267 (0.75351)-
DEV	0.00265 (0.23769)	0.002969 (0.266513)	-0.01033 (-0.61521)	-0.00976 (-0.58665)	-0.00342 (-0.28299)	-0.00322 (-0.26424)
RATE	0.009201 (0.704862)	0.012356 (0.90893)	0.033411* (1.699955)	0.039021** (1.921253)	0.006936 (0.490634)	0.008836 (0.594864)
INDUSTRY	-0.00243 (-0.32934)	-0.00422 (-0.56393)	-0.00274 (-0.24682)	-0.00627 (-0.5608)	0.005916 (0.740411)	0.006706 (0.820345)
SOE	-0.00762 (-0.88953)	-0.00853 (-0.98883)	-0.0114 (-0.88361)	-0.01301 (-1.00979)	0.000934 (0.100681)	0.000386 (0.040917)
SIZE	0.00027 (0.110316)	0.000353 (0.143193)	0.000763 (0.206911)	0.000877 (0.23815)	-0.00286 (-1.07975)	-0.00263 (-0.97802)
LEV	0.011149 (0.538469)	0.012744 (0.614947)	-0.00595 (-0.1909)	-0.00273 (-0.08829)	0.034164 (1.523579)	0.033061 (1.460009)
PB	-0.00265 (-1.48375)	-0.00269 (-1.50809)	-0.00646** (-2.39945)	-0.00654** (-2.45106)	-0.00805*** (-4.15802)	-0.00803*** (-4.11709)
PE	0.006154* (1.87326)	0.006191* (1.872477)	0.001182 (0.238885)	0.001193 (0.241568)	0.005098 (1.432867)	0.005412 (1.498056)
Cons	-0.07296 (-0.70214)	-0.11231 (-1.04819)	-0.22312 (-1.42625)	-0.29792* (-1.86109)	0.004822 (0.042857)	0.007206 (0.061549)
R2	0.081366	0.102955	0.164228	0.196442	0.210145	0.214863
F	1.964454**	2.00164**	2.139647**	2.133516**	2.89704***	2.388335**

Notes: Values in parentheses are t values, *, **, ***significant at 10%, 5%, 1% level

Research implications and limitations

Based on the sample of 108 cross-border M&A cases of A-share listed companies in China from 2008 to 2014, this paper studies the impact of political connection on cross-border

M&A performance from the enterprise level, adopting the assignment method to measure the political connection.

The external governance environment (government intervention) is included in the study. Through empirical research, this paper concludes that political connections have a positive effect on cross-border M&A performance in the year of M&As, and this relationship will be affected by the government intervention. When there is more government intervention, this positive effect may be aggravated by more rent-seeking behaviors and higher maintenance costs of enterprises.

The political connection of the enterprise has a positive effect on cross-border M&A performance, but the enterprise should also treat the political connection cautiously and recognize its dual role. Enterprises should not put their own inversion to seek political conveniences and sacrifice enterprise interests. They should pay more attention to the development of their main businesses and form a long-term strategic plan that is in line with their own development. At the same time, government managers should further improve the market-oriented system and other systems that lead to irrational resource allocation. Further, the government creates a good external governance environment for enterprises and provides strong macro support for the healthy development of cross-border M&As.

In this way, enterprises can focus more on their own operations than political connections, thereby reducing the breeding of

corruption, optimizing the allocation of social credit resources, and bringing the development of enterprises and society into a virtuous circle.

The research of this paper only stays at a relatively shallow level. Political connection is a very complicated factor. In future research, we can study the specific ways in which political connections affect cross-border M&A performance. At the same time, the evaluation system of political connection can be further improved. Although the concept of political connection was proposed early, the academic community has been arguing about the accurate measurement of political connection. This paper synthesizes the existing academic researches and adopts a relatively reasonable assignment method to measure political connection.

However, since the assignment method is still largely based on subjective judgment, it also has certain defects. In addition; this paper uses accounting study method to measure cross-border M&A performance of enterprises. The disadvantage is that it is difficult to distinguish the effect of cross-border M&As from the effects of other events that affect the value of enterprises.

And because of the imperfect accounting system in China and the serious manipulation of accounting profits, the evaluation of cross-border M&A performance of enterprises may not be accurate enough.

References

1. Shao Xinjian, Wu Hejun, Xiao Lizhen et al (2012) The Strategic Targets and Performance of Cross-Border M&A Initiated by Chinese Firms: An Evaluation Based on A-share Market, *The Journal of World Economy*, 5 :81-105.
2. Gu Lulu, R Reed (2011) Do Chinese Acquirers Fail in Overseas M&As? *Economic Research Journal*, 7:116-129.
3. Faccio M (2010) Differences between Politically Connected and Nonconnected Firms: A Cross-Country Analysis, *Financial Management*, 39(3):905-927.
4. Fisman R(2001) Estimating the Value of Political Connections, *American Economic Review*, 91(4):1095-1102
5. Faccio M(2006) Politically Connected Firms, *American Economic Review*, 96(1): 369-386.
6. Mian AR, Khwaja AI (2005) Do Lenders

- Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market, *Social Science Electronic Publishing*, 120(4): 1371-1411.
7. Wei'an Li, Qiu Aichao (2010) Governance Transition of Chinese Private Firms, Political Connections and Firm's Performance, *Journal of Management Science*, 23(4): 2-14.
 8. Salancik GR, Pfeffer J (1978) A social information processing approach to job attitudes and task design, *Administrative science quarterly*, 23(2): 224-253.
 9. Luo Danglun, Tang Qingquan (2009) Research on the System Environment and Performance of Chinese Private Listed Companies, *Economic Research Journal*, 2:106-118.
 10. Krueger AO (1974) the Political Economy of the Rent-Seeking Society, *American Economic Review*, 64(3):291-303.
 11. Shleifer A, Vishny RW (1994) Politicians and Firms, *Quarterly Journal of Economics*, 109(4):995-1025.
 12. Shanmin Li, Zhu Tao (2006) Can Diversified Acquisition Creat Value to the Shareholder? About the Impact Factors of Enterprises' Long-Term Performance of Diversified Acquisition, *Management World*, 3:129-137.
 13. Pan Hongbo, Xia Xinping, Minggui Yu (2008) Government Intervention, Political Correlation and Mergers and Acquisitions of Local State-owned Enterprises, *Economic Research Journal*, (4):41-52.
 14. Wei Ping, Mao Xiaodan (2017) Can the senior management network alleviate the financing constraints faced by enterprises in cross-border M&A: empirical evidence from China, *Journal of International Trade*, 06: 85-95.
 15. Yan Xueqin, Sun Xiaojie (2016) Corporate Political Connection and Cross-border M&A Performance- -Based on Chinese M&A Data, *Research on Economics and Management*, 1:119-127.
 16. Wang Xiaolu, Fan Gang, Jingwen Yu (2016) Report on the Marketisation Index in China's Provinces (Beijing: Economic Science Press, 2017).
 17. Boubakri N, Cosset JC, Saffar W (2008) Political connections of newly privatized firms, *Journal of Corporate Finance*, 14(5):654-673.
 18. Zhang Jingjing (2015) A Study on the Impact of Political Connection on Chinese Acquirer Performance in Cross-Border Mergers and Acquisitions, doctoral degree, Zhejiang University, Zhejiang.