Risk and Returns of M&As in Chinese Financial Industry

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Abstract
With the deepening of Chinese financial reform and the gradual opening of financial markets, financial institutions in China are seeking M&A opportunities to acquire the sustainable advantages in both local and international environment and exploit new markets especially under the context of global financial crisis. Therefore, it is relevant to evaluate the efficiency of M&A deals in Chinese financial industry. We have done this by first presenting the current situation and motives of M&As involving Chinese financial services, and then, we analyzed the impact of these M&As on the risks and the returns of the bidding firm. Based on our results, we show that M&As do create value for shareholders, but we couldn’t be totally sure about the fact that the M&As reduce the risk. In the final part, we made a few recommendations about the selection of targets, roles of banks and management perfection.
With the development of Chinese economy, especially after the financial crisis in 2008, the mainland of China has become one of the most prosperous areas with a great possibility of financial transactions and also the most attractive destination of investment capital. In 2010 alone, the Asia-Pacific area was the third M&A paradise with 8,774 transactions (see Figure 1), just after Americas and Europe.

**Worldwide Announced M & A Target Region Comparison**

![Graph showing number of deals by region](image)

<table>
<thead>
<tr>
<th>Region</th>
<th>Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa/Middle East/Central Asia</td>
<td>921</td>
</tr>
<tr>
<td>Japan</td>
<td>1,552</td>
</tr>
<tr>
<td>Asia-Pacific (ex Central Asia)</td>
<td>8,774</td>
</tr>
<tr>
<td>Europe</td>
<td>13,103</td>
</tr>
<tr>
<td>Americas</td>
<td>11,049</td>
</tr>
</tbody>
</table>

*Figure 1: Worldwide Announced M & A Target Region Comparison
Source: Thomson financial, 2011-11-22*

In recent years, Chinese M&A activities have become more dynamic than before. Second quarter of 2011, Chinese M&A market has completed 495 transactions (see Figure 2), of which 415 disclose the deal amounts, increasing by 66.12% compared with the previous quarter and 157.7% sequentially (Wang, 2011). China’s M&A activity is stimulated by a series of strategic factors, including high growth rates and rapid growth of domestic consumption, operating and capital efficiency in the use of pressure rise, as well as strategic investors outside the region continued divestment. According to Wang (2011), the manufacturing, energy and real estate industry are three leader industries in Chinese M&A market, considering the transactions volume. Based on the deal size, the energy, financial and real estate industry are the three top-ranking with $7.205 billion, $1.376 billion, $20 billion transaction value.
Nevertheless, mergers and acquisitions of financial institutions do not increase rapidly; mainly because financial acquisitions are more complex, involving many aspects. The greatest feature of the financial industry mergers and acquisitions is the enormous impact of target country's macro-regulation and the local environment. Therefore, the paces of Chinese financial institutions M&A are very cautious.

Deregulation and advances in technology are widely held as important factors that have ended the distinction between banks and financial intermediaries and this has further led to an unparalleled rise in number of M&A in financial companies across the globe. According to the statistics, there are about 873 transactions initiated by the Chinese financial institutions, and in which 110 has a larger than 1 million dollars deal sizes in the last decade, while from 1970 to 1999, only 25 takeovers have happened during this period before the deregulation.

In financial industry, the domestic acquisition takes a dominant place in the total acquisition. This phenomenon may be due to the fact that despite the uncertainties in economic environment, the Chinese financial institutions are increasingly interested in domestic acquisitions using local customers, creating financial consortium for their own
business. Besides, capital constraints have become a major obstacle to the cross-border transaction, even with the provisions of Basel. And now two forces intertwined in the cross-border ones: the non-maturity and the dysfunction of the commercial banks. Yumin (2011) predicts that the next 2 to 3 years, China's foreign investment will reach unprecedented levels which are expected in the next three years, annual growth of 20% to 30%, but still in a cautious way.

As the entrance to WTO and the emerging effects of continuous open policy years ago, also the strong trend of economic resurgence, Chinese corporations have already started a new round of M&A in large scale, involving real estate, finance, information, resources, electric appliance and lots of other industries. The most essential reason why Chinese companies execute M&A transaction is to improve their financial performance.

The confrontation between the rapid growth of Chinese M&A market and the prudence of the financial institutions inspired us to draw a closed attention to efficiency of M&A in Chinese Financial industry, especially focusing on the acquirers’ side, hopefully to have some meaningful results in order to help the investors make a more courageous and vigorous decision on both domestic and cross-border mergers.

The objective of this paper is to investigate whether M&A transactions have an impact on the efficiency of Chinese financial firms. It is organized as follows. The following part is a survey of the literature dealing with the motives of M&A in banking industry and the methods of M&A efficiency valuation. The second part describes the data and the methodology used in this study. The third part presents the results and the fourth concludes and discusses the paper.
1. Literature review

1.1. Motives of the M&A in bank industry

Bank takeovers may be, in general, motivated by a complex nexus of various considerations (Berger, Demsetz and Strahan, (1999)). Nevertheless, two broad sets of alternative hypotheses are variedly used in the researches involved in the banking M&A issue.

1.1.1. Efficiency Theory

M&A may enhance the consolidating banks’ efficiency by the synergy effect, improving the operating performances and exploiting economies of scale or scope. The efficiency theory includes differential efficiency theory, pure diversification theory, and undervaluation theory.

According to the theory of differential efficiency, the inconsistence of the two parties’ management efficiency is the cause of M&A activities. The comparatively lower management efficiency of the target company will be elevated to a higher standard of the parent company, after its merger by the latter. In fact, Eun et al. (1996) found that cross border acquisitions are synergy creating activities and create value for both acquirer and target shareholders, in particular when managers of the acquirer company know how to benefit from the imperfections of the target market.

As for the theory of pure diversification, the definition refers to the acquisition between companies of different domains or markets, and there is no alternative or input-output relation between their products. Another point of view of this theory consider corporations and financial institutions as the aggregation of tangible assets, people and intangible assets engaging in independent businesses, and define pure diversification as a better utilization of the assets. Some assets are specific for production of certain articles and services, while others are used for a particular sort of products and services. When those assets of general use are
not made best of in center of firms of banks, or according to the state of operation, pure diversification can be a choice to better harness them. The acquisition, though not the only approach to realize diversification, is actually the quickest way to such a purpose.

Undervaluation, also called value variance hypothesis, acquisition arises when the market value of a company, owing to certain reason, fails to represent its actual or potential value. Tobin employed Q to reflect the possibility of the acquisition, which is calculated as the market value divided by the physical assets value. When Q is above 1, there is a small possibility for acquisition; while the opposite situation when Q is less than 1. Goddard et al. (2001) have carried out a practical research of the value variance theory in the USA, and found a close connection between the occurrence of acquisition and different variables such as technical condition, stock market or share price. Kuen (1975) has looked into 3500 corporations between 1957 and 1969, discovered a high proportion of merger happening to underestimated firms. Further insight of the Under Valuation Theory supposes that M&A activities turned up more frequently when technical condition and stock price fluctuate continually, under which condition the ineffectiveness of previous information and experience when applied to make prediction may give rise to more value variance.

1.1.2. Market power theory

According to the market power theory, the main motive of bank takeover is to reduce the extent of competition. Thereby the bidder banks could enhance their market control ability to increase their market share. In some cases, controlling larger portion of market would lead to the monopoly which can bring huge profit and keep the competitive advantage.
Lanine and Vander Vennet (2007) test the relative strength of the efficiency versus the market power hypotheses by investigating the bank-specific characteristics of the banks involved in the cross-border acquisitions. They explore the microeconomic motivations for cross-border bank acquisitions in the CEEC and analyze whether they are motivated by efficiency considerations or whether they are primarily undertaken to acquire market share in the transition economies of Central and Eastern Europe, and find no evidence that cross-border bank acquisitions in the CEEC are driven by efficiency motivations.

1.2. Impact of M&A on efficiency and value creation

1.2.1. Efficiency of bank mergers

The empirical evidence concerning the evaluation of mergers and acquisitions is based on several types of analysis. Efficiency has been measured using production functions, cost functions, financial index and the efficient frontier approach whereas value creation can be computed using the event study methodology (Matthews and Thompson, 2005).

The concept of efficiency measurement assumes that the production function of the fully efficient firm or firms is known. Since, this is not the case in practice; one has to estimate the production function. The production function is estimated from sample data applying either a non-parametric (mathematical programming) or a parametric (econometric) approach. As for the definition of inputs and outputs of a banking firm, there is no consensus on the variables that best define bank output.

According to the production approach (Benston and Smith, 1976), banks transform labor and capital inputs into two output groups of assets and liabilities. The number and type of transactions and documents are considered to be the best measure of bank output. But such specific data are
generally unavailable and therefore, in practice, the number of deposit and loan accounts is usually employed as the measure of bank output. A large number of researchers use the "intermediation approach" (e.g. Sealey and Lindley, 1977), which treats banks as mediators transforming funds between depositors and investors. The main task of a bank is to channel funds from savers to investors. Within this framework, deposits are treated as inputs and loans as outputs. This approach is distinguished from the production approach by adding deposits to inputs with consideration of both operating cost and interest cost (Goddard et al., 2001).

Athanasoglou and Brissimis (2004), employed operating performance methodology on revenue, cost, profit and productivity ratios in the pre-merger and acquisition period 1994-1997 and post-merger and acquisition period 2000-2002. They showed that merger and acquisitions positively affect merged banks' profitability as well as cost efficiency.

The Efficient frontier approach is constituted of two types: a non-parametric and a parametric approach. Nonparametric approach mainly involves Free Disposal Hull (FDH) and Data Envelopment Analysis (DEA). DEA method was first put forward by Charnes et al. (1978) to assess the relative efficiency between departments. Subsequently, Sherman and Gold (1985) applied it to inspect the efficiency of the embranchment of commercial banks, and there were more scholars making change to DEA in order to make it more explicable and suitable. The three main parametric techniques are the Stochastic Frontier Approach (SFA), the Distribution-Free Approach (DFA) and the Thick Frontier Approach (TFA).

1.2.2. Event study

Event study methodology is based on the efficient market hypothesis developed by Fama et al. (1969) and Fama (1970). According to this, a market is efficient if "prices fully reflect all available information". One important assumption is that capital markets are sufficiently efficient to react on events (new information) regarding expected future profits of affected
corporations. Efficiency is classified as "weak form" when information set includes past prices, "semi-strong form" when information set includes all publicly available information and "strong form" when information set includes all publicly and privately available information. Event studies are mostly rested upon the analysis of the so-called "normal" and "abnormal" returns which are estimated on the basis of asset pricing model.

Toyne and Tripp (1998) using a sample of American interstate M&A’s during 1991 and 1995, found that the stock values of the target banks increase but those of the bidder banks decrease, which result in the decrease of aggregate value. Cybo-Ottone and Murgia (2000) obtain opposite results. Based on a sample of 54 European bank takeovers between 1988 and 1997, they show value creation for the bidder and the target. However they pay more attention in the domestic M&As than in the cross-border M&As. The study on the 15 cross-border M&A didn’t prove the positive effect of takeovers. Beitel and Schiereck (2001) study 98 M&A in Europe during the 1980s and the 1990s. They showed that M&A produced wealth in average, but, since 1998, the bidder banks have had always negative abnormal returns, which can draw the conclusion of the deterioration effect of European cross-border M&A in bank industry.

Finally, due to the restriction on foreign banks before the accession to the WTO, there’s limited attention focused on the bank takeovers involved with Chinese banks. Besides, the only few studies available use financial ratios analysis (comparison of the pre and post merger) whose contribution to the efficiency valuation is limited. The aim of this paper is to fulfill this gap by studying whether M&A transactions have an impact on the risk and the value creation of Chinese financial firms. Therefore, we formulate the following hypotheses.
Hypothesis 1: There is a significant change in the stock prices of acquiring firms following M&A deals.

Hypothesis 2: There is a significant change in the risk of acquiring firms following M&A deals.

2. Data and Methodology

2.1. Data

The period of 2000-2010 was selected in order to focus on recent M&As. This is a relatively large period because we need to have a representative sample which allows us to get significant results. In this sample, we will only consider deals which are closed so that we have all the post merger data.

As stated above, we will focus in this study on M&A involving Chinese financial sector companies as acquirers. That includes commercial banks, insurance, financial services, real estate… The units of the sample must be listed companies in order to have available information about it. Using Thomson One Banker database, we obtained a list of deals which meet these criteria and generate a report which includes general information about the deal, such as its value, the effective date of realization and the percentage acquired by the bidder and if conditions and terms of the transactions are disclosed.

The deals of the sample were chosen according to the following criteria:

- Announcement date must be between 2000 and 2011.

- The acquirer must be in financial industry.
- The acquirer must be Chinese Public listed company. This criterion removed private acquirers and acquirers that were wholly or partially owned subsidiaries of other companies.

- Deal size must be more than 1 million USD. This criterion eliminated deals that may be too small to stimulate the market based on the China’s economy environment.

- Transaction status must be “Completed”.

Finally, we have identified 67 units in the sample.

2.2. Event Study

Using financial market data, an event study measures the impact of merger and acquisition on the value of a firm. The basic method of event study is to examine how the returns derived from the stock prices of the relevant firms both before and after the announcement of a merger and acquisition. The underlying assumption is that the market process information about this M&A event is in an efficient and unbiased market. Thus, we are able to see the pertinent response of the stock price around the announcement.

Here we assume that the markets are efficient enough to reflect the response to the M&A in time. So we consider the relatively short horizons. Thus, we study the impact of 15 days before the deal and 15 days after the deal which results in the 31 days of event window(day of announcement included). Besides, we decided to look at the daily returns as our frequency of the event study.
To calculate predicted return, the Market Model Method was used. It is the most widely used method in event study literature because the Market Model takes explicit account of the risk associated with the market and mean returns:

\[ R_{it} = \alpha_i + \beta_i \times R_{mt} + \varepsilon_{it} \]

\( R_{mt} \) is the return on the markets index for day \( t \), 
\( \beta_i \), beta coefficient, is the sensitivity of the financial institution \( i \) to the market, 
\( \alpha_i \) measures the mean return over the period which cannot explained by the market model, 
and \( \varepsilon_{it} \) is the statistical error term.

To compute the abnormal returns, the following formula was used in the paper:

\[ \text{AR}_{it} = R_{it} - E(R_{it}) \]

\( \text{AR}_{it} \) is the abnormal return, 
\( R_{it} \) indicates the observed return, 
and \( E(R_{it}) \), the normal return.

Then, we calculated the cumulative abnormal return for each company:

\[ \text{CAR}_{it} = \sum_{t=1}^{T} \text{AR}_{it} \]

Finally, we define \( H_0 \) the hypothesis according to which the stocks affected by the M&A events will not experience Cumulative Abnormal Returns and \( H_1 \) the hypothesis according to which those stocks will experience negative or positive Cumulative Abnormal Returns.

\( H_0: \text{CAR}=0 \) and \( H_1: \text{CAR} \neq 0 \)

In order to test the significance of our results, we used traditional t-statistics. The assumption of the t-test is that the individual abnormal returns are independent and identically distributed:

\[ t_{\text{CAR}} = \frac{\text{CAR}_t}{S(\text{AR}_t) \times \sqrt{F_0}} \]
Then, the standard deviation is estimated as:

\[ S(AR_t) = \sqrt{\frac{T_0 \sum AR_t^2}{t=1} - \frac{1}{T_0 - 1}} \]

2.3. Risk Analysis

2.3.1. Total risk

The total risk of a firm is generally measured by the standard deviation \( \sigma_i \) of its stock returns. We calculate, for each firm in the sample, the change in the total risk:

\[ \Delta \sigma = \sigma_i \text{(after)} - \sigma_i \text{(before)} \]

where “before” are days -365 to -1 before the acquisition is announced, and “after” is days +1 to +365 after the announcement.

Then, we realize a t-test to compare see if the change in the value of total risk is significant. We test the following hypotheses:

- H0: TR (before) = TR (after)
- H1: TR (before) \( \neq \) TR (after)

where we refer to Total Risk as TR.

2.3.2. Systematic risk

We measure systematic risk through the beta values. In order to test this hypothesis, we compare the beta from -365 to -1 before the announcement of the merger and from +1 to +365 after the merger. We chose these periods wide enough to capture the significance of risk measures. In order to support these results, we performed t-tests in order to see if the change in beta is significant.
We can directly obtain the change in beta, as follows:

\[ \Delta \beta_i = \beta (after) - \beta (before) \]

Then, we use t-test to compare beta values before and after the deal in order to see whether M&A deals have an impact on beta change. Therefore we have the following hypotheses:

\[ H0: \Delta \beta = 0 \]

\[ H1: \Delta \beta \neq 0 \]

3. Results

On average, the impact of Chinese Financial Industry M&As is positive since the average cumulative abnormal returns is 2.80% for our sample made of 62 deals (statistically significant at the 10% level (t=1.35%)).

Concerning the total risk, for the entire sample, we observe a decrease of the total risk after the merger. Before the deal the average standard deviation was 5.24% whereas after the deal the average standard deviation was 3.47% (see Table 2). This difference is not statistically significant due to the small size of our sample.

<table>
<thead>
<tr>
<th></th>
<th>( \sigma ) (before)</th>
<th>( \sigma ) (after)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.05244</td>
<td>0.034691</td>
</tr>
<tr>
<td>Variance</td>
<td>0.018616</td>
<td>0.000179</td>
</tr>
<tr>
<td>Observations</td>
<td>67</td>
<td>67</td>
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<tr>
<td>T-stat</td>
<td>1.059677</td>
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</table>

Table 1: T-test of total risk change for the entire sample

In addition to examining the results for the entire sample, we divide the sample into subgroups according to the locations of the targets. We distinguish domestic and cross-border M&As. In both cases, we observe a non significant decrease of the total risk.
We then were not able to conclude that M&As have a significant impact on total risk of firms in the Chinese financial sector, whether they were domestic or cross-border.

We also examine the impact on risk by sub-sector: banking and insurance and real estate. Whereas we can observe a non-significant decrease in the total risk after a merger of a real estate company, we were not able to detect the slightest change in the total risk after the merger in the banking and insurance industry.

We then were not able to conclude that M&As have a significant impact in total risk following a deal for both real estate and banking/insurance companies.
Previous studies have reached different conclusions about the behavior of market risk around M&A activity, with some suggesting that M&A activity does no reduce market risk, and others finding that mergers contribute to increased absolute and relative risk levels. Therefore, the relationship between M&A activity and market risk is ambiguous (Garabato, Gerpe and Maiztegui, 2009).

<table>
<thead>
<tr>
<th></th>
<th>Entire sample</th>
<th>Cross-border</th>
<th>Domestic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Acquirer risk before deal</td>
<td>Acquirer risk after deal</td>
<td>Acquirer risk before deal</td>
</tr>
<tr>
<td>Average</td>
<td>0.532002</td>
<td>0.575113</td>
<td>0.246461</td>
</tr>
<tr>
<td>Maximum</td>
<td>1.383403</td>
<td>1.699359</td>
<td>1.054873</td>
</tr>
<tr>
<td>Minimum</td>
<td>-0.5054</td>
<td>-0.427880</td>
<td>-0.43574</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>0.516993</td>
<td>0.551563</td>
<td>0.617344</td>
</tr>
</tbody>
</table>

**Table 6: Acquirer’s systematic risk**

The figure above shows that sensitivity to the acquirer’s home market index slightly increases after a merger, which means that M&As don’t have an impact on market risk of the acquirer. In order to support these results, we performed t-tests in order to see if the change in Beta is significant. We obtain a T-statistic of -0.50032, which means that H0 is verified. Therefore, there is no significant change in the Beta of the acquirer following a merger or acquisition whether it was in financials or real estate sector, whether it was national or cross-border. In other words, the bidder market risk level remains the same before or after a deal.
3. Discussion and conclusion

The aim of this paper was to study whether M&A deals have an impact on both risks and returns of Chinese financial firms. We show that M&As do create value for shareholders, but we couldn’t be totally sure about the fact that the M&As reduce the risk of the firm.

Despite the fact that foreign M&A activities have provided quite a lot of reference and experience, we should be well aware of that Chinese economic development, financial environment, banking system, legal system, market structure and company operation model have lots of differences from those of other countries, which make it indispensable to advance step by step, and to never simply imitate former cases. The acquisition of Blackstone Group by China Investment Corporation and that of Barclay’s shares by China Development Bank have both been proved to be failing examples.

Another important point is to well select and screen before taking act. It is only through complete and abundant research of the target firm, can companies avoid an over-assessment of the target value. Also, in certain cross-border acquisitions, especially under the macro circumstance of financial crisis, companies are liable to be perplexed and by the huge amount of low price assets filling the market, and even get lost. Actually, before the decision, firms ought to take into account the financial status of the target company, as well as its major activity, inside and outside network, market share and so on. Strategic collaboration may be a better choice than absolute control in terms of cost and risk. At present, Chinese companies mainly base on traditional activities such as manufacture and trade, the employment of financial derivate products are still in the start stage. But to compete in international market, companies should pay more attention to the diversification of activities, improving financial innovation. The target of M&A can be to enhance activity scale, to develop and complete the
market, to learn advanced financial conception and supervision system, and to establish strategic cooperation. All those above including the selection of target should be well coherent with the initial goal of acquiring company. The success of Standard Chartered Bank, competing with CITI Bank, in acquiring Korea First Bank has well proved the importance of clear objective and profound research.

The essential part and also obstacle in M&A activity is the integration of the acquiring and target firms, which involves the concordance of strategy, culture, personnel and management. Especially the culture discrepancy which overweighs the difficulty of the link up and unification of internal network and technology, may arouse a large cost budget and eventually undermine the profitability. To the extreme situation of failure to integrate, the cost is enormous. The conclusion is to undertake such a great risk, companies should maintain and continuously develop their core competences. However, with the expansion of asset size and the increase of market value, together with those favorable market expansion conditions, firms tend to pay too much attention to the scale and market share and overlook the improvement of core competences. The more loss of core competences, the more vulnerable are companies when facing financial risks. Chinese corporations have competed with foreign ones in the latest years, obtaining considerable experience in activities, yet still, they have been under the protection of government for too long so that their competences are not significant enough. No matter financial services, technology and conception of production or management skill, they still have quite a long way to go. As a result, companies should better orient their M&A activities according to their own competences, and try to gain rapidly market clients and scarce resources to recompense their shortcomings. For cross-border M&A, firms should, in long term, match their ability with the opportunities to avoid over-internationalization. As an example, Chinese banks have always been making profit from the interest margin, and then cross-border M&A can enable them to execute more diversified
operations, which doesn’t mean that Chinese banks should incline to a large extent to new financial operation but instead, they should still improve their core competence to gain a strong presence in international market.

The M&A activity is more like a crush of two companies different in development strategy, management system, organization form, financial status, corporation culture and etc. The integration is nothing but the most important after acquisition. It is not until the integration of production elements and organization functions and the increased value of asset, can an acquisition be named as a successful one. The management skill of the company will decide the trend and even the future of long term development. However, the defective decision making system and lack of supervision, also the loose external relation with other industries have always been the problem of Chinese firms’ management.

Companies after acquisition should carry forward reforms in organization structure, stimulating policies, internal control, and equity regime. The cadre identification and executive levels existing in Chinese firms should also be eliminated to better enforce the stimulating system, increasing efficiency. As we all know, as the staff crew is the essential part of a company, their stability, initiative and creativity should be preserved to the most. It is inevitable to have some job cut but a decent recompense is necessary. At the same time, get ready to introduce new talents who fit better the new strategy or the core positions.

As for culture neutralization, it is critical to avoid the competition and direct conflict of two different firm cultures, and simultaneously propagandize and spread the new management concept and assessment mechanism. It will take time, but it worth doing.
On the other hand, M&A may give rise to the decline of scale efficiency. That might be a result of the extensive economy growth mode throughout a long period. Companies now should shut down those low efficient branches and departments to not only reduce operation and trade cost, but also shorten the institution chain, reduce management hierarchy, flatten the structure to achieve better control. What’s more, a tight budget to control irrational dispense will have effect in improving efficiency.

The market should have a better guiding influence in M&A activities, leaving a clear definition and border of government function. It is well know that in China, the government has a dominant impact on commercial sector, the government oriented M&A activity can not satisfy the changing demand of the market and of the financial development, and neither can it radically solve the financial crises. On the contrary, it will go against the market law, hinder the rational allocation of financial and management resources, and eventually lead to a lack of efficiency. To substantially increase the efficiency and quality of M&A, the government should give way to the market to be the leading force in transaction. The government should be acting as making and enforcing laws to create a normative, equal and transparent environment, draw up regulations of entrance and exit of M&A market, instead of interfering directly in the activity.

Finally, investment banks should play a more positive part in M&A activities. Most M&A activities have very specific demand in information collection, asset assessment, financing and legal process, which appeal to the intermediate function of investment banks. Investment banks can provide more efficient capital operation services, more professional M&A consultancy service, and more detailed projects. The whole quality and influence of Chinese investment banks are still comparatively limited, appealing to a group of talented banker and analysts to ameliorate such a situation.
All in all, Chinese companies should orient their M&A activities according to their very need and objective, optimize capital structure, improve activity scale, reinforce their management level, and establish more core competences.

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