STUDY ON THE IMPACTS OF M&As ON THE PERFORMANCE OF LISTED COMPANIES IN CHINA'S CULTURAL INDUSTRY

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ABSTRACT

The emergence of cultural industry is strongly supported by the Chinese government. Policy support and technology-driven considerations have stimulated rapid mergers and acquisitions (M&As) in China's cultural industry. The burgeoning scale of industrial M&As, however, has not necessarily improved the quality. In the case of impending market saturation, advancing M&As in violation of market rules may lead to bubble accumulation in the capital market. In addition, dominated by intangible assets, the cultural industry features relatively unstable products and immature industries, which can lead to a deviation in the valuation of M&A assets from the real value. Once the M&A target experiences operational issues, it will suffer greater losses than those brought by M&As in traditional industries. Therefore, the cultural industry is exposed to a high valuation risk. In addition, its structure differs greatly from other industries because it has a high degree of product line differentiation, which makes it difficult for value chain coupling after companies in the cultural industry merge with other industries. There is also much uncertainty about cross-industry M&A stimulating performance. These uncertainties may hinder the growth of China's cultural industry. Therefore, my study focuses on the cultural industry. This study examines the M&A performance of listed companies in China's cultural industry through empirical analysis and provides suggestions for its development.

This study first discusses the main types, characteristics, and reasons for surge in M&As in China's cultural industry, and then empirically analyzes the M&A performance of listed companies in the cultural industry from the perspectives of stock performance and financial returns. On the one hand, based on the event study method, this empirical study analyzes the impacts of M&As in the cultural industry on the short-term and long-term abnormal stock return of the active acquirer through the

CAPM model and the Fama–French 3-factor model; on the other hand, an empirical analysis is made on the impacts of M&As in cultural industry on the company's future financial return using the propensity score matching and difference-in-difference (DID) methods.

This study finds that the short-term abnormal return after the M&As in cultural industry is significant, but not the long-term cumulative abnormal stock returns. Therefore, it is concluded that the impact of M&As of listed companies in cultural industry on short-term abnormal stock returns is only a result of market overreaction, and the market will be rational in the long run. This study also examines whether the M&A is cross-industry or whether the acquirer is a cultural enterprise has any significant impact on the long-term cumulative abnormal stock returns.

Concurrently, the study examines the factors leading to abnormal returns from M&As, and finds from the analysis on factors leading to short-term abnormal returns that the size of market value, the extent of valuation, and whether the company is a state-owned company have a significant impact on the short-term abnormal market returns from M&As.

On the other hand, this study finds that the financial returns of sample companies have not improved after M&As in cultural industry, but have declined instead. This is likely because the two companies cannot coordinate and merge well after M&A, which instead increases frictions and results in a decline in financial returns.

Based on the features of M&As in China's cultural industry and the empirical results of the decline in financial returns of listed companies after M&As in cultural industry, this study suggests plausible improvements in M&A performance of listed companies in China's cultural industry at the level of government, intermediary agent, industry guidance and enterprise.

This study has four chapters: Chapter 1 is the introduction, which introduces the research background, methods, significance, and related literature review. Chapter 2 introduces the current situation of M&As in China's cultural industry and presents an analysis of the main types and characteristics of and reasons behind the new wave of M&As in China's cultural industry. Chapter 3 presents the empirical analysis. Based on various empirical research methods, this study analyzes the impacts of M&As in cultural industry on the short-term and long-term abnormal stock returns and financial returns. Chapter 4 concludes and makes suggestions for policy makers.

Key words: Cultural industry, wave of M&As, market response, M&A performance, synergistic effect

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CHAPTER 1
INTRODUCTION

Research Background

Cultural industry produces and sells cultural-related products and services with the goal of satisfying people's spiritual and cultural needs. The rapid progress of global cultural industry is the rationale for the focus of this study.

With the global economy undergoing high-quality development, the cultural industry has gradually emerged globally with its strong communication power, wide influence, great market demand potential, and low consumption of natural resources. Several developed countries have included promotion of cultural industry in their national plans. For example, in the United States, the cultural industry is one of the fastest growing industries and a mainstay as well. The leading position of the United States in various fields of the cultural industry has brought it great economic benefits and simultaneously demonstrated its cultural soft power with strong infiltration to the world. At present, several countries are aware of the role of cultural creativity in promoting the economy as well as the important role of competition of the cultural industry in the global competition, and thus increasingly focus on this industry.

China's cultural industry progressed from 1949. However, it did not play a critical role in the economic development then because it was confined to the planned economic system. After 1978, with the establishment of a socialist market-oriented economy system, cultural industry received more attention. In 2009, China's first professional plan for cultural industry C*ultural Industry Revitalization Plan* was examined and approved by the Executive Meeting of the State Council, marking the rise of the cultural industry as the national strategic industry. China's cultural industry has developed rapidly in recent years through promotion of various favorable policies. In 2014, the *Implementation Plan for Deepening Cultural System Reform* adopted at the meeting of the Leading Group of CPC Central Committee for Comprehensively Deepening the Reform and the *Implementation Opinions on Vigorously Supporting the Development of Small and Micro Cultural Enterprises* jointly issued by three ministries, namely the Ministry of Culture, the Ministry of Industry and Information Technology, and the Ministry of Finance, provided a strong policy guarantee for further deepening cultural system reform and energetically developing the industry, showing China's increased focus on the industry.

With improved economic conditions, the consumption pattern of residents has changed significantly, with a declining Gini coefficient, decreasing demand for material life, and increasing pursuit of spiritual culture. This conforms to Maslow's theory of demand hierarchy. When the basic physiological needs are met, people will pursue self-actualization needs at a higher level, and cultural industry satisfies the need for spiritual culture. Therefore, with improved economy and living standards, Chinese residents' demands for products and services related to the cultural industry will keep increasing. According to international experiences, when a country's per capita GDP is close to or above USD 5,000, it will experience a period of rapid growth in cultural consumption and gradual slowdown in growth of material consumption. According to data from the *2014 Statistics Bulletin on National Economic and Social Development* released by the National Bureau of Statistics of China, China's per capita GDP has reached USD 7,575 in 2014, partly indicating that China has entered a development stage with increasing cultural demand. In addition, China has a large population and a huge demand for cultural products and services, which also indicates that the cultural industry has huge potential for development in the Chinese market.

Since the reform and liberalization, China’s cultural industry has witnessed rapid development and transformation, involving constantly emerging innovations in various business models and an increasingly diverse cultural content. According to the *Research Report of China's Entertainment Industry in 2018*, four major factors have driven the rapid development of China’s cultural industry, namely the increase in per capita disposable income, the transition of consumption generation, the rapid development of mobile internet, and the strong support of industrial policies. In recent years, the market scale of China’s cultural industry has entered a stage of rapid growth, exceeding 1 trillion yuan in 2014. With China’s ever-evolving cultural industry, it will contribute additionally to the gross national product and play an increasingly important role in augmenting the proportion of the tertiary industry in the gross output value. In the context of the world economy entering the “post-financial crisis era” and China’s economy entering the “new normal” stage, development has shifted from emphasizing scale and speed to emphasizing on quality and structure, of which the level and form of industrial structure is paramount. From the perspective of long-term development and far-reaching significance, the fast growth of the cultural industry plays a key role in accelerating the adjustment of China’s industrial structure, which is primarily reflected in the following aspects:

First, the development of the cultural industry can quickly lead to a transformation of the industrial structure into a service-oriented one. Resources with cultural value can become production factors with economic value and be utilized in the production, exchange, distribution, and consumption. Therefore, the cultural industry itself constitutes an important part of the entire economic structure, directly creating wealth and change domestic the composition of GDP.

Second, the development of the cultural industry can lead to changing the employment structure to a service-oriented form. The cultural industry boasts the capability of widely absorbing various types of social labor. The higher the production efficiency of cultural industrialization, the higher the added value and economic benefits it creates. Furthermore, given the high returns, additional social investment will be attracted to establish more cultural enterprises, thus creating and increasing employment, and especially absorbing several brain workers.

Third, innovative cultural forms can improve the industrial structure. The cultural industry is characterized by the interaction between cultural producers, consumers, and production and consumption: The interaction between cultural producers will generate integration and penetration, shaping a new industrial association and new industries; the interaction between cultural consumers will generate new consumption hot spots and stimulate new industrial development; cultural production proactively creates new cultural products and services to meet the growing and updating market demand for consumption, which will lead to the emergence and development of new forms of business. The new forms of business will finally quickly occupy the emerging consumer market.

Fourth, the progress of the cultural industry can also promote the transformation of other industries. On the one hand, as culture and economy are increasingly integrated, culture has become an important element in the operation and development of other industries. Today culture rather than capital, land, or labor that dominates and plays a decisive role. Cultural industry is knowledge intensive and requires constant innovation. Its output serves both consumers and other producers. It can change the value creation chain of other industries, enhance the cultural and economic value of other products and industries, improve competitiveness, and render other industries more value-added and knowledgeable. On the other hand, given that the cultural industry demonstrates strong external economic and industrial correlation effect, developing cultural industries can further improve development and transformation of other industries. Economic and technological ties exist between cultural and other industries in production, technology, products, circulation, and consumption; hence, they permeate, influence, and interact with each other.

Currently, China's cultural industry has developed fairly well, and its role in promoting industrial adjustment and consumption has also emerged. Data revealed that the tertiary industry including the cultural industry is rapidly developing. According to the *Statistical Communiqué of China on the 2017 National Economic and Social Development*, China's annual GDP in 2017 reached 82,712.2 billion yuan, a year-on-year increase of 6.9%. Of this, the added value of the primary industry was 6,546.8 billion yuan, with a growth rate of 3.9%; that of the secondary industry was 33,462.3 billion yuan, with a growth rate of 6.1%; and that of the tertiary industry was 42,703.2 billion yuan, with a growth rate of 8.0%. The added value of the primary, secondary, and tertiary industry accounted for 7.9%, 40.5%, and 51.6% of GDP, respectively. The proportion of the tertiary industry in the national economy in China appears further increased, and it develops faster than the primary and the secondary industry. It plays a significant role in promoting the economy. From the industry-level perspective, the National Bureau of Statistics data in September 2017 showed that in 2016, the added value of China's cultural and related industries reached 3,078.5

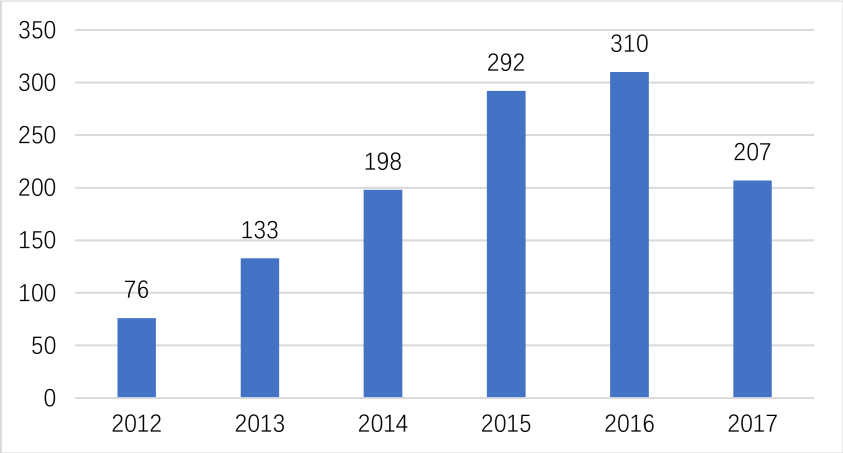
billion yuan, a year-on-year growth of 13.0%, and accounting for 4.14% of China's GDP, a year-on-year growth of 0.17%. According to the statistics of culture and related industries reported by the National Bureau of Statistics in January 2018, a survey of 55,000 enterprises above designated size in cultural and related industries in China revealed that the aforementioned enterprises achieved an operating income of 9,195 billion yuan in 2017, a year-on-year increase of 10.8%, thus maintaining a relatively fast growth rate of 3.3%. Promotion by the government and the increasing market demand appears to push China's cultural industry development. Meanwhile, the contribution of the cultural industry to China's working population is also increasing. In 2018, about 2.4 million people in China were engaged in the cultural industry. The cultural industry is envisaged as a pillar industry of the national economy by 2020. A popular belief in the industry is that to become a recognized pillar industry of the national economy, the added value of the industry must account for more than 5% of GDP. China's cultural industry has not reached this target yet, and the growth rate and development quality is being further enhanced.

China experienced extensive industrial restructuring during the "12th Five-Year Plan" period (2011–2015). A wave of M&As emerged in the capital market, in which the cultural industry rapidly developed. At this stage, M&As in cultural industry increased significantly. In addition to increased integration within the industry, some well-known internet as well as real estate companies began to implement cross-industry M&As of cultural industry firms. Therefore, several leading, highly reputed, large-scale, and high-performance cultural enterprises came into being. On entering the "13th Five-Year Plan" period (2016–2020), the Chinese government continued to release its policy dividend on the cultural industry. The "13th Five-Year" plan proposed that the cultural industry should promoted as the pillar industry of the national economy, which means that the proportion of cultural industry in GDP should reach more than 5% at the end of the "13th Five Year" plan or before 2020. The dividends from both policy and market continue to promote the cultural industry, and have become an important driver of industrial M&As.

China's cultural industry is believed to have entered the "era of M&As" since 2012 and began to flourish in 2013 and 2014 after the surge in the listing of cultural industry companies in 2010. Under the new economic normal conditions, there has been abundant investment in the cultural industry mainly through M&As. M&A mainly deals with interindustry integration, and cross-border integration is also active in forming new business models. From the perspective of quantity and scale, industry distribution and M&A logic, this trend of M&As reflects the cultural industry's pursuit to become larger and stronger by relying on the capital market. Loose policies, an increased number of main bodies, and the driving force of technology are the main factors leading to the development of cultural M&As and reorganization market. According to the statistics of CVSource Database, there were only 76 M&As in the cultural industry in 2012. M&As in cultural industry continued to grow in the following years, reaching 310 in 2016, as shown in Figure 1.[1]

[1] The data refer to M&A classified as "cultural media" according to the CV industry in the CVSource Database, covering media publishing, advertising, film and television, music, animation, culture and art, online video, media websites, artist brokers, and other industries.

Fig.1 Number of M & A in cultural industry



Source: CVSource Database

According to the data in the *2015 Report on M&As in Cultural Industry* released by China Economic Net, there were 159 M&As of cultural enterprises in 2014, valued at RMB 100 billion; in 2015, there were 166 M&As of cultural enterprises. The overall scale of M&As reached 149.904 billion yuan with the exception of 23 cases that did not disclose the amount of M&As, an increase of 50% over 2014.[2] The data show that the capital is focusing more on cultural industry targets, and the number and value of M&As are constantly rising. M&As promoted the transformation and integration of the cultural industry with other industries, driven by the rapid development of the cultural industry, and effectively improved the continuous deepening of the integration of the cultural industry, such that the Chinese cultural industry enters a new stage of development.

Through M&As, China's cultural industry has evolved from an original industrial form with content and creativity as its core to a composite industrial form

[2] The data here contain the details of mergers and acquisitions between new third board companies and unlisted companies. However, limited by the data, the empirical part of this study includes only listed company samples.

with integration as its main feature. The industrial field has been expanding horizontally, with new media products emerging continuously. Film and television media, game animation, education and training, mobile internet, new media, tourism, and outdoor industries are all involved. According to the statistics of the CVSource Database, the extent of M&As in the film and television industry, the game industry, and the tourism industry, respectively, ranked among the top three M&As in cultural industry in 2015. This trend of M&As in cultural industry is deemed powerful, involving various aspects and fields. It strongly impacts structural reshuffle on the current cultural industry in China and brings huge opportunity and challenge for the cultural industry.

The cultural industry has both economic and social attributes. Its main production factors are creative content and capital, featuring intangible assets, high added value, and high risk. The cultural industry is chosen as the research object because its distinctive structure makes the performance of M&A enterprises more unique than that of the other industries. This study mainly considers the following:

First, the valuation of intangible assets is much distinct from that of tangible assets. Intangible assets are the fruits of creative labor, and cost accounting can be undertaken during the formation of intangible assets. However, given that the value of intangible assets is generally characterized by weak correspondence, the valuation is obviously less accurate than that of tangible assets and the cost of intangible assets is therefore merely symbolic. The value composition of intangible assets also differs from that of ordinary commodities, in that it can be both appreciated and depreciated. In addition, China's intangible asset valuation is still facing several challenges, such as ambiguous evaluation objects and scope definition, lack of comprehensive ability of appraisers, imperfect evaluation laws and regulations, unsystematic management, and chaotic evaluation system.

Second, given that the products of the cultural industry have multiple forms of adaptation and can generate high added value, the progress of the entire content industry chain has been very popular in the market and cultural enterprises can access other subdivisions in the industry by relying on high-quality content. Given the powerful interactivity within the industry, a dynamic reticular ecological structure is formed, and the complex changes in the ecological structure before and after M&As will also further impact the M&A effect.

Third, M&As and reorganization are an effective means for enterprises to expand and enhance their competitiveness. For cultural enterprises, it is more of strategic significance to enhance core capabilities and improve the industrial chain. The cultural industry provides consumers with an experiential consumption, and its products have strong ideological attributes, which also determines that its products play the key role of supply and the value of overflow, showing its distinctiveness compared with other industries, and also in terms of the selection of M&A targets, payment methods, acquisition ratio, and target pricing. The value of cultural enterprises lies in content, which can be transformed into various product forms; therefore, content has emerged as the mainstream for cultural enterprises to create a pan-entertainment ecosystem. Cultural industry is an emerging industry vigorously supported by the Chinese government. The policy support and technology-driven motives have stimulated the rapid rise of M&As in China’s cultural industry. The growth in the scale of industrial M&As, however, is not necessarily accompanied by quality improvement. In the case of imminent market saturation, advancing M&As in violation of market rules may lead to bubble accumulation in the capital market. Besides, given the significance of intangible assets, once the M&A target faces operational issues, it will suffer greater losses than those brought by M&As in traditional industries. Therefore, the cultural industry is exposed to a high valuation risk. Furthermore, the cultural industry structure differs greatly from other industries because it has a high degree of product line differentiation and high market acumen, thus making it difficult for value chain coupling after the cultural industry merges with other industries. There is also great uncertainty on whether cross-industry M&As can stimulate corporate performance.

Overall, in the context of the economic and strategic significance of the cultural industry to the country and the frequent M&A transactions of cultural enterprises, it is an important topic to explore how to design the M&A scheme to improve the performance of companies in the cultural industry.

Research Significance

The research on M&As in cultural industry has important practical significance. As a strategic industry for China's economic development, cultural industry plays a supporting role in achieving the goal of China's strategic development. In addition, the cultural industry is a new sector. Regardless of the global financial crisis and the decline of the domestic and foreign economic development, China's cultural industry is growing rapidly, and there is a rising trend of M&As as well. Research on the performance of M&As in cultural industry benefits the analysis of the overall influence of M&As on the progress of cultural industry, helps in the resource integration in cultural industry, and guides the transformation of industrial structure.

In addition, owing to the special nature of the cultural industry, a reasonable valuation of the target enterprises is difficult, thus affecting the performance of M&A companies. The reasons are as follows: First, with the rapid rise of the "culture + technology" and "internet +," several companies, aiming at short-term stock concept speculation, have used the concept of hotspots for excessive M&As, resulting in the bubble accumulation in the cultural capital market and affecting companies' long-term performance. Second, dominated by intangible assets, the cultural industry features relatively unstable products and immature industries. Once the M&A target faces operational issues, the acquirer suffers greater losses; therefore, the cultural industry is exposed to a high valuation risk. Third, the cultural industry structure differs vastly from other industries, because it has a high degree of product line differentiation and difficulty in value chain coupling. The impact of cross-industry M&As on the industrial development path is worth exploring. All these factors make the research on the M&As of the cultural industry of great practical significance and value. In addition, the research on M&As in the cultural industry is also of academic significance. Despite the rapid development of China's cultural industry in recent years, as an emerging industry, it is characterized by a short development period, insufficient supervision and governance, and poor data availability. Despite the increasing academic attention on M&As in the cultural industry, China's research on cultural industry M&As remain relatively scarce. The studies are mainly based on qualitative analysis and lack rigorous quantitative analysis. The present study is an important supplement for the literature on M&As in the cultural industry. It can enrich the relatively mature M&A theory and contributes to deepen the understanding of M&As in the cultural industry at the academic level.

Research Method

Literature Research Method

For in-depth understanding of the development status and industry characteristics of China's cultural industry, this study reviews numerous development reports, industry and company research reports, statistical data, and literature on the current status and M&A activities of China's cultural industry. It also summarizes the current development and the characteristics of China's cultural industry. Based on the literature review at home and abroad and referring to research on M&A motivation and performance theories, this study analyzes the influence of M&A characteristics on its performance in the M&A activity, and examines the theoretical basis of the factors affecting the M&A performance of cultural enterprises in combination with the features and behavior characteristics unique to the cultural industry.

Empirical Research Method

This study empirically analyzes the M&A performance of listed companies in China's cultural industry.

Based on China's existing cultural industry, this study gathers the M&A data of the cultural industry in the A-share market from March 2010 to September 2016 from the Wind Database, and empirically analyzes the influence of M&As in cultural industry on the short-term and long-term abnormal returns of stocks and the factors affecting abnormal returns of stocks using the Fama–French 3-factor model and the CAPM model. In addition, an empirical analysis is made on the influence of M&As in cultural industry on the financial returns of enterprises using the propensity score matching and DID methods.

Literature Review

This study mainly focuses on the history of M&As in cultural industry in China and its influences on stock performance and financial performance; therefore, it is necessary to understand the impact of M&A activities on the corporate performance and briefly review the current achievements of M&As in the cultural industry.

Literature Review on M&A Activities of Enterprises

The influences of M&A activities on enterprise performance are explored from an empirical perspective, but the theoretical research results of M&A behavior are reviewed to confirm the analysis, mainly on the impact of corporate M&A behavior on the value of participating M&A enterprises, for whom the value is created through M&A behavior, and the reasons for M&As creating value. In case that the conclusions of previous empirical studies on M&A behavior are inconsistent owing to the differences in research premises, this study will also make a brief introduction. Literature review is from theoretical and empirical perspectives.

(1) Theoretical studies on M&A activities

Studies on corporate M&A behavior mainly focus on three aspects: whether M&A activities increase the value of the acquiring enterprise, who is the beneficiary of value creation through M&A, and the grounds for M&A to create value:

The first aspect focuses on whether M&A activities increase the value of the acquiring enterprise.

Stein (1997) believes that capital may be transferred from investment projects with low returns to those with higher returns based on the principle of winner-picking because of the large share of control right of enterprise managers. If there is a winner-picking effect in the process of M&As, the capital market within the enterprise will be fully leveraged, thus increasing the value of the acquiring enterprises continuously.

The second aspect considers the beneficiary of value creation through M&A.

Based on the analysis using a relevant theoretical model, Malatesta (1983) find that M&A might only increase the value of the target enterprise while it decreases in the case of M&A, mainly because this situation is relevant to the agency by agreement between the acquiring and the target enterprise. Salter and Weinhold (1978), as well as Montgomery (1987), analyzed 150 enterprises in M&As and the changes in revenue of such enterprises after the announcement of M&As. They find that M&A by the acquiring and the target enterprise leads to an abnormal return at the rate of 30% on average for the target enterprise while no significant abnormal return is visible for the acquiring enterprise. Roll (1986) and Glamour (1998) totalized shareholders' revenue of the acquiring and the target enterprise and finds that the shareholders' revenue of the target enterprise is significantly higher than that of the acquiring enterprise.

The third aspect is based on the grounds for M&A to create value.

Langetieg (1978) and Mitchell (2000) systematically analyzed the process for acquiring enterprise to improve its value with respect to routes, external condition, internal condition, and system guarantee. The study results find that the grounds for M&A to create value lie in the synergistic and the restructuring function of the M&A

process. Therefore, the study on the promotional function of M&A for increasing enterprise revenue emphasizes two viewpoints: (1) synergistic process and (2) restructuring and matching. Studies on synergistic process hold that the M&A effect is a dynamic and multidimensional process. The grounds for M&A to create value are shown in the result of a continuous study on relevant cases. Bowditch, Lewis, and Buono (1985) claim that the failure in creating value through M&A is a result of the difference between the acquiring and the target enterprise in operation management.

(2) Empirical studies on M&As of enterprises

The empirical research on M&As mainly focuses on M&A performance and the influencing factors. Owing to the difference in sample data and empirical tools, the conclusions of relevant empirical research are significantly different. Some studies find that M&As have a positive influence on the performance of combining enterprises. In contrast, others find that M&As have a negative or no influence on enterprise performance. In this study, a comprehensive literature review is made to compare different data and examine the influences of different research methods on results. The empirical analysis by event study on the performance of M&As in the cultural industry and the influencing factors is based on existing studies, further confirming the influence of M&As on corporate performance in the cultural industry. The Fama–French 3-factor model and the CAPM model are used for regression analysis to obtain abnormal returns.

1. M&As have a positive impact on company performance

Caves (1989) used the event study method to confirm the improvement in the revenue of 250 acquiring enterprises of different types and different scales in the United States following M&As. According to the study result, long-term cumulative average abnormal return (CAAR) of target enterprises is significantly increased by 20–30% on average within 1–4 years following M&As.

Using 467 M&A events in UK from 1984 to 1992 as samples, Gregory (1997) used OLS, IV, MLE, and MM methods to estimate the response of return from M&As to the market. The result shows that CAAR of the samples is significantly below zero (−11.74%) within two years of the M&A events. The result also shows that CAAR of the samples is significantly above zero (8.21%) within four years of the M&A events.

Fu Shenghua and Tan Xiangqiu (1998) selected 198 acquiring enterprises in Shanghai stock exchange market involved in M&As in 1997 as samples for study. Nine indicators, including main business profit margin, profit margin on net assets, and asset–liability ratio, were used for establishing a factorial analysis model and the enterprise performance after M&A was measured through factorial analysis. M&A performance of acquiring enterprises is found to increase significantly.

Chen Xinyuan and Zhang Tianyu (1999) used 58 acquiring enterprises in Shanghai stock exchange market involved in M&As in 1997 as samples of study to examine changes in CAAR within 20 days before and after the announcement of M&As. The descriptive statistical analysis shows that stock prices of the acquiring enterprises fluctuate significantly before and after the announcement of M&As, indicating the impact of M&As on the benefit for acquiring enterprises.

Feng Genfu and Wu Linjiang (2001) used 150 listed enterprises involved in M&As from 1994 to 1998 as samples of study and selected four indicators including net profit/total assets, main business income/total assets, profit margin on net assets, and returns per share for use in the factorial analysis method to observe the changes in M&A performance of the 150 enterprises from 1994 to 1998. The evaluation result shows that M&A performance of 134 enterprises is significantly improved within 2 years after M&As. Studies show that the effect on M&A performance is not significant in the long term. M&As only improve performance in the short term. The impact of various equity structures on enterprise performance after M&As is also examined. Itis found that the proportion of majority shareholder is significantly and positively correlated to M&A performance.

Li Shanmin and Chen Yugang (2002) used 349 enterprises in Shanghai stock exchange market and Shenzhen stock exchange market involved in M&As from 1999 to 2000 as samples of study. According to the study, financial indicators of the acquiring enterprises are improved in M&A process. However, the M&A-related wealth effect for target enterprises is insignificant. Enterprises with different equity structures have different M&A-related wealth effect. The M&A-related wealth effect on acquiring enterprise with higher rate of state-owned shares or corporation share is relatively high. Li Shanmin and Chen Yugang (2002) state that government acts have a significant impact on such situation of Chinese listed companies.

Zhang Xin (2003) selected 1,216 Chinese listed companies involved in M&As from 1993 to 2002 as samples for study and evaluated changes in M&A performance of these enterprises through event study and financial analysis. The results show that, in the process of M&As, performance of both the acquiring and the target enterprise is improved.

Li Xindan (2003) used 103 listed enterprises in Shanghai stock exchange market and Shenzhen stock exchange market involved in M&As as objects of study, adopted data envelopment analysis method to measure M&A performance of the 103 listed enterprises within three years before and after the M&As, and used paired data difference test method to examine whether there is any significant difference in M&A performance of the listed enterprises before and after the M&As. The study shows that M&A performance of the acquiring and the target enterprises is improved after the M&As. A comparison of enterprises with different equity structure shows that listed enterprises with higher state-owned equity often have negative M&A performance. Weight of state-owned equity is significantly and negatively correlated with M&A performance. The M&A performance of enterprises with higher weight of corporation shares grows significantly after the M&As.

Li Shanmin, Zhu Tao, et al. (2004) used indicators about M&A performance based on the relevant theoretical analysis of M&As and adopted comprehensive evaluation method, that is, analytic hierarchy process, to measure the M&A performance of 40 listed companies in Shanghai stock exchange market and Shenzhen stock exchange market that were involved in M&As from 1998 to 2002. The impact of matching mode for the acquiring and the target enterprise on their M&A performance was also examined on this basis. The study shows that M&A performance of the acquiring enterprises is not significantly improved while that of target enterprises tends to improve. The trend of “strong–weak” matching is found to be significant in the matching between the acquiring and the target enterprises. Li Shanmin and Zhu Tao (2004) highlights that the improvement in M&A performance of target enterprisesis the result of better operation ability and synergistic effect created after M&As.

2. M&As have a negative influence or have no influence on enterprise performance

Klein (2001) included 36 enterprises in UK that were involved in M&As from

1966 to 1974 as objects of the study. In an empirical study by Klein (2001), Tobin Q of each enterprise was used as the proxy variable of enterprise performance after M&A and the impact of financial leverage ratio, enterprise scale, industrial features, and other factors on enterprise performance after M&A were analyzed. The result of empirical study of Klein indicates that financial leverage ratio and industrial features of the enterprise have no significant impact of enterprise performance after M&As of enterprises, while enterprise scale has a significant impact.

Hong Xixi and Shen Yifeng (2001) conducted systematic analysis for the M&A event of Shenhua Industry with event study method. Abnormal return of acquiring enterprise on each of the eight announcement days was compared. The result of the comparison shows that M&As will not result in significant wealth effect for acquiring enterprises.

Bahcall et al. (2003) established a relevant dynamic optimization model to reveal that ineffective pricing in capital market is the major cause for the failure in increasing enterprises profitability in M&As. They used 250 American enterprises involved in M&As from 1978 to 2000 as samples of study to examine the impact of ineffective pricing in the market on M&A performance. In the empirical study, they used ratio of book value of equity to price (B/P) and ratio of residual-income value to price (V/P) as proxy variables of ineffective pricing. A relevant descriptive statistical analysis finds that B/P and V/P of the acquiring enterprise are lower than that of the target enterprise, indicating that the acquiring enterprise is significantly overestimated by the market. Estimation result obtained based on relevant static panel data model shows that ineffective pricing of either the acquiring or the target enterprise will suppress the short-term announcement effect resulting from the M&A process.

Ho and Sharma (2008) used 152 Canadian enterprises involved in M&As from 1999 to 2006 as samples of study. By comparing changes in financial indicators of the 152 enterprises within 6 years before and after M&As, they find that performance of the acquiring enterprises is degraded significantly to different level after the M&As. Chinese scholars have also conducted considerable empirical study on the impact of M&A on enterprise performance.

Literature Review Related to M&A in the Cultural Industry

Owing to the differences in the characteristics and attributes of various industries, the M&A performance of enterprises in different industries can vary significantly. Several studies exist on singular industries in extant literature, such as steel, gasoline, medicine, information technology, and manufacturing (Shen Weizhi, 2020; Hu Yaling, 2019; Yi Miaoqing, 2019; Wei Jia, 2019; Wang Xuan and Wang Rui, 2018; Fang Nan and Luo Min, 2018; Pang Jing, 2014; Chen Fuzhong and Chen Cheng, 2011). The research on the M&A performance in the cultural industry remains relatively scarce.

Rubak et al. (1983) studied M&A performance of some American cultural enterprises and conclude that diversified M&As will lead to positive wealth effect to shareholders. Baum et al. (2000) find that a large-scale cultural enterprise integrated by means of M&A and restructuring is helpful for expanding industrial chain and establishing leading enterprises in cultural industry based on synergistic effect. Riad et al. (2005) conclude in the study on the development of cultural enterprise system that M&As have an significant impact on the development of cultural enterprises, and the study on M&A system of cultural enterprises is considered a part of the study on the development of cultural enterprise system. Alaranta (2005) find in the study of

M&A event of international cultural enterprises that M&As of cultural enterprises in different organizational systems vary and that their success is closely related to the organizational structure of enterprises. Peltier (2007) empirically analyzed samples and concludes that M&As will not necessarily lead to economy of scale, economy of scope, or other synergistic effect and the relation between M&A and M&A performance needs further analysis.

Studies on M&As in the cultural industry started in 2009 in China when the cultural industry witnessed rapid growth. With the leapfrog development of China's cultural industry along with booming internet economy, the cultural industry has become more youthful, open, and mobile. At present, China's cultural industry covers a broad range, from literature, film and television, game, animation, music, to shows. Therefore, Chinese enterprises engaging in the cultural industry attempt to integrate these branches and consider it important for progress, which marks the surge in M&As in China's cultural industry.

Wang Qianhou (2009) studied the relation between economy of scale in cultural industry and M&As and restructuring of cultural enterprises, and highlights, based on the theories of economy of scale and scope, that competitiveness of cultural enterprises will be improved because of professional work division, scale effect of technological development, and incentive function of management and innovation through M&A and restructuring. Fan Zhou (2014) also states that M&A is an effective measure for cultural enterprises to enter a new field and an effective way to cope with the impact of new technologies on cultural industry. Zheng Ping et al. (2014) claim that policy support by China's capital markets for M&A activities and the rapid progress of the cultural industry establish a good foundation for progress of the cultural industry. Relevant data study finds that M&As of backdoor listed companies account for 4%, that of industrial integration account for 64%, and that of business transformation account for 32% of M&As in the cultural industry. This trend will continue for three reasons. First, the limitations of IPO mechanism lead to a tide of M&As, reorganization, and backdoor listing. Second, the cultural industry shows a trend of sustained boom. Third, technical progress and elimination of backward industries lead to business transformation and a surge of M&As. Wang Keming (2015) claims that listed companies are major targets in M&As in cultural industry and social capital is more active than state-owned capital and that a platform should be established to guide M&As in cultural industry from a strategic perspective and based on an economic system with mixed ownership for coping with a new wave of M&As in cultural industry. Yan Jia (2015) finds from a study on M&As effect of cultural enterprises that many factors impact the M&As of cultural enterprises. Based on the conditions in China, equity structure of stock-holding companies has a significant impact on M&As. Chen Zhengxian et al. (2016) highlight that China's cultural industry shows an obvious trend of socialization and mobility, with an ongoing surge of M&As. This trend is mainly seen because the main consumer group in the cultural industry comprises young people aged 20–30 years. Meanwhile, the fragmentation of mobile devices and the symbiosis of channels confirm that the horizontal and vertical M&A activities will bring enormous benefits. Chen Zhengxian et al. (2017) also point out that regulatory support will increase M&As in the cultural industry. The scarcity of cultural creativity determines its dispersion in nature. Therefore, in the cultural field, the emphasis is on industrial chain. Considering all these factors, it is a rational choice to conduct M&A activities, whether to supplement the industrial chain or to expand market shares.

Brief Summary of Literature Review

Based on these studies, in China, M&A activities by listed companies appear to have a positive effect on their long-term performance, but it may also negatively affect their performance, which depends on whether M&As can be a success and achieve better results, given that "one plus one is greater than two."

Considering the rapid development in China's ongoing economic restructuring and upgrading, the cultural industry appears to plays an important role in the economic development and people's daily life. However, its development status is still insufficient to meet China's economic volume, and there is no truly leading company like Disney that can set a trend and play a full part in the industry. Chinese cultural industry is still growing; the leading companies keep expanding their market size through M&As. However, the cultural industry has its own characteristics. For example, the accounting of enterprise value is perhaps based on the enterprise's inventory films and TV works even their contracted performers, making it a challenge for enterprises to offer a reasonable price for M&A and the integration faces more complicated personnel integration and other works. In the short run, does the market recognize current M&A wave in the cultural industry? In the long run, can M&As in the cultural industry really uplift performance of relevant companies? It has practical significance and favorable for further understanding of M&As in China's cultural industry by studying the two issues. However, there are limited studies on this issue; Therefore, this study considers listed companies as an example to conduct tentative research and exploration of the aforementioned issues.

Paper Structure

This study analyzes the M&A performance of Chinese listed enterprises in cultural industry. First, it analyzes the research background, research significance, relevant literature and relevant theories of M&A in cultural industry, and then introduces the current situation of M&As in China's cultural industry. It also analyzes the main types, features, and causes of the new wave of M&As in cultural industry, and finally analyzes the impacts of M&As in cultural industry on abnormal stock returns and financial returns through empirical approaches such as event study. This study consists of four chapters, which are arranged as follows:

Chapter 1 presented the introduction. It introduced the research background, research methods, research significance, and literature review.

Chapter 2 introduces the current situation of M&As in China's cultural industry and analyzes the main types and features of and the reasons behind this new wave of M&As.

Chapter 3 presents the empirical analysis. Using event study, the Fama–French 3-factor model, and the CAPM model, this empirical study examines the impacts of M&As in cultural industry on the long-term and short-term abnormal returns of listed companies. An empirical analysis on the impacts of M&As in cultural industry on financial performance is also made using propensity score matching and DID methods, and the M&A performance from the perspectives including stock returns and financial returns is measured.

Chapter 4 describes the conclusions and suggestions for policy making.

CHAPTER 2
THE CURRENT SITUATION OF A NEW WAVE OF M&As IN CHINA'S CULTURAL INDUSTRY

Analysis on M&A Types in China's Cultural Industry

Existing M&A theories usually divide M&As into two categories based on the purposes: integrated M&As and diversified M&As. Among them, integrated M&As include horizontally integrated M&As and vertically integrated M&As. However, because of the diversified purposes of M&As in China's cultural industry, the traditional classification method cannot fully explain the existing M&A events. The analysis of the types of M&As in China's cultural industry, the characteristics of the M&A wave, and the main reasons for the M&A wave will help further the research hypothesis and provide a realistic basis for this empirical study.

The new wave of M&As in China's cultural industry has become a significant development of the new normal of the cultural economy. According to the current situation of M&As in cultural industry, M&As in China's cultural industry is categorized into the following four types:

Industrial M&As for Creating Leading Enterprises

Industrial M&As are the internal M&As in cultural industry expands the industrial chain and builds a cultural empire. As global competition intensifies, the competition in industrial chain has substituted that between enterprises and between enterprise groups. A well-established industrial chain may lower the risks associated with business operation and reduce transaction costs. With a defined strategic layout, several cultural companies attempt to raise their positions in the industry through

M&As, to build an industrial leading company based on the synergistic effect, and to occupy good market position. Most enterprises engaged in M&As are leaders in cultural industry.

Platform M&As for Building Ecosphere

Platform M&As use the internet as a platform to create a cultural industry ecosphere. A platform-based ecosphere is a system formed through organic synergy of all derivative business modules under the promotion of core business with a multilateral cooperative and win–win mechanism. Based on symbiosis theory, business modules in an ecosphere rely on each other and form a community. These business modules cooperate with each other to reduce transaction costs and frictions, mitigate negative effect arising from technology spillover, and improve operation efficiency of enterprises. For establishing a platform ecosphere, it is necessary to build a core platform and perfect the ecosphere through M&A with the support of the core platform. With the progress of internet technology, the function of internet as a platform is increasingly significant. Several internet cultural enterprises choose to establish a self-owned ecosphere with internet as a platform. For example, the three giants in internet industry, that is, Baidu, Alibaba, and Tencent, are devoted to establishing a cultural ecosphere relying on the dominant position of internet and through M&As.

Cross-industry M&As for Traditional Industry Transformation

Cross-industry M&As are undertaken by companies engaged in traditional industries and are foraying into cultural industry by acquiring cultural companies.

Based on the industrial life cycle theory, the life cycle of an industry is usually categorized into three stages (emerging, mature, and declining). Enterprises in the declining stage must seek to develop by transformation. With profitability of the main business declining gradually, several traditional manufacturing enterprises in China still have surplus free cash flow but lack opportunities of investment. Under the impact of internet, traditional marketing mode is overturned and is no longer suitable for “internet-based” development, which worsens the situation of traditional enterprises. However, the cultural industry, a popular one with favorable policy support, is rapidly growing. Characterized by high growth potential and high profitability, the cultural industry attracts large flows of capitals. Under the push–pull of the original industry and the cultural industry, several traditional manufacturing enterprises have forayed into cultural industry through M&As.

Reverse M&As for Backdoor Listing

Reverse M&As refer to the curve M&As where companies in the cultural industry attempt to circumvent the IPO dilemma through backdoor listing. Through listing, enterprises not only raise funds but also improve recognition. However, owing to previous strict approval procedures, it is time-consuming for enterprises to be listed in the market, and enterprises must meet stringent requirements, thus listing is challenging for many enterprises. However, the challenges in IPO will be eliminated via backdoor listing through M&A. Moreover, the development of an industry has a golden period, which typically means great support from the central and local governments, lower cost of capital from both equity and loan markets, more investment opportunities, etc. Missing of the golden period means loss of opportunities. Under the guidance of the market and support of policies, cultural industry has entered the golden period for development. Many enterprises hope to seize the opportunities of rapid development by listing. Therefore, some cultural enterprises try to realize the purpose of backdoor listing through M&A. Several typical cases of backdoor listing in capital market exist, such as Changcheng Movie and Television through Hongbao Group, Focus Media through Hedy, and Giant Network through Century Cruise.

Analysis on the Features of M&As in China's Cultural Industry

Compared with ordinary industries, M&As in cultural industry have unique features. For example, targets of M&As are gathered industrially and regionally; they widely adopt the "Internet Plus" mode; most targets have high premiums; and valuation adjustment mechanism and commitment on performance are always offered in the process of M&A transaction. Major features are shown as follows:

Social Capital is More Active

Compared with M&As in cultural industry before and after 2010, the new surge in M&As in cultural industry is hindered by previous institutional mechanisms. Most state-owned cultural enterprises do not actively participate in M&As and few efforts are made to implement M&As. Moreover, M&As of state-owned cultural enterprises mainly cover the same type of enterprises, and few efforts are made to intensify M&A. According to statistics, only 10% of enterprises involved in the 96 relatively influential M&A events in cultural industry in 2012 were state-owned cultural enterprises. Private capital in growth enterprise market was dominant in listed enterprises involved in M&A events in 2013 because state-owned cultural enterprises are slow in institutional reform, have a rigid institutional mechanism, and must consider several factors in making decisions on M&As. Faced with fresh development in cultural industry, some state-owned cultural enterprises are not free in idea, put more emphasis on endogenous development as earlier, and lack motivation and pressure for expansion. Therefore, this study examines the enterprise is state-owned or not should be considered as a major variable in empirical study on the factors for M&A performance.

Listed Companies are the Main Force to Drive M&As

Listed companies including those listed in main-board and growth enterprise markets and also domestic enterprises listed in HKEX and NYSE, are the pioneers and driving force of M&As in the cultural industry in the past few years. In possession of abundant financial resources, these listed companies are able to afford huge M&As. M&A events of large scale and social influence in cultural industry are initiated by these listed companies. Meanwhile, the surge in M&As has unique features, in that the existing listed enterprises in cultural industry implement M&As in succession and those in traditional industries (such as agriculture and heavy industry) also foray into cultural industry through M&As. As reported by media, 18 listed enterprises were engaged in M&As in cultural and entertainment industry in the first six months of 2014. Among the 18 enterprises, only 6 were engaged in cultural industry (including New Culture, Huace Group, and Ourpalm). The remaining 12 were engaged in industries such as heavy industry, agriculture, food manufacturing, information technology, new material, and trade. This indicates an obvious trend that a huge amount external capital is pouring into the cultural industry. Therefore, this study considers listed companies for study on M&As of both companies engaged and not engaged in cultural industry.

Value Chain Expansion and Perfection is the Main Purpose

M&As of cultural enterprises are designed to expand the value chain, which is represented by the perfection of the industrial chain. Therefore, most market actors both inside and outside the industry strive to expand the existing industrial chain or cover the deficiencies of industrial chain through M&As, thus integrating and perfecting their enterprise value chains. Driven by this strategic purpose, the fresh surge in M&As in cultural industry has unique features, in that most M&A activities are conducted in cross-industries and ownership systems. In the context of and expectation for dramatically loosened cultural and economic policies, and by the support of rapidly developing modern information technologies, most cultural enterprises focus on expanding and extending their enterprise value chains. Industries or ownership systems of enterprises are no longer unconquerable obstacles in the way of M&A. Although the new round of M&A activities seems to be disordered, these activities are in fact uniquely conducted. Therefore, this study, in the subsequent empirical analysis, focuses on the impact of cross-industry M&As on M&A performance and the impact of ownership of state-owned enterprises on M&A performance.

Traditional Culture is Shifting to Emerging Culture

In present day, traditional cultural enterprises have abundant capitals and are faced with challenges posed by industry downturn. Emerging cultural industries such as cartoons, games, mobile games, and cultural and creative industry are at the initial development stage. However, SMEs are major players in these industries, which are always challenged by capital shortage. In the new round of M&As in the cultural industry, emerging cultural enterprises are major targets of M&As. Traditional cultural enterprises with sufficient funds are most eager to acquire emerging cultural enterprises because they are in urgent need of transformation. Taking newspaper industry as an example, more and more industry groups adopt diversified development strategies to resist industrial risks owing to poor performance. For example, Zhejiang Daily Media acquired Hangzhou Bianfeng and Shanghai Haofang mainly to improve the user structure of Zhejiang Daily Media and augmenting the growth in the number of users of paper media. Before M&A, the monthly average number of active users of Hangzhou Bianfeng and Shanghai Haofang was nearly 20 million in 2011, with a monthly average increase of more than 3 million new users. The two companies had nearly 600 types of products. The famous online game "Sanguosha" was the most competitive product of Bianfeng series. Zhejiang Daily Media acquired Bianfeng and Haofang to collect and analyze big data of game platforms of the two companies. Zhejiang Daily Media reformed and integrated edit capability of the traditional media and developed new content distribution platforms (including Zhejiang Daily Media APP and mobile internet products such as content delivery platforms of Zhejiang Daily Media) based on the reading and listening habits and the product utilization trends of new media users. Therefore, qualitative changes in business income structure of Zhejiang Daily Media may occur. M&As by acquirers that are engaged in cultural industry and M&As of targets that are engaged in cultural industry are analyzed in this study.

“Culture + Science & Technology” is the Focus

Culture is the primitive advantage of the cultural industry. In the internet information age, culture is further developed and is value-added effect is fully leveraged driven by science and technology. This is an important feature of the fresh surge of M&As in cultural industry: Noncultural enterprises target “culture,” while cultural enterprises emphasize “science and technology.” In 2014, M&A transactions initiated by Phoenix Publishing & Media and Time Publishing interpreted the M&A feature of “culture + science and technology” of the cultural industry. In June 2014, Phoenix Publishing & Media reached a cooperation framework agreement with relevant institutions on the investment in proton and heavy ion technology hospital. Phoenix Publishing & Media provided the fund, Nanjing Municipal Government provided the land, and Jiangsu Cancer Hospital provided medical resources and introduced international advanced technologies and equipment for the project. The preparatory work of the project was smooth. However, Time Publishing published the information about cooperation with Tianyuan Dike. As agreed, Tianyuan Dike provided important technical support for “Timeface” digital platform of Time Publishing. The two companies integrated digital resources and comprehensively cooperated with respect to big data excavation, semantic analysis, search optimization, among others. Previously, Time Publishing has announced the execution of Strategic Cooperation Framework Agreement with Jianghuai Automobile. Both parties used the “Timeface,” APP, micro-blog, Wechat, Microvideo, and other new media platforms to accelerate the interactive development and marketing of cultural industry and automobile industry through OTO mode.

Analysis on Major Drivers of M&A Tide in Cultural Industry

The new tide of M&As in cultural industry is by no means accidental. It marks a rising tide of investment in industrial economy and capital market, which is driven by the shift in economic development mode, economic restructuring, and multiple economic factors in the post-financial-crisis era. For better understanding and proper response, it is necessary to make in-depth analysis and derive knowledge about the drivers of M&A tide in cultural industry. This study summarizes the following drivers:

Promote the Adjustment of Industrial Structure for the Purpose of Capital Operation

The new wave of M&As in the cultural industry was a result of frequent capital operations by companies inside and outside the industry as capital operations become an endogenous driving force for enterprise expansion. As an important method of capital operation, M&As can derive several benefits, such as alleviating the pressures of competition, helping enterprises eliminate competitors and enhance their competitiveness, and enabling them to generate new competitive advantages; expanding the scale of enterprises and enabling enterprises to earn the profits of scale economy; reducing transaction costs and making transactions that originally must be completed through the market become enterprise’s internal behaviors, thereby allowing the enterprise to realize lower costs than market transactions; enabling the enterprise to achieve the low valuation value of the target enterprise in terms of stock value, profit potential, market valuation, etc., in order to improve its own enterprise value and financial situation. With the growing maturity and constant development of China's capital market, capital operation has gradually become a conventional mechanism and an endogenous driving force for market players to seek development. With the increasing marketization of China's cultural industry, M&A is becoming a feasible method for cultural enterprises to realize the connection between industry and capital. However, this wave of M&As of cultural industry is so fierce that it perhaps relates to the management's pursuit of private interests and the blind follow-up of investors, in addition to meeting the needs of development and strategic transformation of cultural enterprises. M&As for the purpose of capital operation is under suspicion of speculation. In case the stock price is pushed up for short-term personal gain, it may have a negative impact on the enterprises' performance.

In addition, the China's capital market is currently well structured, and several listed companies hold large amounts of over-raised and idle funds. According to statistics from the Wind Database, among China's 355 GEM companies, 350 have reached the expected target of initial fundraising; among which nearly 83 companies have raised more than 500 million yuan each, and 23 listed companies have raised more than 1 billion yuan each. With a strong desire to expand, these enterprises can easily succeed as long as there is an appropriate target. In addition to the demand for rich spiritual and cultural life spontaneously generated by the masses on improvement of material living standards, as well as the strong national policy support for the cultural industry, another important reason is that traditional industries are in urgent need of transformation because of their own sluggishness and pessimism about development prospects. Progress of cultural industries not only conforms to the policy guidance of economic transformation, but also better optimizes the existing industrial structure, hence favored by various funds in the capital market.

Global financial crisis gave birth to a new industrial revolution and China accelerated its shift in an economic development mode. Under such circumstance, the industrial capital leads to industrial restructuring and takes the initiative to favor the cultural industry, giving rise to the M&A wave in the cultural industry. Following the financial crisis, several countries become aware of the need for the new industry revolution. After rapid economic development in the past 30 years, China also understood the key meaning of economic development mode transform on the sustainable development of Chinese economy. Under the circumstance, China faced several problems of selecting industrial development orientation caused by economic structure adjustment, and industrial transfer and employment pressure resulting from the transformation of economic development mode. Under the guidance of government and market selection, investment of part of the industrial capital into cultural industry became a popular method of industrial adjustment, which was significant at the macroscopic level.

Supporting Policies Release Social Capitals

The new surge of M&As in cultural industry was a result of effective stimulation of enthusiasm of social capital for investing in cultural industry in the context of accelerated cultural system reform and increased cultural consumption stimulated by the relaxed policies for cultural industry.

With more mature reform conditions and because of the need for economic and social development, China accelerated the cultural system reform centering on the reform of production, management system, and mechanism. Marked by the convention of the Sixth Plenary Session of the 17th CPC Central Committee, polices on cultural economy in China are liberalized, which provides an extensive policy space for the industrialized development of culture. The report at the 16th Party Congress in 2002 proposed to “Develop cultural undertakings and industry; continue to deepen cultural restructuring,” distinguishing the concept of cultural industries from cultural undertakings for the first time. In July 2009, the State Council held an executive meeting, deliberated and adopted China’s first special plan, *Plan on Reinvigoration of the Cultural Industry*, marking the rise of the cultural industry as China’s strategic industry. In March 2011, the Central Committee of the Communist Party of China issued the *Outline of the 12th Five-Year Plan for the National Economic and Social Development of the People’s Republic of China*, proposing that “It is necessary to make cultural industry a pillar industry of the national economy and increase the overall strength and competitiveness of the cultural sector,” showing the country’s decision and confidence in promoting the cultural industry once again. Subsequently, the report of the Eighteenth National Congress of the Communist Party of China in November 2012 and the Outline of the 13th Five-Year Plan for the National Economic and Social Development of the People’s Republic of China in 2016 both set goals for the development of the cultural industry: We will significantly enhance the soft power by 2020, and make cultural industry a pillar industry of the national economy. In April 2017, the Cultural Industry Development Plan of Ministry of Culture during the Thirteenth Five-Year Plan clearly stated the overall requirements, main tasks, key industries, and safeguards for the development of the cultural industry. On April 2, 2018, the Classification of Culture and Related Industries (2018) was revised again on the basis of the original division, further strengthening the new cultural pattern emerging in the internet era and optimizing the development environment of the cultural industry. The need to reform the cultural system and the new development of the cultural industry has been further met. On September 20, 2018, the State Council released *Several Opinions of the CPC Central Committee and the State Council on Improving and Promoting the Consumption System and Mechanism to Further Stimulate the Consumption Potentiality of Residents* (hereinafter referred to as "Opinions"), clearly indicating that there are efforts to deepen the reform of film distribution and projection mechanism, promote the emerging digital content industries such as digital publishing, and increase the richness of digital content supply. On October 11, 2018, the State Council designated and issued the *Implementation Plan for Improving and Promoting the Consumption System and Mechanism (2018–2020)* in accordance with the Opinions, indicating implementation of consumption in the cultural field and further easing market access in the field of cultural consumption, which favors promotion of consumption upgrade in the cultural field. Under the national strategic guidelines, localities and governments have also formulated relevant preferential and protection policies for various fields of the cultural industry and provided comprehensive protection of intellectual property in terms of laws and regulations. The demand for cultural consumption accumulated for years implies great market scale and potential. Better environment is provided for the access to cultural market. Social capital is allowed to flow into cultural industry based on relevant policies and market conditions. For social capital awaiting opportunities since long, this is like "seasonable rain falling after a long drought." This is an important reason at policy and system level.

Information Technology Sees Rapid Development

The new surge of M&As in cultural industry is the result of capital deployment for economic transform in the context of changing information technologies and with traditional cultural industries targeting emerging cultural industries. Science and technology are preconditions for promoting the leap-forward development of industrial economy. In the era of internet and mobile connection, information technologies encourage the booming of cultural industry. Relying on modern information dissemination technology, several emerging cultural industries emerge in rapid succession. The powerful vitality of these industries lays emphasis on traditional cultural industries. Traditional cultural industries with abundant capital seek to transform and develop via M&As targeting emerging cultural industries. This is an important underlying reason.

Integrated Industrial Development is Encouraged

In the context of industrial fusion, cultural and relevant industries are developed interactively, and the added value and spillover effect of cultural industry is increasingly recognized by the market, thus giving rise to the M&A wave. With improved aggregated economic development, spillover effect of the cultural industry in the national economic system is increasingly important. Cultural industry needs to merge with relevant industries in development. Other industries are also keen to increase added value based on culture. The *Several Opinions of the State Council on Further Promoting the Integrated Development with Relevant Industries of Cultural Creativity and Design Services* issued in March 2014 fully reflects this in line with the aforementioned requirements. In this context, traditional industries are not the only ones to acquire cultural assets and invest in cultural industry. Internet giant such as Alibaba is also active in improving the allocation of cultural assets. Therefore, cultural and relevant industries are targeted for capital investment.

Summary

To sum up, M&As in China's cultural industry mainly include industrial M&As for building leading enterprises, platform M&As for building a cultural industry ecosystem, cross-industry M&As for traditional industries for the purpose of transformation, and M&As for circumventing the IPO dilemma through backdoor listing. In these M&As, compared with state-owned capital, social private capital is more active, and several listed companies are involved. In the context of the rise of "culture + technology" and industrial restructuring, the traditional culture is transforming to new. The combination of these characteristics complicates the impact of M&As in the cultural industry on the actual value of companies. Therefore, this is the focus of further empirical analysis in this study, which explores the impact of M&As on corporate performance in the cultural industry from both short- and long-term perspectives. Meanwhile, it also explores issues such as cross-industry M&As and the factors affecting the abnormal returns of stocks.

CHAPTER 3
EMPIRICAL ANALYSIS ON M&As IN CULTURAL INDUSTRY

Data Description

Data on M&As of A-share listed companies in cultural industry are obtained from Wind Database; of which, M&A targets are companies engaged in cultural industry, and acquirers may or may not be engaged in the cultural industry. From March 2010 to September 2016, 124 M&A events occurred, including 78 M&A events initiated by companies engaged in cultural industry and 46 M&A events by those not engaged in cultural industry. The descriptive statistics of M&A events and amounts are shown in Table 1.

Table 1. Descriptive statistics of M&As and transaction amount

Type	Number of M&A Events	Average of Transaction Value	Standard Deviation	Maximum Value	Minimum Value
M&As initiated by companies engaged in cultural industry	78	43664.67	67598.07	266000	25.5
M&As initiated by companies not engaged in cultural industry	46	37705.56	51160.62	291200	390
All	124	41454.03	61858.89	291200	25.5

Note: Winsorzie at the 1^{st} and 99^{th} percentiles
Transaction amount: in RMB 10,000

Table 1 shows that the total transaction amount of M&As in the cultural industry is nearly RMB 400 million. The average transaction amount of M&As generated by acquirers who are engaged in cultural industry is slightly higher than that of those who are not engaged in cultural industry.

The empirical analysis on the impacts of M&As on company performance shows that the samples are not categorized into companies engaged or not engaged in cultural industry because of the small sample size and the following result proved that cross-industry M&As have no significant impact on abnormal stock returns.

Referring to studies by Zhou Yonghua et al. (2018), Zhou Tao (2007), and Hu Yubo (2017) on M&A performance of Chinese enterprises, this study controls variables of asset–liabilities ratio, return on assets (ROA), and company size as well as others of companies in the following empirical analysis. The definitions and statistical descriptions of relevant variables are shown in Table 2 and Table 3, respectively.

Table 2. Variable Definitions

Variable	Definition
Leverage	Asset–liabilities ratio: Total liabilities divided by total assets of the company
ROA	Return on assets: Net profit divided by total assets of the company
ROE	Return on equity: Net profit divided by net assets of the company
Size	Company size: By taking the logarithm of the company's market value
Tobin Q	Tobin's Q Ratio: The company's market value divided by ending total assets
Cashr	Cash–assets ratio: The proportion of cash to total assets of the company
Ifstate	State-owned enterprise or not: If the listed company is a state-owned one, 1; otherwise, 0

Table 3. Variable Summary Statistics

Variable	Quantity	Mean	Standard Difference	p50	p25	p75
leverage	24204	0.458	0.213	0.459	0.285	0.626
ROA	24204	0.0380	0.0430	0.0350	0.0120	0.0640
Size	24204	22.29	1.008	22.24	21.54	22.95
Tobin Q	24204	2.140	1.698	1.608	0.860	2.877
Cashr	23992	0.558	0.212	0.572	0.399	0.729
Ifstate	24204	0.468	0.499	0	0	1

Table 3 shows that the sample companies have the average leverage ratio of 45.8% and ROA of about 3.8%, and that state-owned enterprises account for about 46%.

M&A performance refers to the performance of listed companies, namely acquirers. For performance measurement, event study is conducted with the Fama–French 3-factor model, and abnormal stock returns are used to measure market response to M&As. Then, propensity score matching and DID methods are applied and financial performance is used to measure the real impact of M&As on company performance.

Hypotheses

Based on the analysis of the features and origin of Chinese cultural industry and the earlier literature review, this study proposes two hypotheses to measure M&A performance from two aspects of stock's abnormal return and financial returns of companies, thus to verify the hypotheses through empirical analysis.

Based on the studies by Cave (1989), Feng Fugen and Wu Linjiang (2001), Li Shanmin and Zhu Tao (2004), this study analyzes the impact of M&A on the actual value of companies from long-term and short-term perspectives and holds that the market overreacts to M&A behavior in the short run, but will return to rationality gradually in the long run, as such a behavior will not improve the actual value of the listed companies. Therefore, hypothesis 1 is proposed:

Hypothesis 1: M&As in the cultural industry can uplift stock's abnormal return in the short run, but the abnormal return will disappear gradually in the long run.

Based on the analysis of the industrial culture by Ruback et al. (1983), Peltier et al. (2007), Yan Jia (2015), and Chen Zhengxian et al. (2016), this study suggests that, compared with the other industries, companies in the cultural industry are characterized by flexible business mode, intangible assets, and high risk, which will lead to poor synergy and integration after M&As, namely self-characteristics of the cultural industry will decrease the impact of M&As on the financial return and might not affect their financial return. Therefore, hypothesis 2 is proposed:

Hypothesis 2: M&As in the cultural industry cannot increase financial return of listed companies

Impact of M&As in Cultural Industry on Company's Abnormal Stock Returns

Event study method is used to analyze abnormal stock returns from M&As in the cultural industry. Referring to studies by Sorescu and Subrahmanyam (2006) and Chemmanur (2015), the Fama–French 3-factor model is used to estimate a stock's cumulative abnormal return.

The Fama–French 3-factor model was proposed by Fama and French in 1993 to explain cross-sectional stock returns. The model claims that the abnormal rate of return of a portfolio (including single stock) can be interpreted by its exposure to three factors: market portfolio $R_{mt} - R_{ft}$, size factor SMB_t, and book-to-market ratio factor HML_t. The model formula is as follows:

$$R_{it} = R_{ft} + \beta_i(R_{mt} - R_{ft}) + s_i \times SMB_t + h_i \times HML_t + \alpha_{it} + \varepsilon_{it}$$

where R_{ft} indicates the risk-free rate of return on time t; R_{mt} is the market prtfolio's return on time t; R_{it} is the rate of return of asset *i* at the time *t*; $R_{mt} - R_{ft}$ is the market risk premium, SMB_t is the pro forma rate of return on the portfolio of the market value factor at time t, HML_t is the pro forma rate of return on the book-to-market factor at time *t*.

Abnormal return (AR) is

$$AR_{it} = R_{it} - R_{ft}$$

Cumulative abnormal return (CAR) is

$$CAR_i[-\mathrm{n}, \mathrm{m}] = \sum_{t=-n}^{t=m} AR_{it}$$

It should be noted that the M&A behavior is initiated by the active acquirer who has taken the synergy effect of the M&A on itself into full account, the integration and management after the M&A are also led by the active acquirer, and most of the acquired companies are non-listed companies, so the CAR is for the active acquirer. In addition, if an enterprise experiences multiple M&A events, the first M&A event in the year will be used as the sample. Other M&A events may be affected by the first one. The window period of 120 days calculated from the day that is 150 days before the M&A announcement day to the day that is 30 days before the M&A announcement day is used to estimate the abnormal returns, with the Fama–French 3-factor model and the CAPM model as the benchmark models, respectively. The impact of M&A event on company's abnormal stock returns is divided into long-term and short-term impacts. Two models are used to ensure the robustness of results.

Empirical Results of the Impacts of M&As on Short-Term Abnormal Stock Returns

First, this study runs a regression test on short-term abnormal stock returns of listed cultural companies that experienced M&A with the Fama–French 3-factor model. Tables 4 and 5 show the estimates of abnormal returns from M&As calculated using the Fama–French 3-factor model. In Table 4, 0 represents the announcement date of the M&A event, as the announcement date is the earliest time when investors are informed of the M&A. In China, it generally takes a short time from the announcement to the completion of the M&A. As seen in the samples of this paper, it takes 1.5 months on average to complete the M&A after announcement. −2 means that the abnormal return is calculated from the day that is 2 days before the M&A announcement day. Estimates in columns 1–7 represent short-term cumulative abnormal returns from day −2 to day −1, day −2 to day 0, day −2 to day 1, day −2 to day 2, day −2 to day 3, day −2 to day 5 and day −2 to day 10.

Similarly, −3 in Table 5 means that the abnormal return is calculated from the day that is 3 days before the M&A announcement day. Estimates in column 1−8 represent short-term cumulative abnormal returns from day −3 to day −2, day −3 to day −1, day −3 to day 0, day −3 to day 1, day −3 to day 2, day −3 to day 3, day −3 to day 5 and day −3 to day 10. Estimates in Table 5 are used for robustness test on estimates in Table 4.

Table 4. Fama–French 3-factor model (−2)

	Event_Window						
	[−2,−1]	[−2,0]	[−2,1]	[−2,2]	[−2,3]	[−2,5]	[−2,10]
CAR	0.0072*	0.0228***	0.0471***	0.0606***	0.0700***	0.0634***	0.0727***
T	(1.90)	(3.02)	(4.11)	(4.38)	(4.12)	(3.19)	(3.05)
N	71	71	71	71	71	71	71

*** 1% ** 5% * 10%

Table 5. Fama–French 3-factor model (−3)

	(1) [−3,−2] CAR_date1	(2) [−3,−1] CAR_date1	(3) [−3,0] CAR_date1	(4) [−3,1] CAR_date1	(5) [−3,2] CAR_date1	(6) [−3,3] CAR_date1	(7) [−3,5] CAR_date1	(8) [−3,10] CAR_date1
_cons	−0.0016	0.0056	0.0212**	0.0455***	0.0589***	0.0684***	0.0618***	0.0710***
	(−0.38)	(1.01)	(2.43)	(3.69)	(4.00)	(3.87)	(3.02)	(2.92)
N	71	71	71	71	71	71	71	71

*** 1% ** 5% * 10%

According to regression results in Tables 4 and 5, the acquirer's abnormal return in window period before M&A is insignificant and the value is relatively low, while the acquirer's abnormal return in window period after M&A is significant and subsequently the abnormal return increases, indicating that M&A in cultural industry helps listed cultural companies to gain more short-term cumulative abnormal returns.[3]

[3] To ensure the robustness of these test results, we also used CAPM model to measure the abnormal returns before and after the M&A, and the results remained robust. In view of space limitations, we will not show them here. In this study, the CAPM model is used to test the robustness of abnormal returns and the results remain stable and will not be displayed either.

Fig.2 Short-term cumulative abnormal returns before and after M&A

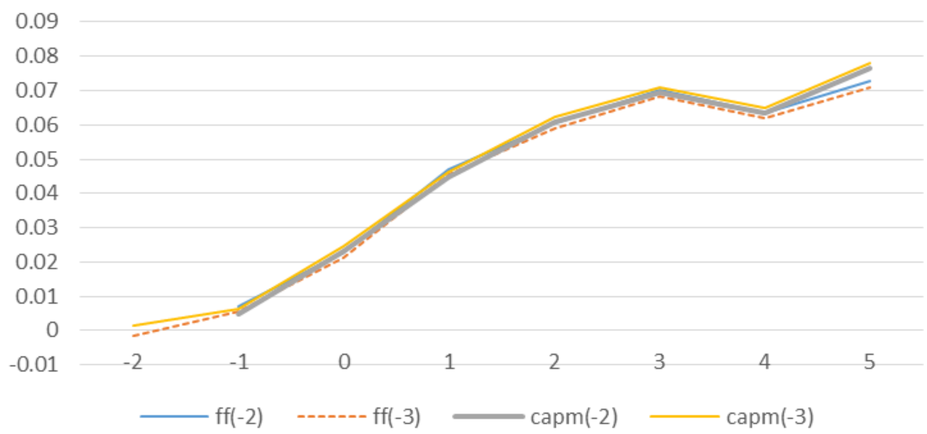
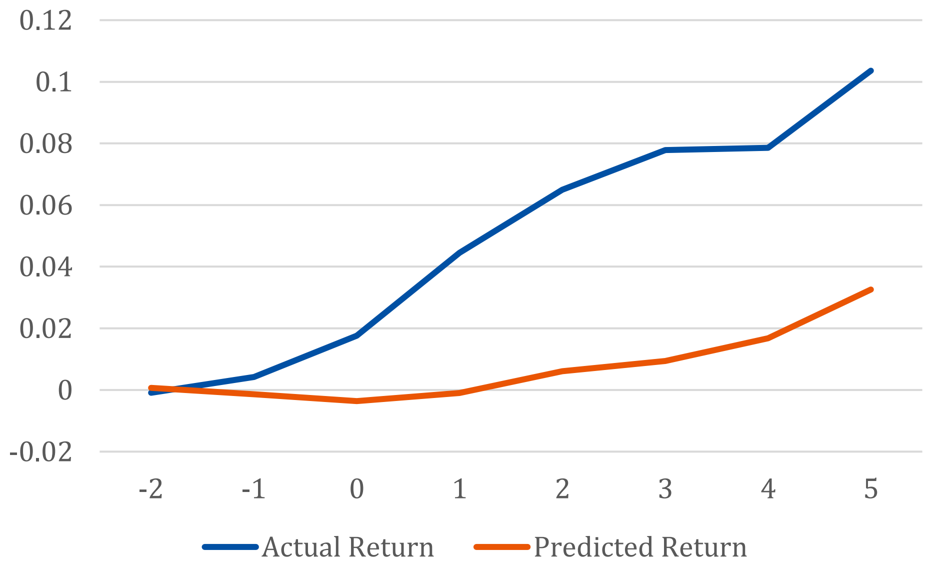


Fig. 3 Short-term predicted return vs. actual return before and after M&A



Meanwhile, Figures 2 and 3 show that no abnormal return is generated on the day that is two days and one day before the announcement of M&A to be initiated by listed companies, which further indicates that short-term abnormal returns are generated by M&As. Given that the earliest announcement date is regarded as the date of M&As, the information about M&As of listed companies is almost not disclosed prior to M&As. However, after the M&As, significant abnormal returns appeared and continued to accumulate in the short term. It should be noted that the market sentiment was relatively good due to the M&A wave at that time, and the predicted returns also fairly increased by less than the actual returns.

Empirical Results of the Impacts of M&As on Long-Term Abnormal Stock Returns

This study verifies the impacts of M&As on long-term abnormal stock returns with the same methods as earlier. In Table 6, columns 1–4 list long-term cumulative abnormal returns on the day that is 2 days before M&A and 60 days, 120 days, 180 days, and 360 days after M&A, which are calculated with the Fama–French 3-factor model.

Table 6. Fama–French 3-factor model (−2)

	Event_Window			
	[−2,60]	[−2,120]	[−2,180]	[−2,360]
CAR	−0.0082	−0.1081	−0.1827	−0.1219
T	(−0.16)	(−1.24)	(−1.41)	(−0.77)
N	67	66	64	46

*** 1% ** 5% * 10%

Regression results show that M&As have no significant impact on long-term abnormal stock returns and their impact on short-term abnormal stock returns is only a result of market response. This indicates that M&As in cultural industry have no significant effect in improving the valuation of listed companies.

Estimation of Impacts of Whether or not Cross-industry M&As on Abnormal Stock Returns

To verify the reasonability of these empirical results, this study estimates the impacts of whether or not cross-industry M&As on abnormal stock returns, in order to confirm if the acquirer is engaged or not engaged in cultural industry has no effect on empirical results.

(1) Estimation of the impacts of whether or not cross-industry M&As on short-term abnormal stock returns

This study applies the Fama–French 3-factor model for estimation. The variable in Table 7, ifculture, is a dummy variable representing enterprise to be merged and acquired, namely a M&A target. When the acquirer is not engaged in cultural industry, ifculture = 1. Otherwise, ifculture = 0. In Table 7, columns 1–4 indicate cumulative abnormal returns on the day that is 2 days before M&A; on the 0 day of M&A; and 1 day, 2 days, and 3 days after M&A, which are calculated using the Fama–French 3-factor model. Cumulative abnormal returns in Table 8 are calculated for the period that is 3 days before M&A. Estimates in Table 8 are used for robustness test on estimates in Table 7.

Table 7. Fama–French 3-factor model (−2)

	(1) [−2,0] CAR_date	(2) [−2,1] CAR_date	(3) [−2,2] CAR_date	(4) [−2,3] CAR_date
ifculture	−0.0060	−0.0019	0.0340	0.0635*
	(−0.41)	(−0.08)	(1.25)	(1.96)
_cons	0.0261***	0.0482***	0.0419**	0.0351*
	(2.78)	(3.02)	(2.31)	(1.75)
N	71	71	71	71

*** 1% ** 5% * 10%

Table 8. Fama–French 3-factor model (−3)

	(1) [−3,0] CAR_date1	(2) [−3,1] CAR_date1	(3) [−3,2] CAR_date1	(4) [−3,3] CAR_date1
ifculture	−0.0018	0.0024	0.0383	0.0677**
	(−0.10)	(0.10)	(1.33)	(2.01)
_cons	0.0221*	0.0442**	0.0379**	0.0311
	(1.97)	(2.54)	(2.01)	(1.49)
N	71	71	71	71

*** 1% ** 5% * 10%

The regression results in Tables 7 and 8 show that the coefficients of ifculture are not statistically significant, suggesting that whether or not the M&A is cross-industry have no impact on short-term abnormal stock returns.

(2) Estimation of the impacts of cross-industry M&A on long-term abnormal stock returns

In Table 9, columns 1–4 represent cumulative abnormal returns on the day that is 60 days, 120 days, 180 days, and 360 days after M&A, which are calculated with the Fama–French 3-factor model.

Table 9. Fama–French 3-factor model (−2)

	(1) [−2,60] CAR_date	(2) [−2,120] CAR_date	(3) [−2,180] CAR_date	(4) [−2,360] CAR_date
ifculture	0.2340**	0.2695	0.4763*	0.3938
	(2.28)	(1.48)	(1.79)	(1.20)
_cons	−0.1374	−0.2551	−0.4357*	−0.3359
	(−1.56)	(−1.53)	(−1.75)	(−1.22)
N	67	66	64	46

*** 1% ** 5% * 10%

As indicated by estimates in Table 9, whether the acquirer engages in cultural industry or not has no significant impact on long-term cumulative abnormal returns and whether cross-industry M&As have no impact on long-term abnormal returns.

Study on the Factors Leading to the Impacts of M&As on Abnormal Stock Returns

The empirical results show that M&As have significant impact on short-term abnormal stock returns of listed cultural companies, but none on their long-term abnormal stock returns. Some domestic documents, such as Zhou Yonghua et al. (2018) and Zhu Tao (2007), have found that the financial characteristics and corporate attributes of listed companies can affect the short-term abnormal returns of M&As. For example, the higher the valuation of listed companies, the lower the short-term abnormal returns brought by M&As. We believe that M&As in the cultural industry are also affected by these financial and corporate attributes. In order to further study the influencing factors of short-term abnormal returns generated by M&As in the cultural industry, this paper uses the short-term abnormal returns of the time window periods (-1,3) and (-2,3) to conduct empirical investigation by means of multiple linear regression.

Referring to studies by Zhou Yonghua (2018), Zhu Tao (2007), and Hu Yubo (2017) on M&A performance of Chinese enterprises, this study selects a set of firm characteristics at the end of the year before M&A as the explanatory variables in the regression, including leverage (asset–liabilities ratio of the company), ROA, size (company size, by taking the logarithm of the company's market value), tobinq (company value measurement index), cashr (the proportion of cash to total assets of the company), and ifstate (the dummy variable whether the company is state-owned). Based on the existing literature using Chinese M&A data (e.g., Feng Genfu and Wu Linjiang, 2001), I expect to observe negative effects of leverage, firm size, Tobin's Q, state-ownership status on the acquirer's CAR, while a firm's profitability and cash holdings are positively related to the acquirer's CAR.

This study selects financial indicators at the lag phase, namely at the end of the previous year of M&A, to make multiple linear regression for short-term abnormal stock returns at the window phases of (−1,3) and (−2,3). Regression results are shown in Table 10.

Table 10. Study on factors to short-term abnormal returns

	(−1,3) CAR	(−2,3) CAR
L.leverage	−0.0731	−0.0538
	(−0.77)	(−0.57)
L.roa	0.3571	0.5097
	(0.66)	(0.95)
L.size	−0.0480*	−0.0539**
	(−1.92)	(−2.17)
L.tobinq	−0.0303**	−0.0338***
	(−2.52)	(−2.83)
L.cashr	0.0264	0.0709
	(0.28)	(0.76)
Ifstate	−0.1086**	−0.1229**
	(−2.12)	(−2.42)
_cons	1.2424**	1.3457**
	(2.27)	(2.48)
N	61	61

*** 1% ** 5% * 10%

According to the regression results in Table 10, in respect of M&As in the cultural industry, size, tobinq, and ifstate have significant negative effects on short-term abnormal market returns from M&As, which is basically consistent with the M&A laws of other industries (Hu Yubo, 2017).. In other words, the larger the size, the higher the valuation; if the company is state-owned, short-term abnormal market returns from M&As in cultural industry will be lower, because when company size is larger, increase in value will be significant even the return rate fluctuates slightly. In addition, the target companies acquired by larger companies may also be larger, imposing challenges of post–M&A integration, but owing to the lack of relevant data on the scale of the acquired company, no further data verification is possible for now. Meanwhile, if a firm's valuation is already high, captured by a high Tobin's Q, the effect of M&As in improving the valuation of the acquiring firm will be limited, which explains the negative coefficients on tobinq. Finally, the market is more conservative in integrating state-owned resources than in integrating privately owned resources. The results are consistent with the view held in analyzing the characteristics of Chinese market that state-owned cultural companies will take many considerations into account in carrying out M&As.

Impacts of M&As in Cultural Industry on Company's Financial Performance

Propensity score matching and DID methods are used to analyze the impacts of M&As in cultural industry on company's long-term financial performance. DID method is usually used to analyze the implementation effectiveness of research policies or the impacts of M&As, and is applied in this study to examine the impacts of M&As on company's financial performance.

First, to control the difference between the treated group (the company with M&A of the cultural industry) and the control group (the company without M&A of the industrial industry), this study runs propensity score matching based on the nearest-neighbor matching method of the indexes influencing performance of the company.

This section focuses on exploring influences of M&As on financial performance (ROA, ROE) of relevant listed companies. In terms of selection of matching variables, this study follows Zhou Yonghua (2018), Zhu Tao (2007), and Hu Yubo (2017) and matches variables that highly impact the performance of the companies listed in the A-share market, such as asset–liabilities ratio, company size, TobinQ, and cash-to-asset ratio. Meanwhile, owing to fewer company samples with M&As in the cultural industry, this study tries one-to-two matching of the same industry and in the same year to increase the samples for studies.

As shown in Table 11, before propensity score matching, leverage and tobinq of the treated group are significantly different from that of the control group, and debtr of the treated group is significantly lower than that of the control group, which meets expectation. Companies with low debtr are provided with more space for financing for M&A. Meanwhile, tobinq of the treated group is generally higher than that of the control group, which indicates that more promising companies that have greater intellectual property and higher intangible assets are more likely to indulge in M&As. In addition, companies in the treated group are provided with larger market scale than those in the control group.

Table 11 shows that the difference in indicators of the treated and control groups is reduced significantly and becomes insignificant after propensity score matching.

Table 11. Differences in variables before and after propensity score matching

Before propensity score matching	Mean			*t*-test	
Variable	Control	Treated	Diff	*t*	*P* > |t|
Debtr	0.438	0.324	0.114	4.74	0
Size	22.47	22.312	0.158	1.6	0.109
Tobinq	2.075	2.761	−0.686	−4.04	0
Currentr	0.572	0.5932	−0.021	−0.91	0.361
After matching	Mean			t-test	
Variable	Control	Treated	Dif	t	p>|t|
Debtr	0.327	0.327	0.00017	0.01	0.995
Size	22.279	22.306	0.027	0.18	0.858
Tobinq	2.678	2.766	0.0877	0.36	0.721
Currentr	0.589	0.595	0.00637	0.2	0.845

Based on the samples obtained by propensity score matching, the changes in the performance of the M&A company and the sample company (D.ROA, D.ROE) for the two years before and after the M&A are calculated, and also compared the changes in the performance of the two groups of samples. The results are shown in Table 12.

Compared with the previous two years, the performance of the media company declined slightly in the two years after the M&A, while the data of sample companies remain almost unchanged. Moreover, the difference in changes of performance between the two groups was also statistically significant; compared with the sample company, the performance of the M&A company declined significantly in the two years after the M&A.

Table 12. ROA and ROE changes

	D. ROA	D.ROE
Control	−0.002	−0.004
Treat	−0.014	−0.022
DIF	−0.012**	−0.018**
T	(−2.05)	(−2.22)
N	185	185

*** 1% ** 5% * 10%

Next, other control variables are added for DID analysis. The fixed effect of the year is controlled in the regression and the dummy variable of data before and after M&A is not incorporated in the DID regression. In addition, the fixed effect of the industry is controlled in the regression and performance in two years before and after M&A is used for DID regression.

Table 13. Results of DID analysis

	(1) ROA	(2) ROE
Treat*after	−0.00753*	−0.0124*
	(−1.75)	(−1.72)
Treat	−0.00347	−0.000276
	(−1.36)	(−0.06)
leverage	−0.0602***	0.0202**
	(−10.14)	(2.04)
Size	0.0290***	0.0473***
	(22.11)	(21.59)
tobinq	0.00130**	0.00281***
	(2.24)	(2.88)
cashr	0.0402***	0.0662***
	(7.20)	(7.10)
ifstate	−0.00790***	−0.00891**
	(−3.16)	(−2.13)
_cons	−0.622***	−1.067***
	(−20.65)	(−21.21)
Industry FE	Yes	Yes
Year FE	Yes	Yes
N	1319	1319
R^2	0.410	0.342

Regression results in Table 13 show that financial returns of sample companies are not improved but slightly deteriorated after M&As in the cultural industry. The empirical analysis results show that performance of these companies is not significantly improved after M&As. This is likely because companies engaged in cultural industry have flexible business patterns and huge intangible assets, and investment projects have relatively large risks. After M&A, two sample companies fail to collaborate with and merge into each other within a short time, with many conflicts generated, which leads to decrease in financial returns. Significant reduction in financial returns of state-owned enterprises in cultural industry after M&As is likely because state-owned cultural enterprises are slow in institutional reform, are equipped with inflexible institutional mechanism, and must consider several factors in making decisions on M&As. Confronted with a new round of development in cultural industry, some state-owned cultural enterprises are not free in idea, emphasize on endogenous development as before, and lack motivation and pressure for expansion. This is also consistent with the earlier analysis results that social capital is more active than state-owned capital in the wave of M&As.

To guarantee the robustness of the aforementioned regression to the matching method, “nearest-neighbor matching within caliper” is employed to rematch the core variables influencing the performance of the listed companies, and retest based on the DID method.

Table 14 shows that after the PSM matching, there is not distinctive difference among the core variables affecting company performance any longer.

Table 14. PSM- (Nearest-Neighbor Matching within Caliper)

Before Matching	Mean			*t*-test	
Variable	Control	Treated	Diff	*t*	*p* > |t|
Leverage	0.438	0.324	0.114	4.74	0
Size	22.47	22.312	0.158	1.6	0.109
Tobinq	2.075	2.761	−0.686	−4.04	0
Cashr	0.572	0.5932	−0.021	−0.91	0.361
After Matching	Mean			t-test	
Variable	Control	Treated	Dif	t	p>|t|
Leverage	0.324	0.324	0.000	0.01	0.992
Size	22.31	22.19	−0.12	0.86	0.394
Tobinq	2.761	2.598	−0.163	0.69	0.494
Cashr	0.593	0.566	−0.27	0.89	0.375

Table 15 shows that the DID method results are consistent with the test results as stated earlier. After M&As, the long-term performance of listed companies does not improve, but goes down on the contrary, namely the synergic effect that the capital market expected at the beginning is not realized, which also explains why Chinese stocks in the cultural industry are always weak after the M&A wave.

To sum up, hypotheses 1 and 2 are validated with the empirical studies. The empirical results show that M&As in cultural industry will help improve short-term abnormal stock returns but have no significant impact on long-term abnormal stock returns and will not help improve financial returns. Therefore, it can be concluded that M&As in cultural industry will push stock prices up in the short term but will not effectively improve company performance.

Table 15. DID Robustness Test Results

	(1) ROA	(2) ROE
Treat*after	−0.00462*	−0.0842*
	(−1.70)	(−1.73)
Treat	−0.00398	−0.00643
	(−0.91)	(−0.88)
leverage	−0.0576***	0.00939
	(−9.63)	(0.94)
Size	0.0259***	0.0409***
	(17.80)	(16.87)
tobinq	0.00310***	0.00551***
	(5.05)	(5.38)
cashr	0.0225***	0.0328***
	(3.82)	(3.34)
ifstate	−0.00201	−0.00367
	(−0.85)	(−0.94)
_cons	−0.529***	−0.857***
	(−16.35)	(−15.92)
Industry FE	Yes	Yes
Year FE	Yes	Yes
N	1232	1232
R2	0.383	0.274

CHAPTER 4
CONCLUSIONS AND SUGGESTIONS FOR POLICY MAKING

Major Conclusions

First, this study introduces major types and features of M&A tide in cultural industry in China and explores the reason for this situation. Then, empirical analysis is conducted for the short-term and long-term abnormal returns from M&As with event study method, and for the impacts of M&As in cultural industry on financial returns of companies concerned with difference-in-differences model and propensity score matching.

According to the study, short-term abnormal returns at the window phase after M&A event are considerable, and the M&A event enables the increase of abnormal returns, indicating that M&As in cultural industry will result in significant increase in short-term abnormal returns of the acquiring enterprises. Analysis result of long-term abnormal returns shows that M&As have no significant impact on abnormal returns of companies concerned in the long term and that the impact on the short-term abnormal returns results from exaggerated market response. Analysis of the short-term and long-term impacts of cross-industry M&A event show that regardless of whether the acquiring enterprise is a cultural enterprise has no significant effect on short-term and long-term cumulative returns of the company; whether there is M&A across industries has no impact on company’s short-term and long-term returns.

The empirical analysis on factors to short-term abnormal returns from M&As in cultural industry shows that, on the one hand, market value of the company, company valuation, and whether the company is a state-owned company has significant impacts on short-term abnormal returns, and the impact is significantly negative.

On the other hand, financial returns of companies falling in the range of the studied samples are not improved after M&As in cultural industry. Instead, the financial returns are reduced because of M&As. The empirical analysis shows that the performance of companies in cultural industry in China is not significantly improved after M&As, two merged enterprises fail in synergizing with and fusing into each other in the short run after M&As and conflicts arise from the merged enterprises, which leads to decrease in financial returns.

Suggestions for Policy Makers

M&As in cultural industry fairly relieve the imbalance between supply and demand in the cultural market. However, existing obstacles and potential risks also affect the effectiveness of M&As as well as innovation and growth of cultural enterprises, which is consistent with the empirical conclusions of this study. For the long term, M&As in cultural industry will not improve company performance because of the following reasons.

First, enterprises are in excessive pursuit of policy bonus and blindly carry out cross-border M&As by simple merging while neglecting M&A risks. Second, the blocked division and entry barrier lower the efficiency of cross-region M&As.

Third, state-owned capital does work well with private capital and the implementation of M&As across different ownership systems is difficult.

Fourth, the effectiveness of M&A is not ideal as the post-deal financial performance of combined firms is medicore, and high premium leads to high risk in goodwill depreciation.

With respect to potential risks of M&As in cultural industry, the following suggestions are made for policy making:

First, at the government level, it can be seen from the regression results that the market's recognition of M&As of state-owned enterprises is relatively low, and the abnormal returns are lower. Therefore, it is necessary to move from policy promotion to institutional and legal protection, and with the mixed ownership economy as the direction, promote the restructuring of state-owned cultural institutions and transform them into enterprises, and activate the institutional mechanisms for state-owned cultural capital to participate in M&As. In addition, the government should guide enterprise M&As to be performance driven, encourage M&As that can effectively play a synergistic effect, and suppress M&As related to short-term capital speculation to help M&As return to rationality.

Second, at the industry guidance level, this study finds that cross-industry M&As has no impact on the abnormal returns of M&As, that is, the market also highly recognizes cross-industry M&As. Therefore, it is advisable to expand the investment fund, strategically guide M&As within the cultural industry and even cross-industry M&As in other traditional industries, integrate cultural resources, and accelerate the pace of M&As of cultural enterprises, thus assisting cultural enterprises to grow bigger and stronger and enterprises in traditional industries to realize transformation of operation.

Third, at the enterprise level, it is also found that M&As in the cultural industry yield abnormal returns in the short term, but fails to promote long-term performance improvement. M&A enterprises should enhance their integration capabilities, strengthen the professional capabilities of relevant talents, and give play to the synergistic effect, thereby improving M&A performance, rather than just pursue short-term capital returns.

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