

RGC Ref. No.: <u>UGC/FDS14/B03/19</u> (please insert ref. above)
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**RESEARCH GRANTS COUNCIL  
COMPETITIVE RESEARCH FUNDING SCHEMES FOR  
THE LOCAL SELF-FINANCING DEGREE SECTOR**

**FACULTY DEVELOPMENT SCHEME (FDS)**

**Completion Report**

*(for completed projects only)*

<p><b><u>Submission Deadlines:</u></b> 1. Auditor's report with unspent balance, if any: within <b>six</b> months of the approved project completion date. 2. Completion report: within <b>12</b> months of the approved project completion date.</p>
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**Part A: The Project and Investigator(s)**

**1. Project Title**

Sustain through the Storm of Policy Uncertainty: Evidence from Mergers and Acquisitions in China

**2. Investigator(s) and Academic Department(s) / Unit(s) Involved**

Research Team	Name / Post	Unit / Department / Institution
Principal Investigator	Dr WANG Zhichen / Assistant Professor	Department of Accountancy / The Hang Seng University of Hong Kong
Co-Investigator(s)	Prof In-Mu HAW / Professor Dr YIP Wing Yue, Rita / Associate Professor	Neeley School of Business / Taxes Christian University Department of Accountancy / The Hang Seng University of Hong Kong
Others	N/A	N/A

**3. Project Duration**

	Original	Revised	Date of RGC / Institution Approval <i>(must be quoted)</i>
Project Start Date	1 January 2020	N/A	N/A
Project Completion Date	31 December 2021	30 June 2022	Approved by HSUHK on 23 Aug 2021
Duration <i>(in month)</i>	24	30	
Deadline for Submission of Completion Report	31 December 2022	30 June 2023	

## **Part B: The Final Report**

### **5. Project Objectives**

#### 5.1 Objectives as per original application

- (i) Use the unique environment in China to investigate the effects of policy uncertainty on the performance of M&As.
- (ii) Evaluate the different effects of policy uncertainty on the M&As initiated by SOEs and non-SOEs, and take into consideration economically-motivated M&As and politically-motivated M&As.
- (iii) Identify and investigate two plausible mechanisms that could mitigate the negative effects of policy uncertainty on M&As initiated by non-SOEs: (1) political connections and (2) involvement in CSR activities.
- (iv) Investigate whether the political connections and CSR activities of non-SOEs substitute or complement each other to mitigate the negative effects of policy uncertainty on M&As.
- (v) Provide useful insights on the Chinese political economy and Chinese M&A activities for global business participants.
- (vi) Bring the research findings to the classroom and enhance students' understanding of the capital market implications of firms' M&A activities, firm ownership, and changes in the institutional environment.

#### 5.2 Revised objectives

Date of approval from the RGC: N/A

Reasons for the change: N/A

### 5.3 Realisation of the objectives

*(Maximum 1 page; please state how and to what extent the project objectives have been achieved; give reasons for under-achievements and outline attempts to overcome problems, if any)*

During the course of the research, we identified “voluntary trading halts” as a unique and under-explored feature in the Chinese mergers and acquisition (M&A) setting, whereas around one-third of the bidding firms voluntarily suspended trading from 1 to 85 trading days. This finding sparked new ideas that we felt compelled to pursue. We then developed a working paper titled “**FIRM-INITIATED EQUITY TRADING HALTS, MERGER AND ACQUISITION ANNOUNCEMENTS, AND INVESTOR REACTIONS: EVIDENCE FROM AN EMERGING MARKET**” (See **Section 6.1**, **Section 7**, and **Section 8** for details.) Its earlier version was presented in a conference. (See **Section 9** for details.)

As we delved deeper to voluntary trading halts in China M&As, we realized that it held great potential for shedding light on the originally proposed research elements. Specifically, policy uncertainty (PU), state ownership (SOE), corporate social activities (CSR), are studied within the halt context. We have primary findings and will develop the second working paper accordingly. (See **Section 6.2** for details.)

We have to drop “political connection” because the database we rely on (CSMAR) no longer has the data.

### 5.4 Summary of objectives addressed to date

<b>Objectives</b> <i>(as per 5.1/5.2 above)</i>	<b>Addressed</b> <i>(please tick)</i>	<b>Percentage Achieved</b> <i>(please estimate)</i>
1. Investigate the effects of policy uncertainty on the performance of M&As in China	√	100%
2. Compare the effects of policy uncertainty on the M&As initiated by SOEs and non-SOEs.	√	100%
3. Investigate whether non-SOE’s political connections and CSR mitigate the negative effects of policy uncertainty.	√	50%
4. Investigate whether non-SOE’s political connections and CSR substitute or complement each other to mitigate the negative effects of policy uncertainty.	√	15%
5. Provide insights on the Chinese political economy and Chinese M&A activities.	√	100%
6. Bring the research findings to the classroom.	√	100%

## 6. Research Outcome

### 6.1 Major findings and research outcome

*(Maximum 1 page; please make reference to Part C where necessary)*

Mergers and acquisitions (M&As) involve significant investments that have implications both for the firms making them and their investors who stand to gain or lose from these actions. Acquirers and their investors have the incentive to use information strategies to navigate information asymmetries each has with the others. It is widely assumed that firms' stocks trade continuously. However, firms can voluntarily suspend the trading of their stock, present information, and resume trading after the capital market has had time to process the disclosure. Data from 1,584 mergers or acquisitions in China during 2007-2016 show that 35% of the bidding firms used a halt ranging from 1 to 85 trading days and that firms did not have the Chinese State as a majority owner (Non-SOEs) halted more often and for longer periods on average.

M&A firms having made pre-M&A announcement equity trading halts realized a 5.1% increase in abnormal returns on the M&A announcement day versus 0.6% for those not having adopted halts. The findings support the theoretical model integrating signaling theory and the efficient market hypothesis: voluntary halts serve as an intent signal of a material and positive pending strategic action, attracting new investors, and potentially increasing demand for the firm's stock. If trading suspensions are effective, information that was not already fully reflected in stock prices will be conveyed to and processed by investors during the suspension period. The capital market will respond by including the new publicly available information into the opening stock prices on the dates of trading reinstatement.

Further, the halt's duration and merger or acquisition announcements are linked to investor reaction in a J-shaped manner: shorter halts tend to have neutral investor reactions while longer ones are related to increasing investor valuations. Drawing from impression management and priming theory, we argue that short halts do not allow sufficient time for the firm to disseminate favorable information, for investors to process a forthcoming M&A, or attract many others to participate in the market for the firm's equity thereby producing a neutral response to M&A announcements. But longer halts give managers more time to use anticipatory impression management techniques to prime investors for forthcoming information, and the longer they last, the more opportunity managers have to create positive expectations for investors. Managers can disclose information incrementally to reduce uncertainties about the pending deal, afford more investors the opportunity to participate, heighten anticipation for the conclusion of the halt, and ultimately lead to an increasingly positive reaction when the halt ends and trading resumes.

Managers in China appear inclined to adopt trading halts as part of a pre-M&A information strategy. When information asymmetries tend to be higher for M&As, such as when they are funded more with equity than cash, have a larger relative size of the target over the bidder, the bidding firms are larger and there are dominant non-government owners that focus more on the firm's efficiency and profits, firms previously involved with M&As adopting halts are more likely to engage in halts.

As an emerging market, China has less formalized institutional norms, less accessible firm-specific information, fewer analysts following the firms, and is influenced less by institutional investors. The role of trading halts in China can be particularly important in other emerging markets sharing similar settings. Further, the size of China's takeover market and regulations have significant spillover effects in other countries' stock markets.

## 6.2 Potential for further development of the research and the proposed course of action (*Maximum half a page*)

The second working paper will be based on 2,501 mergers and acquisitions (M&As) made by Chinese acquirers from 2009 to 2018. We have obtained primary findings to support the following:

- (i) Policy uncertainty (PU) discourages acquirers from voluntarily suspending (halt) their stocks from trading.
- (ii) The discouraging effect of PU on halt decision mainly applies to SOE acquirers.

The above (i) and (ii) are consistent with that PU discourages firm-specific information disclosure due to increased political scrutiny and/or more uncertain future cash streams. Such a negative effect on information supply is exacerbated in politically dependent firms (SOEs, firms that receive government subsidies, and firms that list domestically).

- (iii) PU reduces the positive market reaction to halts, showing investors' pessimistic during high PU periods.
- (iv) Corporate social activities (CSR) are associated with negative market reactions to M&A announcements. Since Chinese firms seek legitimacy with the government by investing in CSR activities and CSR reporting, more CSR is associated with more political pressure.

## 7. Layman's Summary

(*Describe in layman's language the nature, significance and value of the research project, in no more than 200 words*)

By suspending trading voluntarily, a firm can cast a merger and acquisition (M&A) in a positive strategic light, alleviate over-reactions that might occur due to misinterpretations, mitigate conditions for information leakage and illegal transactions, and thereby ensure that all investors are on the same 'playing field'. Our project introduced trading halts to strategic management research as a mechanism that managers can use to advantageously prepare investors for strategic disclosure.

Trading halts incorporate features of information signals and pre-M&A anticipatory impression management techniques to form an impactful information strategy. Data from 1,584 M&A announcements made by Chinese bidding firms during the period 2007-2016 show firms having pre-M&A announcement equity trading halts realized a 5.1% increase in abnormal returns on the M&A announcement day versus 0.6% for those not having adopted halts.

To describe how trading halt duration affects signal receivers' anticipation over time, priming theory (from psychology) is added: short halts provide fewer benefits, but longer ones have increasingly positive implications. Longer halts give managers more time to use anticipatory impression management techniques to prime investors for forthcoming information, and the longer they last, the more opportunities managers have to create positive expectations for investors.

## **Part C: Research Output**

### **8. Peer-Reviewed Journal Publication(s) Arising Directly From This Research Project**

*(Please attach a copy of the publication and/or the letter of acceptance if not yet submitted in the previous progress report(s). All listed publications must acknowledge RGC's funding support by quoting the specific grant reference.)*

The Latest Status of Publications				Author(s) (denote the corresponding author with an asterisk*)	Title and Journal / Book (with the volume, pages and other necessary publishing details specified)	Submitted to RGC (indicate the year ending of the relevant progress report)	Attached to this Report (Yes or No)	Acknowledged the Support of RGC (Yes or No)	Accessible from the Institutional Repository (Yes or No)
Year of Publication	Year of Acceptance (For paper accepted but not yet published)	Under Review	Under Preparation (optional)						
			1	Donald Bergh* In-Mu Haw Michael A. Hitt Zhichen Wang Rita Yip	Firm-Initiated Equity Trading Halts, Merger and Acquisitions, and Investor Reactions: Evidence from an Emerging Market	No	Yes (Annex I)	Yes	No

### **9. Recognized International Conference(s) In Which Paper(s) Related To This Research Project Was / Were Delivered**

*(Please attach a copy of each conference abstract)*

Month / Year / Place	Title	Conference Name	Submitted to RGC (indicate the year ending of the relevant progress report)	Attached to this Report (Yes or No)	Acknowledged the Support of RGC (Yes or No)	Accessible from the Institutional Repository (Yes or No)
Sep / 2021 / Toronto, Canada	Firm-Initiated Equity Trading Halts Prior to Acquisition Announcements: Implications for Stock Market Reactions	SMS (Strategic Management Society) 41st Annual Conference (Track F)	No	Yes (Annex II)	Yes	Yes <a href="https://researchdb.hsu.edu.hk/view/people/8843">https://researchdb.hsu.edu.hk/view/people/8843</a>

### **10. Whether Research Experience And New Knowledge Has Been Transferred / Has Contributed To Teaching And Learning**

*(Please elaborate)*

Recognition of voluntary trading halts as an information strategy advances knowledge of both the signaling and impression management research on M&As. For signaling, halts as intent signals focus on future actions which adds to current knowledge that depicts signals in place at the time of the merger and acquisition (M&A), such as links with reputed investment banks and their geographical locations. For impression management, trading halts add to extant pre-acquisition knowledge such as "offsetting" potential negative responses by using

press releases during news cycles.

Further, trading halts represent a behavior that combines information signaling and anticipatory impression management that focuses attention on the potential interdependence of these independent but complementary perspectives. Studies within each tradition have long omitted the other, resulting in a siloed view of information strategies.

### 11. Student(s) Trained

*(Please attach a copy of the title page of the thesis)*

Name	Degree Registered for	Date of Registration	Date of Thesis Submission / Graduation
N/A			

### 12. Other Impact

*(e.g. award of patents or prizes, collaboration with other research institutions, technology transfer, teaching enhancement, etc.)*

N/A

### 13. Statistics on Research Outputs

No. of outputs arising directly from this research project	Peer-reviewed Journal Publications	Conference Papers	Scholarly Books, Monographs and Chapters	Patents Awarded	Other Research Outputs (please specify)	
					Type	No.
	1 (Working paper)	1	0	0	N/A	

**14. Public Access Of Completion Report**

*(Please specify the information, if any, that cannot be provided for public access and give the reasons.)*

<b>Information that Cannot Be Provided for Public Access</b>	<b>Reasons</b>
<b>Section 6</b>	<p><b>Section 6</b> contains detailed information of the research questions and findings of</p> <ul style="list-style-type: none"> <li>(i) a working paper ready for journal submission in Section 6.1, and</li> <li>(ii) a project under development in Section 6.2.</li> </ul> <p>Restricting public access would allow flexibility for further revisions.</p>
<b>Annex 1</b>	<p><b>Annex 1</b> is the full working paper under preparation for journal submission. Restricting public access would allow flexibility for further revisions.</p>