Original Research Article

Government Intervention and M&A Performance: From the Perspective of Target Corporate Social Responsibility Overinvestment

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Abstract: Based on a sample of cross-border mergers and acquisitions (M&As) of Chinese enterprises in different target countries between 2000 and 2021, this paper explores the impact of target corporate social responsibility overinvestment on M&A performance and the moderating effect on the above impact of Chinese government's two forms of interventions in the process of corporate financing and operating. The results show that target corporate social responsibility overinvestment has a negative effect on M&A performance. Moreover, government interventions in corporates' financing and operating process negatively moderate the relationship between target corporate social responsibility overinvestment and M&A performance. This research helps the government to take different forms of interventions to motivate enterprises to participate in social responsibility and improve performance.

Keywords: Government Intervention, Government Subsidy, Government Ownership, Cross-Border M&A, M&A Performance, Corporate Social Responsibility Overinvestment.

1. INTRODUCTION

In the context of sustainable development, corporate social responsibility (CSR) and its related investment activities are attracting increasing attention from enterprises worldwide (Naughton *et al.,* 2018). Merger and acquisition (M&A) has always been one of the main ways for corporates to expand market share and acquire resources (such as raw materials, technology, reputation, etc.) and competitive advantage (Darbellay, 2015). During the process of corporates striving to improve their social responsibilities and engage in CSR investment and other related activities, cross-border M&A (taking corporates with high levels of CSR as M&A targets) is widely considered as one of the important ways to help corporates quickly improve their CSR (Aktas *et al.,* 2011).

However, during the process that corporates rapidly improve their CSR through M&A, their M&A performance is often affected, especially in the case of target CSR overinvestment (Wang *et al.,* 2021). Meanwhile, considering that the continuous improvement of CSR is also what the government encourages or expects, therefore, government interventions often occur in the above process (Jentsch, 2020).

In China, government intervention is widespread and has a significant impact on the economy (Deng *et al.,* 2020; Li *et al.,* 2022). The government can use various means, such as mandatory laws (Steurer, 2010) and subsidies (Floridi, 2018), to incentivize enterprises to assume social responsibility.

Previous studies have explored the effects of government interventions (Fradejas & Powell, 2022) and CSR on cross- border M&A (Jost *et al.,* 2021) respectively, however, few literatures have analyzed the relationship between target CSR and M&A performance, especially in cases of CSR overinvestment, which may lead to different scenarios; additionally, the heterogeneity of the effect of government intervention on performance has not been fully considered.

Therefore, considering the deficiencies of the existing research, this paper takes the case of cross-border M&A of Chinese enterprises aiming at improving their level of corporate social responsibility as the research object, and studies the impact of the target CSR overinvestment on M&A performance, as well as the moderating effects of the Chinese government's intervention in the financing and operation process of the acquirer's enterprises on the above impact.

Based on this, this paper takes the case of cross-border M&A of Chinese enterprises aiming at improving their level of corporate social responsibility as the research object, studies the effect of the target CSR overinvestment on M&A performance, and investigates the moderating effects of the Chinese government's intervention in the financing and operation process of the acquirer's enterprises on the above effect.

2. Literature and Hypothesis
2.1 Target CSR Overinvestment and M&A Performance
Prior studies have yet to achieve consensus on the relationship between CSR investment and cross-border M&A performance. Some scholars believe that improving the level of CSR investment through M&A would improve M&A outcome (Choi & Yoo, 2022; Qiao *et al.,* 2018). Because the acquirers can increase corporates' reputation (Aguilera *et al.,* 2017), attract high-quality employees (Schaefer *et al.,* 2019), alleviate information asymmetry (Chen *et al.,* 2022) and reduce corporate financing costs (Cheng *et al.,* 2014) by fulfilling social responsibility. However, other scholars hold that target CSR overinvestment could decrease M&A outcome, because of more complex stakeholder demands, inefficient use of corporate resources, and low returns on CSR overinvestment, etc. (Wang *et al.,* 2021; Masulis & Reza, 2015; Arouri *et al.,* 2019).

Shareholder theory states that CSR is not an obligation that enterprises must perform. First, CSR behaviors may occupy scarce resources of corporate (Bhandari & Javakhadze, 2017), high CSR expenditure may reduce firm value and create a conflict between different shareholders (Barnea & Rubin, 2010). Second，Friedman (1970) and other neoclassical economists believe that CSR could harm the interests of shareholders, because higher CSR will reduce dividend payments and thus reduce shareholders' cash flow (Saeed & Zamir, 2021). Third, Bhattacharyya and Rahman (2020) point out that CSR could decrease stock returns, which also means that corporate's undertaking social responsibility is often undesirable for shareholders.

Stakeholder theory holds that enterprises need to consider the expectations of various stakeholders of the combined corporate (Detomasi, 2007). After acquiring the target party with CSR overinvestment, the requirements of these stakeholders become more complicated. Therefore, corporates usually tend to improve their CSR level to respond to the requirements of these stakeholders (Attig *et al.,* 2016), which may weaken the ability of corporates to benefit shareholders (Flammer, 2015; Liang & Renneboog, 2017).

Additionally, based on the agency theory, managers are more inclined to increase corporate social responsibility expenditures above their appropriate level (Barnea & Rubin, 2010). Managers usually react to CSR issues in an egocentric fashion (Cao *et al.,* 2023), therefore, management altruism and agency problems will lead to CSR overinvestment.

Finally, based on the resource-based view, after the acquisition is completed, the assets (including liabilities) of the target party are inherited by the acquiring party (Maung *et al.,* 2020). On the one hand, enterprises that invest excessively in corporate social responsibility will bear additional costs that are not conducive to their maximum value (Barnea & Rubin, 2010), as a result, increased cost burden after M&A will do harm to the new corporate (Wang *et al.,* 2021). On the other hand, the combined corporate requires lots of resources to cope with many challenges (such as the transfer or integration of strategic assets, knowledge management and innovation management etc.) after M&A (Cheng & Yang, 2017), therefore, CSR overinvestment may affect M&A performance.

According to the above analysis, CSR overinvestment will waste scarce resources and thus destroy corporate value. Therefore, this study assumes that cross-border M&A of target CSR overinvestment will negatively affect the M&A performance of Chinese enterprises (acquirers). Based on this, we propose the following hypothesis:
H1: Target CSR Overinvestment Will Contribute to Lower Acquirer's M&A Performance.

2.2 Moderating Effects of Government Intervention
2.2.1 Moderating Effects of Government Intervention in the Process of Corporate Financing
Government intervention in the process of corporate financing is an important manifestation of Chinese government's ownership of enterprises (Shao *et al.,* 2015). High government ownership often seeks control over political and social goals (Shleifer & Vishny, 1994), for example, the loan decisions of state-owned banks often reflect the government's social and political orientation (Cull & Xu, 2003). In China, the government is usually the majority shareholder of enterprises and large banks. The four largest banks in China that provide over 80% of loans to enterprises are owned by the Chinese government (Shao *et al.,* 2015). Usually, the government instructs its banks to provide

preferential loans to its own enterprises, making it easier for these enterprises to obtain bank loans (Shao *et al.,* 2015) to compensate for the additional costs incurred by the target party due to excessive investment in corporate social responsibility. Based on this, we propose the following hypothesis:

H2: Government Intervention in the Process of Corporate Financing Has a Positive Impact on the Relationship Between Target CSR Investment And M&A Performance.

2.2.2 Moderating Effects of Government Intervention in the Process of Corporate Operating

The importance of CSR in achieving different competitive advantage is being recognized. However, it may not be enough to rely merely on enterprises themselves to improve their social responsibility level. Therefore, as a regulator, the government often urges business to improve CSR level via some policies and incentives (Steurer, 2010).

Government subsidy is the main form of government intervention in the process of corporate operation. Regulators hope that by providing corporates with financial resources to help corporates promote innovation and improve their market competitiveness etc. (Xu *et al.,* 2023). The government usually gives higher subsidies to enterprises with more social responsibility to encourage more enterprises to fulfill social responsibility (Zhang *et al.,* 2022), therefore, enterprises' actively to improve their social responsibility level can help them to obtain government subsidies.

The acquirer can improve the level of CSR investment by acquiring the target corporate with CSR overinvestment. Corporates' high level of CSR investment can not only help them to improve their market recognition (Floridi, 2018), business reputation and competitive advantage, but to increase the possibility of obtaining a government subsidy. Subsidy helps to reduce the enterprises' operating costs and has a positive impact on the operating activities of enterprises, thus improving M&A performance. Thus, the following hypothesis is formulated:

H3: Government intervention in the process of corporate operating has a positive impact on the relationship between target CSR investment and M&A performance.

3. DATA AND METHODS

3.1 Sample Collection

The sample used in this paper are selected according to the following: (1) the acquirers are listed in Shanghai or Shenzhen Stock Exchange; (2) The targets are listed corporates with CSR information disclosure; (3) M&A transactions have been completed; (4) The merger resulted in the acquirer's equity exceeding 50%; (5) samples of financial industry, ST and *ST corporates are excluded. After above treatments, 76 M&A events were finally screened out.

3.2 Variables and Measurements

3.2.1 Dependent Variable

Here the dependent variable is M&A performance. Existing research has two kinds of measures ('financial indicator' and 'event method') to calculate M&A performance (Du, 2021). Because financial statements have problems such as easy to manipulate financial indicators and the data is not credible, stock market indicators can reflect more accurate information. Therefore, according to Ghadhab (2021), this paper measures M&A performance through calculating the "Cumulative Abnormal Returns" (CAR) with event method.

This paper selects 150 to 10 trading days before the announcement date of M&A as the estimation period, i.e., *(t-150, t-10)*, and the following are used to measure the excess return:

$$AR_{it} = R_{it} - E(R_{it}) \qquad (1)$$

Here AR_{it} is the abnormal return of corporate i at t, R_{it} is the actual return of corporate i at t, and $E(R_{it})$ denotes the expected return of corporate i at t.

The CAR is measured via equation (1).

$$CAR_i = \sum_{t=-5}^{t=5} AR_{it} \qquad (2)$$

Here CAR_i denotes the cumulative abnormal return of corporate i in the *(t-5, t+5)*.

3.2.2 Independent Variable

Here independent variables are Target CSR, State and Sub.
1) Target CSR overinvestment (Target CSR). According to Richardson (2006) and Wang *et al.,* (2021), we get the following:

$$CSR_{i,t} = \alpha + \beta_1 Firm\ Size_{i,t-1} + \beta_2 Leverage_{i,t-1} + \beta_3 Cash_{i,t-1} + \beta_4 Tobin's Q_{i,t-1} + \beta_5 ROA_{i,t-1} + \beta_6 Sales\ Growth_{i,t-1} + \beta_7 CSR_{i,t-1} + Industry\ FE + Year\ FE + \varepsilon_{i,t} \qquad (3)$$

Here *i* stands for firm and *t* for year. We further define target CSR overinvestment as a dummy variable: If actual investment is greater than expected investment, it indicates that the target CSR investment is excessive. And if the CSR investment is excessive, the target CSR is "1", or "0".

2) Government ownership (State). It is used to determine whether the acquirer has government ownership. According to Shao *et al.,* (2015), this paper takes acquirer's enterprise nature as the measurement standard of government ownership, that is, if the acquirer is a state-owned enterprise, it has government ownership. And if the enterprise has government ownership, the value of the state is set as "1", otherwise "0" is set.
3) Government subsidy (Sub). According to Duan *et al.,* (2022), we obtain specific information on government subsidies by processing relevant data in the financial statements of listed companies.

3.2.3 Control Variable
According to Lei and Guo (2017), this paper selects ROA, Tobin's Q, and Sales, etc. as control variables. Various variables can be seen in Table 1.

Table 1: Various variables

Variable attribute	Variable	Definition
Dependent variable	CAR	Cumulative abnormal return of enterprise stock in the window period
Independent variable	Target CSR	Dummy variable, taking 1 if target CSR overinvestment; 0 if otherwise
	State	Dummy variable, taking 1 if acquirer is stated-owned; 0 if otherwise
	Sub	Logarithm of the current government subsidy
Control variable	Size	Logarithm of acquirer's total assets
	ROA	Net profit / total asset balance
	Tobin's Q	Market value of assets / book value of assets
	Sales	(Sales cost of this year - sales cost of last year) / sales cost of last year
	Growth	(Amount of total operating revenue this year - amount of total operating revenue last year) / amount of total operating revenue last year
	Lev	Book value of debts / market value of assets
	Cash	The main business income / average cash balance
	Relatedne-ss	Dummy variable, taking 1 if acquirer and target are in related industry; 0 if otherwise
	Year	Age of acquirer

3.3 THE MODEL
This study uses a multiple linear regression method to study the comprehensive impacts of two kinds of government interventions on M&A performance with target CSR overinvestment.

First, the following research model is about the individual impact of target CSR overinvestment on performance:
$$CAR(-5, +5) = \alpha_0 + \alpha_1 Target\ CSR + dControl + \varepsilon_1 \qquad (4)$$

Second, the government's intervention moderating effect in the process of corporate financing is the following:
$$CAR(-5, +5) = \beta_0 + \beta_1 Target\ CSR \times State + dControl + \varepsilon_2 \qquad (5)$$

Finally, the government's intervention moderating effect in the process of corporate operating is the following:
$$CAR(-5, +5) = \gamma_0 + \gamma_1 Target\ CSR \times Sub + dControl + \varepsilon_3 \qquad (6)$$

Where $CAR(-5, +5)$ is the cumulative abnormal return in the 11-days event window; α_0, β_0, and γ_0 are intercept terms; $\alpha_1, \beta_1,$ and γ_1 are regression coefficients; *Control* is the control variables; d is the control variables coefficient and ε represents the stochastic disturbance term.

4. Empirical Evidence
4.1 Descriptive Statistics
From table 2 we can see that: the average CAR of the acquirer is -0.001, which indicates that negative results have been achieved in the M&A transactions, and it is consistent with our assumption and other research (Wang *et al.,* 2021). The mean of the dummy variable of target CSR overinvestment in M&A transactions is about 0.5, indicating that half of the targets have social responsibility overinvestment in M&A transactions. The mean of the dummy variable of acquirer's government ownership in M&A transactions is about 0.4, indicating that the proportion of acquirers of state-owned enterprises is smaller than that of private enterprises.

Table 2: Descriptive statistics

Variable	Mean	Std. Dev.	P25	P50	P75
CAR	-0.001	0.108	-0.036	0.011	0.062
Target CSR	0.539	0.502	0	1.000	1.000
State	0.382	0.489	0	0	1.000
Sub	17.304	2.565	15.852	17.474	18.875
Size	23.851	2.306	22.158	23.466	24.802
ROA	0.060	0.050	0.023	0.052	0.075
Tobin's Q	1.916	1.321	1.047	1.404	2.267
Sales	0.142	0.333	0	0.114	0.226
Growth	0.403	2.009	0.038	0.166	0.300
Lev	2.127	3.616	0.608	1.046	1.805
Cash	6.022	8.432	1.922	3.629	5.870
Year	24.197	5.154	21.500	24.000	28.500
Relatedness	0.632	0.486	0	1.000	1.000

4.2 Correlation Analysis

Table 3 shows the correlation coefficients among the variables. The variance inflation factor and correlation coefficient matrix of each variable show that the correlation coefficient between independent variables is very low, and there is no serious multicollinearity problem. At the same time, this paper further uses the variance inflation factor (VIF) to investigate the multicollinearity of all variables. The results indicate that the multicollinearity problem has little impact on the coefficient estimation.

Table 3: Matrix of Correlations for independent variables

Variables	VIF	Target CSR	State	Sub	Size	ROA	Tobin's Q
Target CSR	1.19	1.000					
State	1.62	0.182	1.000				
Sub	1.93	-0.00400	-0.183	1.000			
Size	3.81	0.0120	0.364***	0.484***	1.000		
ROA	1.68	-0.0260	-0.376***	0.0780	-0.287**	1.000	
Tobin's Q	1.33	0.110	-0.257**	-0.134	-0.349***	0.287**	1.000
Sales	1.16	0.102	-0.185	-0.0210	-0.162	0.176	-0.0210
Growth	1.21	0.104	-0.123	-0.00500	-0.0350	0.259**	0.0310
Lev	2.66	-0.00600	0.357***	0.0460	0.785***	-0.356***	-0.240**
Cash	1.36	-0.0160	0.172	0.281**	0.141	0.203*	-0.0470
Year	1.47	0.0720	0.160	-0.290**	-0.244**	-0.252**	0
Relatedness	1.23	-0.104	-0.130	0.112	-0.0790	0.218*	0.212*
		Sales	Growth	Lev	Cash	Year	Relatedness
Sales		1.000					
Growth		-0.0560	1.000				
Lev		-0.128	-0.0580	1.000			
Cash		-0.0590	0.0770	-0.145	1.000		
Year		-0.126	0.118	-0.146	-0.0120	1.000	
Relatedness		0.151	-0.132	-0.186	0.130	-0.264**	1.000

Note: "*" $p< 0.1$; "**" $p< 0.05$; and "***" $p< 0.01$.

4.3 REGRESSION RESULTS
4.3.1 Target CSR Overinvestment and M&A Performance

Table 4 shows the regression results of the relationship between target CSR overinvestment and M&A performance. As can be seen from the model 1 column, the regression coefficient of target CSR overinvestment and M&A performance indicator CAR (-5, +5) is -0.114 after the effects of other factors are controlled and passes the significance test at the 1% level, indicating that target CSR overinvestment has a negative effect on M&A performance and hypothesis H1 is confirmed.

Table 4 shows the results of target CSR overinvestment and performance. According to model 1, the regression coefficient is -0.114, which means that target CSR overinvestment has a negative effect on M&A performance (p=0.01) and hypothesis H1 is confirmed.

Table 4: Target CSR overinvestment and M&A performance regression results

Variables	Model 1	Model 2	Model 3
	CAR (-5, +5)	CAR (-5, +5)	CAR (-5, +5)
Target CSR	-0.114***		
State		0.0003	
Target CSR×State			-0.051
Size	-0.006	-0.011	-0.011
ROA	0.111	0.210	0.149
Tobin's Q	-0.007	-0.016	-0.017
Sales	-0.029	-0.058	-0.062*
Growth	-0.007	-0.010	-0.011***
Lev	0.003	0.005	0.006
Cash	0.0003	0.0004	-0.0009
Year	-0.001	-0.002	-0.001
Relatedness	0.0005	0.016	0.017
Constant	0.232	0.307	0.301
Observations	76	76	76
R-squared	0.355	0.093	0.373

Note: "*" p< 0.1; "**" p< 0.05; and "***" p< 0.01.

4.3.2 Joint Effect of Government Ownership and Target CSR Overinvestment on Performance Regression Analysis

According to model 2, government ownership has a positive impact on performance indicator CAR (-5, +5) without considering target CSR overinvestment, the regression coefficient of them is 0.0003, but it fails the significance test. Model 3 conducts a linear regression on CSR overinvestment, government ownership, control variables and M&A performance within the event window (-5, +5). The results show that the regression coefficient of Target CSR×State is -0.051, which means that higher government ownership intensifies the negative effect of target CSR investment and M&A performance, and the significance test of the regression results is failed, thus hypothesis H2 is not confirmed.

4.3.3 Joint Effect of Government Subsidy and Target CSR Overinvestment on M&A Performance

According to table 5 model 1, we can see that government subsidy has a positive impact on M&A performance indicator CAR (-5, +5) without considering target CSR overinvestment, the regression coefficient of them is 0.005, but it fails the significance test. Further, linear regression is conducted on CSR overinvestment, government subsidy, control variables and M&A performance within the event window (-5, +5), and the results are shown in table 5 model 2 column. The regression results show that the regression coefficient of Target CSR×Sub is -0.006 (p=0.01), which indicates that the more government subsidy, the more significant negative correlation between target CSR overinvestment and M&A performance, thus hypothesis H3 is not confirmed.

Table 5: Joint effect of Government subsidy and target CSR overinvestment on M&A performance regression results

Variables	Model 1	Model 2
	CAR (-5, +5)	CAR (-5, +5)
Sub	0.005	
Target CSR×Sub		-0.006***
Size	-0.010	0.003
ROA	0.143	0.053
Tobin's Q	-0.007	0.0003
Sales	-0.071**	-0.043
Growth	-0.010***	-0.007***
Lev	0.005	-0.002
Cash	-0.00007	0.0004
Year	-0.002	-0.002
Relatedness	0.020	0.002
Constant	0.191	0.032
Observations	76	76
R-squared	0.106	0.330

Note: "*" p< 0.1; "**" p< 0.05; and "***" p< 0.01.

5. DISCUSSION

5.1 CONCLUSIONS

Focusing on the cross-border M&A cases of Chinese enterprises aiming to improve the level of corporate social responsibility, we study the impact of target CSR overinvestment on the M&A performance of Chinese enterprises, and then the moderating effects of government ownership and subsidy, and the results are as follows:

1) Target CSR overinvestment is negatively correlated with M&A performance.

On the one hand, excessive corporate social responsibility expenditures may reduce the investment of corporate resources that directly create value, and thus cause the loss of M&A performance; on the other hand, CSR overinvestment can lead companies to hold unnecessary CSR assets after mergers and acquisitions, which will increase the cost and damage M&A performance.

2) The higher government ownership intensifies the negative effect of target CSR investment and M&A performance.

First, enterprises with higher government ownership tend to undertake more capital investment or government-authorized projects that reduce enterprise value, thus damaging enterprise value; second, for their own purposes, government officials use their control and influence over the enterprises within their jurisdiction to directly or indirectly interfere in the M&A activities of enterprises and ask enterprises to bear more social responsibilities, thus damaging the value creation of acquirers; third, in the case of government intervention, some enterprises may sacrifice corporate performance to achieve macroeconomic goals (Cai *et al.,* 2020), and need to fulfill CSR during the pursuit of economic goals, such as alleviating employment pressure, developing national industries, and resetting disabled people (Jia *et al.,* 2019). Compared with enterprises that do not undertake social responsibility, enterprises that undertake social responsibility will have stronger motives to serve society and undoubtedly increase their cost (Ang *et al.,* 2022), which may lead to a poor M&A performance.

3) When considering government subsidy, there will be a significant negative correlation between target CSR overinvestment and M&A performance.

First, government subsidy might encourage enterprises to actively engage in social responsibility in public services, environmental protection, project initiation, etc., so in order to obtain relevant subsidies, enterprises may increase their investment in R&D, clean energy use, etc., but if obtained subsidies cannot make up for the increased investment of enterprises, the positive impact of government subsidy on M&A performance may be weakened (Duan *et al.,* 2022); second, government subsidy may attract inefficient corporates to participate in the market, and even weaken the motivation for supported corporates to improve their performance (Liang *et al.,* 2012); finally, because local government officials have the discretion to issue government subsidies, enterprises will conduct rent- seeking activities in order to obtain subsidies (Zhao *et al.,* 2015), which will increase the cost of enterprises, waste resources that can be used to improve performance, and lead to poor performance.

5.2 Management Insights

This study focuses on the M&A activities of Chinese enterprises, while considering target CSR overinvestment effect on M&A performance and government interventions moderating effect. It has the following management insights for Chinese government and enterprises:

1. The government should provide strategic support for enterprises to undertake social responsibility, improve the financing support and preferential tax police, and provide a fairer development and competition environment for various enterprises. Meanwhile, relevant policies on subsidies and social responsibility information disclosure should also be improved to alleviate the information asymmetry problem in the process of subsidy, which can help enterprises avoid unnecessary investment, and the impact on performance caused by the burden of blind rent-seeking.
2. Before cross-border M&A, enterprises should combine their own actual conditions and refer to the level of target CSR investment to make rational decisions that are in line with the reality, so as to avoid losses caused by blindly holding unnecessary CSR assets after M&A.

5.3 CONTRIBUTIONS

The main contributions of the paper are summarized as follows:

1. Our study adds a target CSR overinvestment perspective to the current literature on CSR, clarifies the correlation between target CSR overinvestment and M&A performance, confirms and enriches the argument that CSR plays a critically important role in corporate decisions and development (Ang *et al.,* 2022; Cao *et al.,* 2023). It can also help corporates avoid losses caused by blind M&A.
2. Our study on the classification of government intervention enriches the current literature on government intervention. It also helps the government to take appropriate intervention measures to encourage enterprises to participate in CSR.

5.4 LIMITATIONS AND FUTURE RESEARCH

The research limitation of this study mainly relates to the relatively small sample size. In future research, the number of samples and the scope of research can be further expanded, and new methodologies can also be used to measure M&A performance and get more robust results. In addition, though we explain our results and prove some of the explanations by using empirical analysis, there are still other factors (political connection, managerial ability, etc.) that may affect.

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