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Executives' Overconfidence, Political Connection and Acquisition Premium of Enterprises

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Abstract

Based on the behavioral finance, the study explores the relationship and mechanism among the political connection, executives' overconfidence and acquisition premium in the specific institutional context of China's transitional economy. The empirical study of the acquisition events of all A-share listed companies from 2007 to 2014 shows that the psychological bias of the executives' overconfidence has significantly enhanced the size of premium paid for the acquisitions after controlling for four other factors that may affect the acquisition premium; The political connection will weaken the influence of executives' overconfidence on the acquisition premium; However, political connection level is not necessarily an important safeguard against weakening the impacts of the executives' overconfidence. The results show that enterprises with overconfident executives need to correctly examine the advantages and disadvantages in the process of political connection construction, further improve the corporate governance mechanism, and use benign political connections to help overconfident managers make scientific and reasonable investment decisions, and finally help enterprises to realize healthy development.

Keywords

Behavioral Finance, Executives' Overconfidence, Acquisition Premium, Political Connection, Political Connection Level

1. Introduction

With the continuous improvement of the degree of opening up, Chinese enterprises are facing more and more turbulent market competition environment. To enhance their competitiveness, acquisitions have become the most preferred

strategic choice for Chinese enterprises. However, the frequent acquisitions are accompanied by serious premium phenomenon. Throughout the domestic and international acquisition premium behavior of enterprises, we find the majority of enterprises fell into a financial crisis, and gradually went to a loss or even bankruptcy due to paying too high premium. Nevertheless, enterprises are still on the way. This phenomenon has aroused wide concern among the scholars and gradually become an important research topic.

Foreign scholar Roll (1986) proposes "overconfidence hypothesis" to give a scientific explanation. He believes that even in the case that acquisitions are paid significantly higher than the market price or seriously damaged the value of the enterprises, overconfident executives still often initiate acquisition activities [1], Which spreads the research on the relationship between executives' overconfidence and acquisition decision-making based on behavioral finance at home and abroad [2]. Malmendier & Tate (2003) find that overconfident executives are more likely to conduct "low-quality" acquisitions of value destruction [3]. Song and Dai (2015) empirically test overconfident managers can significantly reduce the company's financial performance and market performance after acquisitions [4]. Therefore, the study of factors strengthening or weakening the adverse impacts of executives' overconfidence on the enterprise decisions of acquisition has substantial practical and theoretical significance.

Existing research on the factors strengthening or weakening the adverse impacts of executives' overconfidence on the enterprise decisions of acquisition suggest they are mainly conducted from the perspective of the governance structure of the board and the capital structure. For example, Hayward & Hambrick (1997) find the separation between CEO and chairman of the board or higher proportion of independent directors, will weaken the impact of CEO hubris on the premiums [5]. Zhu and Yu (2015) also find that the separation between the chairman and the CEO, the increase in the number of board meetings may undermine the positive correlation between executives' overconfidence and acquisition activities [6]. Malmendier & Tate (2006), Zhai and Zhang(2012) have found that overconfident executives have high cash flow sensitivity and are prone to over-investments when companies have sufficient cash flow [7] [8].

It is showed that enterprises can obtain massive resource benefits by establishing political connection in the specific institutional context of China's transitional economy [9], such as preferential financing and investment treatment [10]; more government subsidies and more favorable tax rates [11]; regulatory easing, easier to break industry barriers; as an alternative mechanism for property rights protection, offset some of the negative effects of the institutional environment [11]; make full use of government monopoly resources [9], etc. However there are obvious inconsistencies in the conclusions about effects of political connection on enterprises' strategic decisions and performance. We hold that these studies are mainly "capital" perspective in the backgroud that executives are completely rational, while ignoring the factor of executives' irrationality and the influences of other mechanisms of political connection, such as

weakening illusion control and providing information. Therefore, combining executives' irrationality with political connection and considering these two mechanisms, we study the role of political connection in strengthening or weakening the adverse impacts of executives' overconfidence on the enterprise decisions of acquisition.

This paper breaks through the existing research based on the perspective of capital and board of directors, and studies the mechanisms of weakening or strengthening the influence of overconfidence on the acquisition premium from the perspective of political connection, which is conductive to reveal a deep-level mechanisms about how the political connection affect the enterprise strategic decision-making and selection, also help enterprises to further consider how to improve their governance mechanism to help managers make scientific and rational investment decisions, and finally help enterprises to realize healthy development.

2. Theory and Hypothesis

2.1. Executives' Overconfidence and Acquisition Premium

Behavioral finance is a cognitive psychology research on People's behavior and decisions under the uncertain conditions. Based on the upper echelon theory and behavioral decision theory, it further studies the influence of all kinds of psychological characteristics of managers on enterprise's investment decision (such as overconfidence) under the conditions of environmental uncertainty, incomplete information and limited individual ability. Behavioral finance combines irrational factors with business activities, providing a new perspective to explain frequently occurred acquisition anomalies in the market. In this study, on the basis of behavioral finance executives' overconfidence shows five psychological activities:

First, overestimating their ability. Overconfident executives think they have a wealth of knowledge and experience to overestimate their ability to predict and judge, the ability to discover new information, the ability to manage and the ability to complete the task, that they can do more difficult projects [12]. Second, overestimating the possibility of project success. Overconfident executives tend to overestimate investment returns and underestimate investment risk, underestimate the benchmark rate of failure to enter emerging markets [13], underestimate the cultural conflicts that arise from acquisitions, and so on, and thus they have a blind optimism about the success of the project. Third, underestimating the uncertainty of the environment. Overconfident executives believe that behavior and outcome are determined by the factors in control rather than the factors out of control. The greater their awareness of control, the greater the likelihood of underestimating uncertainty and risk, the greater tendency to make risky decisions [12]. They desire to demonstrate their ability through the successful implementation of acquisition decisions. Fourth, overestimating arising synergies from acquisitions. Weston's synergistic theory includes operational, managerial, and financial synergies. Operational synergies can bring economies

of scale and economies of scope; management synergies can make the acquirers and the targets to learn from each other; financial synergies can enable enterprises to obtain internal and external financing with a smaller cost. Overestimation of synergies can also lead to overconfident executives with higher acquisition tendencies. Last, overestimating the ability of the target business to create profits [3]. Overconfident executives tend to overestimate the resource capabilities and prospects of the target firm, believing that they can create greater wealth for the firm after acquisitions.

In general, these five psychological activities have significantly influenced overconfident executives' perception of acquisition activities, believing that they have the ability to take on more challenging acquisitions, can deal well with the difficulties and obstacles during the process of acquisitions, comfirming acquisitions can bring the benefits of synergy effect, to create greater wealth for themselves, which makes them willing to pay higher premiums for successful acquisitions. Therefore, we hypothesize:

Hypothesis 1: Executives' overconfidence is positively related to the premium paid for the acquisitions.

2.2. Moderating Role of the Political Connection

Under the background of deepening reform and accelerating economic transformation and upgrading, and that the system vacancy and institutional conflict has existed for a long time, the Chinese government still has strong intervention in the operation of enterprises. At the same time, burdened with the social pension, employment promotion, social security maintenance and stability and other multiple policy burden, for their own interests the government often use their own power to intervene in the enterprises' management activities, requiring enterprises to share the government's commitment and responsibilities to these policy [11] [14], which leads the government to produce a strong tendency to control the enterprises.

Studies shows that when people are able to decide on an investment project and have an absolute influence on the outcome of the projects, they will have a control illusion [15]. The illusion control will make overconfident managers choose more challenging projects, make more bold decisions. When enterprises establish political connection, especially in the way to establish that the executives currently or have served in the government, or as a member of the National People's Congress or CPPCC members, the government is strengthening intervention and control on the enterprise management decision. The existence of government intervention and control will not only reduces the control of decision-making of executives, but also make the business performance be more dependent on political connection, rather than the manager's own ability, resulting in the weakening of executive's control illusion, and thus make the overconfident executives appear cautious in making investment decisions to inhibit the corporate acquisition premium. The higher the level of political association, the higher the degree of government intervention and control, the stronger the de-

pendence of the enterprise on the political connection, the stronger the control illusion is impaired, the easier the influence of the executives confidence on the acquisition premium is weakened.

In addition, corporate executives just interpret the limited state's macroeconomic policies, market information, and other corporate information. But by building political connection, they can gain a more comprehensive understanding and master more reliable information to help make rational investment decisions, avoiding irrational investment behavior. And in the current political and economic environment, the higher levels of government has a much more comprehensive understanding of macroeconomic policies, the market information on other companies than the lower government. Therefore, when enterprises' political connection are in higher level, there are more channels to obtain valued information and the information is more complete, more reliable, so that overconfident executives can be more cautious, objective and rational to make the appropriate acquisition decision-making, inhibit the level of corporate acquisition premium.

Both two mechanisms of political connection—weakening illusion control and providing information make overconfident executives become more cautious to making acquisition decisions, which to some extent inhibits the corporate acquisition premium. Therefore, we hypothesize:

Hypothesis 2a: The relationship between executives' overconfidence and acquisition premium will be negatively moderated by the political connection.

Hypothesis 2b: The higher the level of corporate political connection, the more likely to weaken the impact of executives' overconfidence on acquisitions premium.

3. Methods

3.1. Data and Sample

We utilize the acquisition events implemented by all A-share listed companies from 2007 to 2014 as the initial sample. All acquisition events are based on the sample company as the acquirers, not the targets. After excluding the samples of the financial companies, ST, *ST companies, the samples of listed companies in the same year, the samples that CEOs are changed, the samples that do not disclose earnings forecasts and disclose the forecast information after the end of the disclosure period, and the samples of companies that implemented debt restructuring and tender offer, as well as the samples of missing values and outliers, our final sample consists of 419 observed values (see **Appendix 1**). The data came from th China Listed Firm's Merger & Acquisition, Asset Restructuring Research Database in the CSMAR.

3.2. Measures

- Acquisition premiums. According to the unique China's capital market, this paper takes the measurement methods commonly used by domestic scholars [16] [17]. Acquisition premiums are commonly defined as the acquirer' bid

minus the targets' preannouncement market value divided by the targets' preannouncement market value. The higher the ratio, the Larger the size of acquisition premium.

- Executives overconfident (OC). At present, there are a variety of ways to measure executives' overconfidence, such as: 1) executives stock options or stock holdings [3] [7]; 2) business climate index [18]; 3) executives relative compensation [12]; 4) earnings forecast bias. Lin, Hu, Chen (2005) first identified if the company's annual profit is more than the actual, the executives will be overconfident; Yu (2008) and Jiang (2009) etc. also consider the inconsistency between the performance forecasts and actual performance as a judge whether the executives are overconfident; 5) mainstream media evaluation [5]; 6) the frequency of acquisitions [19]; 7) executives personal characteristics [18]. The advantages and disadvantages of these seven kinds of measurement methods have been widely discussed. Considering the needs of empirical research, data availability and special circumstances of China's securities market, we mainly use two methods to measure and test the robustness by the second method.
- The first method is to learn from Yu, Jiang and others' approach, according to the listed company's annual performance notice to determine whether the executives are overconfident (OC1). The type of performance forecasts includes four optimistic expectations (slightly increased, deficit loss, continued surplus, pre-increase) and four pessimistic expectations (slightly reduced, the first loss, continued losses, reduction). We choose four optimistic expectations as a sample of the study, if the optimistic expectations don't come true (that is, the performance forecasts and the actual performance is inconsistent), the executives will be defined as overconfidence, the value is 1, otherwise 0.
- Learning from Yu, Li, Pan and others' approach, the second is to use composite index composed of individual indicators of executives personal characteristics as a measure of overconfidence. The personal characteristics of the executives include: 1) gender. Women are more conservative and cautious than men; 2) age. Younger executives are more likely to make risk decisions, and if the age of executive is less than the sample mean, the value is 1, otherwise 0; 3) education. People who receive high level of education firmly believe that their own ability and the accuracy of judgment, and behave more confident. If the degree is above the undergraduate, the value is 1, otherwise 0; 4) educational background. Executives with administrative backgrounds have a deeper understanding of risk and are less likely to be overconfident. If the executive does not have an administrative background, the value is 1, otherwise 0; 5) the separation of positions. If CEO is the chairman of the board at the same time, it will become more confident, the value is 1, otherwise 0. Based on the total value of the above five features, a comprehensive index is constructed. If the composite index is 4 or 5, it is defined as overconfidence (OC2), the value is 1, otherwise 0.
- Political connection (PC). Based on the particular domestic institutional en-

vironment and the actual situation of Chinese enterprises, we examine the political connection from two dimensions: First, political connection. If the chairman, general manager or CFO of the company currently or have served in the government, or as a member of the National People's Congress or CPPCC members, that means the company has a political connection [20] [21], the value is 1,otherwise 0. Second, political connection level (PCL). The corresponding assignment is 5, 4, 3, 2, 1, according to the executive in the administrative level of the division of the work unit for the national, provincial, municipal, county level and below. The higher the score, the higher the level.

- Control variables. Following existing research, we control the 13 variables that may have an impact on the acquisition premium, which is divided into four categories. First, firm characteristics, acquirer firm size, age, cash flow and ROA. Second, Governance structure: the proportion of independent directors; ownership concentration. Third, acquisition characteristics: history, payment methods, financial advisor. Forth, other conventional influences: executives age, financial crisis, industry and year.

3.3. Regression Model

In order to test the relationship between executives' overconfidence and acquisition premium, we establish mode 1.

$$\begin{aligned} PR_{i,t} = {} & \alpha_0 + \alpha_1 OC_{i,t} + \alpha_2 \text{Size}_{i,t} + \alpha_3 \text{Age-}C_{i,t} + \alpha_4 \text{Cash-}F_{i,t} + \alpha_5 ROA_{i,t} \\ & + \alpha_6 \text{Ind-ratio}_{i,t} + \alpha_7 \text{Share-}F_{i,t} + \alpha_8 \text{History}_{i,t} + \alpha_9 \text{Method}_{i,t} \\ & + \alpha_{11} \text{Adviser}_{i,t} + \alpha_{12} FCP_{i,t} + \alpha_{13} \text{Industry}_{i,t} + \alpha_{14} \text{Year}_{i,t} + \varepsilon \end{aligned}$$

In order to further test the relationship between the political connection, the overconfidence of executives, and acquisition premium, we establish the following model 2 and model 3.

$$\begin{aligned} PR_{i,t} = {} & \alpha_0 + \alpha_1 OC_{i,t} + \alpha_2 PC_{i,t} + \alpha_3 OC_{i,t} \times PC_{i,t} + \alpha_4 \text{Size}_{i,t} + \alpha_5 \text{Age-}C_{i,t} \\ & + \alpha_6 \text{Cash-}F_{i,t} + \alpha_7 ROA_{i,t} + \alpha_8 \text{Ind-ratio}_{i,t} + \alpha_9 \text{Share-}F_{i,t} + \alpha_{10} \text{History}_{i,t} \\ & + \alpha_{11} \text{Method}_{i,t} + \alpha_{12} \text{Adviser}_{i,t} + \alpha_{13} FCP_{i,t+} \alpha_{14} \text{Industry}_{i,t} + \alpha_{15} \text{Year}_{i,t} + \varepsilon \end{aligned}$$

$$\begin{aligned} PR_{i,t} = {} & \alpha_0 + \alpha_1 OC_{i,t} + \alpha_2 PCL_{i,t} + \alpha_3 OC_{i,t} \times PCL_{i,t} + \alpha_4 \text{Size}_{i,t} + \alpha_5 \text{Age-}C_{i,t} \\ & + \alpha_6 \text{Cash-}F_{i,t} + \alpha_7 ROA_{i,t} + \alpha_8 \text{Ind-ratio}_{i,t} + \alpha_9 \text{Share-}F_{i,t} + \alpha_{10} \text{History}_{i,t} \\ & + \alpha_{11} \text{Method}_{i,t} + \alpha_{12} \text{Adviser}_{i,t} + \alpha_{13} FCP_{i,t} + \alpha_{14} \text{Industry}_{i,t} + \alpha_{15} \text{Year}_{i,t} + \varepsilon \end{aligned}$$

4. Results

4.1. Regression Analysis

We use the STATA/MP 13.1 for data analysis. Table 1 presents the means, standard deviations and correlations of the variables that we measure in the model. The average value of the acquisition premium is 0.064 and the standard deviation is 0.159, which indicates that there is a significant difference in the size of acquisition premium of different enterprises. The mean value of the political connection is 0.456, the standard deviation is 0.499, the mean level of political

Table 1. Descriptive statistics and correlation analysis.

variable	mean	S.d	PR	OC1	PC	PCL	Size	Age_C
PR	0.063571	0.159179	1					
OC1	0.252983	0.435241	0.038	1				
PC	0.455847	0.498642	−0.057	0.03	1			
PCL	1.513126	1.853922	−0.041	−0.06	0.893***	1		
Size	21.855864	1.027296	−0.100**	−0.017	0.019	0.029	1	
Age_C	1.756776	0.816632	−0.166***	0.192***	−0.085*	−0.140***	0.350***	1
Cash_F	3.903552	10.776593	−0.105**	−0.104**	0.026	0.037	0.616***	0.238***
ROA	0.083158	0.050135	−0.025	−0.021	0.168***	0.161***	0.051	0.052
Ind_ratio	0.332561	0.07121	0.085*	−0.043	0.048	0.133***	0.012	0.064
Share_F	0.371028	0.151973	−0.108**	−0.168***	−0.147***	−0.059	0.217***	−0.041
History	0.818616	0.385797	0.063	0.032	0.083*	0.104**	0.237***	0.186***
Method	0.835322	0.371333	0.177***	0.007	0.109**	0.199***	0.055	−0.225***
Advisor	0.171838	0.37769	−0.169***	−0.003	−0.061	−0.136***	−0.001	0.202***
Age_T	47.140811	5.323212	−0.009	−0.048	0.088*	0.104**	−0.022	0.028
variable	Cash_F	ROA	Ind_ratio	Share_F	History	Method	Advisor	Age_T
Cash_F	1							
ROA	0.114**	1						
Ind_ratio	−0.113**	0.176***	1					
Share_F	0.160***	−0.034	0.096*	1				
History	0.136***	0.05	−0.048	0.032	1			
Method	0.039	0.034	−0.006	0.05	0.108**	1		
Advisor	−0.07	−0.073	−0.022	−0.106**	−0.015	−0.736***	1	
Age_T	0.035	0.078	0.06	−0.165***	−0.027	−0.069	0.091*	1

Note: * **, ***respectively indicate significant correlation at 10%, 5%, 1% level. T values in brackets.

connection is 1.513, the standard deviation is 1.854, indicating that many enterprises are actively establishing the political connection, and there are great differences in the level of political connection of different enterprises. The correlation coefficient of political connection and political connection level is 0.893. It is so high mainly because the political connection level is evaluated with political connections in the sample. In order to avoid serious mutual linear problem, the study will be on the two variable regression analysis respectively. In addition, the correlation degree of other variables is low. The correlation coefficient between overconfidence and premium is 0.038, which is positive correlation but not significant. So we need to further test in regression analysis.

Acquisition premium is a continuous variable that can be analyzed by using a general linear model. Table 2 shows the results of using OC1 to measure executives' overconfidence. The models (1), (2), (3) show the regression results of the relationship between executives' overconfidence, political connection and acqui-

Table 2. Relationship between overconfidence and acquisition premium test (OC1).

variables	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
OC1		0.017**	0.017**		0.016*	0.016*
		(2.22)	(2.19)		(1.79)	(1.75)
PC × OC1			−0.034**			
			(−1.98)			
PCL×OC1						0.002
						(0.42)
PC	−0.034	−0.035	−0.035			
	(−1.48)	(−1.51)	(−1.51)			
PCL				−0.010	−0.010	−0.010
				(−1.53)	(−1.53)	(−1.48)
Size	−0.008	−0.008	−0.008	−0.008	−0.008	−0.008
	(−0.74)	(−0.78)	(−0.81)	(−0.70)	(−0.74)	(−0.73)
Age_C	−0.031*	−0.033*	−0.033*	−0.032*	−0.034*	−0.034*
	(−1.79)	(−1.93)	(−1.94)	(−1.78)	(−1.91)	(−1.89)
Cash_F	−0.000	−0.000	−0.000	−0.000	−0.000	−0.000
	(−0.42)	(−0.21)	(−0.23)	(−0.36)	(−0.17)	(−0.15)
ROA	0.127	0.140	0.131	0.134	0.144	0.150
	(1.26)	(1.34)	(1.21)	(1.49)	(1.57)	(1.52)
Ind_ratio	0.267*	0.271**	0.270**	0.287**	0.291**	0.292**
	(1.96)	(2.09)	(2.02)	(2.14)	(2.27)	(2.31)
Share_F	−0.171**	−0.166**	−0.165**	−0.169**	−0.164**	−0.165**
	(−2.39)	(−2.23)	(−2.21)	(−2.40)	(−2.23)	(−2.27)
History	0.045***	0.045***	0.046***	0.047***	0.047***	0.047***
	(5.37)	(5.45)	(5.97)	(6.41)	(6.39)	(6.12)
Method	0.024	0.023	0.024	0.028	0.026	0.026
	(1.34)	(1.20)	(1.27)	(1.59)	(1.45)	(1.42)
Advisor	−0.043***	−0.042***	−0.039***	−0.042***	−0.041***	−0.041***
	(−6.12)	(−5.00)	(−4.55)	(−5.97)	(−4.95)	(−5.57)
Age_T	−0.001	−0.001	−0.001	−0.001	−0.001	−0.001
	(−0.67)	(−0.60)	(−0.62)	(−0.59)	(−0.53)	(−0.52)
FCP	−0.073***	−0.073***	−0.071***	−0.071***	−0.071***	−0.072***
	(−13.26)	(−12.59)	(−9.93)	(−11.03)	(−10.52)	(−8.05)
_cons	0.422	0.429	0.433	0.399	0.406	0.406
	(1.57)	(1.61)	(1.63)	(1.36)	(1.39)	(1.39)
Industry	yes	yes	yes	yes	yes	yes
Year	yes	yes	yes	yes	yes	yes
r2	0.171	0.173	0.175	0.174	0.175	0.175
F	48.710	55.318	68.705	47.992	53.896	93.011
N	419.000	419.000	419.000	419.000	419.000	419.000

Note: *, **, ***respectively indicate significant correlation at 10%, 5%, 1% level. T values in brackets.

sition premium. Model (1) first adds control variables as the benchmark model, regression results in model (2) with executives' overconfidence as explanatory variables show that executives' overconfidence coefficient is 0.017, significant at the 5% level, by controlling the variables that may affect the acquisition premium, which suggests executives' overconfidence significantly enhance the size of acquisition premium. The hypothesis 1 is supported. In model (1) and (2), the coefficient of political connection is negative, but not significant, indicating that political connection do not directly have a significant negative impact on the premium. The model (3) reports the regression results after adding the variables of political connection. The results show that the coefficient of overconfidence and political correlation is −0.034, which is also significant at 5% level, indicating that the political connection will weaken the influence of executives' overconfidence on the acquisition premium. The hypothesis 2a is supported. The models (4), (5), (6) show the regression results of the relationship between executives' overconfidence, political connection level and acquisition premium. The model (6) shows that the coefficient of overconfidence and political connection level is 0.02, and not significant, indicating that the higher the level of political connection is, the less likely it is to weaken the impact of executives overconfidence on the acquisition premium. So the hypothesis 2b is not supported. This may be because the higher the level of political connection, the higher the reputation of the firm, will help to enhance investor confidence in the decision-making of the company, which will bring more financing to the company. Instead, overconfident executives may pay higher premium for the acquisitions.

4.2. Robustness Test

To test the reliability of the above results, we use a composite index of executives' personal characteristics as a measure of executives' overconfidence to carry out the robustness test. In the same way, all the acquisitions events of A-share listed companies in 2007 and 2014 were selected as the initial sample. After eliminating the sample that did not meet the relevant requirements, the final sample value was 1100. Table 3 shows the regression results of OC2 as a measure of executives' overconfidence. The Model (2) shows that the executives' overconfidence coefficient is 0.013 and is significant at the 5% level. The hypothesis 1 is supported. The Model (3) shows that the coefficient of overconfidence and political connection is −0.065 and is significant at the 5% level. The hypothesis 2a is supported. The Model (6) suggests that the regression coefficient for executives' overconfidence and political connection level is negative but not significant, indicating that hypothesis 2b is not supported. The results of robustness test are similar to those in Table 2, which shows that the conclusion of this study has good stability.

5. Conclusions

Acquisition events of all A-share listed companies in 2007-2014 taken as the sample, we empirically test the relationship between executives' overconfidence

Table 3. Relationship between overconfidence and acquisition premium test (OC2).

variables	Model(1)	Model(2)	Model(3)	Model(4)	Model(5)	Model(6)
OC2		0.013**	0.012***		0.011*	0.009**
		(2.57)	(2.58)		(1.82)	(2.07)
PC×OC2			−0.065**			
			(−2.09)			
PCL×OC2						−0.003
						(−0.70)
PC	0.007	0.006	0.006			
	(0.32)	(0.29)	(0.29)			
PCL				−0.004*	−0.004	−0.004*
				(−1.87)	(−1.60)	(−1.67)
Size	−0.014***	−0.014***	−0.013***	−0.013***	−0.013***	−0.013***
	(−3.76)	(−3.82)	(−3.67)	(−3.54)	(−3.52)	(−3.52)
Age_C	−0.022***	−0.022***	−0.023***	−0.024***	−0.024***	−0.024***
	(−3.48)	(−3.44)	(−3.45)	(−4.86)	(−4.74)	(−4.76)
Cash_F	0.000**	0.000**	0.000***	0.000	0.000	0.000
	(2.30)	(2.42)	(2.63)	(1.32)	(1.30)	(1.32)
ROA	0.123**	0.136**	0.129**	0.148***	0.157***	0.155***
	(2.20)	(2.41)	(2.41)	(2.65)	(2.74)	(2.85)
Ind_ratio	0.023	0.020	0.011	0.030	0.027	0.025
	(0.42)	(0.36)	(0.19)	(0.51)	(0.46)	(0.41)
Share_F	0.008	0.008	0.007	0.010	0.009	0.009
	(0.15)	(0.15)	(0.13)	(0.18)	(0.17)	(0.17)
History	0.027***	0.026***	0.025**	0.028***	0.028***	0.028***
	(2.59)	(2.60)	(2.58)	(2.59)	(2.60)	(2.62)
Method	0.018*	0.017*	0.014	0.018	0.017	0.017
	(1.78)	(1.66)	(1.46)	(1.60)	(1.54)	(1.52)
Advisor	−0.054***	−0.054***	−0.056***	−0.054***	−0.055***	−0.055***
	(−3.18)	(−3.09)	(−3.11)	(−2.92)	(−2.87)	(−2.85)
Age_T	0.002	0.002	0.002	0.002	0.002	0.002
	(1.19)	(1.31)	(1.21)	(1.18)	(1.22)	(1.21)
FCP	−0.069***	−0.071***	−0.073***	−0.063***	−0.065***	−0.066***
	(−7.34)	(−7.16)	(−6.99)	(−7.50)	(−7.22)	(−7.22)
_cons	0.289***	0.263***	0.288***	0.273***	0.254***	0.256***
	(4.86)	(4.68)	(4.70)	(4.34)	(4.12)	(4.13)
Industry	yes	yes	yes	yes	yes	yes
Year	yes	yes	yes	yes	yes	yes
r2	0.112	0.113	0.117	0.114	0.114	0.115
F	18.918	19.615	14.743	15.841	16.926	15.748
N	1100.000	1100.000	1100.000	1100.000	1100.000	1100.000

Note: *, **, ***respectively indicate significant correlation at 10%, 5%, 1% level. T values in brackets.

and acquisition premium. The study finds that Chinese enterprises in the context of the transition economy, as the main body of the new round of acquisitions, initiate acquisition premium behavior that are highly associated with executives' overconfidence, which is consistent with the foreign research conclusions. Further, breaking through the existing research based on the perspective of capital and board of directors, we combine executive's irrationality with political connection to study the mechanisms of weakening or strengthening the influence of overconfidence on the acquisition premium from the perspective of political connection. Different from the previous studies, this paper combines the two mechanisms of political connection-weakening the control of illusion and information provision, and draws a conclusion different from the existing research. It shows the political connection will weaken the influence of executives' overconfidence on the acquisitions premium; however, political connection level is not necessarily an important safeguard against weakening the executives' overconfidence.

The political connection does not have a direct and significant impact on the corporate buy-out premium, but rather by weakening the manager's illusion, reducing the manager's opportunistic behavior, providing more comprehensive and reliable information, so that making the overconfident manager finally make more rational and reasonable acquisition decision. This reveals a deep-level mechanism about how the political connection affect the enterprise Strategic decision-making and selection, also suggests political connection can serve as an effective governance mechanism to help the enterprises with overconfident executives to make scientific and reasonable investment decisions,. As a result, the enterprises with overconfident executives can make full of the political connection to reduce the non-rational investment activities, and finally help enterprises to realize healthy development.

But at the same time, it is necessary to examine the role of political connection. The higher level of political connection does not necessarily mean more easily weaken negative influences of executives' overconfidence. It shows that the political connection level is not the higher the better. Excessive attention to the construction of the political connection level will lead to excessive government intervention and control in the corporate decision-making to restrict managerial discretion to a greater extent and will lead to excessive dependence on political connection while ignoring the construction of enterprises' internal capacity (e.g. innovation. internal governance). Therefore, in the current background of China's transition economy, the establishment of a benign political connection is extremely necessary. Chinese entrepreneurs should pay more attention to innovation, focus on improving their "hard power", rather than engage in "relations". At the same time, the government should pay more attention to serving and building a platform to help enterprises to grow faster and stronger.

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Appendix 1

A-share listed companies (249 companies, 419 observed values).

No.	Company name	Aqusition events
1	COFCO Property (Group) Co., Ltd.	6
2	Shenzhen Centralcon Investment Holding Co., Ltd.	2
3	Zoomlion Heavy Industry Science and Technology Co., Ltd.	1
4	Wuhan Department Store Group Co., Ltd.	1
5	Kunming Sinobright (Group) Co., Ltd.	4
6	Jiangsu Youli Investment Holding Co., Ltd	1
7	Chengdu Xingrong Environment Co., Ltd.	9
8	Xi'An Tourism Co., Ltd.	1
9	Kinghand Industrial Investment Co., Ltd.	1
10	Tianjin TEDA Co., Ltd.	3
11	Shandong Jinling Mining Co., Ltd.	2
12	Shantui Construction Machinery Co., Ltd.	1
13	Shanxi Taigang Stainless Steel Co., Ltd.	3
14	Anhui Ankai Automobile Co., Ltd.	1
15	Zoje Resources Investment Co., Ltd.	1
16	Beijing SL Pharmaceutical Co., Ltd.	2
17	Dehua TB New Decoration Material Co., Ltd.	1
18	Ningbo Huaxiang Electronic Co., Ltd.	1
19	Zhejiang Jingxing Paper Joint Stock Co., Ltd.	2
20	Zhejiang Wanfeng Auto Wheel Co., Ltd.	1
21	Xinjiang Zhongtai Chemical Co., Ltd.	1
22	Ningbo Kangqiang Electronics Co., Ltd.	1
23	Shenzhen Sunlord Electronics Co., Ltd.	1
24	Risesun Real Estate Development Co., Ltd.	1
25	Zhejiang Guangsha Co., Ltd.	9
26	China Northern Rare Earth (Group) High-Tech Co., Ltd.	2
27	Shenzhen Heungkong Holding Co., Ltd.	1
28	Xinhu Zhongbao Co., Ltd.	1
29	Hubei Sanxia New Building Materials Co., Ltd.	1
30	Hunan Corun New Energy Co., Ltd.	1
31	Xinjiang Urban Construction(Group)Co., Ltd.	1
32	Eastern Communications Co., Ltd.	1
33	GD Power Development Co., Ltd.	13
34	Xiamen XGMA Machinery Company Limited.	2
35	Shanghai Xinhua Media Co., Ltd.	1

Continued

36	Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd.	1
37	LANHAI MEDICAL INVESTMENT CO., LTD.	1
38	North Huajin Industries Co., Ltd.	1
39	Lvjing Holding Co., Ltd.	1
40	Hainan Haiyao Co., Ltd.	2
41	Northeast Pharmaceutical Group Co., Ltd.	1
42	Transfar Zhilian Co., Ltd.	1
43	Cefc Anhui International Holding Co., Ltd.	1
44	Shenzhen Coship Electronics Co., Ltd.	3
45	Dymatic Chemicals, Inc.	1
46	Sinoma Science & Technology Co., Ltd.	1
47	Cangzhou Mingzhu Plastic Co., Ltd.	1
48	Jilin Zixin Pharmaceutical Industrial Co., Ltd.	1
49	Tianjin Zhonghuan Semiconductor Co., Ltd.	4
50	Shenzhen Hifuture Electric Co., Ltd.	2
51	Shaanxi Provincial Natural Gas Co., Ltd.	1
52	Hubei Xingfa Chemicals Group Co., Ltd.	1
53	Yanzhou Coal Mining Company Limited	3
54	Xinjiang Tianrun Dairy Co., Ltd.	1
55	North Navigation Control Technology Co., Ltd.	1
56	Hebei Hengshui Laobaigan Liquor Co., Ltd.	2
57	Shenzhen Textile (Holdings) Co., Ltd.	2
58	Guizhou Tyre Co., Ltd.	1
59	Maoming Petro-Chemical Shihua Co., Ltd.	3
60	Visual China Group Co., Ltd.	1
61	PKU HealthCare Corp., Ltd.	4
62	Henan Tongli Cement Co., Ltd.	1
63	United Science & Technology Co., Ltd.	1
64	Huadong Medicine Co., Ltd.	1
65	Guodian Changyuan Electric Power Co., Ltd.	1
66	Huagong Tech Company Limited	2
67	Chengzhi Co., Ltd.	1
68	Chongqing Zongshen Power Machinery Co., Ltd.	2
69	Zhejiang Kan Specialities Material Co., Ltd.	1
70	Luoyang Bearing Science & Technology Co., Ltd.	1
71	Weihai Guangtai Airport Equipment Co., Limited	6
72	Tianma Bearing Group Co., Ltd.	1
73	Guangzhou Grandbuy Co., Ltd.	1

Continued

74	Hefei Urban Construction Development Co., Ltd.	1
75	Zhejiang Great Southeast Co., Ltd.	2
76	Huaneng Power International, Inc.	1
77	Beiqi Foton Motor Co., Ltd.	1
78	Anhui Jianghuai Automobile Group Corp., Ltd.	5
79	Ningbo Fubang Jingye Group Co., Ltd.	1
80	SDIC Power Holdings Co., Ltd.	1
81	Anhui Fengyuan Pharmaceutical Co., Ltd.	1
82	Shenyang Machine Tool Co., Ltd.	1
83	Changsha Tongcheng Holdings Co., Ltd.	1
84	Zhang Jia Jie Tourism Group Co., Ltd.	3
85	Guangdong Highsun Group Co., Ltd.	5
86	Harbin Electric Corporation Jiamusi Electric Machine Co., Ltd.	1
87	Ningxia Zhongyin Cashmere Co., Ltd.	1
88	Zhejiang Weixing Industrial Development Co., Ltd.	1
89	Zhejiang Jinggong Science & Technology Co., Ltd.	1
90	Zhejiang Dun'An Artificial Environment Co., Ltd.	1
91	Guizhou Space Appliance Co., Ltd.	3
92	Huafu Top Dyed Melange Yarn Co., Ltd.	2
93	ZHEJIANG SANHUA INTELLIGENT CONTROLS CO., LTD.	1
94	China CAMC Engineering Co., Ltd.	1
95	Mesnac Co., Ltd.	1
96	Suzhou Gold Mantis Construction Decoration Co., Ltd.	1
97	China Haisum Engineering Co., Ltd.	1
98	Yunda Holding Co., Ltd.	2
99	Zhejiang Yinlun Machinery Co., Ltd.	1
100	Huolinhe Opencut Coal Industry Corporation Limited of Inner Mongolia	1
101	Shandong Humon Smelting Co., Ltd.	1
102	Hunan Friendship&Apollo Commercial Co., Ltd.	1
103	Zhejiang Asia-Pacific Mechanical& Electronic Co., Ltd.	1
104	Guangdong Jingyi Metal Co., Ltd.	3
105	Jiangsu Yanghe Brewery Joint-Stock Co., Ltd.	1
106	S.F. Holding Co., Ltd.	1
107	Xiamen Academy of Building Research Group Co., Ltd.	1
108	Zhejiang Jiaxin Silk Corp., Ltd.	1
109	Zibo Qixiang Tengda Chemical Co., Ltd.	1
110	Shenzhen DAS Intellitech Co., Ltd.	1
111	Hangzhou Hangyang Co., Ltd.	1

Continued

112	Zhejiang Runtu Co., Ltd.	1
113	Huayi Brothers Media Corporation	1
114	Jiangsu Wuzhong Industrial Co., Ltd.	2
115	COSCO SHIPPING Specialized Carriers Co., Ltd.	1
116	Zhongjin Gold Corp., Ltd.	2
117	Xiamen Tungsten Co., Ltd.	1
118	Wuchan Zhongda Group Co., Ltd.	1
119	Shandong Binzhou Bohai Piston Co., Ltd.	2
120	Nanjing Red Sun Co., Ltd.	1
121	Zhejiang Zhenyuan Share Co., Ltd.	1
122	Huapont Life Sciences Co., Ltd.	3
123	Jiangxi Black Cat Carbon Black Co., Ltd.	1
124	Anhui Annada Titanium Industry Co., Ltd.	2
125	Shenzhen Topway Video Communication Co., Ltd.	1
126	Xinjiang Beixin Road and Bridge Group Co., Ltd.	2
127	Anhui Wantong Technology Co., Ltd.	1
128	Shandong Longji Machinery Co., Ltd.	5
129	NAURA Technology Group Co., Ltd.	1
130	Suzhou Dongshan Precision Manufacturing Co., Ltd.	2
131	Yibin Tianyuan Group Co., Ltd.	1
132	Guangdong Advertising Group Co., Ltd.	1
133	Navinfo Co., Ltd.	1
134	Guizhou Bailing Group Pharmaceutical Co., Ltd.	1
135	Kaiser (China) Culture Co., Ltd.	1
136	Guangdong Taiantang Pharmaceutical Co., Ltd.	1
137	Hangzhou Great Star Industrial Co., Ltd.	2
138	Suzhou Tianma Specialty Chemicals Co., Ltd.	1
139	Guangzhou Haige Communications Group Incorporated Company	1
140	Shanghai STEP Electric Corporation	1
141	Anhui Huilong Agricultural Means of Production. Co., Ltd.	1
142	Himile Mechanical Science and Technology (Shandong) Co., Ltd.	1
143	Shenzhen Danbond Technology Co., Ltd.	1
144	Sichuan Western Resources Holding Co., Ltd.	1
145	Zhejiang Juhua Co., Ltd.	1
146	Keda Clean Energy Co., Ltd.	1
147	Huaxin Cement Co., Ltd.	1
148	Sinopec Shandong Taishan Pectroleum Co., Ltd.	1
149	Hunan Development Group Co., Ltd.	1

Continued

150	Hongda Xingye Co., Ltd.	2
151	Yunnan Tourism Co., Ltd.	2
152	Hongda High-Tech Holding Co., Ltd.	1
153	CNNC Hua Yuan Titanium Dioxide Co., Ltd.	1
154	Jiangxi Special Electric Motor Co., Ltd.	1
155	Jiangsu Yuyue Medical Equipment & Supply Co., Ltd.	5
156	Goertek Inc.	1
157	Lianhe Chemical Technology Co., Ltd.	3
158	Zhejiang Wanma Co., Ltd.	3
159	Hunan Boyun New Materials Co., Ltd.	1
160	China West Construction Group Co., Ltd.	4
161	Zhejiang JIULI Hi-tech Metals Co., Ltd.	1
162	Nantong Jinghua Pharmaceutical Co., Ltd.	1
163	Sichuan Fulin Transportation Group Co., Ltd.	1
164	Blue Sail Medical Co., Ltd.	1
165	Jiangsu Zhongchao Holding Co., Ltd.	2
166	Sichuan Yahua Industrial Group Co., Ltd.	3
167	Qingdao Hanhe Cable Co., Ltd.	1
168	Tatwah Smartech Co., Ltd.	1
169	Shimge Pump Industry Group Co., Ltd.	1
170	Shenzhen Jinxinnong Technology Co., Ltd.	1
171	Tangrenshen Group Co., Ltd.	1
172	Suofeiya Home Collection Co., Ltd.	8
173	Beijing SPC Environment Protection Tech Co., Ltd.	1
174	Xilong Scientific Co., Ltd.	1
175	JPMF Guangdong Co., Ltd.	1
176	Yonggao Co., Ltd.	1
177	United Electronics Co., Ltd.	2
178	Beyondsoft Corporation	1
179	Zhejiang Yilida Ventilator Co., Ltd.	1
180	Recon Wenyuan Cable Co., Ltd.	2
181	Henan Pinggao Electric Co., Ltd.	2
182	Shanghai Ya Tong Co., Ltd.	1
183	Wasu Media Holding Co., Ltd.	4
184	Yunnan Baiyao Group Co., Ltd.	1
185	China Media Group	1
186	Unisplendour Corporation Limited	1
187	YIFANPHARMACEUTICAL CO., LTD.	1

Continued

188	Meinian Onehealth Healthcare Holdings Co., Ltd.	1
189	Shenzhen Deren Electronic Co., Ltd.	2
190	Guangdong No.2 Hydropower Engineering Co., Ltd.	2
191	Guoxuan High-Tech Co., Ltd.	1
192	Hunan Nanling Industrial Explosive Materials Co., Ltd.	1
193	San Bian Science & Technology Co., Ltd.	1
194	Anhui Truchum Advanced Materials and Technology Co., Ltd.	1
195	Youngy Co., Ltd.	2
196	Guangdong Jiaying Pharmaceutical Co., Ltd.	1
197	Shenzhen Noposion Agrochemicals Co., Ltd.	1
198	Sanquan Food Co., Ltd.	1
199	Shanghai Xinpeng Industry Co., Ltd.	3
200	Taiji Computer Corporation Limited	2
201	Guizhou Xinbang Pharmaceutical Co., Ltd.	1
202	Beijing Lier High-Temperature Materials Co., Ltd.	1
203	Shenzhen Glory Medical Co., Ltd.	1
204	Suzhou Thvow Technology Co., Ltd.	1
205	Shandong Longlive Bio-Technology Co., Ltd.	4
206	Roshow Technology Co., Ltd.	2
207	Chengdu Hongqi Chain Co., Ltd.	2
208	Hangzhou Huaxing Chuangye Communication Technology Co., Ltd.	2
209	Jsti Group	1
210	Citychamp Dartong Co., Ltd.	4
211	Grinm Advanced Materials Co., Ltd.	2
212	Jiangsu Sainty Corp., Ltd.	1
213	Chengtun Mining Group Co., Ltd.	2
214	Huadian Energy Company Limited	2
215	Inner Mongolia Yuan Xing Energy Company Limited	1
216	Da An Gene Co., Ltd. of Sun Yat-Sen University	2
217	Unigroup Guoxin Co., Ltd.	1
218	YGSOFT Inc.	1
219	Tecon Biology Co. Ltd.	4
220	China Quanjude(Group) Co., Ltd.	3
221	Zhejiang Founder Motor Co., Ltd.	1
222	Jiangsu Hongda New Material Co., Ltd.	1
223	Hengkang Medical Group Co., Ltd.	1
224	Puyang Refractories Group Co., Ltd.	1
225	Guilin Sanjin Pharmaceutical Co., Ltd.	1

Continued

226	Alpha Group	1
227	Guangdong Haid Group Co., Limited	1
228	Shandong Delisi Food Co., Ltd.	1
229	Shanghai Zhezhong Group Co., Ltd.	2
230	Zhejiang Yasha Decoration Co., Ltd.	3
231	Shandong New Beiyang Information Technology Co., Ltd.	1
232	Shenzhen Sunyes Electronic Manufacturing Holding Co., Ltd.	1
233	Shenzhen Hepalink Pharmaceutical Co., Ltd.	1
234	ZYNP Corporation	2
235	Jiangsu Yinhe Electronics Co., Ltd.	1
236	Guangdong Vanward New Electric Co., Ltd.	1
237	Brother Enterprises Holding Co., Ltd.	2
238	XinZhi Motor Co., Ltd.	1
239	Guangdong Delian Group Co., Ltd.	1
240	Dongjiang Environmental Company Limited	6
241	Bestway Marine & Energy Technology Co., Ltd.	1
242	HONZ PHARMACEUTICAL CO., LTD.	1
243	Shenzhen Tatfook Technology Co., Ltd.	2
244	Walvax Biotechnology Co., Ltd.	1
245	ShandongJincheng Pharmaceutical Group Co., Ltd.	1
246	Wenzhou Hongfeng Electrical Alloy Co., Ltd.	3
247	NBTM New Materials Group Co., Ltd.	4
248	Shandong Tyan Home Co., Ltd.	3
249	G Oriental Pearl	1
	Total	419