

Research on the Correlation between Payment Methods of M&A and M&A Performance of Listed Company

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Abstract

As mergers and acquisitions of listed companies have become increasingly active, payment methods of M&A have also increasingly diversified. This article takes M&A cases of listed companies in China capital market as samples during 2009 to 2013. Taking financial indexes analysis and factor analysis, we can construct M&A performance comprehensive score model, by which we can calculate the score. Then, build multiple regression model to study the relation between the performance of M&A and payment methods of M&A. Studies indicate that M&A performance is stable by the cash payment method and the cash payment method has a small effect on the M&A performance; M&A performance improves obviously by the stock payment method and mixed payment is not conducive to the improvement of long-term performance; The stock payment method has a huge positive effect on the M&A performance, and the mixed payment is not beneficial to improve the M&A performance.

Keywords: payment method of M&A, performance of M&A, factor analysis, multiple regression analysis

1. Introduction

After the completion of China's shareholding reform, merger and acquisition activities have become increasingly active and have become a common means for listed companies to expand. More and more companies are expanding their companies and adjusting their industrial structure through mergers and acquisitions. M&A activities have played an important role in promoting the market position and enhancing international competitiveness. As an important economic issue for a listed company, M&A will inevitably affect the performance of the company. Before the start of M&A activities, the choice of M&A payment methods is an important issue for companies to consider. The continuous development of China's capital market has prompted the continuous enrichment of M&A payment methods. In addition to the early cash payment method, a variety of merger and acquisition payment instruments, such as equity payment methods, debt payment methods, and asset payment methods have emerged one after another. The innovation of M&A payment methods has advanced the emergence of M&A wave. In the actual M&A activity, the M&A company will consider comprehensively, such as the intention of the merger and acquisition, the financial status of the M&A parties and the willingness of the shareholders. Finally they will select the appropriate payment methods. Different M&A payment methods will result in different M&A performance.

Although there are multiple merger and acquisition payment methods in the current capital market, research in the academic field still focuses on cash payment and stock payment. Research of the differences and comparisons of M&A performance under the two payment methods, cash payment and stock payment, has yielded rich results at home and abroad. Ismail and Krause (2010) found that M&A payment methods not only have a short-term impact, but also have a long-term impact. However, there have been few studies on the M&A performance for a lasting long term. Based on this, this paper uses the multiple regression model to study the effect of cash payment, stock payment and mixed payment on M&A performance from the year before the M&A to the third year after the merger, which will bring with some reference significance for Chinese listed companies to find the appropriate M&A payment methods in M&A activities.

2. Theoretical Analysis and Research Hypothesis

In the current M&A market, cash payment is the main payment method. To a certain extent, the use of cash for

mergers and acquisitions shows that the acquisition company has a good cash flow. Cash flow can be generated by the company's own production and business activities, and it can also be obtained by the company's external financing. Whether to use its own cash flow or to use external financing to make payments, it could cause some pressure to the companies' late-stage operations. External financing of enterprises generally includes debt financing and equity financing. Debiting banks, issuing bonds, or issuing shares all have higher requirements on the profitability of financiers. Only when the financing party meets the required requirements can it be financed. In this context, the cash of mergers and acquisitions with cash payment method is mainly its own funds. Tang and Chen (2010) proposed that the greater the scale of mergers and acquisitions was, the more likely they are to produce synergies and bring positive benefits to the company. However, the use of own funds for mergers and acquisitions will inevitably limit the scale of mergers and acquisitions, and it is difficult to produce synergies. Guo and Jia (2017) found that with the cash payment method, the merger and acquisition performance in the year of M&A and two years after the M&A decreased. Based on this, the first hypothesis of this paper is put forward:

H1: The cash payment method is not conducive to enhance the performance of acquirers.

Yang (2014) found that the one-sided emphasis on the ownership of public ownership in China's joint-stock reform has resulted in serious problems in the control of major shareholders of listed companies in China. According to agency theory, there is a proxy conflict between the company's controlling shareholders and small and medium shareholders. Equity concentration enables the controlling shareholder to infringe on the interests of small and medium shareholders, and to seek greater benefits for themselves. In the case of concentrated ownership, major shareholders can directly take up the company's management level or directly assign corresponding personnel to the management level, which results in the convergence of the interests of the company's management and major shareholders. Management makes decisions with considering the interests of major shareholders and their own interests. However, the acquirers acquire the target company through the issuance of shares, which affects the ownership structure of the merged company. For example, there are new shareholders in balance with the original major shareholders. The emergence of new shareholders results in a reduction in the proportion of major shareholders' holdings and dilutes the control of major shareholders. These changes have reduced the possibility of major shareholders and company management of seeking private benefits. So the company management considers the interests of most shareholders and the company's development. Giuli (2013) suggested that compared to cash payment method, mergers with stock payment can acquire better investment opportunities. Micah et al. (2009) used information asymmetry theory, Zhou (2015) used the transfer effect theory to discuss the relationship between cash payment methods and M&A performance, stock payment methods and M&A performance, and they all obtained the stock payment method was better. Based on this, the second hypothesis of this paper is proposed:

H2: The method of stock payment will promote the performance of the acquirer.

With the continuous development and improvement of China's capital market, M&A payment tools and mergers and acquisitions also continue to innovate. In addition to the single payment method, there are hybrid payment methods that combine two or more M&A tools. Such as mixed payment method of cash and assets, mixed payment method of cash and liabilities, and mixed method of cash and stock. Although the mixed payment can reflect the advantages of various single payment methods and avoid the disadvantages of some single payment methods, the mixed payment methods have higher and more difficult requirements for both parties. If they are used improperly, they will cause the mergers' financial situation to deteriorate, which will play a counter-productive role. The proportion of M&As using mixed payments in China is very low, and in the case of these M&As, cash and asset mixed payment methods, cash and debt mixed payment methods are mainly used.

Mixed payment with cash and assuming debt is often used to acquire companies with poor performance or some ST companies. This merger is also often referred to as inferior mergers and acquisitions. Assuming the debt of the target company will cause the financial pressure of the acquirer increasing over a period of time. Mixed payment of cash and assets is generally asset replacement and cash payment to obtain equity, which should inject high-quality assets into the target. With M&A activities using hybrid payment methods, the acquirers often transform the target company in accordance with their overall strategic plan, which imposes higher requirements on managerial capabilities. With the mixed payment, the risk of integration of both parties is greater, and the performance of mergers is relatively uncertain. So the last hypothesis of this paper is put forward:

H3: The performance of mergers with the mixed payment methods is relatively uncertain.

3. Research Design

3.1 Sample Selection and Data Sources

This paper takes the sample of mergers and acquisitions of listed companies in the A-share market in Shanghai and Shenzhen during 2009-2013. The sample data comes from the CSMAR database. In this paper, the classification of M&A payment methods is the same as the classification in the CSMAR database, including cash payment, stock payment, asset payment, debt payment, mixed payment and other payment. Mixed payment methods are further divided into cash and asset mixed payment methods, cash and stock hybrid payment methods, cash and debt hybrid payment methods.

Samples were screened according to the following criteria: (1) Exclude transaction events for which control rights did not transfer, and also remove two or more control rights change events during the study period; (2) Exclude published but finally unfinished M&A transactions; (3) Exclude the listed companies that violated the accounting standards and legal actions within four years from the year before the M&A happened to the completion of the M&A; (4) Strip out companies that had acquired ST or *ST in the year of the merger; (5) Exclude the companies listed in the year of mergers and acquisitions; (6) Exclude the mergers with financial data missing and exclude financial and insurance companies. After above screening, a total of 931 sample data were obtained. Since there were only 15 samples for the payment of assets and 11 samples for debt payment and the number of samples was too small, so the samples with these two payment methods were excluded. In the end, 905 samples were obtained: 692 samples with cash payment methods, 180 with stocks, and 33 with cash and liabilities, cash and assets.

3.2 Measurement of the Company's M&A Performance

Domestically and internationally, the incident research method and accounting research method are mainly used to measure M&A performance. The event research method is to evaluate the performance of mergers and acquisitions through changes in stock prices. The accounting research method evaluates M&A performance based on financial indicators. Because China's capital market has not yet been strong and effective, stock prices can't fully reflect the market information. As a result, the accounting research method is more suitable for evaluating the performance of China's listed companies' M&A performance. This paper measures M&A performance with the accounting research method, and then constructs comprehensive evaluation system of M&A performance by establishing the factor score model, and lastly calculates comprehensive scores of M&A performance to measure it.

(1) Selection of indicators for M&A performance evaluation system

In order to fully reflect the financial information of acquired companies and reduce the adverse effects of artificial manipulation of accounting statements, this paper draws on the "Enterprise Performance Evaluation Rules" promulgated by the Ministry of Finance in 2002 that selects a total of nine financial indicators from the five perspective-profitability, debt capacity, asset operating capability, cash flow ability and growth capability to establish a comprehensive evaluation system for M&A performance. Specific indicators selected were described in Table 1. The sample's financial indicator data come from the RESSET database and the CSMAR database.

Table 1. Comprehensive evaluation system of M&A performance financial indicators

	Index name	Index calculation method
Profitability	Rate of Equity (X1)	Net profit/owner equity
	Return on Assets (X2)	Net profit / average total assets
	Earnings Per Share (X3)	Net profit /common shares
Debt Capacity	Ratio of Liabilities to Assets (X4)	Total liabilities/total assets
	Current Ratio (X5)	Current assets / current liabilities
Asset Operating Capability	Total Assets Turnover (X6)	Operating income / average total assets
Cash Flow Ability	Net Cash Flow Per Share (X7)	Net increase in cash and cash equivalents/total number of shares
Growth Capability	Main Business Income Growth Rate (X8)	(Income of Main Business of the Year - Main Business of Last Year)/Main Business Income of the Previous Year
	Total Asset Growth Rate (X9)	(Total assets at the end of the period-Total assets at the end of the previous year)/Total assets at the end of the previous year

(2) The establishment of factor score model

The review period for M&A performance in this paper is from the year before the merger to the third year after

the merger. Since the process of establishment of the factor score model of the four years is exactly the same, this article takes the establishment process of the factor score model of the year of M&A as an example to explain in detail. Factor analysis was processed using SPSS 22.0. Before the factor analysis, the KMO test and Bartlett sphericity test was first performed on the sample data of the year of acquisition. We obtained KMO value of 0.693 and p value of 0.000. KMO value was greater than 0.5 and p value was less than 0.001, indicating that the indicators selected were in strong correlation and the factor analysis model built on this basis had a high degree of credibility. After all the factors passed the test, the principal component analysis method was used to extract the factor with the eigenvalue greater than 1, which was called the common factor. According to the results of SPSS software processing, five common financial factors were extracted from the 9 financial indicators in the year of acquisition that reached cumulative variance contribution rate of 80.281%, indicating that the five common factors could summarize 80.281% of the original financial data. Then we used the regression method to calculate the coefficient of the factor score function to get the score function of five common factors. The year of acquisition, $F^0 = 0.3897f_1 + 0.2332f_2 + 0.1365f_3 + 0.1277f_4 + 0.0879f_5$. According to the same steps, the comprehensive evaluation functions of the merger performance from the first year before the merger to the third year after the merger were obtained respectively:

The year prior to acquisition: $F^1 = 0.3153f_1 + 0.2428f_2 + 0.2040f_3 + 0.1522f_4 + 0.076f_5$

The first year after the merger: $F^1 = 0.4146f_1 + 0.2581f_2 + 0.1864f_3 + 0.1152f_4 + 0.063f_5$

The second year after the merger: $F^2 = 0.4011f_1 + 0.2227f_2 + 0.1853f_3 + 0.1183f_4 + 0.0604f_5$

The third year after the merger: $F^3 = 0.3633f_1 + 0.2416f_2 + 0.1976f_3 + 0.1274f_4 + 0.0606f_5$

Based on the above comprehensive scoring equation, SPSS will automatically calculate the M&A performance scores for the four years. Finally, we used EXCEL to calculate the average M&A performance scores of cash payment samples, stock payment samples and mixed payment samples.

3.3 Definition of Variables and Construction of Models

In order to examine the effect of M&A payment methods on M&A performance, this article referred to the research results of Zhou Shaoni so as to establish the following regression model to analyze the impact of payment methods on M&A performance. In addition to M&A payment method variable, the model also introduced related transaction, transaction size, and shareholding ratio of the largest shareholder as explanatory variables. In order to test the moderating effect of related transaction, transaction size and shareholding ratio of the largest shareholder on the “impact of M&A payment methods on M&A performance,” the interaction terms of payment method with related transaction, transaction size and shareholding ratio of the largest shareholder were introduced respectively. The specific variables in the model were described in Table 2.

$$MAP = \theta_0 + \theta_1 METHOD + \theta_2 RELTRA + \theta_3 METHOD * RELTRA + \theta_4 TRADE + \theta_5 LSH + \theta_6 LEV + \varepsilon_1 \quad (1)$$

$$MAP = \gamma_0 + \gamma_1 METHOD + \gamma_2 RELTRA + \gamma_3 TRADE + \gamma_4 METHOD * TRADE + \gamma_5 LSH + \gamma_6 LEV + \varepsilon_2 \quad (2)$$

$$MAP = \mu_0 + \mu_1 METHOD + \mu_2 RELTRA + \mu_3 TRADE + \mu_4 LSH + \mu_5 METHOD * LSH + \mu_6 LEV + \varepsilon_3 \quad (3)$$

Table 2. Table of variable definition table

Variable Type	Variable Name	Variable Symbol	Definition and Description
Explained Variable	M&A Performance	MAP	Calculated from the previous M&A performance evaluation function
Explanatory Variable	M&A Payment Method	METHOD	Since there are three types of M&A payment methods, two dummy variables, M1 and M2, are defined to represent M&A payment methods. M1: Cash and mixed take ‘0’, stock take ‘1’. M2: Take ‘0’ for cash and stock, and take ‘1’ for hybrid.
	Related Transactions	RELTRA	Virtual variable: if acquisition party and acquired party are related party, ‘1’ is taken. If not, ‘0’ is taken.
	Transaction Size	TRADE	M & A transaction value / total assets of the acquirer
	Shareholding Ratio of the Largest Shareholder	LSH	The balance between the shareholding ratio of the largest shareholder in the year after the merger and the year prior to the merger
Control Variable	Ratio of Liabilities to Assets	LEV	Total liabilities/total assets at the end of the period

4. Empirical Analysis

4.1 Descriptive Statistics

According to the comprehensive evaluation function of M&A performance established above, the average score of the comprehensive performance of M&A activities during the studied period can be obtained. In order to compare the changes in M&A performance better, this paper used the year before M&A happened as a reference to compare the balance by the means of using the average scores of another three lasting years to minus the prior year. In addition, this paper conducted a paired sample T-test on the balance mean value of M&A performance under different payment methods to test changes in M&A performance before and after M&A. Results of descriptive statistics and T-test are shown in Table 3, and the values in parentheses are the T-test values.

Table 3. Descriptive statistics of M&A performance

Payment method	Number of Samples	Statistics index	Balance of Comprehensive Score of M&A Performance			
			F^0-F^{-1}	F^1-F^{-1}	F^2-F^{-1}	F^3-F^{-1}
Cash Payment	692	Mean Value	-0.0029**(-2.1872)	-0.0018*(-1.6954)	-0.0024(-1.3436)	0.0016(1.0982)
		Standard Deviation	0.5145	0.6735	0.5991	0.4891
		Maximum Value	0.1102	0.0978	0.1013	0.1223
		Minimal Value	-1.0161	-1.2115	-2.3017	-1.5901
Stock Payment	180	Mean Value	-0.0331***(-3.1329)	0.0154*** (2.4136)	0.0382(1.4767)	0.0292*** (2.8571)
		Standard Deviation	0.7123	0.7958	0.6396	0.6719
		Maximum Value	1.5227	1.3783	1.6715	1.4899
		Minimal Value	-1.6251	-1.5421	-1.7906	-1.0971
Mixed Payment	33	Mean Value	0.0063*** (2.0896)	-0.0225(-0.9843)	0.0173*** (2.7130)	-0.0022(-1.439)
		Standard Deviation	0.7618	0.8716	0.7765	0.6479
		Maximum Value	1.0981	1.1144	1.1768	1.6753
		Minimal Value	-3.7617	-3.6243	-1.9084	-3.7812

Note. ***, **, and * means significant at the 1%, 5%, and 10% levels (two-sided test), and the values in parentheses are the two-sided test T values of the paired sample T test.

In the M&A with cash payment and stock payment, the values of F^0-F^{-1} were -0.0029 and -0.0331 respectively, indicating that the performance in the year of M&A decreased compared with the previous year. In the cash payment M&A activity, except that the value of F^3-F^{-1} is greater than 0, the other three-year comprehensive score were all negative number and less volatile, indicating that the long-term M&A performance didn't improved under the cash payment. As a result, Hypothesis 1 was verified to some extent. With cash payment, M&A performance was poor due to the financial pressure caused by cash payment. In the M&A activity with stock payment, the value of F^0-F^{-1} was -0.0331, larger than the other years' balance, indicating that the M&A performance had fallen by a large margin in the year when the M&A happened. However, with the stock payment, F^1-F^{-1} , F^2-F^{-1} , and F^3-F^{-1} were 0.0154, 0.0382, and 0.0292 respectively, indicating that the overall level of performance with the stock payment was higher than that of cash payment and mixed payment. Performance rebounded in the first year after M&A and gradually increased in the following two years, which confirmed Hypothesis 2 to some extent. With the hybrid payment method, although the performance of the M&A did not decline, the long-term performance did not improve either. With the mixed payment method, there was a large uncertainty in the performance of the acquirer, which also confirmed Hypothesis 3 to some extent.

4.2 Regression Analysis

The regression results of the model of the cash payment, stock payment and mixed payment methods were shown in Table 4 and Table 5. Compared with cash payment, the majority of METHOD's coefficients under stock and mixed payments were greater than zero, indicating that the cash payment method was not conducive to the improvement of M&A performance, which also supported Hypothesis 1. With the cash payment method, due to the restriction of the acquirers' own cash flow, the transaction scale was limited, and the M&A activities have not reached the goal of improving the competitiveness of the acquirers. Cash payments led to an increase in the debt of the acquirer, which in turn increased the financial risk of the acquirer.

From Table 4, it could be concluded that the stock payment method had a significant positive impact on M&A performance and was conducive to improving the performance of M&A parties. The LSH coefficient was negative, indicating that the introduction of new shareholders through M&A activities with the decline in the proportion of large shareholders' shareholdings had a significant role in promoting the performance, which also

validated Hypothesis 2 in one aspect. In addition, related-party transactions had a significant positive impact on M&A performance, and transaction size had a negative impact on M&A performance. The coefficients of both METHO*TRADE and METHO*LSH were negative, indicating that the transaction size and shareholding ratio of the largest shareholder had a negative regulatory effect on “the effect of stock payment methods on M&A performance”. The positive coefficient of METHO*RELTRA indicated that the related party transactions have enhanced the impact of stock payment methods on M&A performance.

Table 4. Regression results of M&A performance with cash and stock payment methods

Variable	Cash Payment Method	Stock Payment Method		
		Model 1	Model 2	Model 3
METHOD		0.1568*** (3.3721)	0.1482*** (2.8494)	0.1499*** (2.9312)
RELTRA	0.0491** (2.3412)	0.0375*** (3.0763)	0.0452** (2.7653)	0.0396* (1.9873)
TRADE	0.1256* (2.6338)	-0.0527** (-2.0826)	-0.0396 (-1.3609)	-0.0678 (-0.9724)
LSH	0.0007 (1.0329)	-0.0013 (-1.0672)	-0.0009** (-2.3271)	-0.0008* (-0.6891)
METHO*RELTRA			0.0462* (3.0981)	
METHO*TRADE		-0.0584* (-1.9276)		
METHO*LSH				-0.0037** (-2.7217)
LEV		0.8296*** (11.56)	0.7867*** (10.79)	0.7913*** (11.38)
Constant Term	0.0763 (1.3576)	0.0562 (0.9475)	0.0928 (0.4926)	0.0437 (0.9871)
F Value	8.4325	6.9724	6.7628	7.6315
Adjusted R ²	0.2894	0.2879	0.2903	0.3134

Note. ***, **, and * were significant at the 1%, 5%, and 10% levels, and the value in parentheses was the T statistic.

As can be seen from Table 5, the METHOD coefficient of cash and asset mixed payment, cash and debt-bearing hybrid payment were 0.0535, 0.0046, and -0.0007, and the coefficient changes were large but insignificant, indicating that the mixed payment method didn't affect the performance of the acquirer obviously, which supported Hypothesis 3. The coefficient of the control variable LEV was greater than 0 and significant, indicating that the asset-liability ratio had a positive impact on M&A performance. However, the asset-liability ratio of the acquirer can't be too large, otherwise the debt risk will increase. Related-party transactions had a significant impact on M&A performance, indicating that related-party transactions were an important factor in promoting the improvement of corporate performance. The inherent links between related two parties could reduce the transaction costs. The coefficients of both METHO*TRADE and METHO*LSH were negative, indicating that the transaction size and shareholding ratio of the largest shareholder had a negative regulatory effect on the “impact of mixed payment methods on M&A performance”. The positive coefficient of METHO*RELTRA indicated that the related party transactions have enhanced the “impact of mixed payment methods on M&A performance. With the mixed payment method, the METHOD was not an important factor affecting the performance of the acquirer. The performance of the acquirers was greatly uncertain, and the M&A with the mixed payment method was more complicated.

Table 5. Regression results of M&A performance with mixed payment method

Variable	Model 1	Model 2	Model 3
METHOD	0.0535 (2.0912)	0.0046 (0.9784)	-0.0007 (-1.0063)
RELTRA	0.0346** (2.5663)	0.0563** (2.7638)	0.0465** (2.7519)
TRADE	-0.0409** (-2.9920)	-0.0421 (-1.0211)	-0.0378 (-0.9865)
LSH	-0.0006 (-0.7945)	-0.0011 (-1.0470)	-0.0006** (-2.4794)
METHO*RELTRA		0.0662*** (3.0577)	
METHO*TRADE	-0.0418* (2.9782)		
METHO*LSH			-0.0037** (-2.7217)
LEV	0.7786* (10.43)	0.7867* (10.79)	0.7913* (11.38)
Constant Term	0.0862 (0.7462)	0.0459 (1.2101)	0.0598 (0.8134)
F Value	7.5691	6.3414	7.0912
Adjusted R ²	0.3805	0.2990	0.3566

Note. ***, **, and * were significant at the 1%, 5%, and 10% levels, and the value in parentheses was the T statistic.

4.3 Robustness Test

In order to ensure the robustness of the regression results, this paper changed the indicators of evaluating M&A performance for robustness tests. After using the ROE to replace the average scores of the M&A performance, the hypothesis was still valid.

5. Conclusions and Recommendations

The following conclusions can be drawn from the above research: First, from the perspective of the average M&A performance of all the samples, M&A didn't have a significant positive impact on corporate performance. Second, M&A with cash payment methods didn't improve corporate performance, which was relatively stable. Third, M&A with stocks paid were beneficial to the improvement of performance of acquirers. In addition to the significant decline in the year of M&A, there was a certain increase in performance from the first year to the later period after the M&A. The stock payment had a positive effect on improving the performance of mergers. Last, with the mixed payment method, the performance didn't fall as much as cash payment and stock payment in the same year. However, the long-term performance didn't improve and was highly uncertain. The mixed payment method had no significant impact on the performance of the acquirers.

Based on the above conclusions, this paper proposed the following suggestions. First of all, companies can't carry out M&A blindly. After comprehensive consideration of transaction costs, resource integration costs, and financial risks, the motives for M&A are clearly defined so as to achieve the goal of enhancing the overall value of the company. Second, at this stage, China's M&A payment methods are still mainly cash payments. The simplification of financing methods has limited the choice of M&A methods in China. In order to better implement strategic corporate M&A, relevant departments should provide multiple financing channels so that companies can choose the best payment method according to their own circumstances and effectively take the advantages of various payment methods. The implementation of large-scale strategic M&A can reflect economies of scale, optimize resources and industrial integration, and increase the efficiency of the entire capital market. Finally, using equity checks and balances effectively to change the phenomenon of excessive concentration of equity is beneficial to improving the M&A performance of Chinese companies.

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