

The Long-Term Performance of Cross-Border Mergers and Acquisitions Behavior of Value Adjustment Mechanism: A Case Study of Company X

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Abstract

With the rapid development of China's capital market and the acceleration of economic transformation, more and more enterprises have increased their competitiveness in all aspects through cross-border mergers and acquisitions to obtain high-quality resources and complete strategic transformation, and the "value adjustment mechanism" behavior of enterprises has gradually risen. However, with the expiration of the commitment period, the follow-up problems of many enterprises using performance commitment compensation are gradually exposed. This paper first analyzes the changes in the domestic market and the trend of mergers and acquisitions, combined with the relevant theory of performance commitment mechanism at home and abroad, and then takes the cross-border M&A transaction of Company X as an example, uses factor analysis method to study the economic consequences of applying performance commitment compensation, and finally obtains the reasons for this result and corresponding suggestions.

Keywords

Cross-border mergers and acquisitions; Enterprise performance; Factor analysis; Performance commitment compensation.

1. Introduction

Cross-border mergers and acquisitions are one of the effective ways for enterprises to achieve strategic transformation and increase their competitiveness. According to the data released by the Securities Regulatory Commission from 2013 to 2020, from 2013 to 2015, the completion of mergers and acquisitions in China's A-share market increased at a high growth rate of 273.56%, forming a peak period of mergers and acquisitions in China. Since then, the scale of M&A and restructuring has continued to decline from 2016 to 2017, and the M&A and restructuring market began to pick up in 2018. By 2020, China will account for about 15% of the global M&A market in terms of transaction volume and value, playing an increasingly important role in the global market. The policies and strategies of the Chinese government, such as the policy of further opening to the outside world, "industrial upgrading", "double circulation" and regional economic integration, are affecting the M&A market in China. With the government formulating and issuing a series of policies to promote the development of cultural industry, the enthusiasm of cross-border mergers and acquisitions of cultural industry in China's market is increasing year by year. As there are many potential risks in cross-border mergers and acquisitions, more and more listed companies choose to adopt performance commitment compensation mechanism to reduce the risk of mergers and acquisitions. However, with the expiration of the performance commitment, its subsequent problems are gradually exposed: many commitment companies' performance growth is weak, they fail to meet the performance commitment or even suffer losses, listed companies ask for

compensation from the commitment party according to the agreement but fall into the dilemma of recovery; some commitment companies' performance quickly "changes face" after fulfilling the performance commitment, which has a greater negative impact on listed companies.

Overseas research on cross-border M&A and performance commitment is early and in-depth, and has formed a relatively perfect theoretical framework in many aspects. They believe that in the application of performance commitment compensation agreement in M&A transactions, there is a reverse relationship between the amount of benefits obtained by the acquirer and the acquiree in the transaction and the intensity of market competition in the country where the enterprise is located, which will also have a greater impact on both sides, and there are great differences in risk effects between different industries [1] [2]. However, the history of M&A in China is only more than 20 years, and the cross-border M&A of enterprises is in a basic research stage. Many experts and scholars concluded that due to the industry background and characteristics of different industries, cross-border M&A often faces specific M&A risks [3]. The application of performance commitment compensation mechanism in M&A transactions can effectively reduce the M&A risk in the transaction, that is, the performance commitment compensation mechanism can actually be understood as a regulatory mechanism in M&A transactions. In M&A transactions, when the cost paid by the acquirer is high, the acquirer can obtain certain compensation from the acquired enterprise that has not achieved the target performance to reduce the M&A cost; when the cost paid by the acquirer is low, the acquired enterprise that has achieved the target performance can be rewarded to achieve "win-win" [4]. As for the research methods of M&A performance, Chinese scholars generally divide them into market performance evaluation method and financial performance evaluation method according to the increasingly rich theoretical basis and the analysis of the results of foreign practical application. Market performance evaluation methods mainly include event study and Tobin's Q theory [5]. Compared with the former, the financial performance evaluation method is more frequently used in China's market at present. According to the characteristics of the research index data, it can be divided into two kinds, namely, single index method and multi-index overall research method [6].

In practice, the performance evaluation of enterprises needs to consider multiple levels of data processing and analysis, so based on the above phenomenon, this paper chooses three cross-border mergers and acquisitions of film and television industry by Company X which has signed performance commitment compensation as the case study object. The Factor analysis method is used to analyze the solvency, operation ability, profitability and growth ability of the enterprise [7]. Synthesizing the proportion of various financial indicators, this paper studies the long-term overall situation of Company X before and after M&A, analyzes why Company X fails to achieve its performance commitment, and studies the problems existing in the performance commitment mechanism used in X M&A transactions and the relationship between the failure of M&A. It provides an effective reference for other listed companies to carry out cross-border mergers and acquisitions and apply performance commitment mechanism.

2. The Application of Performance Commitment Mechanism in X Enterprise

2.1. Merger and Acquisition Process

Company X belongs to China's nonferrous metal industry and was listed on the Shanghai Stock Exchange in November 2000. Due to the long-term downturn of the world economy as a whole and the slowdown of domestic economic growth, the demand for copper products in domestic and foreign markets has slowed down. Moreover, domestic copper processing enterprises are mainly concentrated in the middle and low-end areas, with excess capacity and low product

differentiation. The pattern of supply exceeding demand is difficult to change in a short time, and the market pressure is enormous. Many complex factors lead to the deterioration of the overall situation of X enterprises [8]. Therefore, while stabilizing the existing business units and continuously adjusting the product structure, X Company improved the business model of the company's single main business, and signed the Asset Purchase Agreement with W Company in 2014 to purchase 100% equity of W Company, which opened the course of diversified development strategy. By 2021, X enterprises have carried out three cross-border M&A cultural industry transactions.

2.1.1. Merger and acquisition of W enterprise

W enterprise belongs to China's cultural media industry, which was registered on January 11, 2010, and is one of the private film and television enterprises in China. In the course of transaction, the assets appraisal report obtained by Company X through the assets appraisal of W enterprise by a professional institution shows that, as of the benchmark date of March 31, 2014, the value of the total shareholders' equity of W enterprise is 937.2549 million yuan after adopting the income method, with an appreciation of 7393889 million yuan and an appreciation rate of 373.68%.

According to the Performance Commitment Compensation Agreement signed by both parties, the annual committed net profit of Enterprise W from 2014 to 2016 is shown in Table 1, which is 100 million yuan, 140 million yuan and 194 million yuan respectively. It is stipulated in the agreement that if Enterprise W fails to meet the agreed amount of performance indicators during the profit commitment period, it must pay the performance commitment deposit (RMB 250 million) paid after the completion of the transaction according to the agreement. Party B shall compensate Party A. At the same time, the insufficient part of the performance commitment margin for each year will be made up in cash.

Table 1. Committed Profits of W Enterprise from 2014 to 2016

Year	2014	2015	2016
Committed net profit (ten thousand yuan)	10,000	14,000	19,400
Compensation Mode	/	/	/
Compensation Content	Cash compensation; share repurchase	Cash compensation; share repurchase	Cash compensation; share repurchase

Data source: WIND database

2.1.2. Merger and acquisition of M enterprise

M Company belongs to the cultural media industry in China and was incorporated on June 14, 2011. Its business scope includes film production; production and distribution of TV series, special topics, variety shows, animated cartoons and other programs; film and television special effects, special effects design of entertainment projects, etc. After the completion of the acquisition of Company W in 2016, Company X applied the performance commitment mechanism to acquire 70% equity interest in Company M for RMB875 million in 2017, initiating the second cross-border M&A transaction [9]. According to the Performance Commitment Compensation Agreement signed by both parties to the merger and acquisition, the annual committed net profit of M enterprise in 2017-2019 is shown in Table 2, which is 100 million yuan, 130 million yuan and 169 million yuan respectively. The agreed compensation content only includes the amount of compensation in cash that fails to meet the agreed performance indicators.

Table 2. Committed Profits of M Enterprise in 2017-2019

Year	2017	2018	2019
Committed net profit (ten thousand yuan)	10,000	13,000	16,900
Compensation Mode	Supplementary Profit	Supplementary Profit	Supplementary Profit
Compensation Content	Cash compensation	Cash compensation	Cash compensation

Data source: WIND database

2.1.3. Merger and acquisition of Z enterprise

Z belongs to China's cultural media industry and was incorporated on February 13, 2012. Its business scope mainly includes self-owned advertising media management, advertising media agency, Internet marketing and creative content production. In May 2018, Company X purchased 94.4046% equity interest in Company Z for RMB415.3802 million, but the transaction failed due to various factors. According to the Performance Commitment Compensation Agreement signed by both parties to the merger and acquisition, the annual commitment net profit of Z enterprise in 2018-2020 is shown in Table 3, which is 39.3324 million yuan, 43.0484 million yuan and 47.5097 million yuan respectively, which is quite different from the index amount agreed in the previous two performance commitment compensation agreements [10].

Table 3. Committed Profits of Z Enterprise in 2018-2020

Year	2018	2019	2020
Committed net profit (ten thousand yuan)	3933.24	4304.84	4750.97
Compensation Mode	Supplementary Consideration	Supplementary Consideration	Supplementary Consideration
Compensation Content	Cash compensation; share repurchase	Cash compensation; share repurchase	Cash compensation; share repurchase

Data source: WIND database

2.2. Achievement of Performance Commitment

2.2.1. Fulfillment of performance commitment of W enterprise

In the three years from 2014 to 2017, W enterprise "stepped on the line" to complete the performance commitment indicators, which has the characteristics of "God prediction" of performance commitment. The actual achievement is shown in table 4: the completion rate was 104.28% in 2014 and exceeded the commitment target by only 0.94% and 0.53% in 2015 and 2016. It is understood that W enterprise is one of the few enterprises that can fulfill the performance commitment indicators in cross-border M&A transactions, but according to the data, the performance commitment has not brought better development to Company X and M enterprise in the forecast, so it is speculated that there may be earnings management behavior in the financial statements of W enterprise, and the amount of commitment indicators is artificially controlled [11].

Table 4. Achievement of Performance Commitment of W Enterprise

Year	2014	2015	2016
Committed net profit (ten thousand yuan)	10,000	14,000	19,400
Actual net profit (ten thousand yuan)	10,428.29	14,132.90	19,504.39
Completion rate	104.28%	100.94%	100.53%

Data source: WIND database

2.2.2. M Achievement of corporate performance commitments

As shown in Table 5, the fulfillment of the performance commitment of M enterprise is only the fulfillment of the promised profit in the first year, with a fulfillment rate of 106.13%. In the next two years, its corporate performance went all the way down, with a completion rate of only 62.57% in 2018 and even twice that in 2019. Although Company X only owns 70% of M enterprise's equity, this performance is even worse for X enterprise, which has problems in its development. The performance of M enterprise "changed face" directly affected the rapid deterioration of X enterprise's operating conditions, and once became a * ST enterprise.

Table 5. Achievement of performance commitment of M enterprise

Year	2017	2018	2019
Committed net profit (ten thousand yuan)	10,000	13,000	16,900
Actual net profit (ten thousand yuan)	10,613.33	8,134.01	-33,733.71
Completion rate	106.13%	62.57%	-199.61%

Data source: WIND database

Facing the delisting crisis, Company X had to transfer W enterprise in 2021 at a price 10 times lower than that in 2014, and issued a statement announcing its return to the main copper processing industry, which fully shows that X enterprise's cross-border M&A ended in failure in many ways, and its diversified development strategy also ended in failure.

3. Long Term Performance Analysis

Because the analysis of the long-term performance of enterprises involves more financial data, in order to ensure the fairness and accuracy of the calculation results, the analysis data can be simplified. This paper chooses factor analysis method to evaluate the long-term performance of X enterprise, and comprehensively analyzes the impact of this cross-border M&A on X enterprise. Factor analysis can group variables according to the correlation between factors, and use a few common factors to replace the original numerous indicators or factors, which is a dimensionality reduction technology.

3.1. Selection of Evaluation Index

Through reading a large number of documents, considering the basic indicators of financial evaluation of enterprise performance, combining the financial situation of Company X and the characteristics of non-ferrous metal industry, this paper initially selects four first-level indicators: growth ability, operation ability, profitability and capital structure [12]. Among them, the growth ability includes two secondary indicators, namely, the year-on-year growth rate of operating income and the growth rate of assets; the operation ability includes two secondary indicators, namely, the turnover rate of working capital and the turnover rate of accounts receivable; Four secondary indicators are selected for profitability, including return on net assets, return on total assets, return on human investment and net sales interest rate, and two secondary indicators are selected for capital structure, including asset-liability ratio and current debt-to-creditor ratio. Because the performance evaluation index agreed by Company X and M enterprise is only the net profit after deducting the non-recurring gains and losses, and the M&A goal of Company X is to develop the dual-business strategy, the analysis focuses on the profitability of the enterprise and pays attention to the business income.

Table 6. Evaluation Index

Primary Index	Secondary Index	Representation Symbol
Growth Ability	Year-on-year growth rate of operating income	X1
	Asset growth rate	X2
Operational Capacity	Working capital turnover	X3
	Accounts Receivable Turnover	X4
Profitability	Return on net assets	X5
	Return on total assets	X6
	Rate of return on manpower investment	X7
	Net profit margin on sales	X8
Capital Structure	Asset-liability ratio	X9
	Current liabilities to equity ratio	X10

Since Company X sold 100% equity of M enterprise in 2021 and announced to return to the main business of copper processing, this paper selected the relevant evaluation index data of Company X from 2007 to 2020 for collation and analysis. The following data are from WIND database.

3.2. Applicability Test

KMO test and Bartlett test were performed on the data by SPSS26 software, and the results are shown in Table 7. The KMO sampling fitness measure is 0.586, which is greater than the general requirement of 0.5, indicating that the data we selected are complete and meet the conditions for factor analysis. The approximate chi-square value in the Bartlett sphericity test was 198.696, and the significance was Sig. Is 0.000, which is less than the general limit value of 0.5. Therefore, we believe that the correlation between the original variables is strong, that is, the original data in this paper can be analyzed by factor analysis.

Table 7. Adaptability test

KMO and Bartlett test		
KMO sampling fitness measure		0.586
Bartlett sphericity test	Approximate chi-square	198.696
	Degree of freedom	45
	Significance	0.000

3.3. Determination and Naming of the Number of Principal Factor

According to the analysis of the total variance interpretation results of the data shown in Table 8, there are three factors that can be extracted when 1 is taken as the limit of the initial eigenvalue of the main factor. The initial eigenvalues are 4.661, 2.853 and 1.013 respectively, and their variance contribution rates are 46.613%, 28.527% and 10.133% respectively, with a cumulative contribution rate of 85.273%, indicating that the extracted three common factors contain more than 85% of the information of all the original variables and can represent the original variables. It can be seen from the gravel chart that the characteristic value of the fourth and later factors is obviously getting smaller and smaller, and the characteristic value of the seventh to tenth factors is close to zero, which has little contribution to the interpretation of the original data, so it can be ignored when a small amount of error is allowed.

Table 8. Interpretation of Total Variance

Ingredient	Initial eigenvalue			Extract load sum of squares			Sum of squares of rotational loads		
	Total	Percent Variance	Cumulative%	Total	Percent Variance	Cumulative%	Total	Percent Variance	Cumulative%
1	4.661	46.613	46.613	4.661	46.613	46.613	4.393	43.931	43.931
2	2.853	28.527	75.140	2.853	28.527	75.140	2.998	29.977	73.908
3	1.013	10.133	85.273	1.013	10.133	85.273	1.137	11.365	85.273
4	0.742	7.419	92.692						
5	0.572	5.721	98.413						
6	0.125	1.253	99.666						
7	0.023	0.235	99.900						
8	0.006	0.059	99.959						
9	0.004	0.036	99.995						
10	0.000	0.005	100.000						

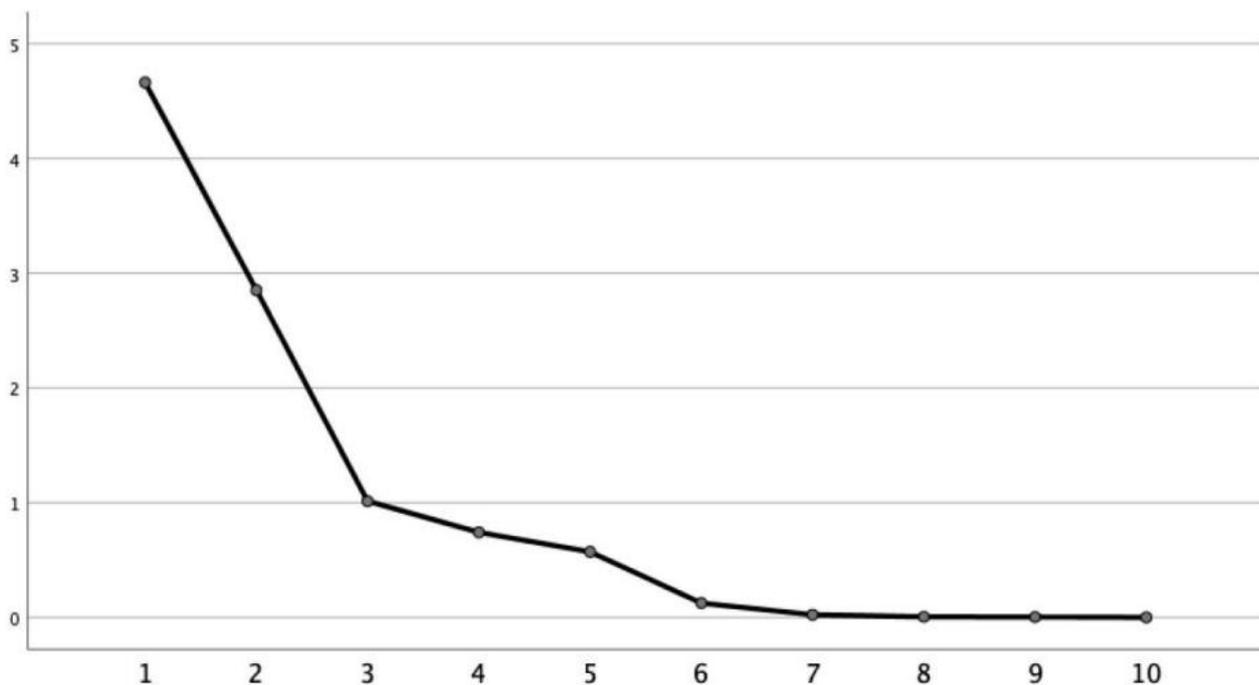


Figure 1. Gravel Map

3.4. Primary Factor Nomenclature

The absolute value of the value corresponding to each original variable and the common factor represents the correlation between the two, and the larger the absolute value is, the higher the correlation is [13]. As shown in Table 9, in principal component 1, the absolute values of return on equity, return on total assets, return on human investment and net profit margin on sales are 0.992, 0.992, 0.976 and 0.979 respectively, all of which are greater than 0.9, indicating that the load value of F1 on these four variables is larger, so the common factor 1 is named as the profit quality factor. In principal component 2, the absolute values of asset growth rate, working capital turnover, accounts receivable turnover, asset-liability ratio and current debt-equity ratio are all above 0.5. Considering comprehensively, the common factor 2 is named as working and capital structure factor. In the principal component 3, the absolute value of the growth rate of business income is 0.895, which is greater than 0.8, so F3 is named growth factor.

Table 9. Component matrix after rotation

Factor	Ingredient		
	1	2	3
Growth rate of operating income	-0.127	-0.153	0.895
Asset growth rate	-0.167	0.582	0.485
Working capital turnover	0.232	0.868	0.015
Accounts Receivable Turnover	0.431	0.531	-0.205
Return on net assets	0.992	-0.056	-0.079
Return on total assets	0.992	-0.051	-0.085
Rate of return on manpower investment	0.976	-0.052	-0.132
Net profit margin on sales	0.979	-0.143	-0.087
Asset-liability ratio	-0.293	0.901	-0.129
Current liabilities to equity ratio	-0.381	0.871	-0.059

3.5. Calculate the Main Factor Score and Comprehensive Score.

According to the component score coefficient matrix calculated by the principal component analysis method and the Kaiser normalized maximum variance method in Table 10, the component score function of each factor can be listed:

Table 10. Component Score Coefficient Matrix

Factor	Ingredient		
	1	2	3
Growth rate of operating income	0.082	-0.012	0.829
Asset growth rate	0.053	0.218	0.472
Working capital turnover	0.104	0.311	0.092
Accounts Receivable Turnover	0.107	0.193	-0.109
Return on net assets	0.237	0.026	0.056
Return on total assets	0.236	0.027	0.051
Rate of return on manpower investment	0.226	0.023	0.004
Net profit margin on sales	0.228	-0.005	0.042
Asset-liability ratio	-0.047	0.289	-0.115
Current liabilities to equity ratio	-0.061	0.278	-0.062

$$F1 = 0.082X1+0.053X2+0.104X3+0.107X4+0.237X5+0.236X6+0.226X7+0.228X8-0.047X9-0.061X10$$

$$F2 = -0.102X1+0.218X2+0.311X3+0.193X4+0.026X5+0.027X6+0.023X7-0.005X8+0.289X9+0.278X10$$

$$F3 = 0.829X1+0.472X2+0.092X3-0.109X4+0.056X5+0.051X6+0.004X7+0.042X8-0.115X9-0.062X10$$

According to the variance contribution rate of each factor in Table 9, the comprehensive score function is obtained:

$$S = F1 * 0.43931 + F2 * 0.29977 + F3 * 0.11365$$

3.6. Comprehensive Performance Evaluation

Through the above factor component score function and comprehensive score function, the factor index is substituted to obtain the specific value of the annual comprehensive score of Company X from 2007 to 2020, as shown in Figure 2. It can be seen that from 2007 to 2013, Company X showed a continuous downward trend and a low score, reaching the lowest

negative value in nearly six years in 2013, which is closely related to the continuing downturn of the non-ferrous metal industry and the impact of relevant policies on the development of enterprises. According to the statistics of China Nonferrous Metals Industry Association, due to the sluggish market demand at home and abroad and the oversupply of the market, the price of nonferrous metals oscillated at a low level in 2012-2013, and the average price declined significantly year on year. The report of non-ferrous metal industry prosperity index shows that since 2012, China's aluminum smelting industry has been losing money for three consecutive years, and the loss area has continued to expand, and the overall loss level has been increasing. The cliff-like decline in non-ferrous metal prices has led to a marked deterioration in the profitability of domestic non-ferrous metal smelting enterprises.

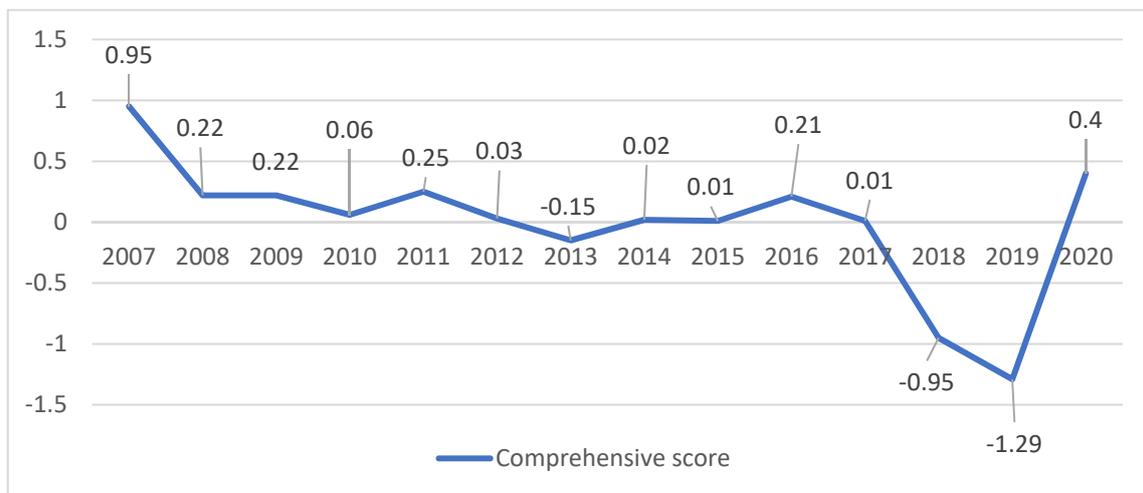


Figure 2. Comprehensive score

However, the score of Company X increased slightly in 2014 and showed an upward trend in 2016. Excluding the external environmental factors, only the cross-border M&A of W enterprise had a greater impact on the operation of Company X from 2014 to 2016. Therefore, it is inferred that cross-border M&A may make the performance of the acquirer's enterprise improve slightly in the early stage of the transaction. In the process of trading, with the achievement of performance standards, it will also have a positive impact on enterprises. Moreover, Company X began to acquire enterprise M immediately after the completion of the acquisition of enterprise W. It is speculated that there is a short-term behavior to improve the operating conditions of the enterprise itself through the performance commitment mechanism. However, since 2017, the comprehensive evaluation of X enterprises has shown a sharp downward fluctuation, even reaching a score of -1.29 in 2019, which is a huge difference from 2014. It can be seen that although Company X has continuously applied the performance commitment agreement, it has not been continuously improved and improved, and its overall situation is not optimistic, once becoming a * ST enterprise [14].

According to the data, there are two main factors for Company X to get a very low score in 2019 after a sharp dive in 2018. The first is the subsequent impact of M&A of W enterprises. Because of the large amount of performance commitment, W enterprise is likely to use the way of increasing the output of TV series to increase business income. From Table 11, it can be seen that before 2013, W Company always maintained the number of TV series per year, and directly increased to 3-4 TV series per year before and after the merger and acquisition transactions, obviously in order to achieve the target amount agreed in the performance commitment and forcibly increase business income. However, due to the equipment and personnel schedule, it is likely to fail to keep up with the rapid growth of the number of TV dramas, but it is likely to

affect the business income of TV drama enterprises by affecting the quality of TV dramas, and leave a huge hidden danger for the future development of TV dramas. This is closely related to the fact that the situation of Company X is not only not getting better but also getting worse and worse after the performance commitment is met.

Table 11. Number of TV Series Produced and Sold by W Enterprise

Year	2010	2011	2012	2013	2014	2015	2016
Number of major TV dramas produced and sold	1	1	1	3	4	4	4

Data source: WIND database

Secondly, in the M&A transaction of M enterprise, only in the first year, the agreed amount of performance commitment is achieved, and the difference between the remaining two years is huge, which also has a major negative impact on the performance score of X enterprise. According to the data, X Company planned to carry out the third cross-industry merger and acquisition in 2018, applying the performance commitment agreement to acquire 94.4046% of Z Company's shares, but due to other factors, the transaction was eventually terminated. Therefore, it is speculated that Company X has the possibility of blindly applying performance commitment compensation mechanism and choosing the target of M&A in order to continuously improve its own performance.

4. Conclusions and Recommendations

4.1. Conclusion

Company X expects to improve its business situation through cross-border mergers and acquisitions to achieve its strategic objectives of diversified development, but in fact, on the contrary, the business situation of Company X has not been improved but has become worse and worse. Although M enterprise has fully achieved the performance commitment, the result is no different from the performance failure, and it is also a failed M&A transaction. From the above analysis, we can see that the reasons for the failure of the merger and acquisition of Company X have a great relationship with the setting of performance commitment.

Firstly, the short performance commitment period and the large amount of commitment have brought great pressure to M and W enterprises. In addition, the setting of a single performance evaluation index in the agreement makes M enterprise likely to use short-term business practices such as shortening the shooting cycle to increase production or asset disposal in order to achieve the performance commitment index, instead of pragmatically developing and utilizing the main business to obtain net profit, only pursuing immediate interests, ignoring long-term development, and ultimately affecting its overall development with the acquirer.

Secondly, the way of performance compensation is too single, and there is a greater risk. The performance compensation method of Company X has not changed significantly in three M&A transactions using performance commitment mechanism, which shows that Company X has not considered the actual effect of performance compensation method in practical application and individual differences of enterprises. According to the business situation of W enterprise which fails to fulfill its performance commitment, it is difficult to obtain the subsequent agreed cash compensation, which makes Company X suffer greater losses.

4.2. Recommendations

Based on the above analysis, this paper puts forward the following suggestions, hoping to improve the application of performance commitment compensation in enterprises and truly achieve "win-win".

4.2.1. Setting Diversified Performance Indicators

In the enterprise's value adjustment mechanism behavior, although signing a single performance index has simple and direct advantages, it also has the disadvantages of easily leading to the short-sighted behavior of the acquired party and over-reliance on large customers. Comparatively speaking, the latter is not conducive to the long-term development of enterprises and is contrary to the original intention of M&A transactions. Therefore, when setting performance indicators, enterprises adopt diversified ways to reduce risks while stabilizing the normal development of the target enterprises and ensuring their business quality. First of all, increase the indicators of accounts receivable. The accounts receivable of an enterprise is closely related to its operational capacity. Paying attention to accounts receivable can effectively reduce the risk of accounts receivable and financial fraud, and to a certain extent, it is conducive to the stable development of both enterprises [15]. Secondly, increase the main business indicators. Increasing the main business indicators can not only promote enterprises to vigorously develop their main business, but also judge the quality and management characteristics of their main business, to a large extent, reduce the short-sighted behavior of the target enterprises, and enhance the development ability of enterprises from the core, which is an important guarantee for the development of both enterprises. Moreover, according to the characteristics of the industry, enterprises also need to consider adding non-financial performance indicators. For example, for the new energy industry and the pharmaceutical industry, R & D intensity and personnel investment will also have a greater impact on the operation of enterprises, which is closely related to the daily production of enterprises.

4.2.2. Reasonably set the time limit and amount of performance commitment

The failure of many enterprises' value adjustment mechanism transactions can not be separated from their performance commitment period and amount. At present, the most commonly used period in China is set at 3-4 years, and the sky-high compensation is set at the same time, without considering the negative impact of many complex factors such as industry factors and international situation on the target enterprises. Therefore, this paper argues that enterprises should increase flexibility when setting the period and amount of performance commitment, and reduce the pressure of reaching the target by extending the period of performance commitment or fully investigating the target enterprise in the early stage of M&A to set a reasonable range of amount, which can greatly enhance the probability that the target enterprise can truly fulfill the performance commitment to achieve real incentives. So that enterprises of both sides can truly go hand in hand in an environment of mutual understanding and mutual encouragement.

4.2.3. Enriching performance compensation methods

At present, Chinese enterprises often adopt cash compensation or equity compensation in the performance commitment compensation agreement. Both of them have a certain incentive effect, but also have their own risks. Cash compensation is likely to face the embarrassing situation that the target enterprise is unable to make ends meet and can not be recovered at all; equity compensation payment may bring high valuation risk and other issues. Therefore, in the actual M&A transaction, the two sides of M&A should fully consider the industry situation and characteristics, market environment and enterprise life cycle, measure the risk of the proposed performance compensation method, consider the risk and benefit comprehensively, and also consider the payment method of transaction consideration, and finally choose the

compensation method suitable for themselves, so as to adapt to the future development goals of enterprises.

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