课程名称：财务专业英语

　　**Title:** **How to improve the success rate of M & A under performance commitment**

Research Proposal

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# Abstract:

With the increasing number of M & A cases in China's Listed Companies in recent years, the use of performance commitments has been increasing frequently in order to reduce the loss of M & A to investors. Although the performance commitment has almost become a necessary clause for the merger and acquisition of the listed companies, the proportion of the underlying enterprise losses in the merger and acquisition, which can not achieve the performance commitment or even the failure of the merger and acquisition, is still high. This situation will not only blow up the investors who are now active in the capital market, but also let the prospective investors be deterred and even harm the healthy development of China's capital market. This paper intends to analyze the impact of the performance commitment clause on the merger and acquisition through the case of some incidental performance commitment, and then puts forward some suggestions for improving the performance commitment terms.　　  
　　   
**Key words:** M & A; performance commitments

# 1 Introduction

*1.1 Problem statement*

Since the CSRC announced the "management of major assets reorganization of listed companies" in 2008, the acquirer has been forced to make a profit forecast and should be compensated and punished by the regulatory agency once it has not reached the standard of profit forecast. The purpose is to promote win-win cooperation between the acquirer and the acquirer, and also to protect the interests of small investors. However, due to the mandatory policy of performance commitments, it has led to a series of unexpected effects and has affected the formation mechanism of market prices. As a result, the regulatory authorities adjusted the above policy in 2014 and cancelled the mandatory provisions of the performance commitment. However, due to the market inertia of the strong market, the listed companies will still sign performance commitments with the purchasers in the process of merger and reorganization, leading to the performance commitment has become a process of merger and reorganization of the listed companies. The normal condition.

But in the case of asymmetric information, the performance commitments made by the acquirer usually end up hard to reach, causing the acquirer to have to pay high compensation, and the buyer will also cause the stock price to fall, the market value evaporates, and the small and medium investors have to pay for it. According to the statistics of thousands of data, including the early mergers and acquisitions, borrowing shells, and so on, the total number of listed companies reached 503 by 2016, with 657 listed companies making performance commitments. From the completion of performance commitments, there were 133 outstanding performance commitments, 121 listed companies involving more than 24%. The performance of the listed company's M & A is not expected.

*1.2 Statement of the research objectives*

The performance commitment of the standard has a huge impact on the market value of the buyer, and has a significant impact on the investment decision of small and medium investors. Once the performance commitment of the standard enterprise is not reached or even far away, not only the original shareholders of the standard enterprise need to make a huge amount of compensation, but also lead to the reduction of the market value of the purchaser. The sharp decline in share prices has led to losses in the interests of small and medium-sized investors, and even led to the abortive merger and reorganization. Therefore, the underlying enterprise must be prudent in making a performance commitment, if not, the consequences, whether it is not easy to bear on the buyer, or the serious consequences of the buyer and the small and medium investors. To this end, this paper, based on the three main aspects of the valuation of the standard enterprises, the setting of performance commitment terms and the rewards and punishments of performance commitments, analyzes the impact of the three factors on the performance commitment completion status by case analysis, and puts forward some reference suggestions for the acquisition and performance assessment standards of the acquirers and the acquirers. Provide some reference and provide more considerations for the investment decisions of small and medium-sized investors.

# 2 Literature Review

*2.1Option theory*

A betting agreement is actually a written agreement signed by the buyer and the buyer on the basis of uncertainty about the future operation. It is similar to the essence of the option. When the buyer reaches the terms of the bet, the purchaser can make a right; if the buyer does not reach the agreement with the purchaser. In conclusion, the purchase party makes another right, and the gambling agreement is a form of postponed agreement for the performance of options. But at present, the use of assets and future investment opportunities constitute a profit that can be generated by the cash flow of an investment program. The acquirer can evaluate the investment of physical assets by means of general options valuation. The object involved in the content of the gambling agreement is material object, not financial assets, ye Fei futures commodity. Therefore, the gambling agreement can be categorized as the real option theory.

Trigeorgis (1996) applies the idea of real options to the gambling agreement.

Li (2008) uses the idea of real option to calculate the value of different investment options in stages. It is concluded that the segmented investment in the use of option theory can produce greater value than direct investment.

The domestic scholars Yan Wenyi and Guo Jue (2011), according to the perspective of the option theory, think that the behavior of the betting agreement used by the enterprise during the merger and acquisition is that when the value of the buyer reaches a standard and exercises a right, if the buyer does not reach the standard in the agreement, it will carry out another right and use this right. The investment method can reduce the risk of M & A and increase the possibility of income, which is the application of option theory.

*2.2 Asymmetric information theory:*

Barbopoulos (2012) believes that information asymmetry has a direct impact on the results of mergers and acquisitions. By elaborately designing the terms of the gambling agreement, we can effectively reduce the adverse selection and moral hazard brought about by information asymmetry.

Dionne (2010) believes that the degree of information asymmetry is influenced by the nature of enterprises and the scale of mergers and acquisitions. The asymmetric degree of listed companies is lower than that of private enterprises. The future of small enterprises or the future of high-tech enterprises or service enterprises is full of high uncertainty, and the valuation is more difficult.

Kohers (2000); Frankel (2001), through the study of the case of merger and acquisition in the United States, found that when the parties in the merger and acquisition are in different industries, the betting agreement has a more extensive application, because the information asymmetry brought by transnational mergers and acquisitions can be well solved by the betting agreement.

However, Barbopoulos (2012) believes that as a result of transnational mergers and acquisitions will bring economic, legal, policy, cultural and other macro differences, it is difficult to implement.

Barbopoulos&Wilson (2013) through the study of the case of merger and acquisition in the United States, it is found that for those human intensive enterprises, can the key figures be retained to determine the rise and fall of the enterprise, and the betting agreement can play a role in retaining talents to motivate employees.

But the study of Cadman&Faurel (2014) shows that although the betting agreement can play an incentive role to a certain extent, there are also some drawbacks, which will make the management pay more attention to short-term interests and ignore the long-term development of the enterprise. The famous theory of investment, "don't put eggs in one basket", has evolved into a diversified business strategy commonly used in corporate expansion.

Berg and thrives in to the business unit from 1986 to 1991 the comparative research on the value of the company found that diversification brought by an average of 13% - 13% of the loss, "if there is no must have the core competitiveness of enterprises in the oil industry and industry status, and no obvious advantages in preparation for entry into the industry. At the same time, in the new industry, the capital, talent and management experience of enterprises are relatively lacking, and the new industry and its own homepage are independent of each other. At this time, if enterprises impose diversified management strategies, they will have excessive investment and cross-subsidization, which will affect the profitability of enterprises.

The research on the theory of enterprise expansion in Chinese academic circles is much later than that in the west.

Yang du (1996) put forward "enterprise growth theory". It is believed that the business resource is the foundation for the growth of the enterprise, and the goal of the enterprise should be continuous growth. Moreover, diversification is the basic direction of enterprise growth, and diversified economy generates synergies with various enterprises. The remaining resources of existing businesses are also one of the sources of diversified economy. At the same time, it is suggested that growth is the dynamic process of combination of quality and quantity, and the growth of enterprises is not only the expansion of quantity, but also the qualitative growth, including product innovation, enterprise structure innovation and operation system innovation.

Fu Xian hong (2001) discusses the relationship between diversification strategy and the choice of the ways of enterprises expansion, by identifying standard, the characteristics of paradigm, the core competition and strategic focus on four aspects than single analysis, the difference between variety and diversity. It is concluded that "resource sharing ability is the important characteristic of diversification and diversification."

Ke (2005) proposed that due to the lack of horizontal combination, enterprise merger and capital finance and other policy environment, the expansion of private enterprises is generally not strong. At the same time, because the capital input of most private enterprises is still dominated by extensive type, the investment direction is still blindly repeated and biased towards the quality of investment in the immediate interest, and the industry level needs to be improved.

Cheng xiaoyu (2007) proposed that "there is a widespread phenomenon of blind expansion in diversified investment by private enterprises in China".

# 3 Hypothesis

On the basis of comprehensive theory, when a listed company takes M & A, the performance of its undertaking will restrict the management behavior of the acquired party. As once a performance commitment is achieved, a reward is usually given by the purchaser; and the failure to meet the promised performance standards will lead to the acquirer to claim compensation from the buyer, causing the buyer to suffer losses. But the low standard of performance commitment will be realized because it is too simple, which makes the performance commitment lose its binding force to the acquirer; the high performance commitment standard will lead to the loss of the hope of completing performance commitments by the acquirer and thus lose power.

Therefore, the following assumptions are made:

Assuming that 1, performance commitment will constrain the management behavior of the acquirer; suppose 2, the difficulty of achievement commitment is difficult to affect the binding of performance commitment to the acquirer.

# 4 Methods

This paper adopts the method of theoretical analysis and empirical analysis, which is as follows:

1. Literature review

Through consulting the books, materials and periodicals of the Shanghai University library, the Shanghai library, the Internet, the Chinese knowledge network, the Chinese periodicals and the periodicals, this paper collate and analyze the relevant literature at home and abroad, obtain the relevant research information, and carry on the further analysis and analysis, as the most basic information of this article.

2.Comparative analysis method

Through the analysis of a number of cases, compare their differences and similarities, and then summarize the general rules of the common problems, find out the reasons for the difference from the personality, and finally get meaningful conclusions.

# 5 Possible results

Based on the comprehensive theoretical foundation and case analysis, it is assumed that the following are possible results:

1.The success rate of M & A with performance commitment is higher than that without performance commitment.

2.Low or too high performance commitments will lead to a decline in the success rate of mergers and acquisitions.

# 6 Discussion

Through the analysis of M & A cases of Listed Companies in China, the following suggestions are proposed to improve the success rate of M & A under the performance commitment:

1, Both sides should be cautious and set the standard of performance commitment.

2, The acquirer should play a supervisory role to avoid the moral problems of the management of the acquired party due to asymmetric information.

The above two ways can increase the success rate of mergers and acquisitions of listed companies to a certain extent.

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