

Research on the Mechanism of the Impact of M&A Motivation on M&A Performance

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Abstract. Under China's financial supervision system, the financial industry gradually tries to merge and acquire in order to achieve the strategic goal of industrial integration and economic transformation, and maintain a state of continuous rising profitability. M&A, as an important means to reallocate resources in the capital market, has a far-reaching impact on enterprises and is also a hot issue in the field of corporate finance research in recent years. Because of the complexity of M&A activities, the identification of M&A motives is particularly important for the study of M&A performance and related issues. However, the previous research lacks a systematic study of M&A motivation and its influence on M&A performance from the perspective of "agent". Therefore, based on the existing M&A theories and the actual situation in China, this article studies the relationship between managers' agent M&A motivation and M&A performance from the perspective of "agents". This article innovatively introduces a compensation mechanism to study the impact of agent M&A motivation on M&A performance, which can obtain whether agent M&A motivation damages corporate value, and can also understand whether executives seek private benefits through M&A, providing evidence for the agent motivation hypothesis from multiple perspectives.

Keywords: Motivation of enterprise merger and acquisition; Merger and acquisition performance; Impact mechanism

1. Introduction

From the end of 19th century to the beginning of 20th century, international M&A has experienced five waves of M&A, and the characteristics of the five waves of M&A are also different, which is related to the motivation of enterprises to conduct M&A [1]. M&A, as an important means to reallocate resources in the capital market, has a far-reaching impact on the development of enterprises, so enterprises will regard M&A as an important method for enterprise growth and strategic expansion. To a certain extent, the development history of successful enterprises is also a history of M&A [2]. With China's entry into WTO, independent opening has changed into contract opening, and the commitment to open the domestic market has made the market competition increasingly fierce, and M&A has become an important strategy for China enterprises to develop and expand themselves. It can be predicted that the next 5-10 years will be the peak period of enterprise merger and acquisition in China [3]. Under the capitalist system, the industry's production and market share control have significantly improved compared to before the merger and acquisition. The form of the second merger and acquisition is different from the first, and it has become more diversified due to the influence of the entire era. After the first merger and

acquisition, enterprises have accumulated a large amount of experience and capital, and some industry leaders have emerged [4]. The main factors for M&A development are three: oligopoly, resource monopoly, and economic monopoly. The government's loose policies have promoted the rise and stable development of multinational companies. The third M&A wave has a wide range and involves many industries, and most of its M&A methods have been converted to mixed types [5]. As an important means of reallocating resources in the capital market, mergers and acquisitions have a profound impact on the development of enterprises. Therefore, enterprises will consider mergers and acquisitions as an important method of enterprise growth and strategic expansion. To some extent, the development history of successful enterprises is also a history of mergers and acquisitions. At the same time, many domestic and foreign scholars have conducted research on mergers and acquisitions in the capital market, attempting to explain why companies are keen on mergers and acquisitions, while also verifying whether mergers and acquisitions can create value for enterprises [6]. In order to accurately measure and evaluate the economic consequences of M&A activities and analyze the actual impact of M&A activities on enterprise performance, it is very important to establish a scientific and standardized performance evaluation system. M&A performance

evaluation system is an important basis for the acquirer to judge whether its M&A motivation is realized and evaluate the effect of M&A activities after completing the M&A, which determines whether the evaluation results are objective and fair and whether they can reflect the real situation [7]. Among the various factors that affect M&A, M&A motivation leads to the formation of M&A strategic decision, which is an important part of pre-merger risk [8]. M&A motivation is the origin of M&A behavior. Finally, measuring the results of M&A also requires comparing M&A performance with motivation to see whether the M&A behavior has achieved its original purpose. Therefore, this article selects M&A motivation as the starting point for studying M&A behavior. Leading China's financial industry M&A market towards internationalization. This article can provide valuable constructive opinions and suggestions for the further stable development of China's financial industry. Through macro description and analysis of the financial industry, accurate judgments are made on the scale, geographical characteristics, and market trends of mergers and acquisitions in the financial industry. Based on this, the financial industry can accelerate industrial transformation and development, and move towards international standardization faster.

2. An Empirical Study on the Announcement Effect of Mergers and Acquisitions and the Classification of Different Merger Motivations

2.1 Relevant Theory of Merger and Acquisition Performance Evaluation

M&A: M&A refers to the merger of two or more independent enterprises and companies to form an enterprise. The essence of M&A is an act of transferring rights. M&A performance: M&A performance refers to the situation that after the completion of M&A, the target enterprise is integrated into the M&A enterprise, realizing the original intention of M&A and generating efficiency [9]. There are two ways to form economies of scale, that is, relying on the "effective internal economy" of individual enterprises to make full and effective use of resources, improve the efficiency of organization and operation, and rationally divide labor and unite multiple enterprises. The inherent economies of scale brought by mergers and acquisitions are: through mergers and acquisitions, assets can be supplemented and adjusted, and horizontal mergers and acquisitions can achieve single product production and reduce incompatibility caused by diversified operations; Vertical mergers and acquisitions can integrate various production processes and save transaction costs [10].

Because mergers and acquisitions of target companies are considered by the acquiring company to be a good way to increase their self-interest, when the target company discovers their value to the acquiring company, they will attempt to capture a portion of these values. The bargaining power of the target company enables them to successfully obtain a portion of the value, and this portion

of the value is positively related to the value captured by the managers of the acquiring company. Therefore, the more serious the agency problem, the higher the revenue of the target company. For example, in some mergers and acquisitions, the interests of the managers and shareholders of the acquiring company are consistent, while some are based on sacrificing the interests of the shareholders of the acquiring company. However, in recent years, companies have paid more attention to the market influence of the acquired company before conducting mergers and acquisitions, which is inseparable from the rapid development of Internet information and technology. In recent years, mergers and acquisitions in China have occurred in various fields. Due to the prevalence of virtual currency and the rapid development of the economy, the impact of mergers and acquisitions in the financial industry is extremely important, and the effects of mergers and acquisitions have also become the focus of attention in various industries. The hypothesis of transaction cost theory, one of the theories of new institutional economics aimed at M&A motivation. In the process of M&A, the behavior of trading in various ways will not have a great impact on the interests of M&A. Enterprises can conduct simple transactions through the market, but also conduct internal transactions through enterprises. After the merger, they can reduce operating costs by trading in the market. However, some scholars believe that under the premise of transaction cost theory, mergers and acquisitions of companies are also prone to crisis, internal operations may cause slack among employees, and it is more likely that collusion will lead to crisis of companies.

2.2 Descriptive Analysis of Mergers and Acquisitions of Financial Enterprises in China

Since 2000, the number of listed companies engaged in mergers and acquisitions has exceeded the IPO market and become the most important link in resource allocation in the securities market. The role of mergers and acquisitions as a means of internal resource allocation and external governance is gradually emerging, and the changes in corporate performance after mergers and acquisitions are also reflected in the changes in the wealth of shareholders in the merged enterprise. However, a large number of empirical studies have shown that the short-term performance of M&A activities is not positive, which suggests that the real motivation of managers of acquiring companies for M&A may not be to maximize shareholder wealth. One possible reason is that existing research is too comprehensive in its analysis. Not all M&A activities are conducted for the same purpose, so M&A events should not be considered as simple and homogeneous samples. For example, in some mergers and acquisitions, the interests of the managers and shareholders of the acquiring company are consistent, while some are based on sacrificing the interests of the shareholders of the acquiring company. As the empirical research results of this article once again prove that target companies can obtain excess returns in mergers and acquisitions, which is consistent with numerous research

results at home and abroad, this article focuses on the study of acquisition companies after examining the announcement effect of target companies, hoping to examine the motivation of acquisition companies through the study of the announcement performance of acquisition companies. As shown in Table 1.

Table 1 The announcement effect of the target company

Declaration period Target company CAR mean (N=110)	(0-1)	(-1-1)	(-2-2)	(-3-3)	(-5-5)	(-10-10)
	0.6226	1.4426	1.2469	1.0484	1.0015	2.1424
	(2.32556)	(2.42643)	(3.1215)	(2.2466)	(1.2463)	(2.2466)
	***	***	***	***	***	***

One possible explanation is that the real motivation of the management of the acquisition company for mergers and acquisitions may not be to maximize the wealth of shareholders. At the same time, scholars have not reached a consensus on the study of the long-term performance of acquired companies. The theory of industrial evolution was put forward by Nicole, who divided the process of industrial evolution into four stages: start-up, scale, agglomeration, balance and alliance. In the first stage, enterprises mainly carried out horizontal mergers and acquisitions to increase market share. In the second stage, in order to improve the competitiveness of enterprises, mergers and acquisitions are used for industrial integration, and the number of mergers and acquisitions is the largest at this time. In the third stage, enterprises organize their own industries, and the scale of mergers and acquisitions is relatively large. In the fourth stage, it is difficult for enterprises to achieve business growth in this industry, and they tend to acquire enterprises in other industries. Because of its comparative advantage, the principal authorizes and remunerates the agent, and the agent serves the principal. During this period, in order to avoid the loss caused by information asymmetry, the client will take the means of encouragement or supervision. This theory is the foundation of modern enterprise system. In M&A, the principal-agent theory can be embodied as managers' arrogance, managers trying to build a business empire, managers increasing the cash flow of enterprises, and so on, thus affecting M&A performance.

3. An empirical study on the long-term performance of enterprises with different M&A motives

3.1 An empirical study on the long-term performance of mergers and acquisitions between target companies and acquirers

In our empirical research on the announcement effect of target companies, we found that the target companies obtained significant excess returns during the announcement period. We conduct empirical research on the long-term performance of the target company to further verify the earnings from mergers and acquisitions of the target company. In our empirical research on the announcement effect of target companies, we found that the target companies obtained significant excess returns during the announcement period. We conduct empirical research on the long-term performance of the target company to further verify the earnings from mergers and acquisitions of the target company. Universal intangible assets include two situations: one is human management skills, especially in terms of senior management experience. Through hybrid mergers and acquisitions, the scope of products and services produced by the enterprise has been expanded, and these management skills can be fully utilized to improve the use efficiency of various other tangible and intangible resources. The other is intangible assets such as technical knowledge and brands. Technology is the result of enterprise research and development, and its application often exceeds the existing business scope of the enterprise. Through hybrid mergers and acquisitions, enterprises can make full use of this part of intangible assets and improve utilization efficiency. In terms of brands, they can also use brand expansion strategies to transplant well-known brands to new products. The average comprehensive performance score of the target company is shown in Figure 1.

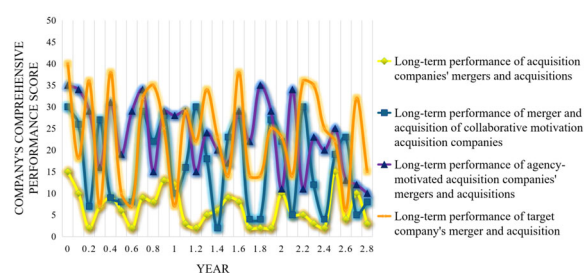


Figure 1 Long-term performance of mergers and acquisitions between target companies and acquiring companies

From Figure 1, we can see that the performance of the target company has a process of rising first and then dropping significantly after the merger. In order to examine the performance changes of the target company more accurately, this paper makes a Wilcoxon test on the performance changes of the target company before and after the merger.

For domestic listed Internet companies, due to their relatively short establishment time and lack of experience in cross-border mergers and acquisitions, it is easier to

make wrong judgments on the value of foreign companies due to lack of information, which will affect the merger price and post-merger integration, and thus affect the merger performance. Internet companies with experience in cross-border mergers and acquisitions may tend to set up professional teams to deal with mergers and acquisitions and improve the success rate of mergers and acquisitions.

3.2 Discussion and analysis of regression results

In recent years, China's policy on mergers and acquisitions is still in a relaxed state. Regarding the value-added tax, the iteration of tax preferential policies proposed from 2012 to 2018 is slowly moving in a better direction. For the financial industry, regardless of whether the company is listed or not, the money obtained from the running interest between financial enterprises and the premium income obtained by insurance companies on life insurance products beyond the first anniversary allow them to apply for VAT-free services, and in the process of mergers and acquisitions, it has nothing to do with the selection of merger methods, fixed assets and state-owned land use rights, and can also be exempted from VAT. We further tested the long-term performance of acquiring companies with different motivations for mergers and acquisitions, and found that: the pre and post performance of acquiring companies based on collaborative motivation significantly increased; Although the performance of acquisition companies based on agency motivation significantly increased in the year of merger and acquisition, its performance continued to decline thereafter. This is consistent with the previous assumption in this article (the long-term performance of acquisition companies based on agency motivation is better than that of acquisition companies based on collaborative motivation). We speculate that it is the simultaneous existence of two different merger motivations that makes the announcement effect and long-term performance of acquisition companies have no significant difference from zero. In order to eliminate losses, the government departments in charge of enterprises are the main driving factors for mergers and acquisitions in China. Traditional administrative methods and economic subsidies have failed to improve enterprise systems and mechanisms, and a large number of loss-making enterprises have ineffectively occupied social resources. The reason why it is not listed as an efficiency motive is that this merger and acquisition is characterized by government forced matchmaking and intervention, with a strong color of planned economy.

This is consistent with the previous assumption of this paper (the long-term performance of the acquisition company based on agency motivation is better than that of the acquisition company based on collaborative motivation), and we speculate that it is the coexistence of two different M&A motives that makes the announcement effect and long-term performance of the acquisition company have no significant difference from zero. In the comparative study of the long-term performance of M&A between the acquisition companies with collaborative

motivation and the acquisition companies with agency motivation, we find that the performance of the sample companies with collaborative motivation is significantly better than that of the acquisition companies with agency motivation in one year and the second year after the acquisition, which shows that the long-term business performance of the acquisition companies based on collaborative motivation is better than that of the acquisition companies with agency motivation, further verifying the hypothesis of this paper.

Based on the above analysis of the life cycle, it can be seen that China's M&A enterprises are still in the development stage and gradually entering a stable stage. The scale of M&A is also becoming increasingly large, with a good prospect to attract many entrepreneurs to participate in capital integration. The scale effect theory is still valid. It can be seen that the expansion of capital scale has many benefits for the development of the financial industry. China also has explicit regulations on the scale of enterprise mergers and acquisitions. In the "Anti monopoly Law", there is a clear definition of operator concentration. When the capital scale exceeds a certain proportion, it is necessary to submit a declaration to the anti monopoly authority under the State Council, otherwise no mergers and acquisitions can be conducted. It can be seen that although China has a strong attitude towards the development of the financial industry, the quality control is still very strict, effectively avoiding a large number of recessionary periods.

4. Conclusions

In recent years, the state's supporting documents for M&A events are not uncommon. Listed companies receive favorable information and continue to accelerate the scale of mergers and acquisitions, hoping to catch up with the convenient routes paved by the government in time. Today, with the diversification of the global economy, the development of the financial industry has been paid more attention, and financial innovation has been updated and iterated. Due to the diversification of mergers and acquisitions, the financial industry has integrated the fine traditions of various industries, not only limited to mergers and acquisitions between industries, but also continued to expand its horizons to the whole industry. This paper empirically studies the announcement effect of target companies and acquiring companies in mergers and acquisitions, and on this basis, uses multiple discriminant analysis to separate the different motives of acquiring companies. Then, it empirically analyzes the long-term performance of acquiring companies with different motives. The empirical results show that there is a negative correlation between the management ability of companies before M&A and the proportion of state-owned and corporate shares and M&A performance. Therefore, the manager arrogance hypothesis and the agency hypothesis have been tested in China's M&A practice. The executive shareholding ratio and the free cash flow hypothesis have some explanatory power on the performance of mergers and acquisitions of listed companies in China, but they are not significant.

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