SHS Web of Conferences **25**, 02005 (2016) DOI: 10.1051/shsconf/20162502005
ICITCE 2015

The effect of different payment methods on M&A performance - An empirical analysis based on the panel data of Shanghai and Shenzhen A-share market

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ABSTRACT: Aiming at studying the impact of different payment methods on M&A performance, this paper conducts empirical research using panel data of 2009--2013 Shanghai and Shenzhen A-share Market. The results show that, the difference of payment terms does not have a significant impact on the M&A performance in the overall regression. Further grouping regression shows that, for enterprises of mature industry, if they use cash payment terms in the M&A activity, their shareholders' earning power is significantly lower than other enterprises, but the profitability is significantly lower, and if they use stock payment terms in the M&A activity, their operating capacity is significantly higher than other companies; for enterprises of growing industry, whether they use cash payment terms or not has no significant impact on the M&A performance, and if they use stock payment terms, the profitability is significantly higher than other enterprises; for enterprises of recession industry, the difference of payment methods does not affect the M&A performance.

Keywords: payment methods; M&A performance; industry life cycle; empirical analysis

1 INTRODUCTION

With the development of China's capital market in 1990s, M&A has gradually become an important way for enterprises to grow rapidly and establish a dominant position in the industry. In recent years, the number and amounts of M&A occurred in China are growing rapidly. According to the disclosure of Clear Research Center, a total of 1929 M&A transactions were completed in China's M&A market in 2014, which increased by eight times compared with 201 M&A transactions of 2007. Among the 1929 M&A transactions, a number of 1815 disclosed the amount of transaction, the total amount of which reached $118.49 billion, which had an increase of more than 3 times compared with $27.023 billion in 2007. However, there were some failed merger cases among them, and the underlying reason of which is that these M&A transactions lack the guidance of related theory. The payment of the deal is the final link to complete the M&A transactions, then what kind of impact will this part has on the M&A performance? Researches of financial sector show that if the deal is paid by cash, then managers of acquisition are expected to have a very good performance, while the payment will also have a certain impact on the accounting approach, which will affect the performance of M&A [1]. But how would different payment methods affect M&A exactly? The demonstration results of scholars are still not consistent.

The existing related literature mainly holds three kinds of viewpoints. The first deems that the performance of M&A by cash payment is superior to that of stock payment. Andrade et al. (2001) adopt the data of M&A market in the United States and find that cash payment terms has a negative impact on the performance of M&A, while stock payment terms produces a positive impact on M&A performance[2]. Jing Zhang and Yongan Zhang (2011), based on the institutional background of post-non-tradable share period of China's capital markets, find that M&A performance of cash payment is higher than that of stock payment [3]. Vladimirov (2015) addresses that the acquirer will select stock payment in the acquisition process only when it lacks competitive funding storage. The endogeneity of payment determines that the stock pay-

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ment, which is generally considered relatively safe method of payment, in fact will not bring an advantage to M&A process [4].

The second view is that the M&A performance of stock payment is superior to that of cash payment. Chartterjee and Kuenzi (2001) select the M&A market of UK as samples and find that acquirers would obtain significant positive abnormal returns during announcement period if they adopt stock payment [5]. Zhihai Yang and Libin Zhao (2012) conduct a research using the data of 2008-2010 China's A-share listed companies in mergers and acquisitions, and results show that cash payment would reduce the performance of mergers and acquisitions [6]. Shaoni Zhou and Huitong Wang (2015) conduct a survey on the effects of the payment in the case of control of corporate governance factors, and the results show that the improvement of M&A performance by stock payment is much better than that of cash payment [7].

The third view is that neither the cash payment nor share payment is the ideal way. Espen et al. (1990) adopt 182 merger cases in Canada as study samples, and the results show that the hybrid payment is significantly better than cash or stock payment methods [8]. Jinghua Fu (2007) studies the merger cases of 45 biomedical listed companies between 2004 and 2005 and finds that the impact of bond payment on the M&A performance is the most active [9]. Jinglin Li et al. (2013) do an empirical research using the sample of 505 family - launched listed companies in China between 2007 to 2009 and find that the influence of choice of payment method for acquisition performance is not significant [10].

In summary, much work has been done about the impact of payment methods on the performance of M&A, but there are still some shortcomings in the current research work. First, for the research findings, we can see that the results of scholars are not consistent, which requires further study. Secondly, for the measurement of dependent variable, a majority of the literature simply measure performance by one indicator, and thus could not reflect the level of comprehensive performance of enterprises well. Finally, for the study object, most of them conduct overall regression based on the whole national sample, and few of them take the heterogeneity of the sample into account and subdivide the sample further. For the current study situation, this paper adopt five integrated acquisition performance indicators to measure M&A performance to do further empirical research on the impact of dif-

Table 1. Interpretation Table of Dependent Variables

Comprehensive index	Letter symbols of sub-indexes	Names of sub-indexes
Debt paying ability (Debtpay)	F010101a	Current ratio
	F010201A	Quick ratio
	F010702B	Interest cover ratio
	F011201A	Ratio of liabilities to assets
Shareholder profitability (Shareindex)	F090101b	Earnings per share
	Freward	Profitability of common stocks
	Q	Tobin's Q
Profitability (Profitability)	F050102B	Return on assets
	F050202B	Return on total asset
	F050502B	Return on equity
	F051501B	Sales margin
	F051601B	Ratio of total operating cost
	F051701B	Ratio of expenses to sales
	F051801B	Overhead expenses rate
	F051901B	Financial asset rate
	F052001B	Selling period expense rate
	F052101B	Ratio of profits to cost
Operating capacity (operation)	F040202b	Accounts receivable turnover
	F040502B	Inventory turnover
	F040902B	Working capital turnover rate
	F041202B	Current asset turnover
	F041402B	Turnover of fixed assets
	F041702B	Total assets turnover
Development capacity (development)	F080302a	Rate of capital accumulation
	F081002B	Net profit growth rate
	F081102B	Total profit growth
	F081202B	Operating profit growth
	F081602C	Revenue growth rate
	F082302B	Net growth rate produced by Business activities

Note: The values of sub-indexes could be got from database of CSMAR directly, so the specific calculation methods of sub-indexes are not reiterated here.

ferent payment methods on the overall M&A performance and M&A performance of sectors in different life cycle using 2009--2013 Shanghai and Shenzhen A-share panel data.

2 RESEARCH DESIGN

2.1 *Model specification*

In order to study the impact of payments on M&A performance more accurately, the role of other possible factors should be excluded. So we add some control variables in the model, and thus the empirical model of this paper is set as a multiple linear regression model in the following:

$$Perf_i = c + \alpha PayType_i + \sum_{j=1}^{n} \beta_j Control_{ij} + \mu_i \qquad (1)$$

Where in (1), i and j denote the serial number of observed values and the serial number of control variables, $Perf_i$ represents the performance of the i-th set of observations, $PayType_i$ represents payment type of the i-th set of observations, $Control_{ij}$ represents the i-th set of observations and the j-th set of control variables, c is the intercept, α and β_j are the parameters to be estimated, μ_i is the random error term.

2.2 *Variable Selection and measurement*

2.2.1 *The dependent variables*

We choose five comprehensive indexes to measure performance, and each comprehensive index is measured from principal components extraction of a number of sub-indexes. Specific measurement of dependent variables is shown in Table 1.

2.2.2 *The explanatory variables*

We set two dummy variables as sub-variables of payment (PayType)--the core explanatory variables, i.e., cash payment dummy variable (_IPayTypeID_1) and stock payment dummy variable (_IPayTypeID_2), and the control variables that might influence the M&A performance. Specific interpretation of the explanatory variables is shown in Table 2.

2.2.3 *Data description*

This paper selects all merger cases of 2009--2013 with total 5 years in Shanghai and Shenzhen A-share market as samples for empirical studies (considering that number of the acquisition cases of 2014 and 2015 is too small, so the panel is only up to the year 2013). The data are all derived from the CSMAR database. To make the results more objective, the data we finally use are screened according to the following standards: excluding the financial sector; excluding ST, ST * and other non-normal trading status of the company; excluding incomplete information sample; excluding discrete samples during 2009--2013; unifying reports as type A; if several acquisitions behavior occurs in the same year, then choose the transaction whose amount is the maximum. Finally we obtain a total of 990 sample data of 198 companies.

3 EMPIRICAL RESULTS AND ANALYSIS

3.1 *Principal component analysis of explanatory variables*

In empirical studies, the selection of principal components is usually based the eigenvalues and cumulative contribution rate: select all principal components whose eigenvalues is greater than 1, and at the same time ensure that the cumulative contribution rate is more than 75%. According to this, the comprehensive index functions we get are as follows:

$$Debtpay_i = 0.491Z_{i1d} + 0.251Z_{i2d} + 0.244Z_{i3d} \qquad (2)$$

$$Shareindex_i = 0.374Z_{i1S} + 0.333Z_{i2S} + 0.293Z_{i3S} \qquad (3)$$

$$Profitability_i = 0.516Z_{i1p} + 0.268Z_{i2p} + 0.1Z_{i3p} \qquad (4)$$

$$Operation_i = 0.301Z_{i1O} + 0.173Z_{i2O} + 0.168Z_{i3O} + 0.164Z_{i4O} \qquad (5)$$

$$Development_i = 0.388Z_{i1D} + 0.177Z_{i2D} + 0.164Z_{i3D} + 0.147Z_{i4D} \qquad (6)$$

From function (2)-(6), we could respectively get the value of debt paying ability (Debtpay), shareholder profitability (Shareindex), profitability (Profitability), operating capacity (Operation) and development capacity (Development) the five comprehensive indicators.

3.2 *The regression results*

Table 3 reports the estimation results of different payment terms' impact on M & Performance of all samples. We use ordinary least squares (OLS) to conduct regression analysis of equation (1), and use debt paying ability (Debtpay), shareholder profitability (Shareindex), profitability (Profitability), operating capacity (Operation) and development capacity (Development) to measure performance (Perf), and obtain the regression combinations of (1) to (5).

As can be seen from the results in Table 3, Overall, the impact of both cash payment term (_IPayTypeID_1) and stock payment term (_IPayTypeID_2) on the M&A performance are not significant. This may be due to the presence of strong heterogeneity among the sample enterprises, and the impact is significantly different for different categories of mergers and acquisitions, resulting in an overall view of the impact not obvious. Therefore it is necessary to do heterogeneity test to the overall sample enterprise.

Then we divide these sample enterprises into enter-

Table 2. Interpretation Table of Explanatory Variables

Classification of explanatory variables	Letter symbols of variables	Variable name	Description
Core explanatory variables (PayType)	_IPayTypeID_2	cash payment	When the payment type is cash payment, then _IPayTypeID_2=1, or _IPayTypeID_2= 0
	_IPayTypeID_3	stock payment	When the payment type is stock payment, then _IPayTypeID_3=1, or _IPayTypeID_3=0
Control variables (Control)	_IRelevanceSign	related party transactions	When involving related party transactions, then _IRelevanceSign=1, or _IRelevanceSign=0
	_IRestructuringTypeID_1	Restructuring Type is asset acquisitions	When Restructuring Type is asset acquisitions, then _IRestructuringTypeID_1=1, or _IRestructuringTypeID_1=0
	_IRestructuringTypeID_2	Restructuring Type is Equity Transfer	When Restructuring Type is Equity Transfer, then _IRestructuringTypeID_2=1, or _IRestructuringTypeID_2=0
	Q1	Tobin's Q of last year	Market value/total assets
	Fcash	Free Cash Flow of Firm	(net profit + interest expense + non-cash expenses) - operation capital addition - capital expenditure
	_IEquityNature	Equity Nature	When the Equity Nature is state owned, then _IEquityNature=1, or_IEquityNature=0

Table 3. Overall Estimation Results of Different Payment Terms' Impact on M&A Performance

	(1) Debtpay	(2) Shareindex	(3) Profitability	(4) Operation	(5) Development
_IPayTypeID_1	-12.397	-0.396	-0.100	-7.981	0.309
	(67.836)	(0.424)	(1.013)	(92.130)	(7.414)
_IPayTypeID_2	-8.100	-0.180	1.397	-21.002	4.172
	(82.310)	(0.508)	(1.229)	(111.782)	(8.928)
_IRelevanceSign	17.711	0.100	-0.299	-39.572	-2.754
	(23.966)	(0.141)	(0.358)	(32.594)	(2.719)
_IRestructuringTypeID_1	33.115	-0.173	0.698**	50.455*	-4.337*
	(20.611)	(0.127)	(0.308)	(28.228)	(2.481)
_IRestructuringTypeID_2	39.712	0.361**	0.293	-11.841	-11.002***
	(29.226)	(0.160)	(0.436)	(39.879)	(3.559)
Q1	-0.063	0.045***	-0.012	2.640	0.299
	(1.877)	(0.011)	(0.028)	(2.552)	(0.304)
Fcash	0.010	0.002	0.003	-1.467**	0.104*
	(0.542)	(0.003)	(0.008)	(0.736)	(0.062)
_IEquityNature	1.719	-0.223**	-0.358	-1.674	3.973
	(18.786)	(0.110)	(0.280)	(25.674)	(5.500)
_cons	-28.194	1.230***	0.660	17.431	1.869
	(69.655)	(0.432)	(1.040)	(94.652)	(8.465)

Note: "*", "**" and "***" represent the rejection of the null hypothesis at 10%, 5% and 1% significance level respectively. The corresponding values in parentheses are the estimated standard error.

prises of mature industry, growing industry and recession industry, which is based on the life cycle of various industries in China at present stage[1], and the division of which is according to Dan Min and Liyan Han (2008) [11]. Table 4 to 6 report the estimation results of different payment methods' impact on M&A performance of these three types of mergers and acquisitions respectively.

As is shown in table 4 to 6, for enterprises of mature industry, if they use cash payment terms (_IPayTypeID_1) in the M&A activity, their shareholders' earning power is significantly lower than other enterprises, but the profitability is significantly higher, and if they use stock payment terms (_IPayTypeID_2) in the M&A activity, their operating capacity is significantly lower than other companies; for enterprises of growing industry, whether they use cash payment terms or not has no significant impact on the M&A performance, and if they use stock payment terms, the profitability is significantly higher than other enterprises; for enterprises of recession industry, the difference of payment methods does not affect the M&A performance. The main reason may

[1] Specific classification standard is: mining, food and beverage tobacco, paper and printing, chemical plastics and rubber , metal and non-metal, machinery and equipment, and instruments and other manufacturing belong to mature industry; electronic communication equipment manufacturing, pharmaceutical, water and electricity production and supply, transportation, information technology, real estate, social services, and communication and culture belong to growing industry; agriculture & farming, textile and garment, leather, construction and wholesale and retail trade belong to recession industry.

Table 4. Estimation Results of Enterprises in Mature Industry

	(1) Debtpay	(2) Shareindex	(3) Profitability	(4) Operation	(5) Development
_IPayTypeID_1	203.139	-2.348***	0.092	341.926*	0.831
	(396.530)	(0.497)	(0.302)	(198.859)	(2.513)
_IPayTypeID_2	184.553	-1.663***	0.021	339.831	0.992
	(414.057)	(0.584)	(0.323)	(212.195)	(2.682)
_IRelevanceSign	100.755	0.256*	0.111**	-64.303*	0.405
	(75.790)	(0.145)	(0.052)	(34.243)	(0.433)
_IRestructuringTypeID_1	55.761	0.034	-0.065	56.717*	-0.286
	(76.358)	(0.140)	(0.050)	(33.018)	(0.417)
_IRestructuringTypeID_2	200.995*	0.163	-0.009	-47.953	0.186
	(111.392)	(0.167)	(0.071)	(46.657)	(0.590)
Q1	-0.410	0.035***	-0.002	15.646***	0.016
	(7.802)	(0.010)	(0.006)	(3.650)	(0.046)
Fcash	-0.102	-0.001	0.002	-0.378	0.001
	(1.756)	(0.003)	(0.001)	(0.735)	(0.009)
_IEquityNature	-52.733	-0.085	0.032	44.791	0.037
	(120.368)	(0.128)	(0.046)	(30.043)	(0.380)
_cons	-323.936	3.077***	0.229	-376.076*	-1.260
	(419.502)	(0.506)	(0.315)	(207.140)	(2.618)

Table 5. Overall Estimation Results of Different Payment Terms' Impact on M&A Performance

	(1) Debtpay	(2) Shareindex	(3) Profitability	(4) Operation	(5) Development
_IPayTypeID_1	3.815	0.070	-0.141	2.272	-0.967
	(7.707)	(0.238)	(1.272)	(80.551)	(3.111)
_IPayTypeID_2	9.290	0.186	3.042*	-8.255	4.422
	(9.484)	(0.278)	(1.576)	(99.804)	(3.709)
_IRelevanceSign	2.052	-0.062	0.223	-21.616	-0.192
	(3.622)	(0.102)	(0.586)	(37.107)	(1.574)
_IRestructuringTypeID_1	-3.653	0.053	0.501	17.849	-1.307
	(3.040)	(0.089)	(0.485)	(30.700)	(1.425)
_IRestructuringTypeID_2	9.388**	0.248*	0.316	-10.452	-1.304
	(4.546)	(0.133)	(0.709)	(44.922)	(2.302)
Q1	-0.872	0.089***	-0.064	3.994	-0.229
	(1.024)	(0.028)	(0.161)	(10.180)	(0.559)
Fcash	0.152**	0.001	0.004	-0.703	0.006
	(0.064)	(0.002)	(0.011)	(0.666)	(0.025)
_IEquityNature	-1.888	-0.530	-0.695	32.616	9.765
	(3.228)	(0.698)	(0.436)	(27.643)	(9.197)
_cons	-3.889	1.054**	0.717	-8.602	-7.503
	(8.120)	(0.534)	(1.323)	(83.805)	(7.133)

Table 6. Estimation Results of Enterprises in Recession Industry

	(1) Debtpay	(2) Shareindex	(3) Profitability	(4) Operation	(5) Development
_IPayTypeID_1	8.179	0.160	-0.125	-101.150	2.007
	(7.541)	(0.281)	(2.387)	(236.422)	(14.644)
_IPayTypeID_2	11.027	0.257	-0.763	-197.108	9.801
	(10.548)	(0.350)	(3.232)	(306.831)	(20.425)
_IRelevanceSign	-1.307	-0.024	-0.742	-70.584	-3.963
	(3.250)	(0.103)	(0.936)	(88.107)	(6.237)
_IRestructuringTypeID_1	-0.688	-0.130	1.542**	99.337	-11.089**
	(2.558)	(0.088)	(0.726)	(70.726)	(4.891)
_IRestructuringTypeID_2	-3.312	0.034	0.959	-24.042	-11.499*
	(3.531)	(0.106)	(0.985)	(92.408)	(6.746)
Q1	-0.045	0.018**	-0.021	-1.769	-0.011
	(0.318)	(0.008)	(0.048)	(4.218)	(0.517)
Fcash	0.280*	0.002	-0.020	-21.407***	0.217
	(0.145)	(0.003)	(0.044)	(4.319)	(0.279)
_IEquityNature	7.622	-0.180	-1.121	-116.342*	-1.180
	(6.747)	(0.126)	(0.866)	(63.729)	(10.716)
_cons	-11.228	0.673**	1.301	189.042	16.723
	(9.039)	(0.300)	(2.482)	(241.315)	(16.686)

Note: "*", "**" and "***" represent the rejection of the null hypothesis at 10%, 5% and 1% significance level respectively. The corresponding values in parentheses are the estimated standard error.

be: in a mature industry, the development of enterprise is relatively stable, so although cash payment causes the reduction of funds and reduce the shareholder profitability to some extent, they can still quickly assimilate and improve the situation of merged business because of their relatively mature business idea and concept, thus improves the efficiency of restructuring and integration after the merger of enterprises. While the stock payment does not cut off the relationship between buyers and sellers, making the seller still has decision-making powers in the future course of development of merged business, and thus the advanced management concepts cannot be implemented in merged business quickly, and therefore has a certain negative impact on the profitability of the shareholders. In the growing industry, after using cash in M&A, enterprises will quickly seize the opportunity to take other effective means to reduce the negative effects brought by a shortage of funds, thus its impact on M&A performance is not significant, and the use of stock payment helps to ease the funding shortfall in the acquisition process to a large extent, and therefore helps to improve the performance of M&A. For enterprises in a recession industry, due to the downlink state of the overall development of the industry, their business performance is mainly influenced by the macro-environment, so whether payment is appropriate or not does not arouse much waves.

Meanwhile, the impact of control variables is as follows:

(1) Related party transactions (_IRelevanceSign). For enterprises in a mature industry, if the transaction event is the one that has something to do with related party, then their shareholders' profitability and business profitability are significantly higher than those without related party transaction, but the operating capacity is significantly lower; and for enterprises of growing industry and recession industry, whether the transaction involved in related party or not has no significant effect on the M&A performance. This is because in a transaction between related parties, enterprises of mature industry can quickly introduce good assets and strip non-performing assets, and thus improves profitability or get rid of financial difficulties, but for enterprises of growing industry, the situation of asymmetry information is more serious, and therefore related parties would probably collude together for their own interests and operate secretly to implement actions that are detrimental to the interests of small shareholders, which may reduce the M&A performance, making the already aggressive acquisition's effect not obvious finally.

(2) Restructuring type (_IRestructuringTypeID_1 and _IRestructuringTypeID_2). For enterprises in a mature industry, asset acquisition generates significant positive effects on operating capacity, and equity transfer has a significant positive effect on the debt paying ability. For enterprises in a growing industry, asset acquisition has no significant effect on the performance of M&A, and equity transfer exerts a significant positive impact on the debt paying ability and profitability of shareholders. For enterprises in a recession industry, asset acquisition has a significant positive impact on profitability and a significant negative effect on development ability, and equity transfer has a significant negative impact on development capacity. This shows that asset acquisition and equity transfer are better than other restructuring types for enterprises of mature industry, equity transfer is more appropriate for enterprises of growing industry, and other restructuring types such as asset replacement are more suitable for enterprises of recession industry.

(3) Tobin's Q of last year (Q1). Whether the enterprise is in a mature industry, growing industry or recession industry, Tobin's Q of last year would always produce a significant positive impact on shareholder profitability. This shows that the enterprise with good corporate operating performance last year has strong strength of acquisitions, and thus has better M&A performance.

(4) Free cash flow (Fcash). For enterprises of mature industry, free cash flow of firm does not have a significant impact on the performance of M&A. For enterprises of growing industry, free cash flow of firm generates a positive impact on debt paying ability; for enterprises of recession industry, free cash flow of firm exerts positive effect on debt paying ability and a negative impact on operating capacity. The reason may be that enterprises in a mature industry are more willing to invest free cash flow to current account in order to ensure stable development, so the free cash flow into M&A process will not increase despite the overall free cash flow does increase, so exerts little influence on the performance of M&A. But enterprises in the growing industry with the purpose of ensuring faster growing speed and enterprises in the recession industry with the purpose of avoiding being out of the market are more inclined to increase free cash flow into the acquisition process to expand business scale and enhance asset utilization efficiency, but enterprises in the recession industry may be too focused on cash investment in acquisition process to improve debt paying ability, thus ignores the operating performance of other projects.

(5) Equity nature (_IEquityNature). For enterprises of mature industry and growing industry, the impact of equity nature is not significant; for a recession industry, state-owned enterprises' acquisition performance was significantly lower than non-state-owned enterprises. The reason may be that the implementation of SOE reform in mature and growing industry has been greatly improved the efficiency of state-owned enterprises, and thus their performance are on par with other non-state-owned companies, and therefore the difference of the equity nature of enterprises does not have a significant impact on M&A performance; while in the recession industry, the state-owned enterprises have existed for a relatively long time, and their inter-

nal reforms are much more difficult so that the presence of their old inefficient system weakens the acquisition performance.

4 CONCLUSIONS AND RECOMMENDATIONS

Using the panel data of 2009--2013 Shanghai and Shenzhen A-share Market, and based on the control of the influence of other possible factors, this paper conducts empirical research on the impact of different payment methods on M&A performance. Results show that, the difference of payment terms does not have a significant impact on the M&A performance in the overall regression. Further grouping regression shows that, for enterprises of mature industry, if they use cash payment terms in the M&A activity, their shareholders' earning power is significantly lower than other enterprises, but the profitability is significantly lower, and if they use stock payment terms in the M&A activity, their operating capacity is significantly higher than other companies; for enterprises of growing industry, whether they use cash payment terms or not has no significant impact on the M&A performance, and if they use stock payment terms, the profitability is significantly higher than other enterprises; for enterprises of recession industry, the difference of payment methods does not affect the M&A performance. In addition, related party transactions, restructuring type, Tobin's Q of last year, free cash flow and equity nature have different degrees of impact on the M&A performance.

Thus, we recommend that enterprises of mature industry choose to use the cash payment terms or other payment terms (such as mixed payment methods, etc.) which exclude cash and stock terms, enterprises of the growing industry choose stock payment terms, and enterprises of recession industry could determine the right payment terms according to other needs. In addition, in a mature industry, companies could try to choose mergers and acquisitions of associated enterprises; companies in the growing industry could try to choose the type of equity transfer in the process of acquisition, and to improve their free cash flow in permitting of other conditions; enterprises in the recession industry should not choose the type of asset acquisitions and equity transfer in mergers and acquisitions, and should give more consideration to asset replacement, etc., while state-owned enterprises of which should focus on innovation for its own internal mechanisms. Finally, no matter what kind of industry they belong to, enterprises should think twice before starting the merger: if their corporate operating performance of last year has not trended higher, then the M&A activity is not desirable to take.

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