

# Risk Analysis and Countermeasure Research of Transnational Merger and Acquisitions China Enterprises

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**Abstract:** Since China joined the WTO, China has become more and more connected with the world. In order to adapt to the economic requirements of the global environment faster and better, it has become more and more common for Chinese enterprises to choose cross-border mergers and acquisitions to enhance their competitiveness. Although cross-border mergers and acquisitions can quickly acquire advanced technology and increase the share of excellent resources. However, it is undeniable that there are huge risks behind the high returns. This paper analyzes the types of risks that Chinese enterprises will encounter in each stage of overseas mergers and acquisitions, and puts forward relevant countermeasures based on the actual situation, hoping to provide some references for Chinese enterprises to carry out cross-border mergers and acquisitions.

**Keywords:** Cross-Border M&A; M&A Risk; Risk Prevention

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## 1. Introduction

In recent years, a large number of successful cases of overseas mergers and acquisitions by local companies have emerged in China. But as far as the current situation is concerned, although some Chinese companies have succeeded in overseas mergers and acquisitions, the vast majority of local companies lack experience in overseas mergers and acquisitions, which makes it easy for companies to control risks when formulating merger and acquisition plans. Did not do well. Therefore, in the current context, the risks of cross-border mergers and acquisitions of domestic enterprises in my country are explored, and the reasons that may lead to these risks are analyzed.

## 2. Risk sources of cross-border mergers and acquisitions

### 2.1 Cross-border mergers and acquisitions take a long time

In the process of cross-border mergers and acquisitions, various events are more sensitive to changes in the macro and micro environment, which makes the external investment environment more variable. Judging from the current M&A cases, a complete cross-border M&A takes about 3-5 years from start to finish, and there are great risks in the arrangement of events within this time interval.

### 2.2 Improper choice of payment and financing methods

Cross-border mergers and acquisitions often require a large amount of capital, and the acquirer usually meets the capital needs through external financing. In the case of cross-border M&A transactions of domestic companies, debt financing instruments are usually chosen. However, choosing debt financing instruments will bring financial risks to the main company.

### 2.3 Improper post-merger integration

In the integration stage after the M&A is completed, the acquirer should formulate the integration strategy to be implemented by the enterprise in advance based on its own long-term development strategy. item arrangement. With the increasing experience of cross-border mergers and acquisitions of Chinese enterprises, the importance of the integration stage is gradually realized. If the various affairs are not handled properly in the integration stage, it will not only hinder the development of the acquired party, but even drag down the acquirer.

## 3. Risk Analysis of Cross-border M&A

### 3.1 Risk Analysis of Cross-border M&A Decision Stage

#### 3.1.1 political risk

The national political environment is the primary consideration for cross-border mergers and acquisitions. There are differences in the specific performance of different countries in different regions of the world. For example, in developed

countries such as Europe and the United States, the main consideration is whether the leadership style of the leaders after the election will cause the risk of policy discontinuity, as well as the attitude towards China, etc. These factors have a huge impact on mergers and acquisitions.

### **3.1.2 Target company pricing risk**

If the price is too high, it will bring financial losses to the acquirer. On the contrary, if the price is too low, the acquired party is likely to refuse to sell. If the acquirer wants to have a reasonable price for the target company, the acquirer should use various methods to obtain all kinds of information of the acquiree as comprehensively as possible, and finally arrive at a valuation.

### **3.1.4 Strategic decision risk**

Before making a decision on a cross-border M&A, the acquirer should reasonably formulate the purpose and strategic plan of the M&A. For different companies, the purpose of cross-border mergers and acquisitions is different, some are for the core technology of products, or for the development of diversified businesses, etc. When making strategic decisions, they should not only consider the positive benefits they can obtain, but also objectively evaluate whether the purpose of mergers and acquisitions is not. Adapt to the current stage of development of the enterprise.

## **3.2 Risk Analysis in the Implementation Stage of Cross-border M&A**

### **3.2.1 financing risk**

Before conducting external financing, you should plan various matters of external financing in advance, fully consider your own situation, and try your best to avoid the financial deterioration of the acquirer due to the wrong choice of financing method and high financing cost.

### **3.2.2 Payment risk**

Judging from the current cases of cross-border mergers and acquisitions in my country, most of them choose cash payment. Cash payment is not only simple and fast, but also has the advantages of fast transaction without complicated counting and procedures, and it can also achieve that there is no excessive time for companies with resistance to consider and have no chance to implement anti-takeover measures. At the same time, the shortcomings are also very obvious, but the disadvantage is that the financial pressure on the acquirer is relatively large. Once the capital chain is broken, it will not only lead to the failure of the acquisition, but also lead to the financial crisis or even bankruptcy of the acquirer.

## **3.3 Risk Analysis in the Integration Stage of Cross-border M&A**

### **3.3.1 Human resource integration risk**

M&A events will bring a certain degree of anxiety and unease to the employees of the acquired company. These changes in mentality will consume a lot of human capital. Once employees' self-protection awareness is aroused, it will lead to many behaviors that are not conducive to mergers and acquisitions, integration and normal operations.

### **3.3.2 Manage integration risk**

For Chinese companies, there is a lack of experience in cross-border mergers and acquisitions. Therefore, the management integration of cross-border mergers and acquisitions is an opportunity to learn the excellent management experience of foreign companies, and to maintain and expand the core competitive advantages of both parties on the original basis.

## **4. Countermeasures for Risk Prevention of Cross-border Mergers and Acquisitions**

### **4.1 Implications for risk management in the preparation stage**

#### **4.1.1 Choose an experienced consulting agency**

Cross-border M&A transactions involve multiple countries or regions, and there will be certain differences in political systems, tax policies, and regional cultures. Therefore, the acquirer can consider choosing an experienced consulting agency. It can not only make the valuation more reasonable, but also review contracts such as contingent liabilities of the target company, reducing various risks after the acquisition.

#### **4.1.2 Choose M&A targets carefully**

In the process of selecting M&A targets, the acquirer should consider the long-term strategy of its own enterprise, and should clarify the purpose to be achieved through M&A. According to the degree of business relationship between the acquirer and the target party, it can be divided into three categories: horizontal M&A, vertical M&A and hybrid M&A. If you choose horizontal mergers and acquisitions of the same type of enterprises, you can achieve economies of scale and improve the competitiveness of the acquirer; vertical mergers and acquisitions replace market transactions with intra-company transactions; hybrid mergers and acquisitions can reduce the risk of industry volatility. No matter which M&A method you choose, you need to fully understand the acquiree before making a decision.

## **4.2 Implications for risk management in the implementation stage**

### **4.2.1 Broaden financing channels**

In terms of debt financing, the acquirer can use leverage reasonably, but must grasp the proportion of debt financing. In addition, equity financing can also be selected, which can reduce the level of asset-liability ratio and avoid financial crisis of enterprises. Finally, Chinese companies can also cooperate with the National Industrial Fund, and if they meet the relevant requirements, they can also obtain the required funds.

### **4.2.2 Reasonable selection of financing channels**

For listed companies in my country, most of them can only use their own funds, loans from financial institutions, issuance of creditor's rights or stocks, etc. Due to certain restrictions on foreign exchange outbound and other factors, Chinese enterprises have to choose overseas debt financing. At the same time, when formulating financing strategies, short-term debt financing and long-term debt financing should be arranged in combination with the setting of the offer period and the trend of exchange rate fluctuations.

## **4.3 Implications for risk management in the integration stage**

### **4.3.1 Human resource integration**

Chinese enterprises should pay attention to the following three aspects when integrating human resources: First, discover excellent management talents. Second, try to retain the senior management talents of the acquired party as much as possible. Third, stabilize the emotional fluctuations of employees, so that the daily operation and management of the acquirer remains relatively stable.

### **4.3.2 Management integration**

After the transaction is completed, the acquirer needs to do a good job in the management integration of both parties. First of all, the merging enterprise should fully understand the management ideology and management system of the merged enterprise, and adjust the management objectives of the merged enterprise accordingly. Second, management competencies are retained and discovered through human resource policies, during which back-and-forth and conflict are inevitable. Finally, after the managers and employees of the acquired company accept the new management ideas, the management fusion of the two parties has already begun. However, management integration can only be a phased goal. After a short-term stable situation, we should continue to run in and continue to innovate and make breakthroughs.

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