

Research on the Risk of Transnational Merger and Acquisition

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Abstract

With the deepening of the world economic integration, more and more Chinese enterprises choose to enter the international market, and the behavior of Cross-border merger and acquisition is more and more common. Transnational MERGER and acquisition is a kind of behavior with both benefits and risks. It not only brings many economic benefits to enterprises, but also has many risks. This paper analyzes the possible risks and causes of transnational merger and acquisition, and puts forward some suggestions to prevent risks.

Keywords

Cross-border Merger and Acquisition; Risk.

1. Introduction

When enterprises reach a certain stage of development, mergers and acquisitions are often adopted to further expand their scale and realize economies of scale. Mergers and acquisitions can integrate various resources of enterprises, share or complement each other's resources, and also improve the market share of enterprises and increase their economic benefits. After China's accession to the WTO, the degree of opening-up has been further deepened. More and more enterprises are attracted by the world market and choose to go abroad to open the door of the international market. Along with it, the increase in Cross-border m&a activities. Under the current market situation, the Cross-border M&A activities of enterprises have gone deep into various industries and fields, and the operation is becoming more mature. Although Cross-border MERGERS and acquisitions bring many advantages to enterprises, but also cannot ignore the risks, enterprises should pay attention to prevent and deal with the risks when carrying out Cross-border mergers and acquisitions.

2. Possible Risks of Cross-border Mergers and Acquisitions

2.1. Market Risks

The Cross-border merger and acquisition of enterprises is based on the capital market, and the capital market is changing all the time, which may bring risks to the merger and acquisition. First, exchange rate risk. Cross-border mergers and acquisitions often involve two or more countries, so a variety of foreign currencies will also be involved. If a certain foreign exchange fluctuates greatly, it will directly bring exchange rate risk to enterprises and affect their value. Second, interest rate risk, the value of securities will change with the change of interest rates, resulting in changes in the estimation of m&a funds. In mergers and acquisitions, the amount of funds for mergers and acquisitions is often huge, and even small changes in interest rates may affect the interests generated by mergers and acquisitions to a certain extent. Therefore, the exchange rate and interest rate in the market will bring some risks to the Cross-border merger and acquisition of enterprises.

2.2. Internal Decision-making Risk

Cross-border M&A is a decision that will have a significant impact on the strategic development of enterprises. Enterprises need to make a decision based on their own actual situation, core competitiveness, benefits brought by m&a and other factors. If an enterprise makes a wrong judgment on its own strength, or only under the influence of the government's preferential policies, it is likely to fail in the merger and acquisition, thus affecting the future development of the enterprise. Therefore, before deciding to carry out Cross-border M&A, enterprises should fully understand their own situation, carefully evaluate the possible economic benefits after M&A, formulate the correct strategic development plan, and weigh the advantages and disadvantages before making a decision.

2.3. Financial Risks

2.3.1. Valuation and Pricing Risk

Before mergers and acquisitions, enterprises always evaluate and price the target enterprises. However, valuation pricing is often established on a certain premise and affected by a variety of factors. If the valuation is inaccurate, risks will occur. When the enterprise value is overvalued, the cost of m&a will increase, and then the benefits of M&A will decrease. If the enterprise value is underestimated, the possibility of merger and acquisition failure will be greatly increased.

2.3.2. Financing Risks

Mergers and acquisitions of enterprises need a lot of capital, so financing is an essential step. Typically, companies use bank loans, bonds, equity and internal retained earnings to finance their investments. If the amount of debt financing is too high, the debt risk of enterprises will rise sharply; If the way of financing through issuing bonds and stocks, it will increase the financing cost of enterprises. Therefore, the reasonable planning of financing structure is very important.

2.3.3. Liquidity Risk

Cash, stock exchange and mixed payment are common payment methods in mergers and acquisitions. The difference between payment methods will also bring different impacts on the financial status of enterprises. If a large amount of cash needs to be paid in the process of merger and acquisition, the normal operation of the enterprise is seriously affected in order to raise the cash needed for merger and acquisition in the short term, which will lead to the generation of liquidity risk.

2.4. Risk of Cultural Integration

Companies are exposed to different cultures in different countries. Therefore, in the process of Cross-border MERGERS and acquisitions, the culture of the acquirer and the acquirer needs to be integrated and interconnected, so as to increase the recognition of the employees of the acquirer to the culture of the acquirer. If the employees of the acquired company are difficult to accept the culture of the acquired company, the merger and acquisition may be hindered to some extent, and even if the merger and acquisition is successful, conflicts will easily occur in the future operation and management.

3. Origin of Cross-border M&A Risks

Domestic enterprises do not have much experience in the field of Cross-border MERGERS and acquisitions, and are weak in risk identification and proactive prevention awareness. In addition, accounting standards are different in different countries. In Cross-border mergers and acquisitions, differences in accounting standards will also result in different value assessments after mergers and acquisitions, and the risk of overestimating or underestimating the value of

the acquired enterprises will increase accordingly. The country's political environment and legal system will also bring risks to Cross-border mergers and acquisitions. If there is political turmoil in a country, the assets of the acquired company can be frozen for disposal; If the contents of national laws related to m&a change, Cross-border M&A activities may encounter legal risks.

4. Suggestions on Preventing Risks of Cross-border MERGERS and Acquisitions

4.1. Formulate Reasonable M&A Strategic Planning

Transnational MERGER and acquisition is an important strategic step in the development of enterprises, enterprises must make reasonable and feasible merger and acquisition strategic planning. The enterprise should first make a practical assessment of its own strength, and then select the right enterprise to be merged from the perspective of resource integration, expansion of scale, market development, demand matching, etc., and predict the economic benefits of the enterprise after merger and acquisition scientifically, so as to build a solid foundation for the development of merger and acquisition activities.

4.2. Correct Valuation of the Target Enterprise

The valuation of target enterprises is an important step in the process of MERGERS and acquisitions, and its results will directly affect the success of mergers and acquisitions. Therefore, it is necessary to pay special attention to the correct valuation of target enterprises. Before m&a, it is necessary to have a comprehensive understanding of the target enterprise's financial status, operating status, assets and liabilities, so as to avoid excessive valuation deviation. The more detailed the information is, the more accurate the valuation will be and the less likely valuation risks will occur.

4.3. Choose Appropriate Financing Methods

Internal financing and external financing are two ways of m&a financing. Due to the huge amount of capital required by M&A, it is difficult to reach the required amount only through internal financing, and it will bring heavy financial burden and debt crisis to enterprises. Enterprises should rationally allocate the proportion of financing, comprehensively utilize internal financing and external financing, improve financing capacity, reduce financial pressure, and reduce financing risks arising from Cross-border m&a.

4.4. Improve the Legal System for Cross-border Mergers and Acquisitions

Government also play an important role in Cross-border m&a, in order to better promote the development of transnational mergers and acquisitions, the government should perfect the relevant laws and regulations of transnational merger and acquisition as soon as possible, safeguard the legitimate rights and interests of domestic enterprises, tort law, prevent foreign enterprises behavior of transnational m&a to monitor at the same time, ensure the completed within the scope of the legal compliance.

4.5. Integrating Different Cultures

Cross-border m&a is also a process of cultural integration of different countries. Enterprises of both sides should treat each other's different cultures with the attitude of "seeking common ground while reserving differences". Cultural integration and integration need a certain amount of time, should not be done overnight "one size fits all" integration method. After the merger and acquisition, we should actively create a new cultural atmosphere, enhance the sense of identity of employees of both companies through communication, and form a new corporate culture in cultural integration.

5. Conclusion

Cross-border m&a is one of the ways for Chinese enterprises to enter the international market, which can improve the internationalization level of Chinese enterprises. Enterprises should not only focus on the economic benefits after m&a, but also take precautions against the possible risks in the process of M&A. Improving identification, choosing appropriate financing methods, correct valuation and using legal weapons to protect their own rights and interests can contribute to the success of Cross-border M&A.

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