

Research on Strategic Risk Management and Enterprise Survival Resilience in China's Manufacturing Industry

-- Take ANTA as an Example

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Abstract

In recent years, the increase in policy uncertainty has had a negative impact on the development of China's manufacturing industry. How enterprises avoid and prevent risks is one of the main means to strengthen their survival resilience. Many enterprises choose to adopt strategic risk management empirical means in order to gain a more advantageous position in competition. This article takes the merger and acquisition of AMAFIN by ANTA Group as an example, summarizes the current situation of risk control in ANTA Group, exposes the problems existing in the cross-border merger and acquisition process of ANTA Group, summarizes the impact of its ineffective risk control, and finally proposes feasible suggestions for strategic risk management based on the theoretical framework of this article and the situation of ANTA Group itself.

Keywords

Strategic Risk Management; Cross Border M & A Survival Resilience; Risk Management.

1. Introduction

The report of the 20th National Congress of the Communist Party of China pointed out that "the manufacturing industry is the locomotive and stabilizer of economic growth, and is the key force to promote China's economic growth." In 2022, the added value of China's manufacturing industry accounted for 33.2% of GDP, showing a rapid growth trend, and the scale of the manufacturing industry continuously ranked first in the world. In this process, mergers and acquisitions between manufacturing enterprises provide strong support for the improvement of economic aggregate. However, there are also a series of issues and challenges in the process of mergers and acquisitions of manufacturing enterprises. Many enterprises choose to adopt strategic risk management measures to avoid risks in order to gain an advantageous position. With the rapid development of economic globalization, domestic enterprises are no longer satisfied with the current situation. As the main form of international direct investment, cross-border mergers and acquisitions are constantly showing their indispensable position. More and more enterprises are beginning to use cross-border mergers and acquisitions as a foreign investment method to expand the international market, enjoy synergies, and enhance their core competitiveness in various aspects.

ANTA Enterprise is one of the fastest growing manufacturing enterprises in China. In 2019, ANTA chose to acquire the world's top sports goods group, AMAFIN. This acquisition is the largest in the history of China's sports goods industry acquisition. Therefore, there are opportunities and higher risks. This article analyzes the financial data of ANTA Enterprise, combining with the theoretical framework of strategic risk management, Provide feasible suggestions for the development of ANTA.

2. Strategic Risk Management and Enterprise Resilience

2.1. Strategic Risk Management

Strategic risk management is a practical tool used by enterprises to think about the future and identify development opportunities. Through strategic risk management, companies transform strategic threats into development opportunities. The role of strategic risk management in the development process of enterprises is self-evident, and enterprise risk management includes enterprise strategic risk management. Conceptually, corporate strategic risk can be understood as the uncertainty of the overall loss of the enterprise.

2.2. Enterprise Resilience

In the "VUCA" era, the importance of resilience for macroeconomic operation and micro enterprise development is increasingly prominent, and has received widespread attention from the academic community. From a macro perspective, economic resilience refers to the ability of the economic system to withstand external shocks and adjust its own development path. Strong economic resilience is considered the key to China's response to various uncertain shocks. From a micro perspective, enterprise resilience refers to the potential ability of an enterprise to predict, avoid, and adjust to external shocks. It is an indispensable characteristic of an enterprise to respond to crises or overcome difficulties. Firms with stronger resilience have richer resource reserves and stronger self-renewal capabilities, which help them actively respond to changes in the external environment, turn risks into opportunities, and achieve adverse growth. However, when faced with external environmental shocks, companies with lower resilience are often reshuffled due to resource shortages, falling into a dilemma. It can be seen that resilience traits can affect the decision-making and coping styles of enterprises when the external environment fluctuates.

2.3. Trans-national Mergers and Acquisitions

Cross border mergers and acquisitions are the actions taken by one country's enterprises to achieve a certain goal by acquiring all the assets or sufficient shares to exercise operational activities of another country's enterprises through mergers and acquisitions or new mergers, thereby exercising actual or complete control over the operation and management of another country's enterprises. Nowadays, cross-border mergers and acquisitions have gradually become an important means for enterprises to develop themselves, but there are still risks in enterprise mergers and acquisitions. If enterprises do not take good precautions, it is likely to directly lead to the failure of cross-border mergers and acquisitions, bringing unbearable losses to enterprises.

3. Case Introduction

3.1. ANTA Company Profile

ANTA Company was founded in 1991 with a registered capital of 590 million yuan. It was listed on the main board of the Hong Kong Stock Exchange in 2007. Its core business is the design, production, and sales of sports shoes, clothing, accessories, and other products. After listing, ANTA has undergone several decades of development, transforming from a traditional private enterprise into a listed company with a modern governance system, with its core competitiveness far surpassing other domestic sports brands.

3.2. Basic Financial Situation of ANTA Company

3.2.1. Solvency analysis

3.2.1.1 Short-term Liquidity

Short-term solvency refers to the ability of an enterprise to repay its current liabilities, which have a significant impact on the financial risks of the enterprise. If not repaid in a timely manner, the enterprise may fall into financial difficulties and face the risk of bankruptcy. Generally speaking, current liabilities need to be repaid in cash.

Table 1. Analysis of ANTA'S short-term solvency

ITEM	2019	2020	2021
Current Ratio	1.88	2.79	2.50
Quick Ratio	1.52	2.32	2.02
Cash Ratio	1.02	1.76	1.59

The current ratio is the ratio of a company's current assets to current liabilities. The higher the current ratio, the stronger the company's repayment ability. However, higher ratios do not necessarily mean better. An excessively high liquidity ratio means that an enterprise retains too much capital on its current assets and is not effectively utilized, which will have an impact on its earnings. According to the data, a ratio of around 2 is appropriate. ANTA Enterprise has a high current ratio from 2019 to 2021, with a high guarantee of repayment of current liabilities.

The quick ratio is the ratio of quick assets to current assets. Because the quick ratio excludes assets with poor liquidity such as inventory, it is more reliable to evaluate the short-term solvency of an enterprise. It is generally considered appropriate when the quick ratio is 1. According to the data in the table, the quick ratio of ANTA Enterprises from 2019 to 2022 was greater than 1, and showed a rapid upward trend, indicating that the enterprise has strong short-term solvency and low financial risk.

The cash ratio is the ratio of a company's total cash and cash equivalent assets to its current liabilities. Cash is the most direct means for a company to repay its debts. If a company is short of cash, it may face a financial crisis. The cash ratio should generally be around 20%, and ANTA's cash ratio for the past three years is far above the normal level. Based on the cash ratio, it is evaluated as having a strong solvency.

3.2.1.2 Long-term solvency

Long-term debt repayment ability refers to the ability of an enterprise to bear debts and guarantee the repayment of debts. The analysis of long-term solvency can help creditors and investors comprehensively understand the solvency and financial risks of enterprises.

Table 2. Analysis of ANTA's long-term solvency

ITEM	2019	2020	2021
Asset Liability Ratio(%)	48.90	50.21	49.48

The asset liability ratio is the ratio of a company's total liabilities to its total assets, which can reflect how much assets the company has obtained through borrowing. According to the data, the asset liability ratio of an enterprise is in the normal range of 50%, with the asset liability ratios of 48.90%, 50.21%, and 49.98% from 2019 to 2021, respectively. From the above analysis, the debt ratio of ANTA Enterprise is at the normal level.

3.2.2. Operational Capacity Analysis

Operating capacity can reflect a company's ability to produce and operate and the efficiency of obtaining profits. Analysis of operating capacity can provide insight into the business situation and the level of management's business management in recent years.

Table 3. Analysis of Anta's Operational Capacity

ITEM	2019	2020	2021
Account Receivable Turnover Rate (Times)	10.50	9.60	14.30
Days Of Turnover Of Accounts Receivable (Days)	34.70	38.00	25.60
Inventory Turnover Rate (Times)	4.20	3.10	2.90
Inventory Turnover Days (Days)	88.00	118.10	125.00
Total Asset Turnover Rate (Times)	1.03	0.78	0.87

From Table 3, it can be seen that the turnover rate of accounts receivable of ANTA decreased from 10.5 times in 2019 to 9.6 times in 2020, but rapidly increased to 14.3 times in 2021. By comparing the turnover rate of accounts receivable in the three years 2019 to 2021, it indicates that ANTA's liquidity has been strengthened in these three years.

The sales efficiency and inventory utilization efficiency of an enterprise are often explained by inventory turnover. Under normal operating conditions, the higher the inventory turnover rate, the faster the inventory turnover speed, and the stronger the sales ability of the enterprise. The inventory turnover rate decreased during the three years from 2019 to 2021, indicating that the sales capacity of ANTA Enterprise gradually decreased.

The total asset turnover rate is mostly used to analyze the efficiency of enterprise asset operations. The total asset turnover rate of ANTA Enterprise has not changed much in the past three years, and its sales revenue is relatively stable.

From the above analysis, it can be seen that the operational efficiency of ANTA Enterprise needs to be further improved.

3.2.3. Profitability Analysis

Profitability refers to the ability of an enterprise to earn profits, which is an important indicator of its operating conditions, and also the material basis for its further development, as well as an important guarantee for the enterprise to repay due debts and interests.

Table 4. Profitability Analysis of ANTA Enterprise

ITEM	2019	2020	2021
Operating Gross Profit Margin	55.00%	58.15%	61.64%
Net Operating Profit Rate	16.58%	15.68%	16.66%
Net Profit Margin Of Total Assets	16.29%	11.09%	13.48%
Average Return On Net Assets	29.81%	23.41%	29.17%

From Table 4, it can be seen that from 2019 to 2021, the operating gross profit margin maintained a stable and slow growth, indicating that ANTA's ability to obtain profits through sales has gradually strengthened, while the net interest rate, net profit margin, and return on net assets have basically remained stable, reflecting ANTA's strong operating ability.

3.3. Introduction to ANTA's Acquisition of AMAFIN

Before 2009, ANTA was just an ordinary manufacturing enterprise, which has developed rapidly in recent years, transforming from a traditional Chinese private enterprise into an internationally competitive sports goods group.

According to recent financial reports of ANTA, brand diversification has always been an important strategy of ANTA, and in reality, it is mainly achieved through mergers and acquisitions. Obviously, the acquisition and merger have continued to increase ANTA's performance and market value, and shortly thereafter, its market value exceeded HK \$300 billion. In 2018, in order to fill the gap in the market segment and bring synergies into play, ANTA chose to acquire 98% of AMAFIN's shares for 4.6 billion euros.

This acquisition effectively filled the gap in the professional sports market segment of ANTA Sports, and improved the brand structure of ANTA. However, the financial situation of ANTA after the acquisition is not satisfactory. According to ANTA's financial reports, in 2019 and 2020 after the completion of the acquisition, AMAFIN was in a loss state. Due to the poor integration effect after the acquisition, ANTA had to sell 5.25% of AMAFIN's shares at a low price in the year of the acquisition to improve its cash flow and debt paying ability.

3.4. Trategic Risk Management

ANTA signed a sponsorship agreement with the Olympic Committee in September 2017, and will be on the stage of the Winter Olympics in February 2022, with only two and a half years of preparation time. However, the acquisition of AMAFIN and the use of its professional research and development technology are an important part of this preparation plan. The time constraints and heavy tasks were the situation ANTA faced at that time, so that ANTA quickly acquired AMAFIN Group at an extremely high premium. Due to the huge amount of this transaction, the short-term funding gap brought to ANTA has led to a significant increase in its asset-liability ratio and increased short-term funding pressure. Even if debt financing is subsequently used to cover the funding gap, the financial expense burden brought by debt financing further increases the enterprise's operating costs, leading to a vicious cycle.

At the same time, in the face of high acquisition prices, ANTA Sports conducted large-scale leveraged financing, which is bound to have an impact on subsequent profitability. Due to the numerous brands under AMAFIN and the uneven development level of each brand, the risks involved in ANTA can be expected, but the sudden epidemic is not within the predictable risk range of ANTA, which brings a huge goodwill impairment risk to ANTA.

In summary, such a high premium and leveraged financing approach have brought liquidity and investment risks to ANTA Sports.

4. Solutions

According to the above analysis, the acquisition of AMAFIN has brought risks to ANTA. Based on the theoretical framework and case analysis of ANTA, combined with the economic environment and ANTA's own situation, this paper summarizes the strategic risk management measures ANTA has implemented to avoid risks.

4.1. Segmental Mergers and Acquisitions

Segmental M&A is also known as incremental M&A. If the investment project is large in scale, with a long cycle, and there is strong information asymmetry between the two parties, ANTA can adopt segmented procurement by first purchasing a portion of AMAFIN's equity. Through this method, ANTA can not only obtain more comprehensive and authentic information from AMAFIN in a short time and at a lower cost. In order to have a clearer understanding of the

financial risks contained in AMAFIN, timely adjust subsequent investment decisions, and avoid subsequent financial risks caused by the large scale of capital investment.

4.2. Strengthen Cash Flow Management

Strengthening cash flow management is a necessary and important function for enterprises in conducting business activities. It is necessary to establish a set of suitable and sound systems to manage cash flow. After this merger and acquisition, ANTA should also make good use of current financing channels to strengthen cash flow management, timely control risks in the production and operation process of the enterprise, and rebuild reasonable business processes. ANTA can apply balanced management theory to improve the management system, thereby improving the level of cash flow management.

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