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# **Motivation and Risk Control of Cross-Border M&A of Chinese Enterprises**

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**Abstract:** With the deepening development of the global economic integration, more and more Chinese enterprises have begun to implement the strategy of cross-border mergers and acquisitions. Despite many drivers pushing companies to adopt multinational M&A strategy such as the national policy, enterprise competitiveness, sales channels, to evade trade barriers, etc., but many risks implied by transnational merger and acquisition also to be reckoned with, such as decision-making risk, financial risk, valuation risk and integration risk, etc., of which motivation and risk and how to guard against risks, we need to study.

**Keywords:** Transnational Merger and Acquisition; M&A Risk; Risk Control

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## **Introduction**

Transnational mergers and acquisitions refers to the floorboard of the transnational merger and multinational acquisition, refers to a country's enterprises in order to achieve a certain purpose, through various channels and means of payment, will the all assets of the enterprise mergers and acquisitions or another country to control of the enterprise operating activity form of shares to buy down, thus the management of the acquired enterprise management form in fact or complete control of behavior. With the development of economic globalization and the rapid rise of China's economy, more and more excellent enterprises in our country have gone abroad to participate in cross-border mergers and acquisitions. However, cross-border M&A is a double-edged sword, which brings convenience to M&A enterprises and brings many risks.

## **1. Motivation of transnational merger and acquisition of Chinese enterprises**

### **1.1 National policy support**

Since the 17th National Congress of the Communist Party of China (CPC), China has taken opening to the outside world as a basic national policy, and vigorously supported domestic enterprises to implement the strategy of "going global". Along with opening to the outside world, the country and the implementation of the "area" clear guidance, a part of enterprises began to explore overseas markets, realize the trade scale, for this new way of enterprise scale expansion overseas M&A, the government introduced many policies to promote the overseas development of the enterprise<sup>[1]</sup>.

### **1.2 Escaping trade barriers**

As most of the products exported by China are of high quality and low price, there is always a large demand in the importing country, which will have a negative impact on the relevant industries in the importing country. These industries are mainly concentrated in handicraft industry and labor-intensive enterprises, which will not only affect the employment of the

country, but also cause the trade deficit. Therefore, many countries have adopted the anti-dumping strategy and set up trade barriers to our export enterprises. To circumvent this barrier, cross-border merger and acquisition is a good way.

### **1.3 Acquire sales channels**

With the development of economic globalization, more and more domestic enterprises have gone abroad, and more and more foreign-funded enterprises have entered China. When an enterprise enters a new market, it is bound to waste a lot of time and miss many opportunities if it adopts a new way to compete. By controlling the enterprises in the country through cross-border mergers and acquisitions, we can directly own the sales channels developed by the acquired enterprises for a long time and enjoy the policies of the country, which can enable Chinese enterprises to quickly enter a new market and improve their market competitiveness.

### **1.4 Enhance core competitiveness**

Compared with the developed countries in Europe and the United States, China's science and technology started late, so there is a certain gap with the world's leading level, and the advanced technology is directly related to the core competitiveness of enterprises. For this reason, enterprises mainly have two ways to improve technology. One is to spend a lot of time and money to solve difficult problems; the other is to acquire advanced technology of foreign enterprises through cross-border mergers and acquisitions. The latter is short in time and low in cost, and enterprises can improve their competitive advantages in a short time through cross-border mergers and acquisitions.

## **2. Risk of Cross-border Merger and Acquisition**

### **2.1 Risk of strategic decision making**

Strategic decision-making is closely related to the survival of enterprises, among which the existing decision-making risks often come from the imperfect decision-making mechanism and the insufficient ability of decision-makers, and cross-border M&A is one of the strategic decision-making. In addition, cross-border M&A is a kind of investment behavior fundamentally, so it has great risks, which is reflected in that not all cross-border M&A can bring rich returns to the M&A enterprises and promote the development of enterprises. In other words, most of the mergers and acquisitions are often failures, many of which bring huge risks to the enterprise, or even bring down the enterprise.

### **2.2 Capital risk**

When enterprises conduct cross-border mergers and acquisitions, the settlement of funds often involves two or more currencies, and the exchange rate is involved in the mutual settlement of funds. The proposal and completion of cross-border mergers and acquisitions are not accomplished overnight, and it usually takes months or even more than one year. Since the amount involved in cross-border mergers and acquisitions is not small, a small exchange rate change will also have a great impact on the profits and losses of enterprises. In addition, companies often use leveraged buyouts when conducting cross-border acquisitions, so the leverage ratio used is another risk factor. If too much leverage is taken, the enterprise will take on too much debt and have the risk of insolvency at any time. If too low leverage is adopted, it may bring pressure to the cash flow of the M&A enterprise, and there is a risk of capital chain rupture.

### **2.3 Valuation risk**

The valuation of the target enterprise is also a kind of risk. Since the M&A enterprise and the M&A enterprise do not have the same degree of information, coupled with the huge differences in national conditions between different countries, these factors often make the M&A company lack of understanding of the target enterprise, and may give too high or too low price. An excessively high acquisition price will lead to lower or even negative earnings after acquisition, while an excessively low acquisition price will lead to the target enterprise's reluctance to reach a merger agreement and ultimately

miss the merger opportunity.

## **2.4 Integration of risk**

The national conditions of the countries where the merged and acquired enterprises are located are often greatly different. They have different organizational structures and corporate systems, as well as different corporate cultures, so they need to be integrated. The integration includes strategic integration, financial integration, organizational integration, human resources integration, asset integration, cultural integration and so on. If these factors are not well integrated, it will lead to 1. In this case, mergers and acquisitions enterprises may have to bear the risk of merger failure and suffer great losses.

## **3. Financial risk control of cross-border mergers and acquisitions**

### **3.1 Carry out a comprehensive investigation, clear enterprise merger and acquisition strategy**

Before the decision of target enterprise mergers and acquisitions related to the target enterprise information collected should be fully, and insight into the target enterprise external environment of your country, can also work with local institutions, using their local advantages and professional knowledge, to the status quo and prospect of the enterprise merger and acquisition all-round objective investigation. At the same time, the senior management of the enterprise should be thoughtful before making the merger and acquisition decision, hold the senior management meeting and the general meeting of shareholders to make the decision, but cannot be determined by a few people at will, let alone arbitrary change and suspension of the merger and acquisition strategy. In addition, it is necessary to establish a risk early warning and monitoring system to pay attention to the hidden risks while seeing the rich benefits.

### **3.2 We will expand financing channels and reduce payment risks**

Enterprises should fully recognize their own reality, reasonably choose financing methods, and leverage ratio, to determine the best debt scale, while enjoying the benefits brought by leverage, the risk brought by leverage can be controlled in a safe range. In addition, it is necessary to forecast and analyze the fluctuation trend of international exchange rate and estimate the most appropriate exchange rate exchange point, to reduce the risks caused by exchange rate fluctuations. It is also possible to seek some financial derivatives to reduce and even avoid the risks caused by exchange rate fluctuations.

### **3.3 Select the appropriate valuation method**

The key to influence the accuracy of the valuation is whether the information between the merged enterprise and the merged enterprise is symmetrical, and whether the financial statement information of the target merged enterprise is true and accurate. Therefore, the enterprise should employ professional auditing institutions to review the financial status and management of the acquired enterprise, and meanwhile employ relevant professional institutions to evaluate the asset value and advanced technology of the acquired enterprise. Based on these objective evaluations, the appraisal methods are selected.

### **3.4 Jointly improve the management system, pay attention to financial integration**

Human resource is one of the key resources of an enterprise. After the completion of the merger and acquisition, the enterprise should implement the talent retention system to retain the outstanding talents needed by the enterprise, and meanwhile mobilize the enthusiasm of the employees through some incentive policies, to strengthen the management of the merged enterprise. In addition, financial integration is the core activity of M&A enterprises, M&A enterprises should send relevant financial management personnel to participate in the financial handover of the M&A enterprises, firmly control the

financial management of the M&A enterprises, unify the accounting system and accounting policies of the M&A enterprises and the M&A enterprises, to facilitate the preparation of consolidated financial statements. As for the merged corporate culture, it is necessary to conduct a comprehensive analysis of different corporate cultures, extract the essence and discard the dross, to achieve a good integration of corporate culture and make the merged corporate culture better serve the development of the enterprise.

## 4. Conclusion

Cross-border mergers and acquisitions are both opportunities and challenges. Only by reducing the risks of cross-border mergers and acquisitions can Chinese enterprises better respond to the strategy of going out. This requires enterprises to continuously improve the financial management system and risk prevention and control system, at the time of M&A must be cautious, comprehensive analysis and understanding of target enterprise, in reducing the risk at the same time improve the ability of Chinese enterprises transnational M&A, make our country enterprise compared with other companies worldwide have stronger competitiveness.

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