Risk Analysis of Cross-Border M & A of Chinese Listed Companies

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Abstract: In recent years, many manufacturing enterprises in China have implemented international strategies through cross-border mergers and acquisitions (MA), and expect to enhance their core competitiveness by acquiring external knowledge and technical resources. Accompanying them are merger and acquisition risks. The purpose of this article is to analyze the impact of cross-border MA on corporate risk, and provide reference opinions for corporate MA decisions and investors' future investment. This article analyzes the impact of cross-border MA on the risks of Chinese listed companies by conducting empirical research on mainland Chinese companies listed on the Shanghai and Shenzhen Stock Exchanges and participating in cross-border MA from 2008 to 2013. It is concluded that the highest percentage of security companies in the manufacturing industry in the year before the merger is 72.41%, and the lowest rate in the year of the merger is 48.28%. One to two years after the merger, the ratio of security companies has increased, but has not been able to return to the level before the merger. It shows that after cross-border MA, manufacturing enterprises caught in different degrees of bankruptcy increased by 10-20%. The safety ratio of non-manufacturing companies has not changed before and after the merger. Taken together, cross-border MA will have a negative impact on the financial status of enterprises, increase their financial risks, and increase their difficulty in managing financial risks.

1. Introduction

With the continuous development of China's foreign economy, the market competition facing enterprises is becoming more and more fierce. Become an important method for more enterprises to improve their core competitiveness [1-2]. In the context of deepening international economic cooperation, cross-border MA are a common way for enterprises to export capital [3]. More and more listed companies regard cross-border MA as an important way to promote overall development and improve competitiveness. However, Chinese companies that have "goed global" have not been smooth for many years [4-5]. According to statistics, there are many failure cases of Chinese companies' cross-border MA. Cross-border MA bring huge benefits on the one hand, and huge risks on the other. Cross-border MA involve companies from multiple countries and regions, so cross-border MA are more difficult than general MA, and a series of risks such as policy risk, legal risk, market risk, and financial risk accompany [6-7]. Without reasonable identification and evaluation of risks, effective countermeasures cannot be taken, and in the end they will suffer huge losses due to lack of ability to control risks [8]. Among many risks, financial risk is a very important factor, and we cannot ignore the risks of cross-border M & A activities. Cross-border MA generate risks from the evaluation of target companies to the negotiation of both parties, financing channels, choice of payment methods, and financial integration after MA [9]. The lack of risk prevention awareness and countermeasures against cross-border MA is likely to bring financial risks to enterprises and even cause bankruptcy crisis [10].

Compared with the rapid progress of domestic cross-border MA, domestic research on cross-border MA is relatively lagging behind. Many literatures on the research of cross-border MA are limited to the analysis of current status and trends. Therefore, this article analyzes the impact of
cross-border MA on the risks of Chinese listed companies by conducting empirical research on mainland Chinese companies listed on the Shanghai and Shenzhen Stock Exchanges and participating in cross-border MA from 2008 to 2013. Provide reference for corporate M & A decisions and investors' future investment.

2. Method

2.1 Cross-Border M & A

2.1.1. Definition of cross-border MA

Cross-border MA at home and abroad do not have a consistent definition of it, and they have interpreted MA from different aspects and angles. From a general understanding, MA are a kind of commercial activity, which mainly refers to the two types of commercial activities of MA [11]. Merger of enterprises refers to the process by which one enterprise purchases the property rights of other enterprises, and the merger of two or more enterprises into one enterprise. In this process, because other enterprises will lose their legal personality, mergers are usually also It is called absorption merger [12]. The acquisition of a listed company means that the acquirer purchases the equity of the acquiree through the cash and securities and other assets, so as to obtain part or all of the equity of the acquiree to control the enterprise. Extending from the concept of domestic MA, cross-border MA are MA that acquire assets or equity of foreign enterprises through transnational property rights transactions. They are richer and more complex MA. According to the definition of UNCTAD, cross-border MA are divided into cross-border MA [13]. Cross-border merger means that the foreign acquirer enterprise acquires all the assets (including all debts, debts, etc.) of the acquiree enterprise in another country; transnational acquisition is defined as the foreign acquirer enterprise acquires more than 10% of the equity of the acquiree enterprise in another country, so that it can control all assets and operating activities of the acquiree's enterprise [14].

Cross-border MA are classified into different categories according to different criteria. According to the industry's upstream and downstream and the relationship between industries, cross-border MA can be divided into horizontal mergers, vertical mergers and hybrid MA. Horizontal MA refer to MA between different countries that are in the same industry or with a high degree of industry correlation. These companies often produce and sell similar products and services [15]. Horizontal MA help to expand the company's share in the world market, and because of the high degree of industry correlation, the risk of post-merger integration will be relatively small. Vertical MA refer to MA between enterprises in different industry chain positions, usually to increase downstream sales channels and reduce the cost of obtaining upstream production factors. Hybrid MA refer to MA between companies belonging to different industries in different countries. They are usually closely related to the diversified business strategies of multinational companies. An important form of MA that diversifies the risks of a single industry and increases the source of profit and income. There are other classifications, such as classification according to the target of the acquisition, which can be divided into multinational equity acquisitions and cross-border MA; according to the subject and means of MA can be divided into leveraged mergers and management MA.

2.1.2. Development Status of China's Cross-border M & A

In recent years, China's cross-border MA have developed rapidly. Judging from the comparison between the amount of Chinese foreign capital MA and the amount of overseas MA in China, the amount of overseas MA in China far exceeds the amount of foreign companies' MA of domestic enterprises in China. In the survey of China's listed companies' cross-border MA, in terms of location choice, the acquiree company has a relatively large proportion in Hong Kong. The importance of the window; other countries (regions) of the acquiree's company belong to developed economies, and the countries involved in more acquisitions include the United States, Germany, Singapore, and Japan. It can be seen that the targets of China's cross-border MA are mainly targeted at developed economies, which is in line with the characteristics of easy and rapid acquisition of strategic assets as a form of foreign investment. China's listed companies' cross-border MA involve
a wide range of industries, and most of the industry categories involved belong to the manufacturing industry. The industries with the highest number of MA in the manufacturing industry are mainly computer, communications and other electronic equipment manufacturing industries. In the non-manufacturing field, the industries with the largest number of MA are mainly software and information technology services and real estate.

2.2 Cross-Border M & A risks

2.2.1. Cultural break-in risks

Affected by national and regional factors, due to different geographical locations, there are often a series of cultural differences between the acquired and the acquired enterprises. If not handled properly in the merger process, there will be a risk of cultural run-in, which will adversely affect the results of cross-border MA. According to different countries and regions, cultural influence and cultural heritage will also be different, resulting in corporate culture will also be very different. Due to the occurrence of cross-border MA, and due to the differences in different corporate cultures, it is bound to bring the risks of cultural integration to the two companies.

2.2.2. Financial risks

For multinational companies, financial risk is another important factor affecting the success of MA. Decision-making assessment risk. Managers fully investigate and evaluate before making decisions to minimize the occurrence of business problems due to errors in decision-making assessment. Valuation risk creates specific risks in the valuation process of the acquired company. There are many factors that will affect the final transaction price of the company, not only the value of the target company, but also the market positioning and useful life of the two companies and the expected rate of return. Interest rate and exchange rate risks. Because cross-border MA involve multiple countries, they face different interest rate and exchange rate risks. Adequate funding is essential to ensure successful cross-border MA. But raising money is a problem that many organizations have faced for years. Especially when the credit ability and solvency of the merging enterprise is reduced, the possibility of causing capital raising risks increases. The risks of payment methods arising from cross-border MA mainly refer to the risks that may affect the use of funds and lead to dilution of equity. The payment of stocks may bring the risk of dilution of stocks.

2.2.3. Risk of legal breach

Under the influence of cultural, institutional, geographical, and operational factors, cross-border M & A transactions are prone to trigger default risks for acquired companies. If you do not pay attention to the factors that may cause the risk of legal default, you will suffer the risk of default losses.

In the process of MA, many non-financial risks will eventually appear in the form of financial risks. Financial risk is an important factor affecting the success of MA. The uncertainty that these risks bring to a company's financial situation may increase the risk. Therefore, this article proposes the assumption that cross-border MA will increase corporate financial risks.

3. Experiment

The sample companies in this article are 40 mainland Chinese companies listed on the Shanghai and Shenzhen Stock Exchanges and participating in cross-border MA from 2008 to 2013. After classifying the sample companies, a total of 29 manufacturing companies and 11 non-manufacturing companies were obtained. Relevant financial data was obtained from the public financial statements of Guotai'an CSMAR Data Research Service Center and various listed companies. The following conditions shall be observed when collecting data: cross-border M & A transactions have occurred; if the company has two or more cross-border M & A cases within one year, the largest transaction amount is selected, and multiple MA in different years count multiple events. The empirical results are obtained through Excel calculations. The Z-score model is used for manufacturing companies that are publicly traded, that is, \( Z = 1.2 \times X1 + 1.4 \times X2 + 3.3 \times X3 + 0.6 \times X4 + 0.999 \times X5 \). For
4. Discuss

4.1 Results Analysis

Through collation and analysis, the average $Z$ value and the ratio of security companies of manufacturing enterprises and non-manufacturing enterprises in each year before and after the merger and acquisition are shown in Table 1.

<table>
<thead>
<tr>
<th>Category</th>
<th>1 year before M &amp; A</th>
<th>M &amp; A year</th>
<th>1 year after merger</th>
<th>2 years after merger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturer company</td>
<td>5.81</td>
<td>4.02</td>
<td>4.26</td>
<td>5.99</td>
</tr>
<tr>
<td>$Z \geq 3.0$</td>
<td>72.41%</td>
<td>48.28%</td>
<td>58.62%</td>
<td>58.62%</td>
</tr>
<tr>
<td>Non-manufacturing enterprise</td>
<td>8.13</td>
<td>5.41</td>
<td>5.21</td>
<td>6.23</td>
</tr>
<tr>
<td>$Z' \geq 2.6$</td>
<td>72.73%</td>
<td>72.73%</td>
<td>72.73%</td>
<td>72.73%</td>
</tr>
</tbody>
</table>

Judging from the average value of $Z$ in each year, the average value of $Z$ value before and after the merger of the two types of enterprises showed a high level, much higher than the safety value set by the model ($Z$ value $\geq 3.0$ or $Z'$ value $\geq 2.6$). This shows that, on average, Chinese listed companies participating in cross-border MA perform well and have low financial risks.

4.2 Risk Analysis Before and After M & A

It can be seen from the data that the average $Z$ value of non-manufacturing companies is higher than the average $Z$ value of manufacturing companies in each year before and after MA, as shown in Figure 1. It shows that non-manufacturing companies may fall into bankruptcy crisis than manufacturing companies, and their financial risks are lower than manufacturing companies. Judging from the changes in the mean value of $Z$ in each year, the two types of enterprises show the same trend. Combining Table 4 and Figure 1, it can be found that the average value of $Z$ value in the year before M & A is much higher than that in the year and after M & A. In addition, the $Z$ value in the year of the merger and acquisition has a significant and sharp downward trend compared with the one year before the merger. Although the average value of the $Z$ value in the next two years has slightly increased, it still cannot return to the level of the one year before the merger. This shows that the financial risk of enterprises before cross-border MA is much lower than that after MA, and the financial risks of corporations will increase significantly.
Judging from the ratio of security companies, the percentage of security companies in the manufacturing industry was highest in the year before the merger (72.41%), and the lowest in the year of the merger (48.28%). One to two years after the merger, the ratio of security companies has increased, but has not been able to return to the level before the merger. It shows that after cross-border MA, manufacturing enterprises caught in different degrees of bankruptcy increased by 10-20%. The safety ratio of non-manufacturing companies has not changed before and after the merger. Taken together, cross-border MA will have a negative impact on the financial status of enterprises, increase their financial risks, and increase their difficulty in managing financial risks. Therefore, the assumption holds.

5. Conclusion

There are many risk factors that affect China's cross-border MA. Financial risk is a major factor affecting the success of MA. Due to the large demand for financial, human, and material resources in the process of MA and the lag of the financial effects of MA brought about by the post-merger integration process, cross-border MA tend to increase the financial risks of enterprises after MA, and make management difficult. It is recommended that companies choose not to focus on the obvious growth of short-term performance when choosing to conduct cross-border MA, but more based on the strategic layout considerations of the company's long-term development in order to seek stable and long-term performance in the future development of the company increase.

References


