On Risks of Mergers and Acquisitions in Private Enterprise under Financial Crisis and Its Countermeasures

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Abstract: The environment of market economy has a positive effect on the optimal allocation of resources, but the market economy itself has blindness, so there will be financial crisis from time to time in its development. Small and medium-sized enterprises (SMEs) have limited capital and insufficient ability to cope with the financial crisis, so many of them will face bankruptcy when the financial crisis occurs. The current situation of SMEs provides opportunities for mergers and acquisitions (M&A) for private enterprise with high-quality expansion. However, in M&A in private enterprise, there will also be huge risks because of cash flow risk and information asymmetry. If the risks cannot be effectively dealt with, the purpose of M&A in private enterprise cannot be realized. This paper analyzes risks of M&A in private enterprise under financial crisis, and discusses strategies to prevent the risks to provide help and guidance for practice.

Private enterprise dominates vital position in market economy and is important in the development of market economy, so it is practical and significant to actively analyze and study development practice of private enterprise. According to the current data, instability of market economy will lead to the occurrence of economic and financial crisis. Under the background of economic and financial crisis, many SMEs are bound to fall into bankruptcy. The scale of private enterprise with high-quality is large and the capital strength is strong. In the financial crisis environment, M&A of SMEs bankrupted can realize their own expansion, which is beneficial to development of enterprises. However, it should be noted that it is likely to have the risk of M&A detrimental to the healthy and stable development of enterprises if private enterprise does not work in the process of M&A. So it is practical and significant to analyze the risk in practice of M&A in private enterprise and discuss measures to prevent risks.

1. Practical Significance of M&A in Private Enterprise

According to the analysis of M&A in current private enterprise, there are two significant meanings: 1) M&A can expand the size of enterprise, which has a positive effect on improving the company's influence and its ability to resist risks. In short, M&A is a key means for private enterprise to develop rapidly. 2) M&A have positive significance for the expansion of business scope and the transformation of production. From the perspective of current enterprise development, the comprehensive progress of multi-field business coverage in enterprises has outstanding practical effectiveness, and M&A can effectively promote the multi-field development of enterprises, so it has outstanding practical significance for enterprises.

2. Discussion on Risks of M&A in Private Enterprise

M&A in private enterprise will increase their scale and achieve their own development. But private enterprises will face several risks in the process of M&A. The following are risks of M&A in private enterprise based on practice.
2.1 Risk of Cash Flow

Cash flow is critical to the operation and development of an enterprise. The risk of cash flow will cause the development of the capital chain of the enterprise to be broken, and the enterprise will be in a dilemma [1]. As far as the analysis of M&A in private enterprise is concerned, returns often occur in the long run, and specific expenditures are in the near future, which will cause a short-term imbalance in revenue and expenditure. Many private enterprises do not recognize their own strengths in the process of M&A and overestimate their capabilities to integrate. They often conduct mergers and acquisitions in the absence of technical level and financial strength. Such mergers and acquisitions that exceed their own financial capabilities will lead to the risks such as difficulty in maintaining funds and cash flow of enterprises.

2.2 Risk of Information Asymmetry

The risk of information asymmetry is another significant risk in M&A in private enterprise [2]. From specific analysis, we can see that this risk is mainly reflected in three aspects. The first one is information risk of financial statements. In terms of practice in M&A, enterprise that wants to carry out M&A will “whitewash packaging” its financial reports to obtain greater benefits. The data provided is an important reference for formulating plans for M&A. In the condition that there is false information and data in reports, the risk of M&A will increase if enterprises themselves cannot find the problems. The second one is assessment risk of asset price. In the process of M&A, enterprise will increase its value when evaluating the value, so that the sale price can be increased. Without detailed analysis and understanding in the process of M&A, blind acquisitions lead to an increase risks of M&A. The last one is debt risk. The target enterprise may have hidden debts. If it cannot be dealt with in time before M&A, this part of the debt will be transferred to the merger enterprises after agreement is signed, which is also an increase in risk for enterprise.

2.3 Risk of Induced Policy

In M&A in private enterprise, policy induced risk is also prevalent [3]. According to the analysis of M&A in private enterprise, it is an active way of development and expansion for private enterprise to cope with fierce market competition. Generally speaking, private enterprises have significant effect in creating jobs and promoting economic development, so there is bound to be unemployment in the process of M&A. The local government is in the consideration of employee placement and social stability. Some cases indicate that some regions will use policies to induce the occurrence of M&A to promote the implementation of M&A, which will have greater risks due to policy factors.

2.4 Risk of Reducing Management Efficiency

In the practice of M&A in private enterprise, it is common to reduce risk of management efficiency [4]. From the current gap, M&A in private enterprise has expanded scale of enterprise and improved its ability to resist risk. However, its scale is too large and branches are increasing, the management difficulty of the enterprise will be significantly increased. The improvement of management difficulty affects management efficiency and leads to the reduction of management efficiency, so the potential risks have not been effectively solved.

2.5 Risk of Mergers and Acquisitions Failure

In terms of M&A in private enterprise, not all enterprises are smooth sailing. In order to analyze specific M&A, we need to consider whether shareholders of enterprise will approve the implementation of M&A [5]. On one hand, M&A will dilute the equity of enterprise; on the other hand, M&A will increase expenditure of enterprise, which increases risks of enterprise. And some shareholders do not want to bear the risk, so they will veto to carry out M&A. In addition, managers of private enterprise will oppose the acquisition. Because it is not beneficial to vested interests of managers after M&A. In a word, when mergers and acquisitions can not be implemented as expected, the resources consumed by mergers and acquisitions will be wasted, which increases the
business risk of the enterprise.

3. Strategies to Prevent Risks of M&A in Private Enterprise

Judging from the above specific risks, private enterprise has various risks in the practice of M&A, and actively carries out risk prevention and control, which is of great significance to the operation and development of enterprises. So it is significant to discuss and study strategies to prevent risks of M&A in private enterprise.

3.1 To Determine Methods of M&A based on their own Situation

From the analysis above, in M&A, unscientific understanding of the company's own situation will lead to the occurrence of risks. Therefore, M&A enterprise needs to make a comprehensive and systematic analysis and understanding of its own situation to avoid risks, and chooses an appropriate M&A method in its own practice [6]. In short, in the process of M&A, the merger and acquisition enterprise needs to analyze their specific situation in terms of capital, technology, and management to achieve a comprehensive understanding of themselves. Under the condition of self-awareness, enterprises summarize the future development plan of the company and conduct a feasibility analysis on M&A. In this way, targeted implementation of M&A will be more significant. In short, M&A in enterprises must be done within their means, so that the final value of M&A can be fully reflected.

3.2 To Solve Problem of Information Asymmetry

Information asymmetry is detrimental in the practice of M&A, so it is necessary to solve the problem of information asymmetry. According to current analysis, merger enterprise needs to set up a special investigation team for mergers and acquisitions to achieve a comprehensive investigation of the target enterprises, so that the problem of information asymmetry can be solved. It includes the financial status, capital assessment and debt risk analysis of the enterprise [7]. From the perspective of the analysis of the financial situation, the financial affairs of the enterprise can be audited by a special auditing agency, so that more abundant and practical financial data can be obtained. Capital assessment and debt risk also need to be investigated by a professional working group. At the same time, the working group also needs to analyze relevant situation of enterprise based on Internet to make a more comprehensive pricing of M&A and solve risks in the practice of M&A.

3.3 To Optimize the Decision Process

In the process of M&A, optimization of decision-making procedures is also of great significance to the implementation of M&A. From current analysis, private enterprise needs to rely on professional asset appraisal agencies, law firms and other intermediary agencies when making decisions of M&A. Taking full advantage of these intermediary agencies can make decision-making more scientific. Generally speaking, intermediaries as third parties can provide more just and fair judgments, which can reduce risks of M&A.

3.4 To Deal with the Relationship between Enterprises and Government

In terms of prevention of risks of M&A in private enterprise, we need to make full use of opportunities provided by government. At the same time, we need to strengthen our own judgment. In the process of M&A, we should actively eliminate friction and resistance and strengthen the favorable role of the government to create a good government environment conducive to restructuring of private enterprise. In addition, in practice of M&A, we cannot rely too much on the preferential policies promised by government. We need to make effective judgments based on market risks, so that government policies will be transformed into a good external environment for the implementation of M&A.
4. Conclusion

M&A in private enterprise can promote self-improvement and self-development in the financial crisis environment. But in the process of M&A, adoption of unreasonable scheme will lead to the risk of M&A, so it is necessary to analyze risks in the practice of M&A and discuss strategies to prevent risks of M&A.

References


