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Analysis and prevention of risks of enterprise merger and acquisition

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ABSTRACT

With the rapid development of economy, it has been more and more difficult for enterprise relying on its internal expansion to grow up. As Mergers and Acquisitions become one of the effective means of expanding, M&A risk always exists. To scientific analysis and rational control of M&A risk through the whole stage, is the key factor that decided the success or failure of M&A. Though lack of M&A risk analysis results in a lot of M&A failure cases, it still has not caused enough attention of us. Therefore, we must know how to identify, analysis, and control and mitigate M&A risks with appropriate risk prevention measures. In order to ensure the M&A activities carried out smoothly, promote the enterprise's size and strength. In this paper, the characteristics, causes and recognition of M&A risk are briefly described. And we tried to find methods of M&A risks defensive In accordance with the analysis of different phases of M&A.

KEYWORDS

Enterprise merger; Enterprise acquisition; Risks; Identification; Preventive.

INTRODUCTION

Enterprise's nature of pursuing interests and increasing competitive pressure make it expand to ensure their own survival and the control of surrounding environment. Enterprise can achieve expansion of the business through internal expansion and acquisitions. Because its stability and fast performance, M&A enable enterprises achieve the purpose of external expansion more quickly. Meanwhile, internal expansion cannot meet the enterprise's interests need to gain an advantage in a situation of market economy rapid development and protean market conditions, due to its tardy and uncertainty.

Merger and acquisition risk refers to the enterprise's merger and acquisition activity is not up to the expected goal and the possibility of lose, due to the uncertainty of external environment, the complexity of the project and the limitations of enterprises' own ability[1]. M&A is in order to maximize the benefits of enterprises, but because of its instability due to the cash inflows, the outflow quantity and the discount rate the enterprise merger and acquisition cannot meet the expectations and requirements of enterprises, therefore bring the benefit of enterprise risk, but these risks always exist in the whole process of merging.

Enterprise merger risk is an objective existence, not to man's will. Enterprises cannot completely get rid of the influence of the risk of M&A activity, but only to take appropriate risk control methods, to minimize the impact. Merger and acquisition risk has different forms. Different types of M&A will produce the associated risk of merger and acquisition. In M&A activities, risks will always exist, failed to solve the merger risk will even exist in a few years after the end of the acquisition, may lead to the development of enterprise's business is not good, even failed to decline and fall.

ANALYSIS ON THE CAUSES OF THE RISK OF MERGER AND ACQUISITION

M & A environment

The external business environment has the objectivity, environmental changes in different period bring different influence factors, and these factors are not controllable. The ever-changing environment and differences will bring risk to the merger and acquisition process, and to bring the influence of different level. Scientific legal system, good social security, market oriented health, deciding the success of enterprise M&A. Social economic environment changes will make the enterprise merger and acquisition activity faces many uncertainties. Eventually lead to M&A risks.

The strength of the enterprise merger and acquisition

M&A activity requires enterprises have strong financial supports. After the merger, buyout firms also provide to the acquired company, so having a lot of capital is the basic requirement of enterprise merger M&A acquisition. Secondly, after the merger of enterprises scale will be expanded, which requires companies to high-quality talents through professional management, coordinating the relations of various fields, is the enterprise develop smoothly, ensure the normal production and operation. Post merger integration phase, if the enterprises do not have strong core competitiveness, the business activities of enterprises will be affected[2].

The selection of target enterprises

And the selection of target enterprises directly affects the effects of mergers and acquisitions. First of all to consider the target enterprise is in line with corporate strategy needs, if the deviation from the direction of enterprise development, it will increase the enterprise merger risk. At the same time, but it must pay attention to the existing condition of the Target Corp, If the Target Corp is too weak to prospects for development are not ideal. The merger will bring a lot of uncertain factors, influence the effect of M&A.

Merger price

Merger price can largely affect the risk of merger and acquisition. It is the most favorable factors of M&A risk. M&A is the essence of enterprise property rights transaction. The transaction price determines the core issue of M&A activities.

IDENTIFICATION OF M&A RISK

To safeguard against and control the risk, we should identify different risks in different periods first of all. Risk identification is the prerequisite for risk management. Risk identification is to identify potential risk before the adverse consequence and loss due to the mergers, and to prevent and control the risk at best time, thus to minimize the loss of the enterprise.

The risk identification of the preparation stage of M&A

The risk of information asymmetry

Information is the most important factor to consider when to merger. Grasping the extent of information affects the correctness of business judgment and strategy directly. If the merger enterprise and target enterprise have different information, it will lead to the mergers make judgment which is deviated from the expected target and the inaccurate operation. For example, if the mergers do not master complete or correct information of target enterprise, or fails to recognize the bad information hiding by the target, the risk will be gradually revealed after the acquisition, and bring the acquiring party more pressure and damage, even lead to the failure of M&A.

System risk

System Risk is risk which is brought by the government forced M&A on the enterprise and deviating from the market principle[4]. The merger not only need government support and guidance, but is a kind of autonomous behavior to achieve development through free competition in the market. Government save the enterprise on the brink of bankruptcy, state-owned enterprise in particular, by administrative allocation of operating enterprise merger, but it cannot achieve the expected effects because it is contrary to the principles of the market. At the same time, due to China's property rights of enterprise M&A and enterprise's system are not perfect; there is great risk of M&A.

Legal risk

Every country will have express provision about the M&A. In order to regulate the merger strictly, many countries have enacted the anti-monopoly law, fair trade law and antitrust rules and so on, therefore, it is quite necessary to do some research work of relevant law for the merger enterprise. Because china does not have a perfect law and need a lot of improvement and development, it will bring restrictions to the M&A activity, and generate negative impacts on the merger[5].

The risk identification of the implementation stage of M&A

Risk assessment

In the process of M&A, M&A need to evaluate the target enterprise, and understand the assets of the goal and liabilities of the financial situation. Because the evaluation methods and standards are different, the results of the assessment will vary. This will lead a certain error, which increases the risk of evaluation. At the same time, some asst evaluation department will make false assessment report, which is violating the occupation morality for their own interests.

Assets evaluation in our country is not yet mature and technical aspects still need to improve, which also has a significant effect on the enterprise assessment results.

Financing risk

The financing risk of the M&A refers to whether enterprise using internal and external funding channels to raise enough funds in a short time or not to ensure the mergers carried out smoothly[6]. The mergers will occupy a large number of flow resources of the enterprise, and reduce the capability of the enterprise making quick response to external environment change, and increase the risk of enterprise operation. As for our country, the financing risk is mainly manifested in several ways.

Firstly, the downside of financing environment will increase risks. Investors always consider the operating performance and market credit financing of the enterprises in investment, and the enterprise with good operating performance and good reputation in the market will increase the confidence of investors. However, the majority of our enterprise business performance is not ideal, which affect the whole stability of the financing environment and increase the financing risk.

Secondly, the rising cost of financing makes financing more difficult and increases business risk and financial risk. The speculation of China's stock market is very strong, however the supervision of the use of raising funds is not enough good for companies, this will cause the use of funds at low efficiency and waste[7]. The potential risk pilling up days and days will create a bad influence on the financing environment and will increase business risk further.

Thirdly, the decentralized market risk will affect all companies, such as inflation, economic recession and other inevitable systemic risk.

Risk produced by the methods of M&A

Because of different methods of M&A and different effect s on enterprises of M&A, there are different risks. If the payment is in cash, it will bring the enterprise finance risk: if the M&A with the purpose of making up for debts and the asset of target enterprise cannot meet the needs of the merger enterprise, the M&A will increase the financial burden on the contrary. When the merger enterprise pays in equity transactions form, it will cause the dispersed ownership and bring some risk.

Risk of anti takeover

Anti takeover risk refers to that a series of anti takeover actions were taken by the target enterprise when the merger party launched a hostile takeover. When an enterprise does M&A by force, it tends to be strongly against by the target enterprise which always takes a non cooperative attitude, such as poison pill plan. This will make the M&A more difficult and even forced to stop and end up with a failure.

PREVENTION AND MANAGEMENT OF THE RISK IN M & A

Prevention of the risk in M & A In the preparation phase

Understanding the macroscopic policy and law

The enterprise should first of all understand China's relevant laws and policies such as monetary policy, fiscal policy, and be familiar with the industry policy and system. Moreover, the enterprise should use the focus of economic work planned by the government as a guide to understand the types of industry government support, combat or limit, so as to make the right planning.

The correct self localization

As the saying goes, "know yourself as well as the enemy, then will get success", to get the success of M&A, first, the enterprise should make the proper understanding and evaluation of its strengths and condition, know its pluses and minuses, and know how to foster strengths and circumvent weaknesses in M&A, which can make its advantages into full play and identify the risk it may face, so that it can formulate strategy which fit itself personally.

To formulate the clear overall strategy

Enterprise strategy gives the direction and basis to the management activities, which related to the business success. Strategy which is suitable for its own needs can increase the possibility of success and can improve their core competitiveness.

The M&A strategy should be consistent with the long-term development needs, so in the process, enterprise should not only make a full investigation on the market, grasp the basic situation of the target enterprise, also select the appropriate time of M&A at a relatively favorable bargain price.

Prevention of the risk in M & A In the implementation phase

Risk management of pricing

Acquirers usually optimistically estimate the synergy after M&A, and bid too high and beyond the affordability of its own. In the analysis of the failure of M&A cases, we find that the main problem is that acquirers pay high price to the target enterprise in M&A, which leads to the increase of the cost in M&A. In order to avoid price risk, improve the asymmetric information, enterprises can appropriately choose the intermediaries, through which they can reasonably calculate purchase price and analyze the development situation of the target industry to reduce the enterprise merger risk.

Prevention of payment risk

Pay in a different way, the risk and return and risk of M&A is different also. Commonly used payment methods include cash, stock, and lever payment, etc. Cash payment has high speed and strong liquidity, but easily leads to the increase of capital pressure and debt burden, which can easily leads to liquidity risk. Stock payment can alleviate the financial pressure, but will cause the dilution and reduce the enterprise control. High debt ratio in the lever payment will increase the company's leverage risk. This requires the enterprise to avoid risks and reach a compromise of interests through the coordination and game of both sides.

Financial risk and defense

The prevention of financial risks is an important work for the success of M&A. Financial risk in M&A is the uncertainty of loss of the financial results in the process of M&A caused by financial activities such as financing and the use of funds[8]. To prevent financial risks, first of all, the enterprise should avoid the differences in estimation of the target enterprise due to information asymmetry. M&A advantage should fully understand the operating, technical, financial situation and other information of the original enterprise. Secondly, after the value assessment, enterprises need to determine the acquisition price and predict the reasonable M&A capital requirement, so as to fully raise funds, choose the effective way of financing and reduce financing risks and liquidity risks.

Specifically, enterprises can combine the liquid assets reasonably, put part of the funds into a securities portfolio with high degree of credit and good liquidity, which ensures financial liquidity and benefit balance.

CONCLUSION

M&A is an economic means to make the enterprise's benefit greater. It plays a great role in promoting the development of the enterprise. But the risks brought by M&A is a big problem in the development of the enterprise. Reasonable risk analysis and prevention is a must after the M&A. Various links of M&A cause the risks throughout the M&A stage. Dominant enterprise must carry on scientific analysis and reasonable control of enterprise M&A risk.

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