Research on Risk Analysis and Avoidance Strategies of Enterprise Mergers and Acquisitions

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Abstract: Enterprise merger and acquisition is one of the various ways of enterprise development. Enterprise merger and acquisition is an important means of sustainable development of enterprises. Successful mergers and acquisitions will make enterprises flourish, and failure of mergers and acquisitions will cause huge investment losses.

1. Introduction

Now that the market economy continues to develop, corporate mergers and acquisitions are also developing rapidly. Although mergers and acquisitions will enhance the company's overall capabilities, it will also bring great risks to the company. Finding out risks in time, effectively controlling them and dealing with risks is an indispensable link, which is conducive to the smooth progress of mergers and acquisitions activities. Mergers and acquisitions of enterprises can improve their own competitiveness and accelerate their own development. Due to the huge differences in the status of each enterprise, the mergers and acquisitions process is complicated and cumbersome, leading to many difficulties and risks in the mergers and acquisitions activities. Such difficulties and risks permeate the entire merger and acquisition activities. If they cannot be prevented in time, the business development of a single company and the market conditions of the entire industry will be negatively affected to a certain extent.

2. The Concept of Avoiding the Risks of Corporate Mergers and Acquisitions

Because the risks faced by companies in the entire process of mergers and acquisitions are directly related to the success and failure of mergers and acquisitions. Therefore, as the main body of mergers and acquisitions, enterprises should deal with each risk seriously and take the initiative to take preventive measures to ensure the success of mergers and acquisitions. Different companies face different risks in different periods of mergers and acquisitions. Enterprises should carefully identify the risks during the period, make correct decisions, and effectively prevent risks.

3. Background Introduction of Midea Mergers and Acquisitions Little Swan

Midea’s acquisition of Little Swan has been highly praised by many experts in various fields. After the merger, Midea's position in the washing machine industry has been greatly improved. After this acquisition, Midea has further expanded its consumer base, and at the same time its sales volume and market share have also increased significantly, bringing a lot of positive significance to Midea.

This article analyzes the risks that may be caused by Midea’s acquisition of Little Swan, and discusses that while corporate mergers and acquisitions have huge benefits and temptations, they also bring many unknown risks. Since Midea may also undergo mergers and acquisitions in the future, this article will provide suggestions for future mergers and acquisitions so that the merger can achieve the expected goals.
4. Risk Analysis of Midea's Acquisition of Little Swan

4.1 Strategic Risk

Midea Group’s strategy is to recombine internal and external resources in the manufacturing of home appliances, to give full play to its own advantages, constantly adjust the existing industrial structure, and strive to achieve the expansion of the scope of operations and the diversified development of the industry, so that the Midea Group can develop into a comprehensive international enterprise with core competitiveness in multiple industries. It can be seen from the above strategy that Midea has actively participated in various mergers and acquisitions activities in the development process. Most of Midea’s acquisition funds were raised through debt financing, which can easily put the company in danger of difficulty in capital flow. Therefore, the balance can only be achieved through a reasonable and scientific capital planning strategy. Due to the relatively high frequency of mergers and acquisitions, Midea should carefully consider funding issues in its strategy formulation in order to avoid related potential problems and risks.

4.2 Integration Risk

The merger and acquisition integration that needs to be carried out after the enterprise merger and acquisition includes the integration of operation, management and human resources. The main reason for the risk of business integration is that the company may not be able to produce the expected economic benefits after mergers and acquisitions. After the acquisition of Little Swan, Midea's sales figures were not satisfactory. The annual operating income and net profit have seen a sharp decline, leading to a great risk in the integration of Midea’s merger and acquisition of Little Swan. In addition, Midea did not develop Little Swan as the first brand after the merger, which also exacerbated the risk of business integration.

In the process of mergers and acquisitions, the integration of corporate management mechanisms and the integration of corporate culture are of equal importance. Because of the stability and independence of different companies and the existence of differences in management mechanisms and cultures, it is easy to conflict with the management mechanisms and corporate culture of the merged enterprise after a merger. Since Midea officially settled in Little Swan, the latter's internal disputes have always existed. It can be seen that there are considerable risks in the integration of Midea’s management mechanism.

The reorganization after mergers and acquisitions will cause many concurrent problems such as a large number of layoffs of employees, and even stimulate the original contradictions and affect the regular operations of the company. At the same time, it is also possible that the total cost after the merger may increase due to the insufficient estimation of labor costs, or the outflow of talents within the company after the merger, and the company's human resources are just susceptible to these aspects, and related discordant events are also Great problems have arisen in Midea’s human resource portfolio work.

4.3 Financial Risk

In the process of corporate mergers and acquisitions, the emergence of merger risks is often based on two reasons. First of all, due to the lack of their own strength, the merger and acquisition company failed to do the corresponding fundraising and financing work in the early stage, which led to the dilemma of the capital chain break in the merger process, and thus the merger and acquisition failed. Second, companies have insufficient understanding of the risks of mergers and acquisitions, and simply regard mergers and acquisitions as a way for companies to develop and expand their scale. As a result, the failure to conduct in-depth investigations into the operating conditions and capital status of the acquired industries has led to a decline in the overall economic situation due to forced repayment of debts after corporate mergers and acquisitions, and many problems affecting overall production.

5. Midea's Mergers and Acquisitions Little Swan Risk Avoidance Strategy
5.1 Scientifically and Reasonably Formulate Strategic Development Plans for Mergers and Acquisitions

One of the important means of corporate strategic development is corporate mergers and acquisitions. Therefore, in the process of mergers and acquisitions, companies first need to fully understand the information of the target of the merger, and formulate a scientific and reasonable merger plan. After enterprise mergers and acquisitions, we must first have a fuller understanding of the development model of the enterprise. Secondly, it is necessary to clarify the company’s market position and adjust the company’s development goals. While reassessing the market situation and its own conditions, it is necessary to clarify its own development potential and competitiveness, so as to scientifically formulate corresponding target plans to make the company be able to survive tenaciously under the dual pressures of market competition and contradiction in mergers and acquisitions integration.

5.2 Proper and Effective Integration

Mergers and acquisitions does not end with the end of the mergers and acquisitions process, but mainly depends on the degree of integration after the mergers and acquisitions takes place. Modern mergers and acquisitions failure cases are basically due to the failure to achieve perfect resource integration and reorganization after mergers and acquisitions. Therefore, the success of mergers and acquisitions not only depends on prior planning and strategic arrangements, but also has a lot to do with specific operational practices and the core competitiveness of the company. The post-merger performance can directly reflect the effects of merger and acquisition activities. Mergers and acquisitions integration of enterprises should adopt a gradual model. After integration, the merged companies need to pay attention to their main competitive advantages, and improve the efficiency of resource combination and allocation, so as to achieve complementary advantages and resource sharing. In addition, mergers and acquisitions companies must realize that mergers and acquisitions are the integration of resources as well as the integration of people. Therefore, the corresponding supporting work must be done well.

5.3 Preventing Financial Risks

When raising funds for mergers and acquisitions, companies need to carefully consider whether the financial situation is safe in terms of the time, scale and capital portfolio of the fundraising. Before the two companies merge, it is necessary to make a reasonable budget for the acquisition funds and select the most suitable financing method according to the company's comprehensive situation, such as the more common issuance of stocks and bonds, and free fundraising. Finally, companies should budget carefully, ensure capital supply, and prevent the capital chain from exploding. After the merger is completed, a short-term decline in the operating efficiency of the company is a normal response. What managers need to do is to focus on paying attention to the company’s capital flow, budgeting well and strictly monitoring the company’s cash flow to prevent mergers and acquisitions from affecting the company’s cash flow.

6. Conclusion

Through the theoretical explanation and case analysis of this article, some suggestions on the avoidance strategy of corporate merger and acquisition risks are summarized.

First of all, to succeed in corporate mergers and acquisitions, it is necessary to formulate reasonable and scientific merger and acquisition development strategies. Before a merger, you should fully understand the target of the merger, take the information as a whole, and formulate a scientific and reasonable merger plan. After mergers and acquisitions, companies should appropriately adjust their development goals and determine their core competitiveness based on changes in various factors. Secondly, after the merger, whether it is the integration of things or the integration of people, it will affect the future development of the company. The good integration of enterprises can make use of the relevant resources brought about by mergers and acquisitions,
improve the efficiency of resource allocation, coordinate resource integration, so as to achieve complementary advantages and promote resource sharing. Finally, according to the financial status of the enterprise, it is reasonable to predict the funds required for the merger and acquisition activities. On the premise of ensuring the reasonable investment of mergers and acquisitions funds and the safety of funds, prevent the huge risk of the shortage of capital chain to enterprises.

This article hopes that through this analysis, it can bring corresponding beneficial enlightenment to future corporate mergers and acquisitions, and at the same time, it can also provide some practical insights for the smooth development of mergers and acquisitions activities, promote the development of enterprises in a better direction, and better serve China. Contribute to the development of the economy.

References

