

Risk Analysis and Control Measures on Merger & Reorganization of Enterprises

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Abstract: Mergers & Acquisitions of Enterprises Are the Inevitable Result of Optimizing the Allocation of Resources. It is Likewise the Main Way for Enterprises to Expand and Add Value. with the Continuous Development of China's Market Economy, the Competition among Enterprises in the Market is More and More Fierce, and the Merger and Reorganization of Enterprises Are More and More Common. There Are Many Unpredictable Risks in the Process of Mergers & Acquisitions. Many Uncertain Factors May Interfere with It. in This Paper, the Motivation and Reason of Merger & Reorganization, as Well as the Possible Risk Factors in This Process, is Analyzed Briefly, and the Corresponding Control Measures Are Discussed.

1. Introduction

The fundamental motivation of mergers & acquisitions lies in the development and appreciation of enterprises. In the market economy, this has become the main development and survival mode of many enterprises. However, in the process of merger and reorganization of the target enterprise, the main enterprise is faced with the possibility of some economic losses. Information asymmetry, an uncertain external environment, complex management activities and other factors are so called merger & acquisition risks. Because of the existence of merger and reorganization risk, it is necessary for enterprises to make risk analysis and risk control measures before merger and reorganization activities.

2. The Main Reasons for Enterprises to Carry out Merger and Reorganization Activities

Depending on the survey results, some enterprises carry out mergers & acquisitions in order to expand the size of enterprises and economic fields. Through mergers & acquisitions, these enterprises have achieved a significant improvement in management efficiency, at the same time, they have been got more space for development. In addition, some enterprises carry out mergers & acquisitions in order to meet strict access requirements of listed enterprises, so as to achieve the goal of listing smoothly. A small number of enterprises attempt to reduce their tax payable through merger & acquisition of loss-making enterprises so as to reduce their tax burden. Some enterprises have successfully improved their liquidity after merger and reorganization of enterprises with high liquidity but severely undervalued assets. Mergers & acquisitions are seen as investments by some companies. Through mergers & acquisitions with a large number of loss-making enterprises, reorganization, and then sell these companies to obtain economic benefits, to achieve their steady development.

3. Risks That May Be Caused by Mergers & Acquisitions of Enterprises

3.1 Investment Risks Caused by Insufficient Funds.

There is a long period to realize the benefits from mergers & acquisitions of enterprise. It belongs to the long-term investment project, the need for financial support is relatively large. All the business activities of enterprises cannot be carried out without the support of capital. In the case of insufficient capital, some enterprises may choose to raise funds by issuing shares. However, such behavior may

lead to unreasonable profit distribution, weaken the economic interests of the original shareholders, reduce the return on stock net assets, and adversely affect the improvement of enterprise economic benefits.

3.2 Risks Arising from the Imperfection of the Market Economic System.

China's market economy has undergone many changes under the influence of global economic integration. However, China's market environment itself has a series of major problems such as imperfect market economic system. The existence of these problems in the development of market economy in our country in the process of the emergence of intermediary market development is relatively slow and other undesirable phenomena. Mergers & acquisitions of enterprises may lead to an increase in the probability of financial risks, which is very unfavorable to improve the market competitiveness of enterprises. Currently, the proportion of the national debt is the largest in China's economic market, while the proportion of stock is relatively small. This leads to the further increase of the probability of risk occurrence in the process of mergers & acquisitions, and plays an important role in the risks existing in the market of mergers & acquisitions.

3.3 Restructuring Risk Due to Lack of Important Information.

If an enterprise fails to conduct a comprehensive survey on the target of an acquisition before the merger and reorganization, the lack of important information may bring unpredictable risks to the merger & acquisition. Errors and omissions in the information collection of merger & acquisition enterprises have always been the main problems that may appear in the process of merger & acquisition in our country. A comprehensive survey of an enterprise will generate a large amount of information, and any problem in any link may lead to the reduction of information accuracy. Mergers & acquisitions require the executives to obtain the most comprehensive information in the fastest speed so as to obtain the most powerful data support for merger & acquisition activities. Collecting and reviewing information of merger & acquisition is often a complicated task with high investment and low return. Although there are many ways to collect market information, it cannot guarantee the accuracy of information. In the process of selecting merger and reorganization objects, both sides want to have a deeper understanding of each other. However, the acquirer usually conceals some information about himself or herself to test the economic strength of the acquirer in order to find a more promising acquirer. Such behavior will make it difficult for merger and reorganization companies to obtain real and effective information of acquired companies, and merger and reorganization activities may even fail.

4. Risk Control Measures

4.1 Government Shall Be Strictly Forbidden to Interfere in the Merger and Reorganization Activities of Enterprises.

As China's market economy system is improving day by day, the improvement of the efficiency of enterprise restructuring requires both sides to strictly abide by the principle of equality in work. The merger and reorganization of enterprises are a kind of business activity in the form of structure, and the government usually does not intervene. Market mainly controls and influences merger and reorganization. And market economy plays a decisive role in this process. However, the merger and reorganization activities in China have been completed under the condition of government regulation and guidance. Government departments have formulated many policies to ensure that enterprises can carry out merger and reorganization activities smoothly. These policies will have an impact on the development of enterprises after the completion of merger and reorganization activities to some extent. Some companies are even put in charge by the government after restructuring. This phenomenon will inevitably lead to the enterprise managers lose the qualification of independent management of the enterprise, so that the strength of the enterprise is limited, and the normal development of the enterprise has an adverse impact. The merger and reorganization of enterprises

under the market economy system must be separated from government actions. We need to create a good environment to help enterprises develop in a sustainable and healthy way, so that their economic benefits can be improved at the same time. The government's private interference in the development of the market economy should be strictly forbidden. In the process of merger & acquisition, the government can only provide help, not interfere in the development of enterprises, so as to promote the development of market economy.

4.2 Strictly Control the Selection of Merger & Acquisition Objects.

In order to ensure that merger and reorganization activities can bring new value to enterprises and enhance their development potential, merger and reorganization enterprises must strictly abide by the value principle to select the acquired enterprises. Merger & acquisition enterprises should conduct a comprehensive analysis of the production and operation situation and financial situation of the target enterprise to understand whether there is inventory, debt and other phenomena in its business activities. And according to the needs of the actual situation to carry out a thorough investigation and analysis of sufficient depth and breadth, reasonable determination of the enterprise value of merger and reorganization objects. According to a large number of successful merger & acquisition cases in the past, enterprises should repeatedly consider finance and strategy in this process, and determine the future development goals of the acquired enterprises. After identifying the target, it begins to enter the formulation stage of merger & acquisition plan. After determining the merger and acquisition plan according to the operation of the enterprise, the healthy development of the enterprise should be accelerated. At the same time, the guarantee of the existing capital structure is taken as the precondition for the development of enterprises.

4.3 Develop Risk Control Measures.

Mergers and acquisitions of enterprises are very professional and complex process of work, is a specific stage of enterprise development to take a business activity. But merger and acquisition are a double-edged sword for enterprises. Enterprises may get more development opportunities and broader development space after the completion of merger and reorganization, which may also bring additional burden to the operation and development of enterprises. Therefore, before implementation of merger & acquisition activities, enterprises should make a comprehensive forecast and assessment of merger & acquisition risks, and work out a set of scientific, reasonable and highly feasible plans for merger & acquisition activities. In order to avoid restructuring risks, enterprises should develop specific solutions for each risk. In addition, mergers and acquisitions should also be in full control of the enterprise situation. Combined with the development of both of them, the risk may occur in the process of merger and reorganization is comprehensively predicted, and the most reasonable merger and reorganization plan is selected to minimize the probability of risk occurrence.

4.4 Establish the Executive Team of Merger & Acquisition .

After the merger and acquisition enterprise and target enterprise reach the preliminary intention in the merger and acquisition transaction stage. They should set up a special merger and acquisition and reorganization executive team to take charge of relevant work as soon as possible. This team should fully analyze and effectively control the risks; Responsible for the coordination and management of the merger and acquisition of the company in the transition stage; Responsible for the establishment of information communication channels among the merging company and acquired company, acquired companies, relevant institutions of the merging enterprises. In order to carry out merger & acquisition work in a high quality and efficient manner, and to avoid the phenomenon of unclear leadership relationships, it is necessary to establish professional merger & acquisition executive agencies. In addition, the merger & acquisition execution institution should arrange professional personnel to take charge of the leadership, so as to ensure that the professional advantages of the execution team can be given full play in the process of leading the merger & acquisition and restructuring work. Moreover, at the stage of merger & acquisition, both sides of the merger & acquisition can effectively cooperate and maximize the synergies of this projects.

4.5 Establishing and Improving Rules and Regulations.

After the completion of merger and reorganization, the rules and regulations of the new enterprise should be established and improved. We can work out a set of rules and regulations that can meet the operational needs of the new enterprise with the system in the negotiation and negotiation stage as the main body. The merger and acquisition enterprise shall be responsible for organizing and convening the board of directors after the establishment of the new company to negotiate and confirm the strategic objectives and rules and regulations of the new company in terms of finance, personnel, technological innovation and product research and development. Through the analysis of the previous cases of merger and reorganization failure, merger and acquisition enterprises must be in violation of the law of market development and the development of the enterprise rules and regulations for elimination and update. In the process of making new rules and regulations, we should pay attention to the introduction of advanced management concepts in China, comprehensively improve the management level of enterprises, and further reduce the management risk of enterprises.

4.6 Fully Take over the Enterprise after Merger and Reorganization.

After the completion of merger and reorganization, the investment decisions, technology research and development, product development, and important raw material procurement of the acquired enterprise should all be under the unified planning and management of the new enterprise. Enterprises can organize technical groups to conduct in-depth discussions and exchanges with the acquired enterprises, and obtain control over the implementation of major decisions through the board of directors. In order to reduce the cost of raw materials purchased by each subsidiary, the company can set up a special department to purchase and supply all kinds of special materials and parts in small quantities. In order to integrate the finance of the merged enterprise into the unified planning and management of the enterprise as soon as possible, the enterprise can dispatch a special finance director to the merged enterprise. The success or failure of the merger & acquisition project depends on the smooth integration after the work completion. Although the merger & acquisition transaction can expand the scale of the enterprise, the rapidly expanding scale of the enterprise may lead to the confusion of the management work and the increase of the management cost. At this time, it is necessary to integrate the enterprise in a timely manner, so that the merged enterprise and the merged enterprise can be integrated into a whole in an all-round way, and they can cooperate closely in their work.

5. Summary

Analysis and control of merger and acquisition risk play a key role in the smooth transition of new enterprises after merger and reorganization and their future development. Only by comprehensively analyzing and controlling risks in the process of merger and acquisition, can an enterprise successfully expand its operation and management scale and improve its market competitiveness and economic benefits.

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