

Analysis of Financial Risk Prevention in Mergers and Acquisitions

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Abstract

Mergers and Acquisitions are considered to be a very effective method for improving enterprise management modes, expanding enterprise scale, and adjusting industrial structure. This method has prevailed in every walk of life all over the world. Affected by many factors, enterprise mergers and acquisitions have had a late start in China. The complex and fast-changing environment makes enterprise mergers and acquisitions a substantial risk. In particular, there is serious financial risk filled in every step of the mergers and acquisition process. There are a variety of financial risks involved in mergers and acquisitions, and if these risks are not effectively addressed and controlled, they will cause failure at any time. Therefore, nowadays many scholars and entrepreneurs consider the financial risks of mergers and acquisitions to be the most considerable problem. This paper will propose effective precautionary measures for the financial risks associated with mergers and acquisitions, measures that reduce the impact resulting from financial risks, increase the opportunity of success for mergers and acquisitions, and insure the implementation of enterprise mergers and acquisitions.

Key words: Mergers and acquisitions; Financial risk; Causation; Prevention

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INTRODUCTION

Since 1897, mergers and acquisitions in west capitalist countries have experienced five waves. Each M&A plays an important role in enterprise's structure optimization and resource allocation. After the Reform and Opening-Up policies were implemented in China and with the rapid development of economic globalization, mergers and acquisitions became one of the most important ways for enterprises to expand their business scale and realize internationalization. Mergers and acquisitions appeared in China in the 1980s, at that time, mergers and acquisitions behaviors are popular in Chinese enterprises, though many enterprises engaged in mergers and acquisitions, the successful cases were few. Because there is lots of potential risk during mergers and acquisitions behavior, which including market risk, financial risk, legal risk, and so on. However financial risk is considered to be the prime issue for mergers and acquisitions. Thus it is necessary to study the content of M&A and financial risk, to understand the characteristics of financial risk and the influence they exert, and to systematically analyze financial risk; specifically, it requires to research the pricing risk of the target enterprise before M&A, the payment risk and financial risk during M&A, and integration risk after M&A. Finally, this paper proposes preventive and control measures based on all kinds of risks, which are an effective way to reduce the financial risk and enhance an M&A's probability of success.

1. LITERATURE REVIEW

1.1 Research Abroad

The Western economic circle has an extensive and in-depth research about M&A, and proposes many theories about motivations of mergers and acquisitions and

prevention of financial risks. Jensen and Mclean (1976) proposed the Coast Theory, in which there is an agential relationship between the enterprise owner and operator, and profit maximization is not the only target of the enterprise. Weston (1998) considered that to implement mergers and acquisitions is to transfer or to obtain the special management ability of an industry, to transfer or to obtain general management ability and financial synergy, or to realize decentralized operation as well as extending the management skills. Breather, in 1998, classified the motivation of mergers and acquisitions into economic motivation, personal motivation, and strategic motivation. Strategic motivation includes enhancing the competitiveness of the enterprise, pursuing the market, and obtaining steadily increasing profit rates. This research was a great contribution to the theoretical development on mergers and acquisitions. Boehmer (1998) studied the mergers and acquisitions of European enterprises and compared the hostile acquisitions of public company in Europe. Alien (1999) analyzed the history of mergers and acquisitions in the UK, and he pointed out that mergers and acquisitions constituted an inevitable stage of an efficient enterprise's maturation. From one standpoint, it supplements the internal growth of the enterprise. Mergers and acquisitions may even be considered to be a civilized way to change the fate of collapse of failure enterprise. The developmental history of enterprises all over the world indicates that mergers and acquisitions are a successful way to change industrial structure.

1.2 Domestic Research Situation

Mergers and acquisitions only began in China in the 1980s; domestic scholars have achieved some research breakthroughs about mergers and acquisitions as well. Chen Gong and Zhou Sheng (1996) pointed out that mergers and acquisitions may be classified by most narrow, narrow and broad definitions. The narrow definition of mergers and acquisitions included absorption and a newly established legal merger, as well as the purchasing of stock rights and assets in order to participate in the operation or to obtain control of other enterprises. Jimin Shan and Longbing Xu (2000) pointed out that using efficiency to explain the motivation of mergers is the most mature theory. The basic deductive process is that efficiency deficit leads to merger and acquisition behavior, which leads to the improvement of individuals' interests, which finally leads to the improvement of the efficiency of the whole social economy. Songdong Ju and Dong Wang (2000) indicated that mergers and acquisitions were the most important way for the strategic adjustment of a state-owned economy. Zhusheng Lv, in 2005, compared the theory of M&A motivation of western enterprises, used informational economics and game theory, and begin with the perspective that the core of M&A motivation is the balance of interests of stakeholders, meanwhile make use of analysis on the balance of the interests of all

participants in mergers and acquisitions, finally to point out that the interest of the stakeholders is the premise and motivation for mergers and acquisitions.

2. THE ANALYSIS OF FINANCIAL RISKS OF MERGERS AND ACQUISITIONS

2.1 The Definition and Characteristics of the Financial Risks of Mergers and Acquisitions

The financial risks of enterprise mergers and acquisitions exist in the course of value evaluation, financing, payment and enterprise integration, which refer to the deviation between the actual and expected values of the M&A, the uncertainty of the intended target of M&A behavior, and unreasonable capital structure. All of these factors can result in financial crisis and an enterprise's financial distress.

Mergers and acquisitions activity is complex and variable, and the financial characteristics of M&A include:

(1) Uncertainty. Uncertainty is the nature feature of risk, since the objective condition is constantly changing, and people's understanding of the future situation is insufficient. Consequently people fail to forecast the results in the future completely. And thus will the risk occurs.

(2) Dynamics. The systematic factors that influence the risks are variable. The intensity, frequency, and scope of influence always change. Moreover, systematic factors may come from any stage of the mergers and acquisitions process at any time.

(3) Controllability. This characteristic indicates that the financial risk of mergers and acquisitions is controllable. Though the financial risk of mergers and acquisitions is uncertain, it does not mean that we can do nothing about it. We can use a scientific method to control financial risk, and manage the financial risk by improving the quality of information processing. Consequently, make sure that the goal of enterprise mergers and acquisitions is implemented successfully.

(4) Comprehensiveness. The comprehensiveness of financial risk of enterprise mergers and acquisitions is determined by the M&A activity. Enterprise's mergers and acquisitions are complex capital operations involving in multiple links; meanwhile each link involves interactional, mutually independent or even overlapping stages. Since each complex stage contains uncertainty, this may lead to financial risk (Li, 2010). Once they exist, the financial risk factors will interact with each other and seriously impact the enterprise's mergers and acquisitions. Therefore the management and prevention of financial risk should not focus on the stage of M&A, but should consider the integrality and comprehensiveness of M&A (Yun, 2011).

(5) Duality of Result. There is a positive or negative deviation between the actual result and predicted goals. A positive deviation results in risk return while a negative deviation results in risk loss. In other words, income and loss coexist.

2.2 Factors Influencing Financial Risks of Enterprise Mergers and Acquisitions

The reason why enterprise mergers and acquisitions are mainly affected by financial risk is that the assessment method, payment method, and method to ensure the integrity of the M&A are chosen improperly. Furthermore, why these factors will result in financial risk in enterprise mergers and acquisitions? There are mainly two reasons: The first one is uncertainty, and the second one is information asymmetries.

2.2.1 Uncertainty

The uncertainty factor is ubiquitous in enterprise M&A. Uncertainty factors include changes in national macroeconomic policy, cyclical economic fluctuations, inflation, and fluctuations of interest rates and exchange rates; from the micro perspective, these factors include changes in the business environment, financing and financial status of the acquirer, and the change of acquisition price, or even the anti-acquisitions of merged party (Jia, 2009). All these factors would result in the deviation between the expected result of mergers and acquisitions and actual result. In addition, other factors could include the internal and external environment of the enterprise, such as the capital structure of the corporation, economic development level, the economic scale of enterprise, the level of technology, the quality of workers, as well as legal system. All the above factors can result in the difference between the expected result and actual result of mergers and acquisitions. In other words, the financial risk of mergers and acquisitions is full of uncertainty (Wang, 2011).

Uncertainty can bring not only attractiveness but also constraining to decision maker; since from one perspective, this uncertainty may contain the characteristics of value increment. On the other hand, it will probably lead to an increase in cost. The comprehensive effect of various internal and external factors may not eliminate the possible loss. This attraction and constraint interact with each other and consequently forms what is called the allure-constraint mechanism. When the allure effect is stronger than the constraint effect, the deviation of mergers and acquisitions is positive. Thus the M&A behavior will be successful. When the opposite occurs, the deviation is negative and consequently results in financial risk.

2.2.2 Information Asymmetries

As the decision basis during the activity of enterprise mergers and acquisitions, information is always asymmetric. Since the financial information of an enterprise is not transparent in China, some target corporations would tamper with their financial statements, which is harmful to its interests. In addition, some critical information about the target enterprise is non-open, so it is hard for the acquirer to understand what happens timely. Meanwhile, some acquirers, eager for quick success and

instant benefits, lack a long-term and accurate plan for future development. Therefore the merged activity fails.

2.3 The Financial Risk before Mergers and Acquisitions: The Risk of Value Assessment of the Target Enterprise

The methods of enterprise assessment include the discounted cash flow method, the price-earnings ratio method, the book value method, and the liquidation value method. However, when using these methods to assess the value of the target enterprise, there are a series of financial risks.

The risk of value assessment of the target enterprise mainly occurs at the beginning of merged activity. This risk mainly manifests in two aspects, the first is the financial statement, and the second is the value assessment of the target enterprise.

When assessing the financial statement, the acquiring enterprise will go through the financial records of the target enterprise to understand its financial state, business results, and cash flow etc. The target enterprise may utilize the opaqueness of information to conceal its financial weaknesses (Wang, 2006). For instance, the target enterprise may use all accounting methods, such as using accounting policies and accounting assessments to modify the financial statement or conceal the actual accounting information. Therefore the acquirer will be hard to assess the real asset value and profitability of the target enterprise, which will probably make the acquirer overestimate the value of the target enterprise.

From the perspective of value assessment to target enterprise, when making decisions in mergers and acquisitions, the acquirer must correctly assess its merged capacity. The risks of M&A mainly appear in overestimating or underestimating capacity of the target enterprise. Since the economic system of China is deficient, accounting standard and policies have limitations and maneuverability, sometimes the book value of enterprises is much higher than their real value (Wang, 2012). This book performance may be the result of earnings manipulation, rather than reflects of real business performance. In this circumstance, having assessed the value of the target enterprise based on the net assets, the acquirer may overestimate value of the target enterprise, and consequently result in financial risk of M&A. However, once the target enterprises fail to reach their potential capacity, the pricing of the corporation will be lower than its real value. Pricing the corporation by the net asset or replacement cost method focuses on the price of asset, but neglects the profitability of asset. Therefore, measuring the value of the target enterprise through the net asset or replacement cost method would substantially undervalue its enterprise. In general, the estimation risk of M&A embodies the expected deviation of future earnings and time needed to show benefit. The falsified information and corrupt behavior during the course of an M&A would result in financial risk and financial crisis for the acquirer.

In addition, the agency plays an important role in supervising and directing M&A behavior. The agency has the right to investigate taxation, accounting, and legal standing of a target enterprise. Agencies are very important for M&A behavior abroad, but in China, although there are some special agencies that engage in M&A investigation, these agencies fail to work independently, and thus the assessment result cannot reflect reality, causing financial risk to increase.

2.4 The Risks During the Course of M&A: Financing and Payment Risk

2.4.1 Financing Risk

During the process of an M&A, in order effectively to control a target enterprise in the future, meanwhile satisfy the requirement of enterprise future development, the acquirer needs significant capital to merge with the target enterprise. The financing risk of M&A refers to the risk of financial security and funding resources required by mergers and acquisitions. The financing method includes internal financing and external financing.

The financial risk of internal financing of enterprise embodies in the following perspective: Internal financing makes use of retained funds of an enterprise; the cost of this method is low, and the capital scale is limited. M&A require a lot of money, and the majority of Chinese companies are not capable of supporting M&A behavior through internal financing (Li & Li, 2012). In addition, internal financing would tie up most of the cash flow of an enterprise, which will endanger the enterprise's ability of reflecting and adapting to changes in the external environment, and consequently the enterprise may fail to pay its short-term debt, fail to finish the financing of the acquisition, or trigger financial risk.

External financing includes debt financing, equity financing, and hybrid security financing.

(1) The financial risk of debt financing. Debt financing means raising funds by issuing bonds or loaning from the bank. The capital cost of debt financing is low. It can not only save on taxes but also increase the growth of earnings per share. Meanwhile, debt financing will enhance the asset-liability ratio and reduce the debt-paying ability of an enterprise. Relatively, bad management and bad cash flow may make the enterprise unable to pay back the principal and interest, and may even result in enterprise going bankrupt.

(2) The financial risk of equity financing. Equity financing refers to financing through the issuance of shares, warrants, and absorbing direct investment. This financing system can quickly raise large amounts of money. However, this approach leads to a change of the structure of ownership, unfair distribution of shares to old and new shareholders, or even substantial shareholders' loss of control of the acquiring enterprise.

(3) The financial risk of Hybrid security financing. Hybrid securities financing refer to long-term financing

that utilizes dual features of both debt and equity financing. Normally, it contains convertible bonds and convertible preferred stock. When financing by issuing convertible bonds, enterprises may not independently adjust their capital structures, and the exercise of conversion rights would disperse stock rights. At the same time, abandoning the exercise right would put enterprises in danger of refinancing risk; when raising funds by issuing convertible preferred stock, the enterprise can use a low dividend rate, but this method makes the company faces the risk of obtaining insufficient funds, as well as sustaining a heavier financial burden.

Generally speaking, financing risk is influenced by the ability to obtain corporate financing and financing structure. Enterprise financing ability determines whether the enterprise can make use of various financing channels to raise funds in a good environment and to complete the merger and acquisition. If the financing structure is not reasonable, the probability of enterprise encountering the risk of bankruptcy, debt payment, and losing equity will increase. Therefore reasonable arrangements for financing structure play an important role in M&A.

2.4.2 Payment Risk

In order to finish the acquisition of a target enterprise, the acquirer will employ a specific way for payment. The mode of payment will bring risk to the pricing, which involves capital liquidity and stock dilution. The payment methods involved in an enterprise merger and acquisition mainly include cash payments, equity payments, lever payments, and mixed payments. Different payment methods will produce different financial risks.

(1) Risks of paying cash: cash is the most convenient payment method, and its biggest advantage is that it is fast. Using it allows the acquirer to gain control of the target enterprises with the fastest speed (Wang, 2011). However, this mode of payment has many shortages; for example, the scale of the transaction is limited by payment capacity and increasing enterprise financial pressure. The increasing pressure on enterprise cash flow will harm corporate liquidity and meanwhile will slow the reaction ability of the enterprise to adapt to its external environment. Furthermore, this mode of payment increases the enterprise's debt burden, and consequently produces the risk of debt and bankruptcy.

(2) The risk of equity payment: equity payments help acquirer avoid the pressure of instant payments and can make the shareholders of the target enterprise become shareholders of a new or subsequent company automatically, allowing them to enjoy the earnings growth of the merged company (Zheng, 2011). Due to the delay of recognition of income, the acquirer can postpone the payment of the capital gains tax. The risk of equity payment refers to dispersing the rights and interests of shareholders, which reduces the income per share. In addition, equity issuance is supervised by CSRC and

other relevant departments, which makes acquisitions procedures quite complex, ultimately increasing the cost of the acquisition.

(3) Risk of leverage payment: leverage payment indicates that the acquirer mortgages the assets of the target enterprise and future cash flow, and then uses the loan to acquire the target enterprise. The financial risk of this mode of payment is twofold: on the one hand, if the operating condition of the target enterprise is bad, the cash flow in the future will be unstable and liabilities will increase, and thus the merger and acquisition companies would sustain a heavy debt burden or even fail to pay back the debt. On the other hand, the procedure of leverage payment is complex; it requires multiple financial institutions to make assessment and supervision, accordingly the cost is relative high.

(4) Risk of mixed payment: mixed payment refers to the mixture of cash payments, equity payments, and leverage payments. If the mixture is reasonable, each kind of payment will complement and constrain one another, and thus the M&A activities will be carried out smoothly. If mixture of payment methods is not reasonable, it will cause the enterprise financial problems. Moreover, the mixed payment always could not be one-off payment, since the composition of the mixed payment makes it hard to guarantee the continuity of payment. Therefore, the mixed payment method greatly increases the difficulty of integration of the target enterprise implemented by merger enterprise.

2.5 Financial Risk After M&A: Integration Risk

When the M&A behavior finished, the financing of the target enterprise and acquirer would be integrated; the financial risk after M&A is embodied by liquidity risk and operational risk.

Liquidity risk refers to the possibility of payment difficulty due to the heavy debt burden after M&A and the lack of short-term financing. In addition, the acquirer will use most of the liquidity capital, damaging the enterprise's reaction capacity and self-adjusting ability to the change of external environment. Finally, the operational risk of the enterprise will increase.

Operational risk refers to the financial risk resulting from the loss of enterprise funds. The deviation of actual income from expected returns results from the contradiction of the financial management system and the setting of the financial institution, financial fault, or financial behavior.

In addition, integration risk after enterprise M&A is also reflected in unreasonable integration of human resources and technology and unclear labor division; therefore the technology employed by both sides did not have a good synergistic effect. All these factors will affect the economic efficiency of enterprises and causes losses to interests.

3. THE PREVENTIVE MEASURE FOR FINANCIAL RISK OF M&A

3.1 Before M&A: Preventive Measures for Risk of Value Assessment for the Target Enterprise

When discussing the financial risk before M&A, which refers to the risk of value assessment on target enterprise, we have mentioned that since financial information is asymmetric and uncertain between acquirer and target enterprise, meanwhile the agency has uncertainty, the acquirer may risk overvaluing or undervaluing the assets of the target enterprise, and therefore people should find out the specific preventive measures for dealing with this risk in advance.

3.1.1 Determine a Reasonable Target Enterprise and Improve the Situation of Asymmetric Information

The acquiring enterprise should conduct a detailed investigation and evaluation of the target enterprise, so as to obtain the detailed information of the target enterprise. In particular, the acquiring enterprise should understand the enterprise's strategic management, distribution of human resources, and technical information of products, financing, and legal standing. Additionally, the financing statement of the target enterprise should reflect enterprise funds, debt, and owner's equity truly, detail and reliably. Only in this way can the acquiring enterprise obtain the situation of target enterprise, improve the information asymmetric stage, and grasp the reasonable value assessment to the target enterprise.

3.1.2 Choosing Appropriate Intermediary Institutions and Using Evaluation Methods Appropriate to the Characteristics of the Target Enterprise

The method of employing intermediary institutions to make detail investigation plays an important role in the M&A behavior abroad. In China, some acquiring enterprises likewise hire an intermediary institution to assist with the M&A process. However, because some intermediary institutions are beholden to private interests, the results of the investigation lack authenticity. These results not only fail to provide benefits for the acquiring companies, but also put the merger enterprises in trouble (Xu, 2012). Therefore, when choosing the agency, enterprises should select those accounting firms and banks whose private and public lives are kept separate, those who act by law, manage their affairs strictly, and are relatively independent.

When detailed information about the target enterprise is obtained, the acquirer should choose a reasonable assessment method based on the characteristics of the target enterprise. Only in this way can they achieve credible assessment results.

3.2 During the Course of M&A: Preventive Measures for Risks of Financing and Payment

Because the payment and financing methods of mergers

and acquisitions are various, the financial risks are accordingly diverse. Consequently, we should set up specific preventive measures for different kinds of financial risk.

3.2.1 Selecting a Reasonable Financing Method, Broadening Financing Channels, and Optimizing Financing Structure

When making a financing decision, enterprises should choose a financing method based on the characteristics of enterprises, so as to reduce financing cost. Moreover, enterprises should expand their financing channels, and the government should actively establish other the financing channels as well, such as perfecting the capital market and establishing funds for mergers and acquisitions. Diversified financing channels help enterprises optimize their inherent and external situations, reduce financing risk, and ensure reasonable financing. In addition, acquiring enterprises should optimize their financing structures and fully consider the ratio of free funds to debt—an enterprise's debt should be limited within the range of its repaying capability—and finally pay attention to equity transfer and equity dilution. Following the above requirements can help an enterprise effectively avoid financial risks in mergers and acquisitions.

3.2.2 Selecting Reasonable Method of Avoiding Risk Based on Different Modes of Payment

When analyzing the factors influencing payment risk, we come to the conclusion that different modes of payment will result in different risks. Therefore, we should establish specific preventive measure basing on the characteristics of payments.

(1) Preventive Measures for Cash Payments. When using cash to pay, acquiring enterprises should evaluate whether their financial conditions is suitable for payment in advance, and consider the maximal amount of cash payment. For instance, acquiring enterprises should consider whether their cash flow is sufficient to back the matured debts after the M&A; they should think about whether the income rate of the M&A is larger than the capital cost rate of the M&A. For the acquiring enterprise, the largest amount of the cash payment must be smaller than the income generated by the M&A, and the interest rate of the largest debt should be lower than income rate generated by the M&A. Simply put, the largest cash payment of the M&A enterprise must be equal to or less than the income brought by the enterprise after mergers and acquisitions.

(2) Preventive Measures for Equity Payments. Equity payments will disperse the interest of shareholders of the acquiring enterprise, reducing the income per share. Thus the key of avoiding the risk of equity payments is to optimize the equity structure. A reasonable exchange ratio not only makes sure that stockholder's equity will not be diluted too much, but also ensures that the exchange ratio is attractive to the target enterprise.

Secondly, both sides of the deal should pay attention to the share price of the acquiring enterprise. If the share price is high, it indicates the stock market is rising. In this circumstance, both sides of the deal would prefer equity payments.

(3) Preventive Measures for Leverage Payments. Since Most capital for leverage payments comes from the equity loan of the acquiring enterprise. Therefore, to avoid the risks of the acquiring enterprises failing to pay off the debts in the future, the quantity and the maturity of the debt structures should be reasonably set up. In addition, when the merging enterprise chooses the leverage payment, the target enterprise should be in good operating condition with stable cash flow, or otherwise the merger enterprise will fail to use the cash flow to pay back the debt and interests. Acquiring enterprises had better served by extracting a certain amount of cash as a sinking fund to meet requirements of debt payments, so as to avoid failure of a leveraged buy-out result from technical bankruptcy.

(4) Preventive Measures for Mixed Payments. Mix payments refer to cash payment, equity payment, and leverage payments used in combination. Though this mode of payment can make up the deficiency of single type of payment, mergers should design the structure of payment correctly and select a flexible mode of payment so as to reduce the risk of payment.

3.3 After Mergers and Acquisitions: Preventive Measures for Integration Risk

Integration is a very important procedure, but human resources, financial status, information technology, corporate culture, and legal system makethe integration risk exit in the whole procedure of integration behavior. Therefore, the preventive measures for integration risk are quite important.

3.3.1 Enhance the Strength of Financial Supervision

When the enterprise acquisition is finished, the acquiring enterprise should strengthen financial supervision to prevent financial risk during the integrated operation. Integrated operations include establishing a corresponding financial management system, building up clear financial goals, and making budget tables after the acquisition. Meanwhile, the acquiring enterprise should strengthen the management of the capital operation in order to integrate the assets and liabilities and to optimize the allocation of resources. Moreover, it should set up a financial index system and long and short-term financial warning systems so as to carry out supervision over the financial situation after M&A and provide early warning signals.

3.3.2 Complete the Integrated Operations and Optimize the Allocation of Resources

The enterprise is supposed to strengthen the integrated management of human resources, information technology resources, and legal resources while optimizing the structure of the enterprise and improving core competence. The enterprise should also employ financial personnel

with a spirit of innovation and management personnel with excellent managerial ability and high-level expertise, integrate the advanced technology of the two enterprises, form a matured legal system for the enterprise after merger and acquisitions, and observe the law and discipline.

3.4 All Other Preventive Measures

3.4.1 Establish Early Warning and Monitoring Systems for Financing Risk

No matter what the stage of the merger, the enterprise's management system should not be neglected. At present, most enterprises face a high loss of accounts receivable and receivables deemed to be uncollectable. In addition, the internal financial management of enterprise can be confused and its discipline is slack. Moreover, financial monitoring of the acquiring enterprise is not enough because it cannot forecast risk assessment and grasp information in a timely and complete manner, neither monitor the financial risk of merging enterprise sufficiently. Besides, the early warning and supervision mechanisms are not perfect. Therefore, the enterprise should establish a financial analysis index system and a financial early warning model, analyze and manage the quality of assets after the acquisition, ensure cash's flow, and strengthen financial management and control systems. Finally, the enterprise should establish a scientific and effective financial supervision and control mechanism.

3.4.2 Understand the Relevant Government Policies; Ensuring that Mergers and Acquisitions are Legal

In the socialist system that characterizes China, the government works as a "visible hand" and plays an important role in mergers and acquisitions. Although the government's intervention mainly occurs in the situations of state-owned enterprise mergers multi-national corporations, so as to prevent the loss of state-owned assets and threat of national economic, government policies related to mergers and acquisitions of domestic enterprises should not be ignored. Some relevant political requirements help enterprises avoid loss from mergers and acquisitions, but they nevertheless form constraints on the acquiring enterprise and target enterprise. Therefore, complying with relevant state laws and regulations, and abiding to relevant policies and systems can help the enterprise implement mergers and acquisitions successfully.

CONCLUSION

Given today's fierce environment of market competition, mergers and acquisitions become more and more common in China. Consequently, more and more people will start to become concerned with the financial risk of mergers and acquisitions. Entrepreneurs, managers, and experts all strive to reduce the risk and loss in mergers and acquisitions. To research the financial risk of mergers and acquisitions deeply and develop corresponding preventive measures is long-term and complicated work requiring both theory and practice. Therefore,

not only the government, but also enterprises and even all sectors of society are supposed to strive to research the financial risk of mergers and acquisitions—gaining insight from national policies, practical experience, and theoretical knowledge—and develop preventive measures accordingly. These preventive measures will definitely help companies finish the mergers and acquisitions successfully and develop in a sustained, healthy and steady way.

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