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Research on Overseas Mergers and Acquisitions by Chinese Listed Companies: A Case Study of Listed Companies in Zhejiang

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Abstract
With the rapid economic development of China, more and more enterprises have realized their own internationalization strategies through overseas mergers and acquisitions, but the results of overseas mergers and acquisitions are different. On the one hand, mergers and acquisitions bring more development opportunities to some enterprises and enable them to win lager markets; on the other hand, mergers and acquisitions have led some enterprises to huge losses. Therefore, it is especially necessary to analyze and study the related issues in order to effectively prevent and avoid the risks in the process of overseas mergers and acquisitions by listed companies. This paper summarizes the current status of overseas mergers and acquisitions by listed companies in Zhejiang province, analyzes its internal motivations, the problems, such as insufficient funds, cultural differences, and the dearth of experience, in the process of mergers and acquisitions. This paper also provides Chinese listed companies with corresponding strategies for overseas mergers and acquisitions, which may hopefully propel the internationalization and globalization of Chinese listed companies.

Key words: Listed company; Overseas mergers and acquisitions; Zhejiang

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1. RESEARCH BACKGROUND

At present, with the rapid development of China's economy, it has become a general trend for Chinese private enterprises to go abroad to embrace the international market. More and more companies are deploying resources on a global scale to enhance their international competitiveness through international operations. Since 2013, Chinese government has proposed *The Belt and Road Initiatives*. Later, the State Council promulgated the *Opinions on Further Optimization of Corporate Mergers and Acquisitions Market Environment*, which encourages to improve cross-border mergers and acquisitions (hereafter M & A) of companies. Meanwhile, related measures and policies pertaining to China's overseas M & A are gradually developing and improving. It is not exaggerated that Chinese companies, under the circumstances of policy support and domestic and international supply and demand, have entered a new era of overseas M & A. Compared with investing and building factories, overseas M & A have become an important way for enterprises to "go global" because of its low cost, rapid market occupation and low risk. According to Deloitte's survey report, since 2015, M & A have surpassed other forms of investment, becoming the most widely adopted internationalization strategy.

Zhejiang, an economically-competitive province with many listed companies, is a benchmark for the whole country due to its audacious and innovative development strategies of companies. In the field of overseas M & A, it is also in the forefront of the country. In 2017 alone, Zhejiang province implemented 118 overseas investment projects in the form of M & A, with a total purchase amount of 5.385 billion US dollars, accounting for 55.85% of foreign direct investment in the same period. In these successful M & A cases, the company's M & A targets mainly involve developed countries such as United States, Germany, the United Kingdom, Italy, Israel and etc. The fields concerned in these M & A cases range from automobiles, electromechanics, and equipment manufacturing to chemical fiber textile, pharmaceutical, and other manufacturing areas. In terms of M & A purposes, it has transformed from expanding the sales market to the integration of resources. As for the region of M & A, it has gradually extended from the former developed countries such as Europe and the United States to emerging economies such as India and Brazil.

Although an ever-increasing number of Chinese listed companies have joined the tide of overseas M & A, it has brought different results for different companies. On the one hand, M & A do bring more development opportunities to some enterprises and enable them to win lager markets; on the other, however, some companies have been plunged into huge losses owing to oversea M & A. Therefore, it is especially necessary to analyze and study the related issues in order to effectively prevent and avoid the risks in the process of overseas M & A by listed companies. This paper explores underlying problems the listed companies may encounter during the preliminary preparation and post-management of oversea M & A through field investigation and data analysis. By examining the risk prevention measures during the process of overseas M & A by listed companies, this paper aims to improve the efficiency of overseas M & A by listed companies, prevent operational risks, and therefore create better economic and social benefits.

2. LITERATURE REVIEW

2.1 Definition of Mergers and Acquisitions

In general, there are two sorts of M & A, namely mergers and acquisitions. In foreign studies, these two words are often put together, or combined into one, that is, mergers and acquisitions, referred to as M & A. In the *Encyclopedia Britannica*, a clear explanation is given to the concept of corporate mergers, that is, the so-called merger of enterprises is the process during which two or more independent enterprises are merged together as enterprises with advantages absorb other companies for long-term development. Generally speaking, the completion of M & A includes the following three forms: 1). directly purchasing assets from other enterprises; 2). buying shares or stocks of other enterprises; 3). obtaining the shares held by enterprises through the issuance of new shares and shoulder the responsibility to pay the debts of the target company at the same time. China's *Company Law* also clearly stipulates that there generally are two forms of M & A in China: 1). absorption and merger; 2). establishment and acquisition. Absorption and merger means that after the target company is merged, the equity, debt and other businesses are all absorbed, and then the target company will disappear. Enterprise acquisition refers to the action that a company utilize its assets, bonds or stocks to purchase the assets and stocks of the target company in order to obtain ultimate control over the target company. In addition, the *Administrative Measures for the Acquisition of Chinese Listed Companies* also formulates clear definition of acquisition of listed companies: the acquisition enterprise enhances its possession of a company's shares through the transfer of shares, and finally obtains the actual control of the target company. It can be seen that there are certain differences between mergers and acquisitions. Mergers are the process during which two enterprises ultimately are combined to be one enterprise, and the acquisition is the process that one enterprise obtains the actual control of another enterprise, and the number of enterprises has not changed. In summary, mergers and acquisitions are actually a comprehensive concept, including mergers, absorption, acquisitions and takeovers. In general, it refers to the property rights trading activities of enterprises which aims to obtain the control of the target enterprises.

2.2 Studies on the Motivation of Overseas Mergers and Acquisitions

Overseas M & A is equivalent to foreign direct investment. Hence, it seems reasonable that the theoretic study on overseas M & A can start with the theory of international direct investment which can fully explain the value creation potential of overseas M & A. However, international direct investment theory cannot explain about how companies make choices among overseas mergers, alliances, and acquisition. Overseas M & A is a symbol of "go global". So, the principals involved in domestic M & A can also reveal the cause and motivation of overseas M & A, as well as its way of value creation. Nevertheless, based on theories mentioned above, we still cannot handle the question about how to choose firm boundaries. Nowadays, cross-border M & A are surging and have an increasing impact on the international economy. Therefore, there are more and more researchers put their attention on studies related to the causes and motivation of of overseas M & A, and they tend to analyze it from different angles.

Traditional international literature has summarized three main motivations for international direct investment, including resource seeking, strategic-assets seeking, and market seeking. The latest research uses incomplete contract theory to show the importance of institutional quality in host countries for investment decisions of multinational corporations (Antras, 2003; Antras & Helpman , 2004; Antras , 2012) . Findings of these four aspects all come from the practical experience of developed countries in Europe and America. In essence, the aforementioned four facets also summarize the core models and driving force of overseas investment by enterprises in developed countries.

With the rapid development of Chinese enterprises and its increasing level of globalization, many scholars have conducted research on the direct investment model of Chinese companies. For example, Cai (1999) and Deng (2004), by a case study, summarize that the demand for market, resources, and strategic asset are the motivation for China's OFDI. Buckley et al. (2007) , Cheng & Ma (2010), and Kolstad & Wiig (2012) and other studies have shown that Chinese OFDI is market-motivated, and shows natural-resources motivation since the 1990s. Based on the OFDI data in a national scale, Jiangguan Hong & Jiang Dianchun (2012) conduct an empirical study and claim that China's investment in developing countries is market-motivated and resources-motivated while its investment in developed countries tends to be strategic-asset-motivated. At the same time, Buckley et al. (2007) and Kolstad & Wiig (2012) find that the quality of institutional system in host country has a negative correlation with China's OFDI . Cheung & Qian (2009), however, argue that the institutional factors in host country have no significant impact on China's OFDI whereas Cheung et al. (2012) and Wang Yongqin, et al. (2014) presume that different institutional dimensions of the host country have different influence on the location choice of OFDI .

Viewed from above, it can be noted that these studies not only lack consistent conclusions, but also leave much to be improved in terms of themes and methods. Firstly, the above-mentioned literature all examine foreign direct investment in a broad sense without in-depth distinction between greenfield investment and cross-border M & A, which have been attested to be two quite different ways of investing overseas by current studies. For instance, Mata & Portugal (2000) believe that green investment is a long-term investment that has greater reliance on ownership advantages while M & A usually involves the purchase of the required assets. When companies come across setbacks in the international or prepare to adjust international strategy, M & A is more flexible and conducive for companies as assets are easily resold, and the "exit threshold" is lower. Based on the Cournot model theory, Bertrand & Madariaga (2002) and other empirical research have indicate that the economic environment in host country has different effects on the two OFDI entry method and therefore requires distinction on two methods. Nocke & Yeaple (2008) figure out that there are systematic differences between the enterprises that choose greenfield investment and that choose overseas M & A. Moreover, there are also systematic differences between the host countries that accept these two investment methods. Buckley et al. (2012) argue that overseas M & A is a more effective and faster strategy to enter mature and competitive developed markets compared with greenfield investments. The above studies have fully demonstrated that greenfield investment and overseas M & A are not completely replaceable in the choice of FDI methods. overseas M & A is unique and worthy of separate testing. Companies in developing country like China usually do not have the advantage of ownership. Hence, confronted with the Western multinational companies whose global market layout has been highly improved, Chinese companies have to go out, and overseas M & A is more important and efficient than greenfield investment. Furthermore, previous studies have generally only considered economies with an investment scale greater than zero in sample selection, ignoring economies with zero investment size. However, the decision-making of the enterprise's investment location is not a random behavior. The subjective sample not only misses a lot of important information about the investment location decision, but also brings the sample selection bias in the measurement estimation.

Some studies on international business focus on analyzing Chinese overseas M & A models, but mainly based on case studies or statistical description (Boateng et al. 2008; Rui & Yip, 2008; Sun et al., 2012). These studies, though, can provide a variety of insights, it's hard to tell whether the results are general, systematic, and persuasive without rigorous econometric testing.

2.3 Review of Research Status at Home and Abroad

Based on the literature review above, there is no denying that scholars at home and abroad have put great emphasis on studies discussing the motivation of overseas M & A and have yielded various conclusions. However, there still exist some research gaps. For example, domestic scholars tend to conduct empirical research on national level, with less consideration of regional differences and corporate heterogeneity. Moreover, there are few studies zoom in on overseas M & A by listed companies and private enterprises in Zhejiang province. Listed companies and private enterprises are an important part of the Chinese economy. In recent years, they have achieved rapid development under the background of market reform and gradual open up. Listed companies in Zhejiang province, in particular, is quite robust. At the end of 2017, the total number of A- share listed companies in Zhejiang province has reached 414, ranking the second place in the country, with frequent overseas M & A. In a nutshell, the analyses of current situation of overseas M & A by listed companies in China, especially in Zhejiang province, as well as existing problems and countermeasures are urgently needed. In that scenario, this paper explores the research situation of overseas M & A by listed companies in Zhejiang province, and gives relevant suggestions for overseas M & A.

3. HISTORY, STATUS QUO, AND EXISTING PROBLEMS OF OVERSEAS M & A BY LISTED COMPANIES IN ZHEJIANG PROVINCE

Overseas M & A has become an important way for enterprises to participate in economic globalization and seek transformation and development. In recent years, overseas M & A by Chinese companies is booming, and listed companies in Zhejiang are among the best.

Overseas merger and reorganization has brought more opportunities for Zhejiang enterprises. We also find that the quality of globalization and internationalization of companies in Zhejiang is gradually improving. Companies no longer make decision to conduct overseas M & A simply for a transfer of production capacity, but for technology upgrading and transformation in overseas market. In other words, more and more advantageous enterprises in Zhejiang prefer to “go global”, and their paramount goal for overseas M & A is to open up the global industrial chain and arrange global value chains. This section summarizes the history and current status of overseas M &A by listed companies in Zhejiang province, analyzes its internal motivations, discusses its key issues, and offers measurable suggestions, which is meaningful theoretically and practically.

3.1The Historical Process of Overseas Mergers and Acquisitions by Listed Companies in Zhejiang Province

The historical stage of overseas M & A by listed companies in Zhejiang province is closely linked to the national macro policy, and can be divided into three stages as follows:

The first phase (2000-2013): the “go global” strategy proposed in the *Eleventh Five-Year Plan* marks a new stage of China’s reform and opening up policy. During this stage, Chinese government began to provide more policy support for enterprises to expand overseas business (e.g. simplified overseas investment approval process). According to data from the Ministry of Commerce, in 2012, Zhejiang province invested $2.23 billion overseas, ranking the first in the country.

The second phase (2013-2015): in 2013, President Xi proposed *The Belt and Road Initiative*, which greatly promotes the overseas M & A transactions, especially the number of M & A in countries along the “Belt and Road”.

The third phase (2015-present): at the 11th meeting of the CPC Central Leading Group for Financial and Economic Affairs, president Xi propose a crucial concept named “supply-side reform”. This proposal stimulates enterprises in Zhejiang to invest overseas as a way to ease the excessive domestic production capacity. In 2015, listed companies in Zhejiang completed 135 overseas M & A, achieving an increase of 92.86% compared with last year, ranking the first in the country. The amount of overseas M & A was $ 5.109 billion, which was 3.59 times higher than last year; the average M & A volume of individual projects was $ 37.844 million, growing 1.38 times compared with last year.

3.2 Characteristics of Overseas M & A Conducted by Listed Companies in Zhejiang Province

This section mainly summarizes the typical characteristic of overseas M & A achieved by listed companies in Zhejiang province.

Firstly, in the cases of overseas M & A in Zhejiang, private enterprises account for more than 90%, and among these cases, among which 80% are led by listed companies and their affiliates. In recent years, Geely, Youngor, Wolong, Hailiang and other well-known private enterprises have successfully completed overseas M & A, and achieved leap for the development of enterprises and aroused widespread concern.A quintessential case is Geely, who makes audacious decision to acquire Volvo, a word-famous automobile brand. Another typical example is local company Wanxiang, who successfully acquired American companies.

Secondly, enhancing the core competitiveness of enterprises is the main motivation of M & A. The target companies of overseas M & A in Zhejiang province generally have strong industrial relevance. Companies in Zhejiang acquire markets, resources, technologies, brands, and channels through M & A, thereby realizing enterprise upgrading and improving core competitiveness.

Thirdly, 2008 is the turning point of the increase in the number of overseas M & A by listed companies in Zhejiang. This phenomenon is closely related to the international economic situation after the financial crisis. After the financial crisis in 2008, global economy seems to be stagnant for a long time. Many overseas companies were in debt and bankrupt, and commodity prices hit record lows. A large number of European and American international asset prices were in a low range. At the same time, technology-advantageous and branded overseas companies have shown an urgent need for large capital and the Chinese market. Under this backdrop, from 2008 to 2012, the overseas M & A by private enterprises in Zhejiang showed a rapid upward trend.

Fourthly, 80% target companies of overseas M & A achieved by listed companies in Zhejiang are distributed in developed countries such as Europe, America and Japan. And this distribution is continuing to expand all over the world. In Europe, private enterprises in Zhejiang mainly focus to merge and acquire companies in Germany, Britain, France, Belgium, etc., among which Germany is the most popular one, far higher than other European countries, accounting for 31% of the whole M & A. A rational explanation is that in Zhejiang, automobile and supporting equipment, machinery and equipment manufacturing, electrical and electronic and chemical industry, currently, are the core industry supported by the government. Since German companies have the technology, management experience and brand value which are urgently needed by enterprises in Zhejiang, M & A is a must. As for M & A in North America, the driving force is much different from that in Europe. It is mainly due to the impact of the financial crisis, during which the assets of many copanies depreciated. M & A in Asia is concentrated in Japan and Hong Kong, where advantaged technology, management methods and brands needed by companies in Zhejiang gather. As for M & A in Africa and Oceania, cases are mostly resource-oriented.

Fifthly, the scale of overseas M & A by enterprises in Zhejiang is growing rapidly. The scale of overseas M & A by enterprises in Zhejiang is not very large when compared with other overseas M & A conducted by state-owned enterprises such as Petro China and Sinopec, but there is a tendency that its scale is increasing as cases involving more than 100 million US dollars frequently take place. For example, Wanxiang Group acquired US A123 for $450 million, Fulida Group acquired Neucel in Canada for $253 million, and Geely acquired Volvo, a famous automobile brand, for $1.8 billion. The increasing scale of overseas M & A by Zhejiang enterprises has promoted the process of internationalization of enterprises in Zhejiang, strengthened the determination of the internationalization of small and medium-sized enterprises, and increased their confidence in acquiring famous overseas companies.

Lastly, listed companies in Zhejiang province who accomplish overseas M & A distribute in various industries. Hence, a large number of M & A cases are vertical cases. Among these cases, more than 70% concerns manufacturing industry transportation equipment manufacturing with automotive industry on the top and followed by the mining industry, and typical examples are Hailiang Group, who acquire 33% stake of Bindura Nickel Corporation in Zimbabwe with 6.27 million pounds, and Yinyi Group in Ningbo invested 300 million Yuan to develop mineral projects in the Philippines. Apart from the automobile and mining industry, some M & A involve electronic information industry. Typical examples are overseas cases completed by Insigma and Alibaba. More than half of these cases mentioned above are vertical M & A. Since enterprises in the same industrial chain are often familiar with each others' production and sales status, the implementation of vertical overseas M & A of upstream and downstream enterprises in the industrial chain is conducive to the integrated development of enterprises in Zhejiang, and promotes the expansion of raw materials supply and market at low cost. Additionally, vertical M & A can also help to achieve success of M & A conducted by private companies.

4. EXISTING PROBLEMS OF OVERSEAS M & A BY ZHEJIANG LISTED COMPANIES AND CORRESPONDING SUGGESTIONS

4.1 Insufficient Experience on Overseas M & A

A majority of listed companies in Zhejiang are private companies. With clear property rights, rapid decision-making, and more pragmatic target during overseas acquisitions, these enterprises have achieved great success in the tide of economic transformation. However, private enterprises also have some limitations. Firstly, some private enterprises in Zhejiang do not have clear blueprint in overseas M & A. Instead, they tend to follow the trend without strategic planning before M & A. For example, with the successful acquisition of Volvo by Geely, Youngman, an emerging automobile company in Zhejiang, also plans to buy the Sweeden automobile company SAAB. The M & A, however, turns to be a failure due to insufficient experience and hesitation. By in-depth analyses, we find that the main reason for unsuccessful M & A firstly lies in asymmetrical information of the two parties involved in the transaction. Without accurate information, important information of the transaction cannot be fully grasped, and therefore the foreign companies are overvalued. Even worse, asymmetrical information also leads to the ignorance of some financial problems such as the mismatch of financial system at home and abroad, and fragmentary understanding of the hypothesis of the investment return prediction. All these disadvantages resulted from asymmetrical information finally lead to low efficiency of overseas M & A. And sometimes, the target companies is merged by even by competitors. Furthermore, in terms of experience about overseas M & A, listed companies in Zhejiang province only began to rise after 2008, which means a large gap compared with other companies because M & A not only requires long-time preparation, but also well-organized integration. 10 years are too short to accumulate adequate experience. After the acquisition of Xin Ma Apparel International Limited, Youngor transferred it in 2011 because of its high cost. This case fully reflects Youngor lack sufficient preparation before the M & A.

How to take advantage of these valuable experiences no matter the M & A is successful or not? We believe that it is necessary to establish a club of listed companies in Zhejiang province. The main function of this club is to participate in M & A, those strategic overseas M & A in particular; to make interview, record, and provide annual report of those companies doing overseas investment; to organize regular activities related to M & A. In 2010, the Zheshang M & A Club was founded.

4.2 Weak Capital Basis

Although some listed companies in Zhejiang, such as Youngor, Aokang, Wanxiang have turned to be large enterprises, their scale, compared with state-owned enterprises, is still small, and therefore do not own strong capacity to resist various risks. Overseas M & A puts forward higher demand for capital of companies. Nevertheless, the lack of relevant domestic supporting financial institutions (especially loan financing) and the limitation of domestic loan guarantee quotas (especially the limitation of foreign currency loans and limited foreign exchange quotas) largely confine the financing ability of private enterprises in Zhejiang, and deprive their opportunities to provide strong financial support for overseas M & A. The weak capital ability has increased the difficulty and risk of overseas M & A of private enterprises in Zhejiang. Once the overseas M & A strategy is improperly selected, and the overseas business cannot expand rapidly, it may exacerbate conflicts between supply and demand of enterprises, leading to a credit crisis, and finally fail the merger.

Although Chinese banks have begun to pay attention to M & A loans and have launched investment banking services, most of them regard M & A loans as general ones. Without professional guidance, this may increase the bank's loan risk. In that case, we hold that that professional financial service institutions are supposed to develop professional M & A loan business gradually, and attract and cultivate employees with experience about overseas M & A.

4.3 Inadequate Management Experience and Limited Integration Efficiency after M & A

The paucity of management experience is one of the biggest obstacles faced by listed companies in Zhejiang after overseas M & A. Some listed companies may have achieved many domestic M & A cases and accumulate much experience, but it can never be applied to overseas M & A because the situation is much complex. To be more concrete, overseas M & A not only involves Chinese laws and regulations, social culture, but also concerns international regulations and practices, as well as the politics, laws and social systems, cultural customs and many other fields of the host country, even involving sensitive international issues sometimes. In addition, the management after M & A is a big challenge faced by enterprises in Zhejiang. While Zhejiang is characterized by private economy, the dearth of power management and supervision system in many private enterprises has seriously affected their ability to formulate international decisions and integration after overseas M & A. The lack of internal management tends to lead to brain drain and employee resistance during the later period of corporate integration, which has a negative impact on the M & A.

Confronted with this problem, we deem that listed companies in Zhejiang should make detailed adjustments before the overseas M & A, recruit management talents with overseas M & A integration experience, and actively carry out strategic adjustments at the same time. While merging, the stability of personnel should be taken into consideration. For instance, companies should study carefully about overseas labor laws to ensure that the basic salary and benefits of employees are not affected before and after the M & A. A mature management team often wait for the appropriate time to consider personnel change.

4.4 Vast Cultural Differences

The cultural differences in overseas M & A are not only reflected in corporate culture, but also concern different national, ethnic and regional cultures in which the target companies are located. As far as cultural difference at national level is concerned, once overseas M & A is conducted, language barrier is the first obstacle that listed companies in Zhejiang will encounter. At that time, the lack of international talents, as well as differences in ethnic customs, ways of thinking and lifestyles, makes overseas M & A even more difficult. Analyzed from the perspective of corporate cultures, corporate values, management patterns, and organizational processes of private enterprises in Zhejiang are quite different from those of mature western enterprises.

Faced with this situation, we consider that listed enterprises in Zhejiang, on the one hand, should actively learn and popularize advanced management patterns of overseas companies, accumulate experience, and gradually promote themselves. On the other hand, we should also insist to inherit and promote the core corporate value or management advantages of domestic companies, and continue to introduce and develop it on a worldwide stage via cross-border cultural and corporate exchanges.

4.5 Imperfect Laws and Regulations on Overseas M & A

It can be observed that domestic policies and procedures still impose some restrictions on companies doing overseas M & A. In 2016, China carried out strong capital controls. According to the current regulations, all projects with overseas investment exceeding a certain scale must be submitted to the Ministry of Commerce for censor and approval, and those cases involved different industries require joint censor and approval. As for the censorship process, China processes it in a hierarchical way, and limits the number of cases being examined at a time. This kind of time-consuming and complicated procedures may sometimes make the company lose the best opportunity for acquisitions. In terms of taxation, enterprises conducting overseas M & A will bear the pressure of double taxation at home and abroad. What's worse, due to their unclear understanding of the tax policy, some enterprises often are sentenced to pay the tax fine as they do not pay taxes according to regulations on time, thus greatly increasing their cost of overseas M &

A. Additionally, domestic laws related to the overseas M & A are very complicated, including *the Company Law*, *the Securities Law*, *the Anti-monopoly Law*, *the Labor Law*, *the Foreign Exchange Management Law*, and etc. If a listed company does not fully understand the relevant laws, they are destined to come across various obstacles during the preparation and process of a M & A deal. Apart from that, enterprises aiming for overseas M & A are also supposed to master the laws and policies of the countries where the target companies are located. Those high requirement undoubtedly increases the difficulty of oversea M & A for listed companies in Zhejiang. In foreign countries, whether it is an investment bank, an accounting firm, a law firm or a variety of private equity funds, they all have a lot of experience in M & A and provide professional services for companies aiming to invest oversea. China, however, still lacks support of talents and funds in this field.

For the problems mentioned above, we suggest that while selecting a target company for overseas M & A, listed companies in Zhejiang should fully investigate the economic and legal environment, industry policies, the status of target company in their industries and the organizational structure of the target company, and determine a reasonable purchase price base on careful and comprehensive analysis so as to reduce the risk in overseas M & A.

5. SUGGESTIONS FOR ENTERPRISES AND THE GOVERNMENT

In the last chapter, we have summarized five problems which hinder the development of overseas M & A for private enterprises in Zhejiang: 1). insufficient experience on overseas M & A; 2). weak capital basis; 3). inadequate management experience and limited integration efficiency after M & A; 4). cultural differences; 5). imperfect laws and regulations on overseas M & A. Then, how to combine the efforts of enterprises and government for overseas M & A. This section provides suggestions for government and enterprises to act positively and make concerted efforts to realize the "go global" strategy. In the future, the international economic situation will continue to be unpredictable, and Chinese companies must improve their ability to cope with crises and challenges. The Chinese government should also strive to create a better M & A environment for enterprises and act positively to provide more policy support. It is hoped that with the joint efforts of both enterprises and the government, overseas M & A will become an effective way for Chinese companies to open up overseas markets and go global.

5.1 Formulate a Clear Overseas M & A Strategy

A practical strategic plan is the first and foremost step for Chinese companies to achieve successful overseas M & A. Before the plan is settled, it is necessary to accurately set goals for the enterprise, and comprehensively analyze the external economic environment, the development prospects of the enterprise, the direction of the industry development, and the advantages and disadvantages of the enterprise itself. Apart from that, the domestic economic environment as well as the economic, cultural, and political environment of the host countries where the target companies locate in should also be taken into consideration while doing pre-merger plans. Cross-border M & A is not a simple expansion of resources, market and scale, but a deep integration of resources to achieve a transformation during which the company accomplishes upgrading from the low end of the value chain to the high end and achieves globalization. After a clear and measurable development strategy, the standards bellow can be utilized to examine whether the target company is the optimal one: 1). investigate the resource technology advantages of the target enterprise, explore its status in the industry, and explore its potential and underlying risks. After that, the enterprises should estimate whether overseas M & A will enhance the core competitiveness of the company, and whether the target company is ideal for them to achieve synergy effects; 2). evaluate the practicality of M & A, i.e. whether the company per se has sufficient capital; whether it is capable to handle problems during the process of M & A and practice integration after M & A; whether the business management pattern to be adopted after M & A is suitable for the target company; whether the legal environment and policy provisions of the host country are conducive to the conduct of M & A activities; 3). determine the ideal timing of M & A. Generally, the company should integrate the economic and political trends of various countries, the fluctuation trend of capital markets, the financial status of the acquired enterprises and the financial status of the enterprises themselves to decide the optimal timing for M & A.

Viewed from above, it can be seen that the overseas M & A strategy is formulated to select and match resources and markets around the world and optimize the application of multinational resources. The overseas M & A plan is a cautious decision after comprehensive research and analysis on the company itself and the target company, and will play a guiding role in the whole process of overseas M & A.

5.2 Conduct Due Diligence before M & A

The key step after determining the M & A strategy is a scientific and objective investigation. The due diligence here is mainly designed for the target company. The survey usually includes two aspects: the internal situation of the target company and the external environment. Internal information of the target company refers to the assets and liabilities, financial status, performance, management, customer resources, technology level, quality products, competitiveness and other aspects of the target company. The external environment of the enterprise includes the political stability and institutional characteristics of the host country, culture, policy, and related laws and regulations on M & A. The purpose of the survey is to fully obtain information about the target company, make a reasonable and accurate assessment, and reduce the risk of M & A. Information disclosure is the basis for corporate decision-making, and also the feasible manifestation of assurance on requirements of transactions and related agreements.

One indicator of overseas M & A is the value assessment, and the reasonable value judgment of the target company is based on due diligence. While excessive evaluation does not meet the business objectives of maximizing the interests of the company, and will increase the cost of M & A, undervaluation will make the company inferior to the competition with the M & A rivals, and may eventually miss the opportunity. Laws in foreign countries are usually quite different from those in China. Hence, a careful and in-depth interpretation of the laws of the host country can help to avoid a passive situation in the handling of some problems, and is also conducive to the formulation of integration plans after M & A. The risk of overseas M & A is inevitable, but more understanding means more certainty. In other words, comprehensive information can always minimize risks. In addition, the method of investigation can be various. It can be carried out by the enterprises per se, or any professional intermediary service agencies. One thing companies should bear in mind is that, they should communicate timely with relevant business institutions and banks in the host country to obtain as much first-hand information as possible.

5.3 Strive to Eliminate Misunderstandings and Reduce Political Risks

Some energy companies in China are considered to be “big sellers” in the international market. They tend to spend more than 10 billion US dollars in a single overseas M & A deal. Such a large amount of money often attracts concern and speculation by the government and media in the host country. Therefore, Chinese companies should try to reduce the amount of capital invested in a single transaction and avoid high-profile transactions. Alternatively, gradually increasing the shares of the merged companies and accomplishing M & A in a step-by-step way is recommended. Moreover, state-owned enterprises should dilute their political background as much as possible in overseas M & A, so as to avoid misunderstandings brought about by the ideology. At the same time, state-owned enterprises can also try to unite with private enterprises to diversify the M & A entities. As for the government, it should increase financial support and provide other convenience for private enterprises to encourage them to go global, which may fundamentally change the present situation that most of overseas M & A is conducted by state-owned enterprises.

Another practical advise is trying to be low-key and avoid being the focus of public discussion when conduct overseas M & A. Too much reports are never conducive to mergers and acquisitions, and will easily cause excessive attention and public relations crisis. Therefore, in the early stage of M & A, it is necessary to increase communication with the host government, the media and the public to emphasize that M & A is business practices that do not have political color. In that way, companies are able to create positive public opinion and reduce suspicions on investment motives, and therefore to obtain more support and understanding. In addition, companies can set up their own lobbies to persuade government officers, members of Congress, and even the media to reduce resistance from the government. All in all, while conducting the “go global” strategy, Chinese companies ought to inherit the traditional excellency, that is, strive to improve the quality of products and services , establish a good brand image and corporate image, and work relentlessly to enhance the understanding and recognition of China in the world stage, which may help to change the bad impression of Chinese companies and eliminate prejudice. Only in that way, will foreign countries truly accept and respect Chinese companies.

5.4 Focus on Enhancing Integration after M & A

According to the famous management scientist Peter Drucker, “M & A is not only a financial activity. Only with success in integration, can it be a successful merger. Otherwise, it is only financial manipulation, which will lead to both business and financial failure”. Integration is neither a simple combination of two enterprises, nor a succumbing of one company to another. It is gradual adjustment and changes of the original management and business patterns under the new internal and external environment. It is coordination of different cultural concepts to achieve a perfect combination of economic benefits and spiritual needs. Thus, integration should not be prepared after the completion of M & A, but ought to be planned before the M & A transaction. Issues such as the adjustment of personnel and the retention of management should be reflected in the process of negotiation and contract signing.

The integration after overseas M & A needs to be supported by a goal shared by both employees and managers. Since communication is the first step in cooperation. Employees and leaders from both companies must understand each other, trust each other, and be willing to make concerted efforts for the long-term goals of the company and make progress together. With the joint goal, employees have the motivation to work, and work efficiency will be greatly improved. During the process of integration, enterprises should adopt appropriate methods, and seek a mutually acceptable intersection on the basis of mutual respect for cultural differences, and build new corporate culture with greater inclusiveness. It is also advisable to set up a team dedicated to integration issues to coordinate the problems that arise during the integration process. Measures such as forcing the acquired companies to accept the original business patterns and ignoring cultural conflicts are absolutely taboo during integration. When the integration plan does not match the actual situation, it is necessary to adjust the plan in time to adapt to the new situations.

5.5 Cultivate High-quality Personnel for Overseas M & A

International talents are the most urgently-needed resources for Chinese companies to go global and realize international development as many Chinese companies can scarcely find suitable personnel to manage and integrate after completing overseas M & A. Managers of multinational corporations must have an international insight, and they are supposed to master knowledge pertaining to international business, legal and finance. Moreover, they are also expected to have the experience and capabilities to manage transnational companies, as well as having a good understanding of the development and prospects of a given industry. On the one hand, enterprises should attract comprehensive talents who have studied abroad. On the other hand, excellent employees should also be provided with opportunities to study abroad. The government should also increase investment in education to cultivate high-level talents with comprehensive abilities as soon as possible. At the same time, we can no longer rely on the help provided by professional institutions in foreign countries. Instead, it is urgent to establish professional agency in China to offer related service. These agencies should have a good command of the legal, political and economic environment of the host country, own the ability to carry out relevant investigations of overseas M & A, provide advice for during M & A, and assist enterprises to solve problems encountered in M & A. The merits of domestic professional agencies lie in that compared with foreign agencies, they truly understand Chinese enterprises and economic policies, and therefore accurately grasp the need required by Chinese companies. In other words, the agency consisted of professional Chinese talents is able to fully understand the intentions of the overseas M & A, collect precise information, and provide targeted services.

5.6 The Government Should Increase Judicial and Financial Support

First of all, it is imperative for government to establish a sound overseas M & A legal system. On the one hand, at present, China does not have comprehensive overseas M & A laws to guide corporate conducting M & A. Most existing regulations scattered in other laws, and there are no specific laws and regulations to restrict overseas M & A. With the changing investment environment, the current law with many demerits and defects can no loner be suitable to guide and adapt to the latest M & A activities. On the other hand, in China, there is also a dearth of policies to protect the legitimate rights and interests of companies when they conduct overseas direct investment activities such as M & A. Therefore, Chinese government should strive to enhance the cooperation with foreign countries and speed up the signing of investment protection agreements to ensure the interests of domestic enterprises abroad. At the same time, we should learn from the experience of developed countries and set up special institutions to guide and coordinate foreign direct investment of enterprises. A practical risk assessment system can reduce the risk of overseas M & A while a foreign direct investment insurance system can provide basic protection for enterprises.

Second, Chinese government are supposed to increase financial support for overseas M & A because the shortage of capital is biggest obstacles to Chinese private enterprises currently encounter for M & A. While emphasizing “make use of growth and revitalize stocks”, Premier Li Keqiang pointed out that it is necessary to offer M & A loans for restructured enterprises, and appropriately extend the term of M & A loans and explore the development of M & A investment funds. In that case, the government should deepen the reform of the financial system and strive to provide a broader financing platform for private enterprises and small and medium-sized enterprises, as well as improving the capital market, encouraging enterprises to adopt a variety of M&A payment methods, and reducing the proportion of cash payment methods.

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