Environmental Impact on Cross-border Mergers and Acquisitions

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Abstract. The development of the world economy cannot be separated from the economic exchanges between countries, and the main body of economic exchanges is multinational corporations. With the increase of the number of multinational corporations, more economic development situations will appear. In this paper, the new economic transaction mode of "cross-border mergers and acquisitions" is mainly discussed. In addition, due to the changing international situation, economic development is affected by various factors. Cross-border mergers and acquisitions are economic exchanges between countries. They are easily affected by these factors and will bear great risks. From the perspective of the host country, this paper expounds four environmental factors that have a significant impact on cross-border mergers and acquisitions, and from the perspective of the company, briefly describes which companies are more popular when the environmental factors are the same. By grasping the transaction environment, multinational M&A companies can better understand the objectives of M&A, consider the benefits of M&A, minimize the losses caused by cross-border transactions, and reduce transaction risks. Through the example of Lenovo's merger with IBM, we can see the difficulties and risks that need to be faced in mergers and acquisitions, and we can also see the huge benefits that enterprises can obtain after successful cross-border mergers and acquisitions.

Keywords: Environmental impact; cross-border mergers and acquisitions; international law.

1. Introduction

Since the beginning of the 21st century, the trends of the international economy have been changing. Transactions between companies from different countries have become a more significant part of the key economies around the world. The deepening of globalization, in turn, promotes improving the level of cross-border trade, which means that there are more possibilities for transactions between companies. In order to pursue their opportunities, such as technology, markets, cheaper labor, and resources, many companies choose the vehicle via cross-border mergers and acquisitions. On December 8, 2004, Lenovo announced the final agreement to acquire the IBM PC division, and on May 1, 2005, it officially announced the completion of the acquisition of IBM's global PC business. Over the next decade, Lenovo (early called Legend) adapted to a role distributing American- and Japanese-made computers and learning trade strategies by partnering with companies such as Intel and HP. Eventually, the company introduced itself-branded PC and began to dominate the Chinese PC market with the help of favorable market conditions and government benevolence. Due to the lack of core technology and independent intellectual property rights, the management of the company believed that through this acquisition, Lenovo could reach the designated position in one step, and the company could benefit from this acquisition in three areas: global market, a valuable brand and advanced technology [1]. In such a process, Lenovo encountered many difficulties and took huge risks. All parties are pessimistic about the merger decision until it gains substantial benefits. How did Lenovo prepare for this M&A project? What difficulties will it encounter in cross-border mergers and acquisitions? How should these troubles be resolved? These questions lead to thinking: What factors influence cross-border M&A? What does a company need to do to increase its benefits from cross-border M&A?

2. The Angle of the Host Country

Next, the analysis will be made from the perspective of the host country.At the same time, we all know that there are various risks in cross-border mergers and acquisitions, for instance, the political risks, the economic risks, the legal risks, and the management risks [2]. The degree of economic development, political stability, the perfection of related systems and the number of experts in related fields all affect the development of cross-border M&A. However, the degree of national construction in cross-border mergers and acquisitions is relatively fixed, and there are differences in mergers and acquisitions between specific companies. However, companies that are popular in cross-border mergers and acquisitions also have similar characteristics, such as relatively abundant funds, the ability to seize opportunities, and their own strengths are guaranteed. Under the same policy, companies with stronger strength and greater development potential tend to be more popular. Lenovo, for example, seized the opportunity to acquire IBM and made up for its shortcomings through its advantages, thereby gaining a further international status [3].

2.1 The Economic Development Level of the Host Country Determining the Amount of Cross-border M&A Activities

Due to the existence of many powerful private enterprises and efficient corporate control markets among developed countries, there are many options for cross-border mergers and acquisitions. However, in developing countries and transition countries, the situation is more complicated, and it is difficult for cross-border mergers and acquisitions to become a mainstream investment method in the short term. In developing countries with more advanced industrial sectors and more developed capital markets, the acquisition of local businesses can only be a realistic alternative to greenfield investment.In developing countries with more advanced industrial sectors and more developed capital markets, the acquisition of local businesses can only be a realistic alternative to new investment.

The cycle of the economy affects M&A in uncertain economic times. The capital for deals usually dries up during a downturn (PWC,2022). This time will likely be different, with companies better able to explore inorganic growth.In the first half of 2022, the overall level of mergers and acquisitions in the world will decline to a certain extent, but in developed countries, the income and volume of mergers and acquisitions will still remain at a relatively high level [4]. According to the order from high to low, the top few mergers and acquisitions are usually developed countries. Take the United States, for example, despite the sluggish world economy, the total amount of M&A still firmly occupies the first place in M&A, and contrary to the development trend of the world, it has made considerable progress in M&A. It can be clearly found from this that the higher the economic development level of the host country, the more companies that may become the target of cross-border M&A, and the more frequent cross-border M&A activities. As a country with a high level of economic development like the United States, according to the previous analysis, it should be logical to be the number one [5]. Global deal activity broke all records in 2021. M&A volumes reached USD 5.9 trillion. This growth was partly generated by an abundance of inexpensive capital sources fueled by low-interest rates. This has allowed corporations to deploy capital to grow, but the situation was a short-lived phenomenon that inflated overall deal activity [6]. Take the United States, for example. The rapid rise of special purpose acquisition companies made up 20 percent of deals in the United States.

2.2 It is the Host Country's Corporate System that Influences Cross-border M&A Decisions

The free enterprise system, the principle of national treatment, the high degree of shareholding, the securitization and marketization of property rights transactions, and the liberalization of payment methods in developed countries provide good entry conditions for cross-border mergers and acquisitions; while some countries that do not have the above conditions It constitutes an entry barrier for cross-border mergers and acquisitions. In general, the higher the quality of the host country's economic system, the more attractive it is for companies in other countries to conduct M&A [7]. If an enterprise in a certain country does not fully understand the political system, economic system, and cultural system of the host country, it will be difficult to deal with the uncertain risks brought by uncertain factors such as institutional obstacles and market changes to its business operations, which will damage the company's business performance. Here is a successful example: when China Huayuan Group invested in the SINATEX project in Mexico, it cleverly solved the problem of barriers to international trade. Through this investment, it improved its own technology level and expanded its overseas market. To be able to achieve this goal is to benefit from Mexico's convenient environment. Mexico's stable political situation, sound legal system, and sufficient preferential policies for foreign-funded enterprises have brought great advantages to the operation of Huayuan Group; Mexico's stable raw material supply market, large market demand brought by geographical advantages, labor prices The advantages of low-level economic policies are conducive to the smooth development of Huayuan Group's projects; the success of Huayuan Group's foreign investment projects is precisely because it makes full use of the advantages of the host country's institutional environment and avoids trade barriers. It can be seen that the success of cross-border mergers and acquisitions must be affected by the institutional environment of the host country. Therefore, it can be seen that the economic system of the host country has a significant impact on the performance of cross-border mergers and acquisitions of enterprises. An excellent economic system of the host country can make the merger and acquisition company better complete the merger, and greatly reduce the risk of mergers and acquisitions [8].

2.3 The Legal System of the Host Country Also Affects the Decision-making of Cross-border Mergers and Acquisitions

A host country that has established a mature and complete legal system based on company law, securities exchange law, merger and acquisition law, and competition law can effectively introduce cross-border M&A investment; a market without a legal guarantee system will hinder the development of M&A investment. The existence of such state institutions provides the most basic guarantee for the safety of cross-border mergers and acquisitions, and the emergence of relevant laws has also given merger and acquisition companies opportunities and means to safeguard their own rights.China has currently established specialized institutions for mergers and acquisitions, such as the State Administration for Market Regulation (SAMR), the National Development and Reform Commission (NDRC), the China Securities Regulatory Commission (CSRC), and has mainly the Company Law, the Contract Law and various judicial interpretations of the Supreme People's Court laws to govern mergers and acquisitions [9].

Then, a new question arises: Can the acquirer take advantage of the legal provisions in the merger process? If the acquirer wants to carry out the M&A smoothly, it is necessary to understand the target company in advance, and it is necessary for the relevant experts to make an assessment as much as possible. After learning about the laws of the country and region where the target company is located, the acquirer can choose appropriate acquisition methods to conduct cross-border mergers and acquisitions, and obtain the maximum benefits that can be obtained when the law allows. If you do not understand the relevant laws correctly, you will have to take greater legal risks in cross-border mergers and acquisitions.

As due diligence plays an important role in the field of mergers and acquisitions and has become the background to protect investors from fully obtaining all reasonable information, it is necessary for both parties to a transaction to determine whether the other party is a compliant and ideal transaction object through legal investigation methods. In my opinion, the depth of such investigations shows, in a sense, the acquirer's knowledge and use of the laws of the target company's location. Although most countries have not clearly stipulated the buyer's due diligence obligations in their legislation, it has become a common phenomenon in cross-border mergers and acquisitions. The existence of this method also allows the management of the company to avoid personal responsibility.

The government has formulated relevant policies to protect the normal development of cross-border mergers and acquisitions and reduce hostile mergers between companies. However, if the policies set by the government are unfavorable for the acquirer, but give the local company an advantage in the cross-border acquisition, the acquirer at the moment will lose. In this case, the acquiring company may choose to defend its own interests through national laws. Of course, everyone knows that if the government chooses to formulate policies and laws that are unfavorable to foreign capital for the sake of short-term benefits, then from a long-term perspective, it will definitely suffer losses. When foreign capital makes an evaluation, it will know the situation that is unfavorable to itself, and then choose to change the acquisition target. If things go on like this, the level of foreign economic exchanges in the country where the government is located will inevitably drop sharply, so the government's malicious policy-making against M&A companies is not worth the loss.

Therefore, to a certain extent, the host country's government's deregulation is the driving force behind the quick growth of cross-border mergers and acquisitions. A nation will have greater options for trade with other nations when it decides to reduce the threshold and deregulate. Global deregulation by host governments has been more prevalent, and markets have opened up more quickly in other nations.

Deregulation has two meanings: one is to completely remove restrictions on various prices, entry, investment, services, etc. of regulated industries; the other is to partially deregulate. Many developing countries that have long restricted foreign mergers and acquisitions have chosen to gradually liberalize their controls in order to attract large-scale direct inflows of international capital. One of the reasons for Lenovo's acquisition of IBM mentioned at the beginning was that it was impacted by foreign capital, which reduced its share of the domestic market. Lenovo seized the opportunity and successfully completed the merger, but more companies may not be able to survive this difficulty. Mergers and acquisitions often face challenges due to geopolitical tensions, rising protectionism and an overall tightening of the international regulatory environment. If a powerful enterprise wants to enter other markets, it will inevitably squeeze out the original space of its own enterprise. Due to the above reasons, regulatory risks put MNCs in a crisis of legitimacy in the host country, which negatively affects the local business development of MNCs. Host governments often dislike highly competitive and capable acquirers, and even see them as threats. In my opinion, if a country chooses to deregulate, it should choose the second model first, to give the domestic industry a buffer, and to obtain foreign capital support while protecting the development interests of the domestic industry.

With the easing of restrictions, several nations have updated their foreign investment laws and improved the coordination and consultation of global investment policies.

These actions have actively encouraged cross-border mergers and acquisitions as well as the deregulation of foreign direct investment [10].

Therefore, the author believes that in the case of risks, if the success rate of mergers and acquisitions is reduced or the acquisition efficiency is low due to the tightening and transformation of the host country's policies, what the acquirer can do is to improve its own strength and gain further understanding of the acquisition target.

3. The Company Angle

Then, the next step is to start from the company's point of view - the company needs to consider what it should do to ensure that it does not receive damage during this process, and to find opportunities to gain benefits.

Developed countries are stronger than developing countries when they act as acquirers. Companies in developed countries have a long development time. With the help of the relatively complete legal system and economic system in their own countries, they have a better understanding of the company's operation process and development method. market share without the need for intense competition. So as a relatively weak side, what should develop countries do to gain more benefits? Under the same host country policies, what should the acquirer do to increase the success rate of M&A or improve the efficiency of the acquisition? According to the author's personal point of view, enterprises in developing countries can try to develop into emerging industries, and at the same time need to strengthen the concept of intellectual property rights. If they can own a batch of their own intellectual property rights, the competitiveness of the company will be greatly improved.

In conclusion, this may be the same requirement for companies in developed and developing countries - companies that are popular in cross-border M&A need to be sustainable and have the right local experience.

Whether it is an enterprise in a developing country or an enterprise in a developed country, it is necessary to enhance its own strength in cross-border mergers and acquisitions. When M&A policies are unfavorable, the number of companies able to close deals should decrease. Under such circumstances, companies cannot make the government change their policies. What they can do is to improve their R&D and innovation capabilities, increase the number of patents they own, and increase their R&D investment if they can;

Second, what companies need is a deep understanding of M&A targets: if companies can communicate and build relationships with local stakeholders, the pressure on cross-border M&A will be greatly reduced. Companies that are not popular with local people and companies that receive local help face completely different situations when developing, and all companies hope to get help to successfully complete mergers and acquisitions, and then take advantage of cross-border mergers and acquisitions to increase efficiency of the transaction. Such capabilities mainly come from the company's international experience, so it may be necessary for the company to make multiple attempts to expand relationships in various aspects and understand the overall environment of the M&A target location. As mentioned earlier, cross-border mergers and acquisitions will face great risks, one of which is management risks. Cultural variations play a big part in the management risks of cross-border mergers and acquisitions, and these cultural differences may negatively affect the performance of these transactions. Cross-border mergers and acquisitions present a number of management risks, and cultural variables can have a detrimental impact on how well these procedures work. The presence of cultural differences makes it challenging for both parties to interact with and comprehend one another, which creates barriers to the management and integration of businesses, raises management expenses, and negatively affects the success of mergers and acquisitions. Therefore, an enterprise's understanding of other countries' cultures is also an important part of mergers and acquisitions. If the barriers caused by different cultures and languages can be avoided, management risks can be avoided to a large extent.

4. Conclusion

From the above content, it can be found that cross-border mergers and acquisitions is a transaction method with great risks, but if successful, it can also obtain a high rate of return. When an enterprise decides to carry out a cross-border M&A, it needs to inspect the environment of the target location in advance, be familiar with the local legal system and economic system, and understand the target company from various aspects, and evaluate whether the risks and benefits are directly proportional, and whether it is worth continuing the M&A. At the same time, if this plan is selected, the choice of subsequent mergers and acquisitions also needs to comply with local regulations and adapt to local conditions.

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