

On Risk Management and Response Strategies for Cross border Mergers and Acquisitions of Enterprises

-- Taking Hainan Airlines as an Example

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Abstract: Based on the development of cross-border M&A of Chinese enterprises and the status quo of M&A of Chinese enterprises after the "the Belt and Road" policy was put forward, this paper proposes the risk factors that Chinese enterprises may encounter in cross-border M&A and lists the risks through the research on the preparatory stage, transaction period in M&A and integration period after M&A. After further describing the current situation of China's aviation enterprise mergers and acquisitions and the potential risks in cross-border mergers and acquisitions, this paper introduces Hainan Airlines Group, and uses the case of Bohai Financial Holding, a subsidiary of Hainan Airlines, acquiring Avolon to analyze the possible risk factors that may arise during the merger and acquisition process, propose risk response measures, and finally explore the risks that Hainan Airlines may face in the merger and acquisition process. This article summarizes the risk factors that may arise when enterprises engage in cross-border mergers and acquisitions. Based on cross-border merger and acquisition cases of aviation enterprises, it briefly describes their experience in handling merger and acquisition risks, summarizes the risk points that Chinese enterprises should pay attention to in cross-border mergers and acquisitions, analyzes risk management strategies, and hopes to provide reference significance and role for future cross-border mergers and acquisitions of Chinese enterprises.

Keywords: Cross border mergers and acquisitions; Risk; Risk management.

1. Introduction

Since the beginning of the 21st century, China's internationalization level has been continuously improving, and its connection with the international market has become increasingly close. With the fierce competition among domestic enterprises, listed companies in China can only stand invincible by expanding their own scale and optimizing their corporate structure. Therefore, Chinese enterprises have gradually shifted their strategic development direction towards the international market. Compared to other investment methods, cross-border mergers and acquisitions demonstrate their absolute advantages. Through mergers and acquisitions, companies can quickly open up target country markets, increase market share, and obtain more high-quality resources. Compared with Greenfield Investment, the cost of mergers and acquisitions for enterprises is relatively lower, reducing their financial pressure. At the same time, mergers and acquisitions can provide advanced management experience and technology.

This article attempts to identify the main risks that Chinese aviation enterprises face in cross-border mergers and acquisitions through specific analysis of cases, and proposes corresponding strategies based on these risk points, providing a certain theoretical basis for enterprises to cope with the risks in cross-border mergers and acquisitions. This article analyzes the motives and process of HNA's cross-border mergers and acquisitions through a case study, and proposes management and response measures for the risks of its cross-border mergers and acquisitions. This is conducive to the smooth implementation of cross-border mergers and acquisitions by Chinese enterprises, as well as to China's "going global" strategy, providing suggestions and directions

for Chinese enterprises to reduce risks in cross-border mergers and acquisitions.

2. Analysis of Cross border Mergers and Acquisitions of Chinese Aviation Enterprises

2.1. Characteristics of Cross border Mergers and Acquisitions of Chinese Aviation Enterprises

(1) High flexibility. Most of China's aviation enterprises are state-owned and receive financial support from the state. Under these conditions, aviation enterprises have more freedom of choice when conducting cross-border mergers and acquisitions. Chinese aviation companies will choose their merger and acquisition targets based on their own development needs, while also paying attention to the technological and market advantages of the acquired companies, and selecting the best based on the comprehensive political and economic environment. After the completion of the merger and acquisition, the goal of expanding new markets can be achieved through diversified operations and resource integration and redistribution based on the advantages of the acquired enterprise. The flexibility of cross-border mergers and acquisitions of Chinese aviation enterprises has to some extent reduced the risks of cross-border mergers and acquisitions.

(2) There are many interests involved. As a transportation industry, aviation enterprises occupy a very important position in the economic and political development of countries, and are also sensitive industries for various countries in reviewing cross-border mergers and acquisitions. Most of China's aviation enterprises are state controlled and

have strong political connotations, making political risks more apparent in cross-border mergers and acquisitions. Therefore, in the process of cross-border mergers and acquisitions of aviation enterprises in China, there are many benefits involved, in addition to pressure from the government and peers, as well as pressure from some social groups and enterprise trade union organizations. In the process of cross-border mergers and acquisitions, it is necessary to balance the interests of all parties in order to facilitate smooth cross-border M&A transactions.

(3) Long transaction time. Aviation companies hold a very high position in any country. Because it not only involves economic issues, but also involves national political and social issues. Therefore, aviation companies will face more challenges when conducting cross-border mergers and acquisitions, requiring a lot of time in various stages of preparation, transaction process, and subsequent integration. This is also the reason why cross-border mergers and acquisitions by aviation companies last for a long time. In addition, the operational status of airlines depends on the development of a country's economy and the purchasing power of its customers. During periods of economic recession or infectious diseases, airline orders decrease and operating profits decline significantly. The range of changes in the enterprise value of aviation enterprises is large, and during the period of cross-border M&A transactions, unstable enterprise value can easily increase the cost of M&A.

(4) High transaction failure rate. As a transportation industry, aviation enterprises are protected and supported by every country. They not only face economic barriers, but also political and technological barriers, making mergers and acquisitions difficult. The success rate of its mergers and acquisitions is influenced by many factors, and the occurrence of any risk can lead to the failure of the merger and acquisition. For example, government intervention can easily lead to the failure of cross-border mergers and acquisitions by airlines if the government interferes with them on the grounds of national security. Due to the many risks involved in cross-border mergers and acquisitions, Chinese aviation companies must always pay attention to risk points and adjust their cross-border merger and acquisition plans according to actual situations to cope with risks.

2.2. Motivation for Cross border Mergers and Acquisitions of Chinese Aviation Enterprises

(1) Government policy incentives. The business scope of aviation enterprises is broad, including not only the transportation and service industries but also the aircraft parts manufacturing industry. This determines that China's aviation enterprises have characteristics such as long industrial chains and obvious spillover effects. Therefore, in order to maintain stable economic development in China and enhance the international influence of Chinese enterprises, the comprehensive competitiveness of high-quality aviation enterprises plays a crucial role. The development prospects of aviation enterprises have always been an important focus of the Chinese government. Supporting and encouraging the development of aviation enterprises in China, reducing the gap with aviation enterprises in developed countries, is of profound significance for China to create an innovative country. Given that most of China's aviation enterprises are state-owned and the government is the largest shareholder, the most important driving force for cross-border mergers and

acquisitions by aviation enterprises is the driving force of national policies.

(2) Development of the global aviation industry chain. Through the analysis of the development status of global aviation enterprises in recent years, it can be seen that the future changes in the international aviation industry mainly tend towards high concentration of enterprises. Chinese airlines must integrate their own resources, improve their international competitiveness, and expand their business scope in order to establish a foothold or even surpass in such a sound market. At the same time, we not only need to improve our own service quality, but also actively expand other businesses and diversify our operations. Therefore, from the perspective of the industrial chain, the main driving force behind cross-border mergers and acquisitions by Chinese aviation enterprises is the development of the international industrial chain.

(3) The driving force of market competition. The fierce competition among domestic aviation enterprises has continued into the fierce competition among international aviation enterprises. This has led to a portion of small and medium-sized aviation enterprises, although possessing advanced technology, being unable to gain a foothold in market competition due to their small scale. Large aviation enterprises still dominate the market, and although China's aviation enterprises have made significant progress. However, there is still a significant gap compared to aviation companies in developed countries. With the increase of exchanges between countries, international relations have gradually become more relaxed, and Chinese airlines have begun to cooperate with foreign airlines to enhance their competitiveness. At this time, small and medium-sized enterprises with advanced technological levels have become the targets of mergers and acquisitions in China's aviation industry. By acquiring these enterprises, they can quickly obtain advanced scientific and technological knowledge and compete with monopolistic groups.

2.3. Risk Points of Cross-Border Mergers and Acquisitions of Chinese Aviation Enterprises

(1) Legal risks. The risks faced by airlines in cross-border mergers and acquisitions, such as legal risks. For example, the Committee on Foreign Investment in the United States (CFIUS) stipulates that the review criteria are related to national security factors, and China's larger aviation enterprises are mainly state-owned enterprises, which makes the United States more sensitive when reviewing cross-border mergers and acquisitions of China's aviation enterprises. The second criterion for review is the simulation of sensitive industries. Foreign investment in the United States is subject to national security review for sensitive industries. The manufacturing of military aircraft components is classified as Level 1: highly sensitive, and transportation is classified as Level 2: sensitive. Aviation companies include both aviation manufacturing and transportation industries, making it easier to attract the attention of the Foreign Investment Commission. At the same time, there are also transaction sensitive industries in Germany, mainly products and services related to certain military purposes and information technology security. As a transportation industry, aviation companies have a close connection with public safety. If related M&A transactions involve sensitive industries, the possibility of being reviewed and identified as endangering national

security will also increase. In France, the United Kingdom, and Japan, airlines are among the more sensitive industries in the classification of sensitive industries. Therefore, Chinese aviation enterprises face high legal risks when conducting cross-border mergers and acquisitions.

(2) Political risk. Aviation companies generally face political risks when conducting cross-border mergers and acquisitions. Chinese aviation enterprises are often seen by developed countries as having political connotations, and they have a certain level of vigilance towards mergers and acquisitions. Therefore, Chinese aviation enterprises will attract more attention from the government when conducting cross-border mergers and acquisitions. In addition, aviation enterprises mainly operate in the transportation industry. In countries with unstable political environments, the transportation industry is a very sensitive presence. Chinese aviation enterprises are prone to being labeled with political connotations when conducting cross-border mergers and acquisitions, thus facing political censorship risks. For example, in 2012, Beijing Zhuoyue Aviation Industry Company failed to acquire an old American government machinery manufacturer. Although Beijing Zhuoyue Aviation Industry Company is a private enterprise, it has a government background in its equity composition. At the same time, Beijing Zhuoyue is located in the aircraft manufacturing field and is a sensitive industry of the US Foreign Investment Commission. Under the influence of these factors, Beijing's outstanding cross-border mergers and acquisitions ultimately ended in failure. Under the guidance of the national "the Belt and Road" policy, Chinese aviation enterprises are less likely to encounter conflicts in M&A transactions in countries related to the "the Belt and Road", but these countries are located in Southeast Asia and other regions, and the political pattern is not stable enough, which will also bring political risks to the M&A of Chinese aviation enterprises.

(3) Financing risk. Aviation enterprises may encounter financing risks during cross-border mergers and acquisitions, while non-state-owned enterprises may face relatively loose government approvals during mergers and acquisitions. However, at the same time, financing risks also increase. Without the support of national funds, private aviation enterprises need to choose their own financing channels, financing through bonds, equity and other means, which increases the financial burden of the enterprise and has an impact on the success of the merger and acquisition. For example, the asset liability ratio of China Eastern Airlines has been gradually decreasing from 81.97% in 2014 to 75.15% in 2017, but still above 70% in the past four years. An excessively high debt to asset ratio indicates that a company is bearing significant financial risks, reducing its short-term solvency and affecting the conduct of cross-border M&A transactions. After Junyao Group acquired Okai Airlines in 2006, there were problems with the funding chain and high debts, resulting in operating losses for the company. Eventually, it was acquired by Datian Group.

3. Analysis of Cross border Mergers and Acquisitions of Aviation Group

3.1. Introduction to HNA's Cross border Mergers and Acquisitions

Hainan Airlines has engaged in a series of mergers and acquisitions in recent years, covering various aspects such as aviation, logistics, catering, and IT. In the process of mergers

and acquisitions, Hainan Airlines is adept at using capital operations, transforming from a company starting at 10 million yuan to a huge group. Each merger and acquisition activity highlights Hainan Airlines' strength in cross-border mergers and acquisitions. Hainan Airlines' successful mergers and acquisitions provide experience for Chinese enterprises to carry out cross-border mergers and acquisitions.

3.2. Analysis of HNA's Acquisition of Avolon Case

Bohai Leasing applied for suspension of trading from July 7, 2015 in order to acquire Avolon Company. On July 14, 2015, Bohai Leasing reached a preliminary agreement with its subsidiary GAL Company and Avolon and its major shareholders to acquire a 20% equity stake in Avolon. On July 14, the two parties had reached a preliminary intention, and after application, the company's stock began trading again from that day. However, after Bohai Leasing announced the acquisition of 20% equity in Avolon, Avolon received an invitation from a third party to acquire 100% of its equity, which disrupted Bohai Leasing's acquisition plan for Avolon. On August 1, 2015, Bohai Leasing conducted a detailed investigation into the market operation and a comprehensive analysis of Avolon's business situation and market share, and issued an invitation to acquire its 100% equity to Avolon, and submitted a non binding quotation. On October 29th, Bohai Leasing Co., Ltd. held the 5th meeting of the 8th Board of Directors, which agreed to the company's acquisition of 100% equity of Avolon Holdings Limited through its wholly-owned subsidiary Marine Acquisition Ltd. through a merger, and allowed the company and its wholly-owned subsidiaries to obtain loans from relevant financial institutions to pay the purchase price.

3.3. Reasons for HNA's Cross border Mergers and Acquisitions

3.3.1. Internal reasons of the enterprise

(1) Enterprise strategic planning factors. After more than a decade of development, Hainan Airlines has become an international group spanning industries such as transportation, tourism, leasing, and hotels. As an aircraft leasing company, Avolon holds a very important strategic position for Hainan Airlines to expand its business scope and enter overseas markets. As of 2016, there were no direct flight routes to Ireland for domestic airlines in China. However, the UK is one of the world's popular tourist destinations and has always been in a leading position in ticket and hotel sales. HNA's choice to acquire Avolon is beneficial for the company to explore new routes, gain new markets, and increase the number of orders. At the same time, the acquisition of Avolon is also an important step for HNA to enter the European market.

(2) Financial synergy factors. Hainan Airlines has always made good use of financial leverage in its business process. With eight listed companies, Hainan Airlines has completed its own capital increase through capital operations in the real estate sector. Its huge land reserves have enabled Hainan Airlines to establish a high-quality financing platform. At the same time, the company's internal asset liability ratio is relatively high compared to its peers. In order to meet the company's goal of continued development and expansion, Cross border mergers and acquisitions can reduce taxes incurred by companies in countries with tax exempt agreements during their operations. After completing cross-

border mergers and acquisitions, Hainan Airlines can also choose the acquiring party with lower financing costs for financing, reducing loan costs.

3.3.2. External reasons of the enterprise

(1) National policy factors. Since 2013, China has put forward the "the Belt and Road" policy to encourage private enterprises to go out of China and open up international markets in line with international standards. HNA's cross-border mergers and acquisitions are a response to national policies and provide experience for Chinese civil aviation enterprises in cross-border mergers and acquisitions. From an Irish perspective, the merger and acquisition between HNA and Avolon is conducive to promoting the development of the country's tourism industry and promoting cultural exchange with China. Therefore, we also support the benign merger and acquisition activities of Chinese enterprises.

(2) International environmental factors. The cross-border mergers and acquisitions of enterprises are largely influenced by the international environment. With the recovery of the global economy, the number of cross-border mergers and acquisitions worldwide continues to grow. Many countries encourage and support cross-border mergers and acquisitions of enterprises to promote the upgrading of their own economic structure. Hainan Airlines obtains new technologies and advanced management experience through mergers and acquisitions of enterprises from developed countries, promotes the improvement of corporate structure, and obtains new production materials through mergers and acquisitions of enterprises from developing countries. At the same time, developing countries welcome cross-border mergers and acquisitions of enterprises, which can reduce enterprise costs when selecting enterprises from these regions for mergers and acquisitions.

3.4. Main risk points of HNA's Cross-Border Mergers and Acquisitions

3.4.1. Pre merger risks of Hainan Airlines

(1) Risk in target selection for mergers and acquisitions. According to the announcement from AVIC, AVIC attempted to acquire Avolon in 2015, but after four months of negotiations, AVIC and Avolon were unable to reach an agreement. Avolon's shareholders and board of directors were unable to accept the definitive offer from AVIC Capital, and after multiple discussions, AVIC Capital was unable to provide a mutually agreed upon acquisition plan. The acquisition ultimately ended in failure. It is evident from the comparison of the asset liability situation between Bohai Financial Holding and AVIC that Bohai Financial Holding's net profit is much higher than that of AVIC, but at the same time, its asset liability ratio is also much higher than that of AVIC. During the merger and acquisition of Avolon by AVIC, the acquisition failed due to the transaction price. Compared to AVIC, Bohai Financial Holding has more liabilities. Therefore, choose Avolon as the acquisition target after the merger and acquisition by AVIC carries certain risks. On the one hand, the failure of AVIC's merger and acquisition puts certain pressure on it. On the other hand, compared to AVIC, AVIC lacks strong support from the government and its funds are even less abundant. These two reasons make Hainan Airlines face the risk of target selection for mergers and acquisitions.

(2) Legal risks. Due to a previous Chinese company's failed merger with Avolon, the local government of Avolon is also cautious about the merger with Hainan Airlines. At the same

time, Avolon is listed on the New York Stock Exchange in the United States and is subject to legal constraints in the United States. One of HNA's main businesses is transportation, and Avolon is an aircraft leasing company. According to the Security Review Sensitive Industry Table of the US Foreign Investment Commission, the US Foreign Investment Commission classifies civil aviation as a Level 2 sensitive transaction. Therefore, Bohai Financial Holding needs to undergo strict review by the Foreign Investment Commission (CFIUS) when making an offer to Avolon, which also brings legal risks and increases the difficulty of HNA's acquisition of Avolon.

(3) Assess capability risks. Avolon's headquarters is located in Dublin, Ireland, with a geographical distance of 8310 kilometers from Beijing to Dublin, and there are no direct flight routes to Dublin domestically. Although HNA is a group with some experience in cross-border mergers and acquisitions of domestic enterprises, this geographical distance still limits HNA's comprehensive understanding of Avolon. In the preparation stage of the merger, HNA's main way to understand Avolon is to investigate and evaluate its published annual reports and reports. Compared with domestic mergers and acquisitions, on-site inspections are more difficult, and the actual operational situation within the enterprise is not very clear. If the difference between the assessed value and Avolon's actual company value is too large, Hainan Airlines will have to pay more costs for this part of the error. Therefore, Hainan Airlines also faces assessment capability risks before deciding to acquire Avolon.

(4) Internal control risks. Internal control risks can lead to the failure of internal controls in enterprises, thereby affecting their operations. HNA Group itself is an international enterprise, and its scale determines that its internal controls have a certain degree of complexity. The completeness of the internal control system of a company also affects the success of HNA's cross-border mergers and acquisitions, and the mindset of managers directly affects the effectiveness of internal control execution. Hainan Airlines Group owns industries such as Hainan Airlines, Hainan Airlines Tourism, Hainan Airlines Industry, Dahua Logistics, and Hainan Airlines Group Hong Kong Limited. Bohai Financial Holding is an enterprise under Hainan Airlines Capital, and the complexity of the group makes information transmission and communication time longer. At the same time, many enterprises are one-way in the process of information exchange and transmission, that is, conveying instructions from upper to lower levels without paying attention to communication. This limits the group's understanding of its subsidiaries. There are too many management levels between Bohai Financial Holding and HNA Group, which may result in delayed and inaccurate communication with the group when acquiring Avolon Company.

3.4.2. Risks during the merger and acquisition period of Hainan Airlines

(1) Transaction execution risk. There is a transaction execution risk during the merger and acquisition of Avolon by Hainan Airlines. Hainan Airlines is a conglomerate, and the merger and acquisition of Avolon was not carried out by Hainan Airlines Group, but through its subsidiary Bohai Leasing. Although Hainan Airlines has had multiple internal discussions before the merger, the complexity of the group structure and the timing of management decisions during the actual merger will have an impact on the merger outcome. Although a merger and acquisition plan was made in the early

stage, there may still be unexpected situations that affect the progress of the merger and acquisition transaction. According to the announcement disclosed by Bohai Leasing, Bohai Financial Holding has applied for a suspension of trading since July 7, 2015, in preparation for the acquisition of Avolon. On July 14, Bohai Leasing has reached an agreement with Avolon to acquire a 20% equity stake in Avolon. However, after the announcement of Bohai Leasing, Avolon received an invitation from a third party to acquire 100% equity, which forced Bohai Leasing to convene an extraordinary board meeting and change the original acquisition of 20% equity in Avolon to a comprehensive invitation to acquire 100% equity in Avolon. Due to the long transaction time and the failure to reach an agreement and complete the transaction in a timely manner, Hainan Airlines' merger and acquisition plan was disrupted by third parties, which also put Hainan Airlines in a slightly passive situation and increased the difficulty of the merger and acquisition.

(2) Financing risk. With the increase in the acquisition of 20% equity in Avolon to 100% equity, the cost of Bohai Leasing has significantly increased, which also brings financing risks. Unlike AVIC, Hainan Airlines, as a private enterprise, has become an international group through mergers and acquisitions and its own development, but its financial support is still inferior to state-owned enterprises. According to the annual report, Bohai Leasing had an asset liability ratio of 85.32% in 2013, 81.39% in 2014, and 75.33% in 2015. Although the asset liability ratio continues to decline, Bohai Leasing's asset liability ratio is still at a relatively high level in the same industry. The equity acquisition from 20% to 100% has brought larger scale and greater cost pressure to Hainan Airlines. If Hainan Airlines chooses to pay in cash during mergers and acquisitions, it will lead to excessive occupation of the company's working capital, posing risks to the daily operation of the company, reducing the company's ability to respond to changes in the market environment, and increasing the company's operational risks; If Hainan Airlines chooses to take on debt during mergers and acquisitions, banks and other financial institutions will evaluate the asset status of the enterprise when lending. Hainan Airlines' excessively high debt to asset ratio is not conducive to its loans, and it may also increase the burden on the enterprise due to the high loan interest rate, leading to a deterioration of the asset structure after the merger and acquisition, resulting in the failure and bankruptcy of the enterprise's operation.

(3) Due diligence risk. Due diligence is the investigation conducted by the acquiring party on the acquired party after both parties have reached a preliminary transaction intention, in order to understand the situation of the acquired company and make reasonable expectations for the future. Hainan Airlines should prepare a merger and acquisition plan in the early preparation stage for the acquisition of Avolon Group, but there are many unknown matters during the preparation stage as both parties have not yet had in-depth contact. During the merger and acquisition transaction, both companies begin to engage in communication, but due diligence requires investigation of a variety of matters. If the company's board of directors and audit committee blindly believe Avolon's disclosed statements or announcements without personally examining and investigating Avolon's detailed situation, there may be situations where the acquired party conceals non-performing assets or covers up the company's losses. In this situation, due diligence cannot make reasonable expectations for the future development of the enterprise, and the

completed cross-border M&A transaction may deviate from the transaction purpose of the enterprise. Therefore, there is also a risk of due diligence in the process of HNA M&A.

(4) Financial risk. HNA may face its own financial risks when acquiring Avolon. This is related to whether the company conducted due diligence during the merger and acquisition. HNA needs to estimate Avolon's corporate value during the merger and acquisition. If the value of the target company is underestimated, it will cause Avolon's dissatisfaction and lead to the failure of the merger and acquisition; But if its valuation is too high, then Hainan Airlines will have to pay too high costs during the merger and acquisition, increasing the pressure on Hainan Airlines' asset liability ratio. Hainan Airlines has been continuously expanding and acquiring overseas in the form of "debt", using various financing methods to collateralize its high-quality assets in exchange for huge financial support from financial institutions, and then conducting more M&A activities through funds, continuously expanding its own scale in a circular manner. According to the annual report disclosed by Bohai Financial Holding, its asset liability ratio was 75.33% in 2015, while its asset liability ratio increased to 82.58% in 2016. HNA's own business model and excessively high or low valuations during the acquisition of Avolon can have an impact on its cross-border mergers and acquisitions. Therefore, HNA should pay attention to its own financial risks during cross-border mergers and acquisitions.

3.4.3. Risks during HNA's merger and integration period

(1) Cultural integration risks. As a leading global aircraft leasing company, Avolon's business scope covers multiple countries, and its development and growth cannot be separated from its own corporate culture. However, Avolon is also a company that has grown and developed overseas, and has been greatly influenced by Western capitalist markets in its business development. Its corporate culture has also been influenced to some extent by Western ideas. Hainan Airlines is a private enterprise in China, and its traditional Chinese culture has a significant impact on it. There are inevitable differences in corporate culture between Hainan Airlines and Avolon, which is located in the West. Many companies, after completing cross-border mergers and acquisitions, fail to integrate their corporate culture, resulting in operational failures. For example, Lenovo's acquisition of Motorola failed to integrate, and Lenovo Group successfully acquired IBM's PC business in 2004. Therefore, they are confident in another cross-border acquisition of Motorola. However, Lenovo Group ignored the risk of cultural integration and underestimated the impact of different cultures on the acquisition.

(2) Human resource integration risks. In addition to cultural integration risks, human resource integration risks are also a problem that Hainan Airlines must face. After the completion of corporate mergers and acquisitions, it is necessary to integrate and redistribute the resources of the two companies, including human resources. However, regional and cultural differences always bring difficulties to resource allocation. It is not uncommon for cross-border mergers and acquisitions to fail due to the risk of human resource integration, such as the failure of TCL's acquisition of Alcatel due to resource integration failure. Hainan Airlines Group has many branches, and the acquisition of Avolon is carried out by Bohai Leasing, a subsidiary of Hainan Airlines Group's Hainan Airlines Industry. The huge company structure also creates a complex human resource structure. Therefore, when acquiring Avolon,

Hainan Airlines not only needs to understand and control its own human resources, but also needs to grasp Avolon's human resources situation. However, due to geographical location and other reasons, HNA is not fully familiar with Avolon's human resources structure. Therefore, in the integration stage after the completion of the merger and acquisition, Hainan Airlines still faces the risk of human resource integration.

4. Risk Management and Response Strategies for Cross-Border Mergers and Acquisitions of Enterprises

4.1. Risk Response Strategies for Cross-Border Mergers and Acquisitions in the Early Stage

4.1.1. Response to domestic policy and legal risks

Since the "the Belt and Road" policy was put forward in 2013, Chinese enterprises' cross-border M&A activities have maintained a strong momentum since 2014. From 2014 to 2016, Chinese enterprises' cross-border M&A transactions showed a continuous growth in both the number and amount of transactions. The number of transactions increased from 269 in 2014 to 438 in 2016, and the transaction amount also increased from US \$59.6 billion to US \$215.8 billion. However, in 2017, the enthusiasm for such mergers and acquisitions decreased. With the gradual improvement of relevant domestic policies, the number of cross-border mergers and acquisitions by Chinese enterprises in 2017 decreased to 376, and the disclosed amount also decreased by 32.11% compared to 2016. Enterprises that want to engage in cross-border mergers and acquisitions not only need to understand their own business situation but also the development of relevant domestic policies. Domestic laws and regulations greatly affect the number of cross-border M&A transactions of enterprises. Therefore, China should make greater efforts in the policy environment. Currently, the National Development and Reform Commission of China has issued the "Measures for the Management of Overseas Investment by Enterprises", which clarifies the areas and directions of cross-border mergers and acquisitions encouraged and supported by the state, enabling the development of cross-border mergers and acquisitions by Chinese enterprises in a positive direction. In today's more stringent approval process, the government should not only remind enterprises of the risks of cross-border mergers and acquisitions, but also appropriately simplify the procedures to improve the efficiency of cross-border mergers and acquisitions review, so as to enable enterprises to seize the opportunity of mergers and acquisitions development in a timely manner. At the same time, when determining the feasibility of corporate mergers and acquisitions and the potential for domestic economic growth, the government should appropriately increase the pass rate of cross-border mergers and acquisitions by enterprises.

4.1.2. Response to political and legal risks in foreign countries

The political and legal risks abroad can be divided into two parts. The first is the political and legal risks associated with mergers and acquisitions in developed countries. Developed countries have always been wary of China's cross-border mergers and acquisitions, and there may be anti merger legal risks when the target company does not have the willingness to do so. Companies will take measures that comply with their

own laws and company rules and regulations to hinder the implementation of mergers and acquisitions. At the national level, governments of various countries have review agencies for foreign investment, such as the Foreign Investment Commission in the United States, which does not have a very strict definition of obstacles to national security. Therefore, the approval rate for cross-border mergers and acquisitions by enterprises of their countries is relatively low. The second is to target political and legal risks in some developing countries for mergers and acquisitions. When conducting cross-border mergers and acquisitions, companies may choose companies located in developing countries due to the cost and required resources. These companies are often located in countries with abundant resources, which can enable them to obtain more means of production. However, abundant resources often come with political turmoil and social instability, and M&A transactions in these countries are prone to not only commercial losses but also threats to personnel safety. Therefore, when conducting cross-border mergers and acquisitions, enterprises should consider the sustainable development ability of the country's enterprises and whether the expected benefits are higher than the losses suffered due to political turmoil. The government should also strengthen reminders during approval to avoid huge losses for high-quality enterprises.

4.1.3. Risk response to merger and acquisition target selection

(1) The principle of complementarity. The principle of complementarity refers to the consideration of the strengths and weaknesses of both oneself and the target company when choosing a merger and acquisition target, with the aim of learning from each other's strengths and weaknesses, and having the advantages of the acquired company to compensate for one's weaknesses in certain aspects. For example, in 2001, Huali Group entered the forefront of collection and production by acquiring the R&D department of Philips' CDMA mobile communication chip business, becoming the first enterprise in China to master the core technology of the complete IT industry, breaking down technological barriers. In the process of cross-border mergers and acquisitions, Chinese enterprises should have a clear understanding of their overall strengths and weaknesses, clarify their strategic development goals, adhere to the principle of complementarity when considering merger and acquisition goals, make up for the shortcomings of the enterprise in the development process, and promote faster and more stable development of the enterprise.

(2) The principle of industry matching. A mature multinational corporation generally possesses leading core technologies, management experience, and rich experience in cross-border mergers and acquisitions. When the industry in which the enterprise operates tends to saturate, it will choose to enter a new industry through cross-border mergers and acquisitions. However, most Chinese enterprises do not have rich experience in cross-border mergers and acquisitions. Therefore, when choosing merger targets, it is easy to fall into misconceptions and only consider costs or resources, and choose an industry with low matching as the acquisition target. For this situation, Chinese companies should understand their own business scope and choose companies related to their industry for cross-border mergers and acquisitions for the first time, which can improve the success rate of mergers and acquisitions. Choosing upstream and downstream enterprises for mergers and acquisitions can broaden their own industry

chain and is also an efficient way of mergers and acquisitions.

4.2. Risk Response Strategies during Cross-Border M&A Transactions

4.2.1. Assessment of capability risk response

A more effective way to deal with the risk of evaluation ability in cross-border mergers and acquisitions is to choose experienced consulting firms and legal advisors to cooperate with, or to collaborate with experienced international companies for joint mergers and acquisitions. The main problem for Chinese enterprises when conducting cross-border mergers and acquisitions is the lack of experience. When evaluating the value of the target enterprise's mergers and acquisitions, incomplete consideration is given. By collaborating with experienced teams, the value of the target enterprise's acquisition can be better evaluated. When cooperating with international enterprises for mergers and acquisitions, international enterprises have rich cross-border experience, which can also help Chinese enterprises reduce evaluation capability risks to a certain extent, Promote the smooth progress of cross-border M&A transactions.

4.2.2. Response to financing risks

Financing risk is a risk that enterprises must face in cross-border mergers and acquisitions. Whether it is acquiring companies from developed countries or developing countries, mergers and acquisitions require a significant amount of capital, which is a significant challenge for a company. State owned enterprises have strong financial support from the government when conducting cross-border mergers and acquisitions, and face relatively small financing risks. However, private enterprises face higher financing risks in cross-border mergers and acquisitions without government funding support. At this point, enterprises should base their financing on the market financing environment and their own financing capabilities, establish a risk assessment system, and choose appropriate financing methods. When conducting cross-border M&A transactions, it is advisable to avoid all cash transactions as much as possible, which can appropriately reduce the financing costs of the enterprise. When financing, it is also advisable to choose multiple financing methods such as bank mortgage loans, bond issuance, and stock financing. Different financing methods have different costs, and an appropriate combination can minimize the financing costs of the enterprise.

4.2.3. Response to transaction execution risks

Enterprises are not always smooth sailing in cross-border mergers and acquisitions. After avoiding the risks in the early stages of mergers and acquisitions, there may be difficulties in executing mergers and acquisitions due to the insertion of third parties or changes in government policies during the transaction process. Therefore, when conducting cross-border mergers and acquisitions, enterprises should draft acquisition plans in the preparation stage, grasp the pace in the transaction process, take the initiative, and timely modify the plan based on specific issues during the transaction, Sign an agreement with the acquired party, prepare in advance, do not delay the transaction time, ensure the smooth progress of the transaction, and reduce the risk of transaction execution.

4.3. Risk Response Strategies for Cross-Border Mergers and Acquisitions during the Integration Period

4.3.1. Risk response to human resource integration

After the completion of cross-border M&A transactions, the enterprise needs to face the risk of integrating human resources. Due to the different countries and business philosophies of both parties, conflicts exist between the management and employees after the merger, which can lead to the loss of core talents and affect the subsequent operation of the enterprise. Poor integration of human resources is likely to result in the failure of the merger and acquisition transaction. When dealing with the risk of human resource integration, it can be resolved by forming a professional integration team and enhancing communication between the merger and acquisition parties. By forming an internal integration team within the enterprise, responsible for personnel communication and allocation, the team should include representatives of the management of the acquired company, representatives of the management of the acquired company, and representatives of the acquired party's employees. Through communication and exchange, understanding the human resources situation, personnel distribution, and willingness of both parties, listening to the opinions of the acquired party's employees, and integrating and redistributing human resources based on understanding and understanding. In addition to the internal integration team of the company, the company also hires experienced third-party human resource integration experts to participate in the post merger human resource integration activities. The internal understanding is combined with external professional teams to supervise and control the entire process of human resource integration. After the completion of cross-border M&A transactions, the acquiring party communicates with the target party, allowing employees to participate in the company's business planning, timely understand the future development direction of the enterprise, and improve employee security. Only in this way can employees gain recognition, have a sense of belonging to the company, and leverage the advantages of the enterprise after the merger.

4.3.2. Risk response to cultural integration

After cross-border mergers and acquisitions, employees of the target company may feel nervous. Unlike management and decision-makers, most employees of the company have little understanding of the acquiring company, have no knowledge of the company's future development plans, and are also in an unknown state of the company's corporate culture, resulting in internal instability. For corporate culture risks, first of all, when choosing a merger target, when there is not much difference in conditions among other parties, the company can prioritize choosing a company with a similar corporate culture as the merger target. This way, after the merger is completed, employees from both parties are more likely to develop a sense of belonging. Secondly, after the merger and acquisition, companies should share their clear development plans with employees, allowing them to understand their position and tasks after the merger. Common strategic development goals can help enhance employee cohesion, promote the integration and development of corporate culture, and reduce cultural integration risks.

4.4. Risk Management and Response Strategies for Cross border Mergers and Acquisitions of HNA Group

4.4.1. Analysis of possible risks in HNA cross border mergers and acquisitions

(1) Financing risk. As a private enterprise, Hainan Airlines is more likely to be accepted by the target company's country compared to state-owned enterprises. In the early stage of M&A negotiations, it can reduce the possibility of being rejected by the policies and laws of the target company's country. However, as a private enterprise, without strong financial support from the state, it needs to raise funds through its own financing channels during mergers and acquisitions. At the end of 2017, 7 out of 10 listed companies in the Hainan Airlines series suddenly experienced a suspension of trading, which also indicates that Hainan Airlines is currently facing liquidity issues.

(2) Political and legal risks. As a global aircraft leasing company, Avolon is among the world's leading, with offices in China, Dubai, Singapore, the United States, and other regions. As a private enterprise in China, Hainan Airlines faces legal scrutiny from multiple countries when acquiring Avolon. Developed countries will be more stringent in their approval process to protect local enterprises, which also makes Hainan Airlines face political and legal risks from multiple countries when conducting cross-border mergers and acquisitions.

(3) Internal control risks. As an international group, the completeness of Hainan Airlines' internal control system is related to its daily operations and the success of mergers and acquisitions. Hainan Airlines has a complex structure and numerous subsidiary groups, which poses certain difficulties in supervision and management. In the process of acquiring Avolon, there are certain risks associated with the supervision of the internal business status of Bohai Financial Holding, mastery of the acquisition process, and information and communication at the upper and lower levels. The effectiveness of internal control has a very important impact on its cross-border mergers and acquisitions. At the same time, cross-border mergers and acquisitions have increased the difficulty of internal control. Therefore, Hainan Airlines needs to pay attention to internal control risks when conducting cross-border mergers and acquisitions.

(4) Human resource integration risks. Hainan Airlines has conducted multiple cross-border mergers and acquisitions in recent years. On the surface, through these series of cross-border mergers and acquisitions, Hainan Airlines Group has become a multinational and cross industry diversified international group, no less than the three major domestic airlines, and has also occupied a place in the Fortune Global 500 companies. However, this series of cross-border mergers and acquisitions has also brought integration challenges. Due to the short interval and fast pace of HNA's M&A activities, the internal human resources of HNA Group cannot match its expansion speed, and the company cannot cultivate talents who are proficient in the business of both companies in just a few years. Even inexperienced employees who are dispatched to a new company may experience reduced work efficiency due to their inability to adapt to the differences in management styles between the two companies.

(5) Cultural integration risks. The crazy merger and acquisition of Hainan Airlines also brings cultural integration risks. Due to the excessive number of mergers and

acquisitions and short time intervals, different cultures from different countries will merge together in a short period of time, resulting in cultural differences. After the merger, the cultural differences between the company and personnel will make the company's employees lack identification and undermine the stability of the company. This is a problem that cannot be solved quickly in a short period of time, but it also brings risks to the operation.

4.4.2. Management and response to cross-border M&A risks of Hainan Airlines

(1) Financing risk response. In the selection of financing methods, HNA Group should pay attention to its own actual situation and combine it with the specific situation of the acquired party to choose an appropriate financing method. At the same time, while meeting the funding needs of HNA's mergers and acquisitions, choose an appropriate financing combination to reduce the company's financing costs. Hainan Airlines can choose to cooperate with international enterprises when conducting cross-border M&A activities, and achieve a win-win situation for all three parties through joint risk sharing. This approach can reduce the financing risks of Hainan Airlines in the M&A process. In addition, risk transfer can also be used to raise funds from banks or other institutions as much as possible with sufficient self owned funds, reducing the pressure on one's own capital flow and lowering financing risks.

(2) Political and legal risk response. HNA has effectively avoided strict government approvals in response to political and legal risks. After deciding to acquire Avolon Company, Hainan Airlines Group immediately applied to the government and obtained the project filing notice from the National Development and Reform Commission on October 9, 2015. On the same day, it obtained the Overseas Investment Certificate from the Tianjin Commerce Commission. Hainan Airlines had already formulated a plan in the pre merger preparation stage and strictly followed the requirements of national laws and regulations for cross-border mergers and acquisitions. For the political review of foreign countries, after deciding to acquire Avolon, HNA submitted a review application to the government of the acquired party. After investigation and approval, the German Federal Kotel Agency believed that the merger transaction did not violate relevant laws and obtained the consent of the Federal Kotel Agency on October 23, 2015. In the same month, it also received approval from the Competition Bureau of the Federal Trade Commission of the United States, and subsequently the Federal Economic Competition Commission of the Federal District of Mexico approved this transaction. At this point, HNA has effectively addressed the political and legal risks involved in cross-border mergers and acquisitions.

(3) Internal control risk response. As an international group, Hainan Airlines has a relatively complete internal control system. Its subsidiary Bohai Financial Control has formulated its own internal control standards in accordance with the Basic Norms for Enterprise Internal Control and other requirements. Establish a reasonable and standardized internal control system within the enterprise, and conduct daily and specialized supervision on internal control. Evaluate the company and business activities based on the principle of risk orientation. Evaluate the effectiveness of internal control in the annual internal control evaluation report, and adjust internal control based on its own business scale, market competition, and risk level. Good internal control has played a good role in promoting Bohai Financial Holding's cross-

border mergers and acquisitions.

(4) Human resource integration risk response. Human resources are a very important part of the business operation process, and HNA Group should focus on addressing the integration risks of human resources when conducting large-scale continuous mergers and acquisitions. To address the risks of human resource integration, the first step is to actively explore and cultivate senior management personnel within the enterprise, or obtain senior management talents from external sources through recruitment, headhunting companies, etc. However, the core talents obtained within the company or through recruitment are limited, and Hainan Airlines Group should pay attention to the flow of core talents of the acquired party. After the completion of the merger and acquisition transaction, efforts should be made to retain senior management personnel of the acquired party through communication and reward policies, improve the understanding and favorability of employees on both sides of the merger and acquisition, enhance corporate cohesion through training and activities, reduce employee pressure to stabilize employee work efficiency, and improve company operational efficiency. After Hainan Airlines acquired Avolon, it gave the other party sufficient management authority, but did not put pressure on the other party, making the core talents willing to continue to stay. Through decentralization management, Avolon, which joined Hainan Airlines Group, expanded its business scope from Europe to the Asia Pacific market in just six months. Subsequently, Hainan Airlines incorporated the aircraft leasing under the acquired CIT into Avolon, successfully promoting it to the world's third-largest aircraft leasing company. Hainan Airlines and Avolon achieved a win-win situation.

5. Conclusion

In recent years, under the guidance of the national "the Belt and Road" policy, China's cross-border mergers and acquisitions have seen an increase in transactions in cities along the line. Private enterprises seize the opportunity to vigorously expand the international market. Especially Hainan Airlines, through a series of mergers and acquisitions, has become an international group. With the active activities of cross-border mergers and acquisitions, the risks of cross-border mergers and acquisitions have become more detailed, especially in the era of rapid economic development. Chinese

enterprises should actively implement cross-border mergers and acquisitions while paying attention to the potential risks that may arise during the process. Risk management should be placed as the main focus of cross-border mergers and acquisitions, learning from the experience of successful mergers and acquisitions, and summarizing the lessons of failed mergers and acquisitions, Enhance the ability of enterprises to prevent cross-border M&A risks in practice. I hope this article can provide reference and guidance for Chinese enterprises, especially aviation enterprises, to cope with cross-border M&A risks, so that Chinese enterprises can more smoothly prevent risks in future cross-border M&A.

This article studies the current development status and characteristics of cross-border mergers and acquisitions by Chinese enterprises, analyzes the risks and problems that may arise in the process of cross-border mergers and acquisitions. Through research on the cross-border M&A industry in China in recent years, combined with multiple overseas M&A cases of Hainan Airlines in recent years, and conducts specific analysis on its acquisition of Avolon company, it proposes the risks that enterprises should pay attention to in cross-border M&A and countermeasures, summarizes the successful experience of Hainan Airlines in cross-border M&A, and provides experience reference for private enterprises to "go global".

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