Explore the Solutions to the Corporate Governance Problems after Mergers and Acquisitions

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Abstract. This study analyzed the corporate governance issues after mergers and acquisitions. During the process of enterprise mergers and acquisitions, problems such as corporate culture conflicts, hidden financial issues, and uneven distribution of internal resources are often encountered. Taking Disney's acquisition of Pixar and Hewlett-Packard's acquisition of Autonomy as examples, this paper studies the potential risks in the merger and acquisition process and the corresponding mitigation strategies. Surveys show that strengthening financial due diligence on target companies can effectively reduce losses and risks caused by financial risks, and investigating the corporate culture of target companies can effectively reduce cultural conflicts after mergers and acquisitions. In addition, establishing an employee incentive mechanism can significantly enhance employees' sense of belonging and prevent the loss of core talents. Furthermore, the research finds that the government's regulation of merger and acquisition activities and anti-monopoly investigations provide guarantees for the merger and acquisition transactions themselves, which is conducive to the healthy development of the industry.

Keywords: Cultural Conflicts, Hidden Financial Problems, Antitrust.

1 Introduction

With the acceleration of the integration of global financial markets, the number of domestic and cross-border mergers and acquisitions has been steadily increasing [1]. Corporate merger and acquisition activities remain active worldwide and have become the core means for enterprises to achieve rapid expansion and resource integration. This phenomenon indicates the demand of enterprises to seek to optimize resource allocation and enhance market competitiveness. However, the governance issues of enterprises after mergers and acquisitions cannot be ignored. After enterprise mergers and acquisitions, some enterprises fail to achieve the expected value of the mergers and acquisitions. Their governance issues may face multiple risk factors such as cultural conflicts, conflicts in resource and benefit distribution, and financial and legal risks.

According to incomplete statistics, from a global perspective, the failure rate of enterprise mergers and acquisitions exceeds 50%. In China, the failure rate of enterprise mergers and acquisitions exceeds 60%, and the failure rate of cross-border mergers and

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acquisitions exceeds 80% [2]. These data all indicate that the enterprises have not exerted the due synergy effect after mergers and acquisitions. Therefore, how to deal with the problems arising after enterprise mergers and acquisitions has become a research topic that must be considered at present.

Some scholars have conducted research on the financial risks after mergers and acquisitions. The research points out that fiscal and tax risks are an implicit cost that requires high attention in the activities of enterprise mergers and acquisitions [3]. This study analyzed the financial problems that emerged during the process of enterprise mergers and acquisitions and provided solutions. However, the study only conducted a detailed analysis of the financial problems and did not consider other possible problems in the mergers and acquisitions, such as cultural conflicts and internal management problems of enterprises.

Based on the previous research of scholars, this research paper will further explore the solutions to the corporate governance problems after mergers and acquisitions, analyze the problems in different dimensions arising from mergers and acquisitions and provide solutions. The research of this paper hopes to provide corporate governance solutions for enterprise managers after mergers and acquisitions and reduce the probability of possible risks after enterprise mergers and acquisitions.

This paper is divided into six parts, namely literature review, dimensions of enterprise governance, case analysis, Implications and suggestions, summary and references. Analyze the problems in the process of enterprise mergers and acquisitions from different perspectives and provide solutions for different problems.

2 Literature Review

The problems arising after enterprise mergers and acquisitions mainly revolve around conflicts in corporate culture, uneven distribution of internal resources and interests within the enterprise, and financial and legal risks. These problems are often the three types with the highest probability of occurrence in the process of business mergers and acquisitions, and the analysis of these problems is particularly important.

2.1 Types of Governance Issues

Cultural Conflict. Enterprises often face the problem of cultural conflicts after mergers and acquisitions. Every enterprise has its own unique corporate culture and management approach. The formation of an enterprise culture is often related to the management concepts of the top management and the development background of the enterprise. After a merger and acquisition of enterprises, the corporate cultures and values of both sides usually have differences. Along with the adjustment of employees' positions and the management of the company, there may be problems such as resistance and communication difficulties among employees and between employees and management. If employees have problems such as no similar cultural values, distrust, misunderstanding or mismatch of goals, these obstacles may reduce coordination and synergy [4]. For instance, before enterprise mergers and acquisitions, Company A was fond of constantly trying and exploring new things and daring to innovate, while Company B paid more attention to low risks and developed in familiar fields. The differences between the two companies may lead to conflicts in values after the enterprise merger and acquisition, thereby triggering contradictions. The uncertainties brought about by mergers and acquisitions can lead to employee anxiety, reduced employee loyalty, and even the loss of core talents in enterprises.

Uneven Distribution of Resources. During the integration process after enterprise mergers and acquisitions, the uneven distribution of internal resources and benefits is often one of the core reasons that trigger employee conflicts, reduce work efficiency and even lead to the failure of mergers and acquisitions. After a business merger and acquisition, there may be an imbalance of management power. The management of the acquirer may occupy core positions, while the acquired team may be marginalized, leading to a tilt of internal resources within the enterprise. The promotion opportunities of employees in the enterprise will also be affected. In the adjustment of employees in key positions, there may also be a problem of employee bias. The uneven distribution of internal interests and resources leads to the emergence of dissatisfaction among employees, thereby increasing the employee turnover rate and reducing the synergy effect after enterprise mergers and acquisitions.

Financial and Legal Risks. After mergers and acquisitions, enterprises may face hidden financial and compliance risks. In the early stage of a merger and acquisition, it is necessary to conduct a financial review of the target enterprise. However, beneath the complex and huge financial figures of an enterprise, there may be risks that are difficult to detect. The financial statements of the target enterprise may have been modified by accounting, resulting in false financial information. Before a merger and acquisition, enterprises may also have other legal disputes, such as intellectual property disputes, contract breach disputes, and tax omission issues. If the company fails to identify these hidden financial problems or legal disputes before the merger and acquisition, these hidden problems may surface after the merger and acquisition, thereby significantly increasing the financial and compliance pressure of the merger and acquisition. At the same time, it will lead to the collapse of the enterprise's brand influence and customer trust. In addition, before mergers and acquisitions, enterprises need to value the target enterprise. The deviation of the valuation amount will also have an impact on the enterprise's finance. Some enterprises, in order to attract capital, may conceal their true liabilities and profit situations. To increase the valuation price in mergers and acquisitions, enterprises may deliberately lower their debt data, thereby causing valuation errors. If the valuation amount is too high, it may lead to an excessive financial burden on the enterprise in the later stage.

2.2 The Current Solution

Legal Aspect. The implementation of the Anti-Monopoly Law can protect fair market competition, improve economic efficiency, and safeguard the interests of consumers and the public [5]. To prevent industry monopoly problems after enterprise mergers and acquisitions, anti-monopoly regulatory agencies in various countries, such as the Federal Trade Commission (FTC) of the United States, the European Commission, and the State Administration for Market Regulation of China, are paying increasing attention to anti-monopoly issues. Anti-monopoly laws in various countries require that if a company's merger and acquisition transaction reach its turnover or market share, the company needs to report to the regulatory authorities. The introduction of anti-monopoly laws has significantly reduced the occurrence of industry monopolies after merger and acquisition transactions. In the case of Microsoft's acquisition of Activision Blizzard in 2023, the US Federal Trade Commission was concerned that this acquisition would raise antitrust issues. The FTC believed that after the merger and acquisition deal, Microsoft would monopolize the gaming market. Therefore, the FTC filed a lawsuit against this merger and acquisition case. The implementation of anti-monopoly laws in various countries has provided more guarantees for enterprise merger and acquisition transactions.

Internal Management of Enterprises. After enterprise mergers and acquisitions, a series of governance problems usually arise, including internal management issues of the enterprise. To avoid these problems, enterprises usually further optimize their governance structure and division of powers after participating in the mergers and acquisitions. After a business merger and acquisition, the enterprise usually clarifies the decision-making mechanism. After amending the articles of association, both enterprises will define the responsibilities of the board of directors and management, thereby avoiding the phenomenon of multiple leaders in the enterprise. In addition, to avoid cultural conflicts between the two companies, the management of the enterprise usually conducts cross-cultural training. Through activities such as merger and acquisition commemorative events, case sharing sessions, and cultural workshops, it helps employees understand the cultural differences between the two companies and gradually adapt to the new rules.

Risk Management. Before a business merger and acquisition, there may be hidden financial problems that have not been exposed to risks. To reduce the occurrence of risks, enterprises usually establish a risk early warning mechanism after the merger and acquisition. Enterprises usually monitor multiple data points, such as employee turnover rate and customer churn rate. If the data drops below the normal level, the enterprise will immediately take countermeasures to prevent the expansion of risks and avoid affecting the operation of the enterprise. The regulatory authorities of enterprises also usually conduct regular inspections of the financial data of enterprises to ensure their normality and prevent the occurrence of corruption. The risk early warning mechanism established by enterprises can effectively reduce the incidence of risks after mergers and acquisitions.

3 Dimension of Corporate Governance

3.1 Supervision Mechanism

The core of the enterprise supervision mechanism is to ensure the compliance of the enterprise's operation and decision-making through the management of the management and the professional supervision of the auditing department. Establishing an enterprise supervision mechanism can effectively avoid the risks existing in the process of enterprise mergers and acquisitions. Independent board supervision is one of the most common supervision mechanisms in the process of corporate governance.

An independent director refers to someone who does not hold any position other than director in a listed company and has no direct interest relationship with the company and its management. One of the main responsibilities of an independent director is to supervise the collection by the controlling shareholder, thereby protecting the interests of minority shareholders [6]. Independent directors usually have the right of veto on major matters, and this power effectively prevents major shareholders of the enterprise from encroachment on the company's resources. Meanwhile, independent directors, as agents of minority shareholders, can protect the rights and interests of minority shareholders and investors, ensuring that they have the right to be informed and the right to participate. Establishing an independent board supervision mechanism can prevent the abuse of power by enterprise shareholders and management, and at the same time enhance the trust of investors and customers in the enterprise.

3.2 Incentive Mechanism

The enterprise incentive mechanism stimulates employees' work enthusiasm and meets their self-needs through both material and spiritual incentives. After enterprise mergers and acquisitions, the problem of core talent loss often occurs. Therefore, establishing an enterprise incentive mechanism can effectively reduce the occurrence of core talent loss. Enterprises compensate for the work value of their employees and their personal contributions to organizational performance by meeting their needs and through a reward mechanism. The more effective the employee performance is, the more rewards they will receive, which can make employees more motivated at work [7]. Increase employees' sense of belonging to the enterprise through material rewards (salary, equity) or non-material rewards (honors, promotion opportunities). Establishing an enterprise incentive mechanism can effectively enhance the organizational efficiency and market competitiveness of an enterprise. By offering employees bonuses or promotion opportunities, the creativity of employees can be unleashed. Salaries and benefits higher than the industry average can also attract more talents from the industry to join.

4 Case Analysis

4.1 Disney Acquiring Pixar (2006)

Disney's acquisition of Pixar Animation Studios marks a deep cooperation and integration between the two animation industry giants, reshaping the landscape of the animation industry and further enhancing Disney's vitality in the animation field.

Pixar Animation Studios was founded in 1986. Its predecessor was the digital division of Lucasfilm. Later, it was acquired by Steve Jobs and operated independently. Between 1995 and 2005, there was a close connection between Disney and Pixar. The films they collaborated on generated over 3 billion US dollars in box office revenue worldwide, and more than 150 million home video tapes (cassette tapes and DVDS) and countless complementary products were also sold [8]. In 2006, Disney decided to acquire Pixar. Disney completed the full acquisition of Pixar Animation for 7.4 billion US dollars, and the transaction was realized in the form of equity swap. Disney hopes to solve the problem of sluggish creation in its animation department by acquiring Pixar Animation. As the founder and largest shareholder of Pixar, Jobs became a member of the board of Disney through this acquisition case. This status further strengthened the cooperative relationship between the two enterprises.

After Disney acquired Pixar, it successfully achieved technological complementarity between the two enterprises. Pixar has industry-leading 3D animation technology and owns well-known animation ips such as Toy Story and Finding Nemo, while Disney has a global distribution network and theme park operation capabilities. The cooperation between the two enterprises has accelerated the monetization of well-known ips [9].

The case of Disney's acquisition of Pixar is regarded as one of the most successful business mergers and acquisitions. After the merger and acquisition, both enterprises made full use of their technological advantages and achieved technological complementarity. After Disney's acquisition of Pixar, Disney retained Pixar's creative autonomy while integrating into Disney's IP operation system. The cultural integration and technological complementarity of the two enterprises have accelerated the diversified monetization of IP. After the acquisition, the two sides jointly launched excellent animated works such as Up and Coco, bringing huge commercial success and innovative breakthroughs to both enterprises.

4.2 HP Acquiring Autonomy

HP's acquisition of Autonomy, the second-largest software provider in the UK, is one of the costly lessons in the history of mergers and acquisitions.

HP acquired the British software company Autonomy for $11 billion in August 2011, with a transaction premium of approximately 58%. At that time, most people regarded this acquisition as somewhat expensive. This acquisition was led by Leo Apotheker, the former CEO of HP. HP hopes to leverage Otto Nomi's industry advantages in data analysis and cloud computing to enhance its competitiveness in the software market.

However, as soon as HP completed the acquisition of Autonomy, Autonomy's revenue began to decline. HP launched an internal investigation in November 2012 and found that Autonomy had serious financial fraud problems. According to the investigation, before the acquisition, Sushovan Hussain, the former chief financial officer of Autonomy, used accounting methods to exaggerate the company's revenue and sold the company to HP for 11 billion US dollars. Meanwhile, HP discovered that Autonomy did not sell software to customers. Instead, it sold hardware to them at a loss and then recorded these sales as software licensing revenue, packaging the low-profit hardware sales as high-profit software revenue. This led to a loss of 8.8 billion US dollars for HP in this merger and acquisition case. After the news was announced, HP's share price plunged by 12%, and its net loss reached 6.9 billion US dollars in the fourth quarter of 2012.

HP's failed acquisition of Autonomy was due to the lack of detailed due diligence. HP's failure to discover the hidden financial problems existing in Autonomy directly led to the failure of this acquisition case [10].

5 Enlightenment and Suggestions

5.1 Enlightenment

Behind the two cases, corporate governance issues arising during and after the merger and acquisition process can be identified. Mergers and acquisitions can achieve the goal of rapid expansion of enterprises, but at the same time, there are financial and legal risks.

In the case of Disney's acquisition of Pixar, both Disney and Pixar belong to the animation production industry, and the cultural conflicts between the two enterprises are not very strong. Meanwhile, after Disney acquired Pixar, it retained Pixar's independent creation rights, which enabled the originality of Pixar's animations to be preserved. Both enterprises have their own unique advantages. Disney's theme park operation capabilities and global distribution network can help Pixar's high-quality ips achieve diversified monetization. Meanwhile, Pixar's 3D animation technology makes up for Disney's shortcomings in animation production. The compatibility of corporate cultures, the complementarity of technological advantages, and the retention of the core team have made this acquisition one of the most successful business mergers and acquisitions.

In the case of HP's acquisition of Autonomy, due to HP's lack of due diligence on Autonomy, HP acquired the enterprise at a 58% premium. The hidden financial problems existing in Autonomy led to a sharp drop in HP's stock, causing a huge impact on HP. The decision-making mistakes of the enterprise's management and the imperfect due diligence have cost HP dearly.

5.2 Suggestions

The Perspective of Enterprises. There are many risks in the process of enterprise mergers and acquisitions. Incompatibility of corporate cultures, undiscovered financial risks, and the loss of core talents may all lead to the failure of enterprise mergers and acquisitions. Therefore, in the process of mergers and acquisitions, systematic planning is a key factor for the success of enterprise mergers and acquisitions.

A detailed investigation of the target company is an indispensable process in mergers and acquisitions. Before a merger and acquisition, the acquirer should assess the target corporate culture. By conducting employee surveys, management interviews and other methods, it can determine the cultural differences between the two sides and formulate solutions to cultural conflicts in advance, such as holding regular cultural activities to help employees adapt to the new rules. In addition to the investigation of corporate culture, the financial review of the target enterprise is also extremely important. False financial information and tax issues may directly lead to the failure of enterprise mergers and acquisitions. Enterprises can introduce third-party supervisory or auditing institutions to conduct compliance evaluations of the enterprise to ensure that no tax or monopoly issues arise during the process of enterprise mergers and acquisitions.

After enterprise mergers and acquisitions, enterprises also need to formulate new management methods for the problems of talent loss and major affairs decision-making. To prevent the problem of talent loss after enterprise mergers and acquisitions, enterprises can establish incentive mechanisms to ensure the stability of talents. The management of an enterprise can set team performance standards for employees in key positions. If a department of the enterprise achieves the set phased goals, it can receive performance bonuses. For the original senior executives of the enterprise, equity dividends can be provided. This can effectively reduce the talent turnover rate. To avoid the phenomenon of dual-headed leadership in enterprises, a sound decision-making mechanism should be established after mergers and acquisitions. For major investment issues of enterprises, business integration issues should be negotiated and handled by the management of both enterprises. For some urgent events, enterprises should establish a dedicated decision-making team to respond quickly to the problems.

The Perspective of Government. During the process of enterprise mergers and acquisitions, industry monopoly issues may arise, which may cause problems of market instability. Therefore, the government should supervise enterprise mergers and acquisitions and establish a supervision mechanism to prevent the occurrence of industry monopolies. If a business merger and acquisition transaction reach the turnover or market share, the government can require the enterprise to make mandatory declarations. For business mergers and acquisitions that may cause monopoly problems, the government can require the enterprise to forcibly split the business or attach restrictive terms. Through such methods, the occurrence of industry monopoly phenomena can be effectively reduced.

6 Conclusion

This study explores the solutions to the corporate governance issues after mergers and acquisitions. The article analyzes the possible risks that may occur during the process of corporate mergers and acquisitions. Cultural conflict issues, implicit financial problems, and benefit distribution issues have become the main reasons for the failure of corporate mergers and acquisitions. For the three risks in the process of corporate mergers and acquisitions, corresponding corporate governance plans and dimensions of corporate governance are proposed. In analyzing the cases of Disney's purchase of Pixar and HP's takeover of Autonomy, corresponding corporate governance suggestions were put forward from the perspectives of enterprises and the government respectively. Enterprises should govern themselves from multiple aspects such as employee incentives, management supervision and decision-making, while the government should also supervise and conduct anti-monopoly investigations on the acquired enterprises.

In this paper, the governance issues that may arise during the process of enterprise mergers and acquisitions have been studied. However, the analysis of cross-border merger and acquisition cases is still lacking. In the process of enterprise mergers and acquisitions, especially those involving cross-border transactions, they are usually complex transactions. The default risk after the merger and acquisition will be affected by many factors such as the transaction amount, the acquirer and the system. During the process of cross-border mergers and acquisitions, factors such as geographical distance, cultural differences, and differences in legal systems can all affect the activities of enterprises in mergers and acquisitions. In the investigation of the impact of geographical proximity on the acquisition decisions of American companies, it was found that the return on acquiring companies in local transactions is more than twice that of non-local transactions. In the subsequent research process, it is necessary to further explore the possible risks in cross-border mergers and acquisitions. Case analyses also need to be introduced regarding the connections between geographical distance, cultural differences and cross-border merger and acquisition transactions.

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