

# ***Strategic Decision-Making on the Value Assessment of Mergers and Acquisitions by Chinese Multinational Enterprises***

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**Abstract.** Amidst a recovery in China's outbound investment, cross-border mergers and acquisitions (M&A) have emerged as a pivotal strategy for Chinese enterprises to upgrade industries and bolster global competitiveness. Through a combination of case study and literature analysis, this study elucidates the positive impacts of cross-border M&A in terms of market expansion, industrial structure optimization, and synergy creation. This article systematically identifies the positive impacts of cross-border mergers and acquisitions in terms of market expansion, industrial structure optimization, and the creation of synergy effects. It also delves into the critical challenges, including high valuation premiums, geopolitical and regulatory risks, financial vulnerabilities from high-leverage financing, and cultural integration difficulties. In response, this paper constructs a strategic framework aimed at mitigating these risks, which underscores the imperative of effective synergy between corporate strategic goals and national policy support. The findings underscore that success in cross-border M&A is contingent upon robust capabilities in strategic valuation, risk management, and cross-cultural integration, providing a valuable reference for Chinese enterprises to achieve sustainable global development.

**Keywords:** Cross-border Mergers and Acquisitions (M&A), Chinese Multinational Corporations (MNCs), Valuation Risk, Post-Merger Integration, Geopolitical Risk

## **1. Introduction**

### **1.1. Research background**

In the era of economic globalization, cross-border mergers and acquisitions (M&A) and investments have consistently been among the most strategically significant international economic activities. In recent years, the cross-border M&A activities of Chinese enterprises have shown a notable recovery and structural optimization. According to the latest data from Yong'an Insurance, in the first half of 2025, the total value of China's overseas M&A transactions reached \$19.6 billion, a significant year-on-year increase of 79%. Multiple industries experienced triple-digit growth in M&A value, with the TMT (technology, media, and telecommunications) sector being particularly prominent, accounting for approximately 42% of the total transaction value [1]. This reflects the strong willingness and

strategic shift of Chinese enterprises to acquire core technologies and promote industrial upgrading through cross-border M&A.

This trend is underpinned by strategic support at the national level and the impetus of the global digital economy. The deepening implementation of the “Belt and Road” Initiative has enhanced political mutual trust between China and countries along the route, optimized the investment environment, and provided policy facilitation, thereby effectively improving the M&A performance of Chinese enterprises in these regions [2]. Simultaneously, the liberalization of global digital service trade has reduced information barriers and transaction costs for cross-border M&A, significantly increasing the success rate of such transactions, particularly for enterprises initiating cross-industry M&A [3].

## 1.2. Literature review

Firstly, scholars have acknowledged the value creation potential of cross-border M&A. For instance, Xu confirmed that cross-border M&A waves have positive valuation effects, significantly enhancing corporate value. Even in contexts with substantial institutional and cultural differences, later-stage transactions can still perform well, highlighting the importance of cross-border M&A as a tool for value creation [4]. Secondly, research has focused on the typical characteristics and evolution of China’s cross-border M&A. Wen pointed out that China’s cross-border M&A is primarily horizontal, driven by the “going global” strategy of private enterprises and the construction of the Belt and Road Initiative. While the scale of M&A continues to expand, it also sharply highlights the lack of integration capabilities and the diversified development of M&A entities [5]. This indicates that successful M&A extends beyond the completion of transactions, with post-merger integration and strategic execution being critical, as well as the core aspect of M&A valuation. Wang and Sun elucidated that due to the high uncertainty of cross-border M&A, they systematically compared the applicability and limitations of existing valuation techniques and constructed a more scientific framework for selecting optimal valuation methods, providing enterprises with the best valuation approach for cross-border M&A decisions [6]. This offers important theoretical guidance for valuation practices. Finally, risk identification and management systems have also been thoroughly explored. Yuan comprehensively analyzed the types of risks Chinese enterprises may encounter at various stages of overseas M&A and proposed relevant countermeasures based on practical circumstances, providing enterprises with a macro perspective on risk management [7].

In summary, existing literature provides multi-dimensional theoretical foundations and practical insights for understanding cross-border M&A. However, behind the expansion of M&A scale and favorable policies, high failure rates and significant risks remain core issues that urgently need to be addressed. Although many scholars have conducted in-depth analyses of various stages of M&A, there is relatively little literature effectively integrating these into a unified decision-making analysis framework. Therefore, this study will explore the dynamic relationship between pre-M&A valuation and future strategic decisions, ultimately constructing a systematic strategic framework aimed at preventing valuation risks at the source and enhancing the quality of M&A decisions. By providing this actionable framework, our research offers a tangible tool for Chinese enterprises to build a systematic risk identification and prevention mechanism, ultimately improving the success rate of overseas M&A.

## 2. Case description

Currently, overseas acquisitions by Chinese companies have become more mature and rational, with a greater emphasis on genuine value creation through technology acquisition, brand enhancement, supply chain optimization, and global strategic positioning. Acquisition decisions are no longer merely a demonstration of financial strength but rather strategic investments in long-term core competitiveness and global market influence. This shift is particularly evident in the high-end manufacturing sector. Among these, Geely Group's acquisition of Volvo Cars stands as a paradigm of a successful 'reverse merger' where a smaller acquirer from an emerging market integrated a prestigious global brand. Its success was not accidental but the result of a strategic initiative that began in 2002, involving eight years of close tracking and thorough preparation. This case offers highly valuable insights for China's cross-border M&A.

The success of this acquisition can be attributed to three critical factors: meticulous pre-acquisition preparation and valuation, a clear strategic fit, and an innovative post-merger integration strategy that preserved value. In 2010, Geely Group acquired 100% of the shares of Swedish luxury brand Volvo Car Corporation from Ford Motor Company for \$1.8 billion, a transaction widely perceived as high-risk due to the significant disparity in size and brand prestige between the two companies. However, the successful acquisition was underpinned by meticulous due diligence and reasonable valuation and pricing.

First, Geely's success was grounded in exhaustive due diligence and a rational valuation. Geely fully drew lessons from Ford's previous experience in acquiring and integrating Volvo, engaging top-tier advisory teams such as Rothschild International Investment Bank [8]. By comprehensively employing various valuation methods, Geely ultimately completed the acquisition at a reasonable price of \$1.8 billion, which was more than two-thirds lower than Ford's original acquisition cost. This pricing not only controlled risks but also reserved room for subsequent integration investments.

Second, beyond financials, Geely identified a profound strategic fit between its goals and Volvo's assets. Geely subtly recognized the high alignment between Volvo and its own core strategic propositions, such as environmental protection and safety. Geely did not treat Volvo as a simple asset acquisition but was committed to achieving mutual enablement.

Finally, and most crucially, Geely implemented a post-merger integration strategy of 'empowerment rather than assimilation'. It adopted the "set the tiger free" strategy, fully respecting Volvo's brand independence and operational system, and preserving the luxury brand appeal and R&D integrity of Volvo [9]. This move not only rescued Volvo, doubling its global sales and revitalizing its brand value, but also enabled Geely itself to achieve a leap in product capability through technology absorption and innovation. Through this acquisition, Geely genuinely realized comprehensive value enhancement in brand, technology, and management, completing its strategic transformation from a Chinese private automaker to a global automotive group.

This case underscores that in cross-border M&A, particularly when acquiring a more prestigious brand, the goal is not to conquer but to leverage complementary strengths, creating a symbiotic relationship that unlocks value for both entities.

### **3. Analysis of the problem**

#### **3.1. Positive impacts**

##### **3.1.1. Expanding global markets**

Cross-border M&A provides a strategic shortcut for market expansion by enabling firms to acquire critical local assets rapidly and circumvent entry barriers. In the context of economic globalization, cross-border mergers and acquisitions have witnessed unprecedented development opportunities. Since China acceded to the World Trade Organization (WTO), its degree of openness has continuously deepened, and the competition among domestic and foreign enterprises has become increasingly fierce. Mergers and acquisitions serve as an efficient channel for enterprises to expand their international markets and achieve a global layout. Through mergers and acquisitions, enterprises can quickly acquire the local sales networks, customer resources, and brand influence of the target company, significantly reducing the time cost and uncertainty required for independent market expansion in overseas markets. This not only helps enterprises bypass trade barriers and directly enter emerging markets or developed markets, but also enables them to deeply integrate into the global industrial chain and value chain through localized operations and management, thereby enhancing the international market share and global brand awareness of the enterprise.

##### **3.1.2. Optimizing industrial structure**

M&A acts as a catalyst for industrial upgrading by facilitating the transfer and absorption of advanced technologies and managerial expertise from developed economies. Secondly, cross-border mergers and acquisitions are an important mechanism for driving the optimization and upgrading of the domestic industrial structure. Through cross-border mergers and acquisitions, enterprises can strategically acquire advanced technologies, core patents, R&D capabilities, and management experience from overseas, thereby achieving a leap in technological capabilities and the advanced evolution of the industrial structure. As Herrendorf, Rogerson, and Valentinyi pointed out, economic development is inevitably accompanied by the systematic reconfiguration of factors such as labor and capital among different industrial sectors, namely “structural transformation”, driven by income effects and relative price effects [10]. Based on this theory, the cross-border merger and acquisition behavior of Chinese enterprises can be regarded as a strategic choice to actively adapt to and accelerate this macro law under an open economy. Through the acquisition of overseas high-end manufacturing and modern service enterprises, not only can domestic enterprises break through the development bottleneck of “low-end lock-in”, but also can effectively drive the modernization transformation of the entire domestic industrial system through technology spillover, industrial linkage, and optimization of resource allocation effects.

##### **3.1.3. Generating synergistic effects**

The fundamental value proposition of M&A lies in its potential to generate synergistic gains, creating value that exceeds the sum of the individual entities. Lastly, M&A can generate significant synergistic effects, serving as a core mechanism for enhancing enterprises' overall value creation capabilities. Research by Feldman and Hernandez highlights the central role of synergistic effects in M&A, proposing a comprehensive typology that includes operational, financial, and competitive synergies, and emphasizing the need for a dynamic management process of identification, transformation, and realization [11]. Zhang noted that the positive impact of M&A on corporate

performance is primarily realized through two main pathways: the enhancement of “market power” (operational synergy) and the improvement of “technological innovation” capabilities (technological synergy) [12]. Through multi-dimensional resource sharing and capability complementarity, enterprises can optimize resource allocation efficiency, enhance operational management levels, and ultimately achieve a “1+1>2” integration effect, significantly strengthening their sustainable profitability and risk resilience.

### **3.2. Negative impacts**

#### **3.2.1. Valuation risk and strategic overpayment**

Chinese enterprises often pay significantly higher valuation premiums than the market average in overseas acquisitions. In order to acquire critical core technologies, well-known brands, scarce resources, or overseas market channels, Chinese companies are willing to pay a “strategic premium” to achieve leapfrog development. However, amid the pressures of international bidding competitions—particularly when competing for high-quality targets—they are often compelled to raise their offers to outbid rivals. Moreover, a study by Sun found that in overseas M&A by Chinese companies, a state-owned ownership background leads to higher premiums paid by Chinese acquirers. The study also revealed that cultural differences between the merging parties further increase the premium in these transactions [13]. This overpayment creates a ‘value gap’ that is exceedingly difficult to bridge through post-merger performance, fundamentally undermining the economic rationale of the deal.

#### **3.2.2. Political and regulatory hurdles**

Good bilateral political relations are conducive to increasing bilateral political trust and play a crucial role in promoting Chinese enterprises’ overseas mergers and acquisitions [14]. Currently, many countries around the world have established and improved national security review systems related to foreign capital mergers and acquisitions. Chinese enterprises’ overseas mergers and acquisitions are carried out under the increasingly strict national security review systems of foreign governments. The strict reviews by foreign governments of Chinese enterprises reflect their vigilance and concerns about the political factors behind the mergers, and obtaining the approval of the host country’s government has become one of the key factors for the success of the mergers. Government support has created favorable conditions for Chinese enterprises to enter overseas markets, but the presence of the “government hand” has also brought significant obstacles to overseas mergers and acquisitions. At the same time, the trade unions and other organizations of the target company may also be concerned that the acquisition by Chinese state-owned enterprises is aimed at realizing government intentions rather than efficiently utilizing resources [15,16]. This will affect the future development of the acquired company and the interests of the employees. These factors can lead to protracted regulatory delays, the imposition of onerous conditions, or outright rejection of the transaction, resulting in significant sunk costs with zero return.

#### **3.2.3. Financial risk and leverage-induced vulnerability**

At present, many Chinese overseas merger and acquisition transactions rely on high-leverage financing, which not only amplifies capital capacity but also brings huge financial risks. The negative impacts brought by this model mainly include: heavy debt repayment pressure. After the merger, the acquired enterprise will face a stable obligation for principal and interest repayment,

which requires the acquired target to generate stable and sufficient cash flow immediately; high debt ratio will deteriorate the credit rating of the enterprise itself, increase its refinancing costs, and reduce the financial space for future development; if the performance after the merger does not meet expectations, the decline in asset value and the high debt will form a “double squeeze” that may drag the enterprise into financial difficulties [7]. Consequently, what began as a strategic acquisition can rapidly devolve into a financial distress scenario, forcing the acquirer to divert management attention from integration to survival.

#### **3.2.4. Post-merger integration failures**

Cultural differences are an important factor affecting the integration of both parties in the merger and acquisition. After the merger, one of the important tasks for both parties is to integrate various aspects, such as corporate culture and management models. Suppose the cultural differences between the two countries are smaller. In that case, the employees of the acquired company will be more likely to accept the corporate culture and management model of the acquiring company, and thus be more supportive of the merger transaction, and vice versa. For example, Ahern examined the impact of trust, hierarchical view, and individualism on the value of cross-border mergers and acquisitions, and found that cultural differences between the two countries would reduce the number of cross-border mergers and acquisitions [17]. The integration dilemma may lead to the loss of key talents. Suppose the core management and technical teams of the acquired company cannot identify with the culture and management model of the Chinese parent company and leave. In that case, their departure will reduce the value of the merger transaction by depriving the enterprise of the core capabilities (technology, management experience, brand reputation) that the enterprise truly wants to acquire. In addition, internal friction and poor communication will seriously slow down the integration process, preventing the realization of strategic synergy and the expected scale effect and benefits. Ultimately, failure to manage the 'human side' of the integration can result in the complete evaporation of the target's core value, leaving the acquirer with nothing but a hollowed-out asset and a large debt.

### **4. Suggestions**

In response to the risks outlined above, the following targeted recommendations are proposed to enhance the success rate and value creation of Chinese overseas M&A:

#### **4.1. Mitigating valuation risks through rigorous pricing discipline**

To avoid the financial risks brought by high premiums, Chinese enterprises should establish a more rational and professional valuation and decision-making system. Firstly, the positioning and valuation bottom line should be clearly defined. Before a merger and acquisition, enterprises should clearly define the core strategic goal of this merger and acquisition and set the acceptable maximum premium range based on this, to avoid getting trapped in irrational bidding. Secondly, multiple valuation methods and third-party advisors should be introduced. Use a variety of methods for cross-validation and leverage the strength of internationally renowned investment banks, accounting firms, and other third-party professional institutions to objectively assess the target assets, in order to offset the valuation deviation caused by information asymmetry. Collectively, these steps form a robust defense against the winner's curse, ensuring that strategic objectives are not undermined by overpayment.

#### 4.2. Navigating political and regulatory hurdles via proactive engagement

To deal with geopolitical and regulatory review risks, efforts should be made from both the pre-emptive prevention and post-event communication dimensions. First, the non-market risk analysis should be strengthened in the due diligence process. In the feasibility study stage of the transaction, in addition to commercial due diligence, a comprehensive assessment should be conducted specifically on the political environment, foreign investment regulatory policies, and union attitudes of the host country to pre-judge potential political resistance and formulate corresponding risk plans. Second, actively communicate, adopt a transparent, commercial-first communication strategy, and emphasize commercial win-win. Enterprises should actively and transparently communicate, clearly explain the commercial motives and market-oriented principles of the merger and acquisition, and emphasize the positive contributions of the merger and acquisition to local employment, technological development, and economic growth. Moreover, further improve information disclosure and make the decision-making system more transparent to alleviate the other party's concerns about the "government hand" and win the trust of the international market. This approach helps to depoliticize the transaction and alleviate host country concerns about non-commercial agendas. Third, government regulatory departments should actively play a coordinating role in the phenomenon of excessive competition in overseas mergers and acquisitions, pay attention to and actively participate in the formulation of international investment rules and standards, and play a more active role in the formulation of bilateral and multilateral trade rules to safeguard the legitimate rights and interests of Chinese enterprises.

#### 4.3. De-leveraging and strengthening financial resilience

To alleviate the financial pressure brought by high-leverage financing, enterprises need to focus on designing safer and more flexible financing plans. First, expand diversified financing channels and reduce reliance on leverage. Change the single model of excessive reliance on bank loans and actively explore the use of equity financing, private equity funds, overseas bond issuance, and other multi-level capital market tools to form a financing structure combining equity and debt and sharing risks to control the scale of debt. Second, implement prudent cash flow management. Before the merger and acquisition, carefully assess the cash flow generation capacity and stability of the target company and strictly match it with the company's debt repayment plan. After the merger and acquisition, prioritize the integration of the financial system and strengthen the monitoring and management of cash flow to ensure sufficient liquidity to meet debt repayment obligations. Third, set up risk isolation mechanisms. Consider conducting mergers and acquisitions through the establishment of SPVs (Special Purpose Vehicles) to isolate project risks and avoid the failure of a single merger and acquisition project from affecting the overall financial security of the parent company. This ring-fences the parent company's assets, preventing contagion from a single failed deal.

#### 4.4. Prioritizing cultural integration to preserve core value

The successful integration of cultures is the fundamental guarantee for realizing the value of mergers and acquisitions. First, attach importance to cultural due diligence before the merger and acquisition, identify potential cultural conflict points, provide key input for subsequent integration plans, and develop specific metrics to monitor cultural integration progress post-merger. Second, detailed integration plans should be developed and steadily advanced. Establish a dedicated integration

management office, clearly define integration goals, and assign responsible persons. In the early stage of integration, gradually promote the integration of management concepts and corporate cultures while retaining the core competitiveness of the target company, and avoid forceful integration. Finally, prevent the loss of key talents. Give them sufficient respect and autonomy to ensure the stability of the core management and technical teams of the acquired party, thereby preserving the core value to be obtained through the merger and acquisition. For instance, by implementing retention bonuses for key personnel and involving them in key decision-making bodies of the new integrated entity. Meanwhile, cross-cultural training should be carried out, and a two-way communication mechanism should be established to promote mutual understanding and trust among employees on both sides, laying a humanistic foundation for achieving strategic synergy.

## 5. Conclusion

### 5.1. Summary of findings

This study elucidates the dualistic nature of Chinese overseas M&A, which presents significant opportunities for global expansion and industrial upgrading while concurrently entailing substantial risks.

In the context of the current economic globalization and the vigorous development of the digital economy, Chinese overseas mergers and acquisitions have shown a trend of recovery and structural optimization. This article conducts a systematic study on the cross-border mergers and acquisitions of Chinese enterprises.

Through case and literature analysis, it is pointed out that cross-border mergers and acquisitions have significant positive impacts in terms of opening up international markets, optimizing industrial structures, and creating synergy effects. However, in practice, many challenges still exist, including high cross-border valuation premiums, increased geopolitical and regulatory risks, financial pressure from high-leverage financing, and cultural integration difficulties. The effective identification and management of these multifaceted risks are, therefore, paramount to unlocking value and avoiding integration failure.

### 5.2. Implications and future outlook

In response to the above problems, this article proposes systematic countermeasures from both the enterprise level and government regulation: enterprises should establish a rational valuation and professional due diligence system, expand diversified financing channels, strengthen political and cultural risk assessment, and formulate comprehensive integration plans; the government should play an active role in regulating the overseas investment behavior of enterprises, providing policy support, and coordinating international rules. The successful case of Geely's acquisition of Volvo shows that clear strategic positioning, professional transaction execution, and respectful integration management of differences are fundamental to realizing the value of mergers and acquisitions. This case underscores the critical importance of the capabilities discussed above.

In conclusion, cross-border mergers and acquisitions are a complex strategic project. Their success not only depends on financial strength but also on systematic value assessment capabilities, risk management capabilities, and cross-cultural integration capabilities. Therefore, Chinese enterprises must leverage supportive national strategies as an enabling platform, while ultimately

enhancing their international competitiveness and achieving sustainable global development through scientific decision-making, precise valuation, and robust risk mitigation.

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