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Research on Risks of Chinese Internet Enterprises' Overseas Mergers and Acquisitions Based on Tencent's Typical Case

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Abstract

Recent years have witnessed Chinese Internet companies taking positive actions in overseas mergers and acquisitions for various reasons. Grounded on the existing domestic and overseas literature as well as the specific case analysis of Tencent's acquisition of Sumo Group, this research finds out that Chinese Internet enterprises may encounter legal risk, payment method risk and integration risk, etc. in overseas M & A. Based on the identification of the risks, this research intends to put forward relevant measures to help contribute to the success of Chinese Internet enterprises' overseas M & A.

Keywords: Overseas M & A, Legal risk, Payment Method Risk, Integration Risk, The Resource-Based Theory, The Synergy Effects, The Asymmetric Information Theory

1. Introduction

1.1 Background

Internet enterprises refer to those whose main business is Internet platform services supported by computer network technology. The recent 20 years have witnessed the increasing popularity of Internet technology in China, and China's Internet industry has developed by leaps and bounds. According to the report (Zheng, 2018) on Chinese enterprises' M & A in 2018 by Bain Company, Internet businesses such as Baidu, Tencent and Alibaba are active in overseas M & A.[17] Even though the world suffered the sudden attack of COVID-19 in 2020, overseas M & A of Chinese Internet companies only showed a downward trend in the first quarter, which fell back to 79, however, with the advent of vaccines and strict prevention measures, the negative impact has gradually subsided, and the volume and deal value of M & A both rose in the last three quarters of 2020.

1.2 Significance

In terms of the object of study, this paper selects the burgeoning Internet enterprises as the research object. Previous studies mostly take resource-intensive and labor-intensive enterprises as objects. However, compared with traditional enterprises, Internet businesses emphasize innovation ability, market share, and user demand, and they attach importance to digital technology, intellectual patents, and other exclusive resources in overseas M & A because of the particularity of the industry. Thus, the latent risks they experience in overseas M & A may vary from what traditional enterprises do, and this research can be an extension of the traditional overseas M & A theory.

2. Literature Review

Concerning common risks confronted by businesses in overseas M & A, there are two categories in general: internal risks and external risks. Internal risks constitute financial risks like payment method risk and integration risk, while external risks constitute political risks, legal risks, etc.

[17] Retrieved from: Report on Chinese Enterprises' Overseas M & A in 2018.Bain Capital. https://www.bain.cn/news_info.php?id=831

2.1 Review of Domestic Literature

2.1.1 Macro and micro risks

Concerning the latent risks of Internet businesses' overseas M & A, Lin (2020), in the research on the risk identification of overseas M & A of digital economy enterprises through the case analysis method, points out that there are significant differences in the risks of overseas M & A between digital economy companies and non-digital economy companies. Digital economy concerns are confronted with macro risks like political risk, legal risk, and investment environment risk, as well as micro risks including strategic risk, implementation risk of M & A project, and integration risk.

2.1.2 Integration risks

Scholars in China studied integration risks from different perspectives. For example, Tian (2020) and Wang (2018) used information asymmetry theory to disclose integration risks lurk in the Chinese enterprises' overseas M & A, while Guo uses synergy effects theory. Li points out the specific risks at integration stage, and Guo offers some suggestions to deal with integration risks.

Tian (2020) conducts the research on information asymmetry theory to deliver the idea that it is very important to choose a reasonable time for acquisition in overseas M & A activities, but the acquirer must make a full assessment of the target company and not follow the crowd blindly. Over and above Tian's research, Wang (2018) also uses information asymmetry theory to illustrate that the M & A company will undergo huge peril if the financial standing, the operating outcome, and other key information are lacking transparency, through which appears that crisis may hide at integration stage. Guo (2020), through theoretical analysis and practical case study, builds the study on the synergy effects and points out that through full cooperation during the integration phase, the Ant Group and MoneyGram achieve mutual benefits and generate more value. Moreover, she concludes that strategic risk, political risk, legal risk, and competitor airborne risk are the risks that Chinese companies need to raise awareness of overseas M & A. Li (2021) mentions in the study that the information exchange and communication between the acquirer and the acquired company is very necessary for the process of integration. Timely communication can ease the panic mood of employees and accelerate the success of the integration of both parties. From the risk point of view, Zhang (2019) proposes that the acquirer should make careful investigations, employ a professional team, put more emphasis on the integration after M & A and use assorted financing solutions flexibly.

2.1.3 Financial risks

In terms of financial risks encountered by Chinese enterprises in overseas M & A, Lu (2020) holds the idea that the whole procedure composes of three stages, that is, the preparation stage, the implementation stage, and the integration stage. There are strategic decision risk and pricing risk at the preparation stage, financing risk and exchange rate risk at the implementation stage, and operation integration risk and profit risk at the integration stage.

2.2 Review of Foreign Literature

2.2.1 General and unique risks

Several researchers explored general and unique risks in detail. Banham and Russ (1994) summarize the general risks, and Kim divides the risks into four categories, while Mirvis (1991) analyzes the main failure reasons in overseas M & A. Banham and Russ (1994) state that in addition to the general risks that traditional enterprises are exposed to, digital economy multinationals may come across many unique risks in overseas M & A. Kim (1992) holds the idea that the risk factors of overseas M & A can be classified into four categories: host country risk, competition intensity, regional unfamiliarity, and demand uncertainty. Mirvis (1991) believes that there are two main reasons for the failure of overseas M & A: one is that if the enterprise does not pay enough attention to the risks in the process of M & A, it will increase the probability of related risks; the other is that if the target enterprise does not meet the long-term development needs of M & A enterprises, the latter integration will be very difficult.

2.2.2 Integration risk

Different aspects of integration risk have been studied in the existing literature outside China. Provost and Taylor (2013) summarize that technology companies may encounter risks caused by different regulations; Borghese (2002) emphasizes the serious influences of integration risks, and Blaszak (2015) underlines staff integration risk in overseas M & A.Provost and Taylor (2013) conducted a study on 100 large digital economy companies in the United States according to the 2013 BDO Technology Business Risk Factor Report released by US Accounting and Consulting Corporation (BDA) and concluded that 96% of the risks associated with mergers and acquisitions by technology companies are related to federal, state, or local regulations.

Blaszak (2015) believes that the risk of overseas M & A comes from the integration of staff after the acquisition. He points out that if the staff integration is not appropriate, additional costs may be increased. If companies cannot perceive and curb this problem, the long-run development of companies will be ultimately endangered. At the same time, Borghese (2002) also considers that the risk comes from the integration stage of M & A. If the two companies have difficulties in coordinating and complementing each other in management, technology, and other aspects, hardly can they generate a synergistic effect.

2.2.3 Financial risks

Hoffelder and Kathleen (2012) study M & A transaction behaviors in 32 countries from 1998 to 2004, suggesting that digital economy firms may be exposed to financial risks in overseas M & A.

Healy, Palepu, and Ruback (1992) ponder over the risks of M & A and consider that the following aspects are the main elements: the declined risk of companies' performance and the market value, the risk of overpaying for M & A, and the potential soaring management cost due to the failure of integration after M & A. In conclusion, Hoffelder and Kathleen (2012) point out that digital enconomy companies may undergo financial risks in overseas M & A, while Healy, Palepu, and Ruback (1992) analyze the three main elements that cause financial risks in overseas M & A.

2.2.4 Cultural risks

Compared to other scholars, Kenneth and Danielle et al. (2015) conducted a cultural study on the impact of factors such as hierarchy, trust, and humanism on overseas M & A. They believe that these factors affect the synergy, bidding methods, and payment methods of overseas M & A of digital economy enterprises.

2.3 Commentary of Literature

Both domestic and overseas scholars have done piles of research on the identification and prevention of overseas M & A risks and have acquired fruitful achievements. On the one hand, most scholars study the risk identification of overseas M & A of Internet enterprises from the three stages of M & A, that is, the pre-merger valuation stage, the implementation phase of M & A, and the post-merger integration stage and make analyses accordingly. And the conclusions about the potential risks of Internet enterprises' overseas M & A may be similar. On the other hand, scholars put forward different countermeasures to prevent the potential risks of Internet companies' overseas M & A, but these suggestions lead to the same result. Some scholars have done independent and detailed research on how to avoid financial risks in Internet firms' overseas M & A and put forward countermeasures and suggestions with practical guiding significance, while some scholars explore how to prevent various possible risks in Internet companies' overseas M & A from a broader field. Although scholars have gained fruitful achievements in this field, there still exist some deficiencies. The deficiencies can be largely attributed to quantitative research becoming the major focus of Internet enterprises' overseas M & A risks, and most of the research emphasizes existing model validation or expansion, while less is qualitative research. Although some experts have done certain numbers of qualitative research on the risk identification and prevention of Internet enterprises' overseas M & A, they seldom analyze real detailed cases, so the research lacks practical significance and practical guidance.

To sum up, under the premise of sorting the related theories and risks of overseas M & A, this paper will use Tencent acquiring Sumo Group as a specific case for studying the identification and prevention of the risks encountered in the process of the Chinese Internet enterprise' overseas M & A.

3. Research Methodology

This study employs the literature research method and case analysis as the major methods to conduct the research.

3.1 Literature research method

The literature research method mainly refers to the collection, identification, and collation of literature. Through the literature, scientific knowledge of facts will be built (Du, 2013). The research on Chinese enterprises' overseas M & A has gained fruitful results, but the information about Internet businesses' overseas M & A is insufficient. Since case studies need to be guided by previous experience, in order to fully understand the previous research on overseas M & A by Chinese enterprises, a large amount of reading is needed. Therefore, this paper collects related literature materials through various related books, websites, papers, newspapers, and periodicals to study research results and viewpoints of domestic and foreign scholars in this field, which helps to lay the foundation for the case analysis.

3.2 Case analysis

The case analysis method is a method that analyzes a single object on the basis of literature and data to obtain the rules of generality and universality (Li, 1999). By using the case analysis method, researchers can look at the problem in a more specific way. This research method thus combines basic theories with a specific case, so as to achieve the integration of theory and practice. In this paper, Tencent's acquisition of Sumo Group is used as a case, which is beneficial for the relevant study of potential risks and countermeasures of Chinese Internet enterprises' activities in the field of overseas mergers and acquisitions.

4. Overview of Related Theories

4.1 Overseas Mergers and Acquisitions

Overseas mergers and acquisitions are also called cross-border mergers and acquisitions, which is a strategic deployment of overseas investment. In nature, it is the transfer of the corporate right of control.

There is no unified standard as a criterion for judging the success or failure of enterprises' overseas M & A activities. The completion of the M & A does not equal success. Craig (2000) believes that the most successful M & A transactions are the appreciation of assets and the optimal allocation of resources. This paper also uses this criterion.

4.2 The Resource-Based Theory

The root of enterprises' long-term competitive advantages lies in the uniqueness and imitability of resources. These resources are immobile and unduplicable. They can be converted to a unique capability to promote companies' sustainable development and help them preserve a dominant position in the market environment and industry competition (Barney, 1991).

Resource-Based Theory can explain the motivation of Tencent's overseas M & A. One of the main reasons for Tencent's overseas M & A is that it can obtain the lacking resources for related production activities from other companies. Foreign companies have advanced techniques, professional talents, and abundant information resources, which are in an important position in the service chain of Internet enterprises. Resource-Based Theory crucially influences the valuation of the target company before M & A, the determination of financing and payment methods during the M & A, and the integration stage after the M & A. According to scholar Wernerfelt, who creates the resource-based theory, the internal factors of businesses are the fundamental factors that determine the competitiveness of businesses. Therefore, in the integration stage of technologies, talents, and information resources after M & A lurks key risks that affect Internet enterprises' overseas mergers and acquisitions.

4.3 The Synergy Effects

Synergy is the effect of "1 + 1 > 2" or "2 + 2 > 5". Andrew Campbell et al. (2000) wrote "Colloquially speaking, synergy is "hitchhiking". It occurs when the resources accumulated in one part of a company can be applied simultaneously and cost-free to the rest of the company."

The synergy effects that enterprises can obtain through overseas M & A include operation synergy, management synergy, and financial synergy. Business synergy refers to the synergy that can improve the operation of the M & A enterprises, so that the mergers and acquisitions enterprises in the scale economy, resources, and complementary advantages, cost savings, market monopoly and provide better comprehensive services to achieve progress; Management synergy refers to the synergy can improve the management efficiency of low-efficiency enterprises, save management costs, improve operational efficiency and improve resource utilization. Financial synergy refers to the synergy that can bring financial benefits to the enterprise, which can make the M & A enterprise have more cash flow, and make the enterprise's capital investment income increase, so as to reduce the risk of bankruptcy.

The synergy effects theory is an important reference for enterprises to carry out M & A activities. The theory points out that after the company's M & A, the company can increase benefits because it realizes the synergy effects to some extent. After M & A, the synergy effects can be realized in the following three parts: operating synergies, the operation of the M & A enterprise can be improved, so that the M & A enterprise can make progress in economies of scale, complementary resources, and advantages, cost savings, market monopoly and providing better and comprehensive service; management synergies, enterprise's management efficiency, operational efficiency, and resource utilization can be optimized; financial synergies, bring benefits to the enterprise in the financial aspect, equip enterprise with more sufficient cash flow to reduce the risk of bankruptcy. By acquiring Sumo Group, Tencent will be able to open up new markets in the UK and gain access to the technical talents and accumulated game users of Sumo Group. Sumo Group will also be able to obtain sufficient funds to invest in game development and visual design. Tencent's overseas M & A can bring operational synergies to Tencent as well as financial synergies to the Sumo Group. Another example is Tencent acquiring Supercell. Supercell is another game company; after the acquisition of Supercell, Tencent has expanded the American market and accelerated its globalization and internationalization process, while Supercell further developed new games without worrying about investment.

4.4 The Asymmetric Information Theory

The definition of asymmetric information theory is that in the market economic activities, the information transmission is delayed and unevenly distributed on account of time differences and distance matters (Zhou, Lin & Li, 2014). Generally, the sellers grasp more information and occupy the relative advantage in the relationship between buyer and seller. Information asymmetry will abase buyers' confidence and passion in the transaction and expose them to more risks. The impact of Information asymmetry on overseas M & A is prominent, mainly reflected in the valuation bias of the target company to cause premium risk, and finally, it can affect financial aspects of M & A enterprise. Therefore, in overseas M & A activities, the acquirer should fully understand the information of the target company, comprehensively analyze the internal and external environment of M & A activities, precisely seize the opportunity of M & A and heighten the efficiency of capital utilization.

Combined with the above theories and the following case, on the basis of the resource-based theory, enterprises should pay attention to internal factors and guard against possible risks in the integration stage; via the synergy effects, the acquirer and the acquiree can maximize each other's benefits in operation, management, and finance through complementary cooperation; according to the asymmetric information theory, Internet enterprises should pay attention to the risk of information dissymmetry and overcome it at the preparation stage.

5. Case Description

5.1 Introduction of the Acquirer and the Acquired Party

Shenzhen Tencent Computer System Co., Ltd was founded in November 1998. As one of the Big Three in the Internet industry, Tencent was listed on the main board of the Hong Kong Stock Exchange in 2004. In September 2021, it was listed in the "Top 500 Private Enterprises in 2021 in China," ranking sixth.[18] Founded in 2003, Tencent Games is a leading global game developer and operator, and the largest online game community in China, connecting more than 1 billion users worldwide. Tencent Games has formed a professional layout in numerous market segments online games and creates a variety of games.[19]

Concerning the acquired party, Sumo Group is a British game developer once owned by an American company. In 2014, Sumo Group officially separated from the parent company and began to set up its own business—a total of more than 60 games, including "Killer 2" and other well-known games. Sumo Group also owns Atomhawk, a British visual design firm, in addition to the eight studios. Atomhawk is a world-class digital art and design service studio, which has provided design services for many blockbusters, PC, console, VR, and other game platforms.[20]

5.2 The Acquisition Background

Sumo Group was listed on the London Stock Exchange in 2017 at 100 pence.[21] As early as 2019, Tencent acquired an 8.75 per cent stake in Sumo Group through the purchase of shares, making itself the second-largest shareholder of Sumo Group. This is not the first time Tencent has invested in the UK Tencent has been investing in Britain since 2017 in order to acquire more advanced technologies.

Britain has placed emphasis on the development of science and technology. Even after Brexit and the epidemic, Britain's investment in technology was the third-largest in the world in 2020, at a record of 15 billion dollars. As one of the world's most valuable tech ecosystems, the influx of powerful companies and talent has kept Tencent investing in the UK.

5.3 Overview of Acquisition Process

The process and results of Tencent's acquisition of Sumo Group are shown in the table below. From the table, the concise process of Tencent acquiring Sumo Group can be seen. The deal is recently settled, and although the amount involved is not the largest, this acquisition still has its sparkles.

Tencent first announced the acquisition in July 2021, planning to acquire Sumo Group for $1.27 billion. According to the plan, Sumo Group shareholders would receive 513 pence in cash per share, a 43.3% increase from the previous acquisition plan. This is Tencent's largest overseas deal in Britain, the first wholly-owned acquisition of a listed company, and also Tencent's biggest global investment since 2021.[22]

[18] Retrieved from: https://www.tencent.com/zh-cn/about.html#about-con-3
[19] Retrieved from: https://game.qq.com/web202112/#/
[20] Retrieved from: Sumo Group https://www.sumogroupltd.com/
[21] Retrieved from: https://xueqiu.com/1487374026/191133622
[22]Retrieved from: https://xueqiu.com/1487374026/191133622

Table 1 The process and results of Tencent's acquisition of Sumo Group[23]

	M&A Schedule	Related Issues
Before the acquisition	11.15.2019	Tencent bought about 8.75% shares of the company with 208 million yuan
During the acquisition	7.2021	Tencent has announced the acquisition for the first time
During the acquisition	7.19.2021	Sixjoy (Hong Kong), a wholly-owned subsidiary of Tencent Holdings, will acquire British game developer Sumo Group fully in pure cash.
During the acquisition	10.29.2021	Sumo and Tencent are in contact with CFIUS to obtain acquisition licenses by the end of the year.
During the acquisition	1.13.2022	The High Court of England and Wales approved Tencent's acquisition
After the acquisition	1.17.2022	Tencent finished the acquisition with the price of 1.27 billion dollars

Tencent's acquisition of Sumo Group is a success today. On the one hand, Sumo Group is a strong game production company, which has participated in the production of more than 60 well-known games so far. Sumo Group has many innovative techniques and talents, and the accumulated experiences can also help Tencent improve the level of game research and development to strengthen the capability of making a blockbuster game. On the other hand, Sumo Group also owns the world-class visual design company Atomhawk, which has provided services for many Hollywood movies and games. It is conducive to optimizing Tencent games' art design and game animation to attract more players, and also is propitious to Tencent's further development in the production of TV dramas and films.

6. Risks and Countermeasures of Tencent Group's Acquisition of Sumo Group

According to the literature review mentioned above, during overseas M&A, enterprises generally encounter four types of common risks: political risks, legal risks, financial risks, integration risks, etc. However, since Chinese Internet enterprises have their characteristics, even though they may face common risks as other enterprises, there are still some special features of the relevant risks. Based on Tencent's M & A of Sumo Group and the existing literature, it is shown that the legal risk, payment method risk, and integration risk lurk in M & A.

6.1 Legal Risk

Through the research of the background information of Tencent's M & A of Sumo Group, it is shown that there are legal risks that cannot be ignored in the M & A process. The legal risk that Tencent faces are reflected in the obstacles caused by laws and regulations of other countries on data security, data protection, and data flow. In 2018, the UK government successively issued amendments to the *Enterprise Act 2002* and the White Paper on *National Security Investment*. There are clearer and more specific regulations on foreign M & A, which increase scrutiny on overseas M & A cases that may relate to international security. With the development of the digital economy and the update of Internet technology, various countries have adopted assorted legal provisions to protect their own digital economy achievements and form barriers to other countries. For Tencent, overseas M & A must be conducted grounded on the obedience to British laws and regulations on the digital economy. If Tencent lacks the awareness and understanding of the laws and regulations in this field, it is easy to violate the relevant laws due to improper activities in the process of M & A, which may result in litigation, and thus lead to the failure of M & A.

Due to the particularity of Chinese Internet enterprises, the characteristics of legal risk that they may encounter in M & A are shown as follows:

(1). Based on the resource-based theory, Chinese Internet enterprises tends to obtain more advanced information technology and more professional talents from developed countries, which have more improved legal systems of the digital economy. Since China's relevant laws are not mature, Chinese Internet companies may be stymied by those protection laws and regulations.

(2). Due to the spread of COVID-19, many countries set trade barriers against China.[24] Chinese Internet companies should pay more attention to the changes in relevant laws and regulations during overseas M & A.

[23]Retrieved from: https://xueqiu.com/1487374026/191133622
[24]Retrieved from: http://www.jccief.org.cn/v-1-15597.aspx

6.2 Risk of the Choice of Payment Methods

The method that Tencent used to acquire Sumo Group is the pure cash payment method. Among cash payment, equity payment, and merger payment, cash payment affects business operation and financial situation to a large extent. Since the amount of the overseas M & A is as high as 1.27 billion US dollars25, using a cash payment method may cause rather great pressure on Tencent's cash reserves and cash flow, in the meanwhile, Tencent may be subject to foreign exchange outflow control, which will delay the acquisition time. The cash payment method may also leave Tencent with a heavy risk burden. While this method may be more popular with Sumo Group shareholders and executives, the fixed income may cause them to care less about the company's operation as the merger proceeds.

6.3 Risk of Integration

According to the research result of Lin (2020), integration risk can be categorized as cultural integration risk and digital technology integration risk. It is said that China and Britain are two countries with different religions and beliefs, and national culture and regional characteristics make it possible that the biggest impediment of M & A is the cultural difference. In accordance with the research of Du and Liu (2012), they propose that cultural risk mainly affects M & A based on the grounded theory. Different cultural backgrounds lead to different management styles. For instance, in Sumo Group individualism is admired, while in Tencent, collectivism is praised as an important spirit. Therefore, it may curb the integration by stimulating strikes if M & A company imposes its corporate culture and management style upon the acquired company obstinately. Worse still, if leaders of two parties have fierce contradiction towards the operation and development plan, the synergy effects will be unable to achieve, and it may even result in a huge loss of M & A because of capital chain rupture.

The other risk is digital technology integration risk. One of the main motives of Chinese Internet enterprises' overseas M & A is to obtain the lacking technologies and data resources. The acquisition of Sumo Group is no exception. What Tencent attaches importance to is the continuous innovation ability. However, owing to the different geographical locations, the time difference, the different digital technology processing habits, and other factors, there are plenty of blocks at the integration stage. Consequently, the acquirer may be unable to achieve the appreciation of assets and the optimal allocation of resources through overseas M & A, which can be seen as a failure of M & A activity. In addition, on the ground of information asymmetry theory, since the inequity existed in the two parties' status and relation, a thorough survey of all the technologies and digital resources cannot be guaranteed if the acquired party conceals parts of the resources deliberately. Hence, digital technology integration risk may cause a waste of money.

6.4 Countermeasures

6.4.1 Countermeasures of Legal Risk

As for the legal risk that may exist in M & A, Tencent conducts a thorough investigation of the relevant laws, rules, and regulations of Internet companies' M & A domestically and internationally at the early stage of M & A. For some existing legal difficulties, it seeks the assistance of professional legal teams. Internet companies may confront hinders in intellectual property rights, digital technology patents, and legal differences between China and foreign countries in overseas M & A. If there are knowledge gaps and understanding deviations on some legal provisions, it is likely to result in legal risk in M & A. Therefore, Yin (2021) makes a recommendation that Internet companies should focus on distinguishing intellectual property law, data technology law and intelligent manufacturing law, and fully understand the law of M & A in order to avoid legal risks in the transaction process to the greatest extent. To be more specific, M & A companies can hire professional lawyers to minimize and avoid the legal risks in overseas M & A or establish a legal department like Tencent. Besides, maintaining cooperation with famous law offices is a good choice.

6.4.2 Countermeasures of Risk of the Choice of Payment Methods

To elude the payment method risk in overseas M & A, regarding the study of Si (2020), Internet companies can imitate Tencent's method of building an indirect financing structure—to adopt investment—intermediate controlling shareholder—physical operating method. By this means, Tencent controls the consortium company with majority shares, and the consortium uses majority shares to control the acquired party; thus, Tencent achieves the goal of indirectly controlling the target company by spending less money. Internet enterprises should adopt various ways to prevent paying off the bill in cash at once, since cash payments may add pressure to businesses' cash flow. Instead, Internet firms can choose the installment method to leave sufficient time for step-by-step financing. In accordance with the thoughts of Si (2020), multiple payment methods should be combined instead of using the cash payment method only to realize the diversification of risk.

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[25]Retrieved from: https://xueqiu.com/1487374026/191133622

6.4.3 Countermeasures of Risk of the Integration

First, for reducing cultural integration risk, in terms study of Lin (2020), Tencent makes generalization and summarization of the corporate value of the acquired company and represent the respect towards it at work. To prevent risks, Internet companies ought to actively integrate corporate culture by seeking commonness while reserving discrepancies. Since many foreign employees advocate a free working style, which they believe can inspire their creativity; however, diligence and assiduity are Chinese traditional virtues. Thus, Chinese Internet companies should be aware of the differences between the two cultures. The M & A enterprise can remove unnecessary management positions and divide the employees into small development teams. In addition, a flexible working system can be applied to ignite staff's working passion and efficiency.

Second, concerning digital technology integration risk, Lin (2020) delivers her idea that the digital technology, data resources, and data algorithms of two enterprises should be integrated in a reasonable way, so as to promote the further upgrading of M & A company's digital technology. To raise the efficiency of integration, a technical committee can be established to coordinate the cooperation of related departments. Besides, to accelerate integration progress, Chinese Internet firms can dispatch their technical staff to the acquired company to learn advanced and core technologies that are inconvenient and difficult to learn through communication online.

7. Conclusion and Expectation

7.1 Conclusion

With the high-speed advancement of the Internet, Internet businesses have become an increasingly important group in economic society. In order to expedite self-growth, many powerful Internet businesses choose overseas M & A to obtain core digital technology resources. However, owing to many complex factors, the overseas M & A are full of risks. This paper expounds on Chinese Internet enterprises' overseas M & A risk identification, risk prevention, and related theories through the analysis of Tencent's M & A of Sumo Group. The conclusions of this case study are as follows:

Internet firms may undergo legal risk, payment risk and integration risk in the overseas M & A. Integration risk can be subdivided into digital technology integration risk and cultural integration risk. Although there are many hidden risks in the process of overseas M & A, Internet enterprises should treat them dialectically, because the development opportunities are often hidden behind the risks. Therefore, Internet companies should not only scientifically and comprehensively identify the risks with a sober mind, but also should embrace future challenges from overseas M & A with full confidence, vigorous appearance, and pressure resistance ability.

7.2 Limitations and Future Research

The deficiencies of this paper are reflected in two aspects. On the one hand, data collection and collation on overseas M & A of Internet enterprises at home and abroad are not yet perfect, and the related official data disclosure is insufficient. Therefore, it is difficult to make quantitative research on the risks of Chinese Internet companies' overseas M & A from the perspective of empirical analysis. On the other hand, the real overseas M & A activity is more complex, changeable, and filled with a lot of unpredictable risks. In the meanwhile, the risks faced by large-, small- and medium-sized Internet enterprises in overseas M & A are not the same. However, this paper is only based upon a typical case of Tencent to study and analyze the risks that Internet enterprises may confront in overseas M & A and the corresponding countermeasures. Therefore, it may be a lack of specific and targeted guidance for different sized Internet enterprises to identify and prevent risks in overseas M & A. With the continuous development of the Internet economy, perhaps in the near future, more detailed and improved laws and regulations of this field will be promulgated to set guidelines for Chinese Internet companies to effectively avoid the risks in overseas M & A process. In addition, the growing scale of the Internet industry can accumulate valuable data, in order to help scholars better identify risks in Internet enterprises' overseas M & A from a qualitative and quantitative perspective and provide effective countermeasures to prevent them.

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