Performance Evaluation of Enterprise M&A Based on BSC: Taking Wanda M&A Legendary Film as an Example

Boyang Zhang

Shanghai University, 20 Chengzhong Road, Jiading District, Shanghai, China

524815881@qq.com

Keywords: BSC; M&A; Performance analysis

Abstract: With the continuous development of economic globalization, many large multinational enterprises tend to expand by means of cross-border mergers and acquisitions. However, in the current multinational M&A cases, the mergers and acquisitions have achieved the expected results. Performance appraisal methods tend to be relatively simple, so this paper uses a balanced scorecard to evaluate the performance of Wanda Group's acquisition of legendary film industry in order to seek innovative results.

1. Introduction

With the continuous changes since the 40th anniversary of China's reform and opening up and the continuous development of economic globalization, the phenomenon of overseas strategic mergers by multinational corporations in China has gradually increased. M&A can not only open up overseas markets, but also enhance the world-reputation of Chinese companies. It can also seize the opportunity to quickly enter foreign markets and gain huge advantages in international competition. However, the reality is that mergers and acquisitions often fail to make enterprises get what they want, and even bring negative effects. Therefore, the performance analysis of mergers and acquisitions is particularly important to prevent major risks.

This paper uses the principle of BSC to comprehensively evaluate the performance of mergers and acquisitions. This paper introduces the main theory of BSC and the selection of indicators for this principle, aiming to analyzing Wanda and Legend Company’s background and motivation of the M&A. According to the analysis of the indicators of the Wanda Group after the merger, the results of the enterprise performance evaluation are obtained to judge whether this is a success.

2. Literature Review

American scholars Robert S. Kaplan and David P. Norton (1992) first proposed the concept of a BSC. They pointed out that companies can use it to measure corporate performance more comprehensively and propose four dimensions for a Balanced Scorecard: Financial Dimensions, Customer Dimensions, Internal Process Dimensions, Learning and Growth Dimensions to evaluate business performance

Li Zhejun (2005) summarized the shortcomings of M&A performance research and proposed a balanced scoring model for M&A performance based on BSC. Starting from four different dimensions, she has established a M&A performance evaluation system that includes multiple perspectives of shareholders, employees, consumers, suppliers, governments and communities.

Chen Mukun and Qi Zhongying (2006) pointed out the insufficiency of using only financial indicators to evaluate the performance of enterprises. The idea of applying balanced scorecards in the M&A performance evaluation system can be said to be a major innovation.

Zhang Hua, Guan Yunmin (2010) combined the strategy and performance of the enterprise with a balanced scorecard to construct a new financial and non-financial indicator system, and used the new indicator system to conduct M&A strategic performance evaluation.

  DOI: 10.25236/icemc.2019.020

3. Case Background Analysis

3.1 M & A Company Background and Case Introduction.

Wanda Group. Founded in 1988, Wanda Group is a company integrating real estate, culture and investment.[1] It is headquartered in Beijing and now ranks among the top 500 in the world. Wanda Group ranked third in the 2018 Hurun brand list.

In recent years, Wanda Group is located in the strategic transition from real estate to culture. It has acquired AMC Pictures, Shengyi Yacht Company, Australia Gold Coast, Express Line, American Iron Man Company, Australian cinema line operator Hoyts Group.[2] The Legendary Film Company and Time Network have become the leaders of the cultural industry in Asia and even the world. The Wanda Film, which was established in 2005, was successfully listed in 2015 and became the first cinema company to become an A-share.

Legendary Film Company. Legendary Film is a film production company founded by Thomas Tull in the United States in 2004. Its company produces "Batman" series, "Pirates of the Dream", "Warcraft" and other popular movie works, with more than 12 billion US dollars of the box office. However, in the two years before Wanda's acquisition, the financial indicators of 2014 and 2015 showed that the debts were as high as RMB 90.93 billion, and the losses were serious.

After negotiations with Wanda Group, in January 2016, Wanda Group announced that it would acquire Legendary Film Company through cash payment for no more than US$3.5 billion. This is the largest turnover of overseas M&A culture industry in China.

3.2 Analysis of Motivation.

In terms of Wanda Company, first of all, improving the level of domestic film production. The reason why foreign first-line film and television production companies can create a popular movie is the production team is the top in the industry, and the legendary film production company has produced a series of box-office movies with its excellent production team. Legendary Film Co., Ltd. is located in the upstream film production. Wanda Enterprises is in the downstream distribution of film release and the arrangement of cinemas. Therefore, the nature of M&A is a vertical merger, which is beneficial to Wanda Enterprises to form a closed loop, and according to John Dunning's theory, Wanda Group has the ownership of the legendary film company, which allows Wanda Group learn from the outstanding production team of the legendary film industry to improve the domestic film and television production level.

Secondly, promoting the integration of cultural industry chains. Today's multinational corporations pay attention to the development of corporate diversification. Wanda Group's acquisition is an important measure in the direction of the cultural industry. In recent years, Wanda Group has gradually carried out the strategic transformation of de-real estate, and is committed to building a world-famous enterprise based on cultural industries. Legendary Pictures has a wealth of film and television resources. The intellectual property rights brought by these resources will be integrated with Wanda, bringing synergy and making Wanda Group gradually develop into sports, tourism and entertainment industries.[3] The IP resources brought about by the M&A event will create a diversified theme park and tourism route for Wanda to develop a series of derivative industries, forming a diversified business advantage.

Thirdly, expanding overseas markets. Adapting to the economic globalization, Wanda Films must integrate value chains. In 2010, Wanda began planning overseas mergers and acquisitions, and the acquisition of Legendary Pictures has further expanded its overseas market because of its strong appeal and popularity in the North American film market. Wanda Group internalizes intangible assets such as film and television copyright through mergers and acquisitions and gains internalization advantages; Wanda Pictures has thus penetrated the North American market and utilized the location advantage in the North American market to obtain a location economy, which has promoted the rapid expansion of Wanda's scale. Let Wanda Cultural Industry rank among the world's top cultural industry groups, and increase the global film market share and voice.

In terms of Legendary company, at first, finding a breakthrough in development. The Hollywood film model was widely sought after in the early 21st century, but with the recent aesthetic fatigue of the audience, the low situation of the North American film market and the gradual decline of the Hollywood popcorn model, the film market has declined and the box office has lost frequently. It is difficult for Legendary Pictures to obtain investment funds for world-class blockbusters, which further aggravates the company's risks. Therefore, Legendary Pictures is eager to find a breakthrough in the survival of the company, hoping to inject new products into this legendary film company. vitality.

Next, expanding diverse business structures. Legendary Film Company is mainly responsible for film and television production, with advanced film technology special effects level and professional film and television production team, but because the company's business structure is limited to film production, resulting in over-reliance on movie box office, the loss of box office will be given to the company bring huge losses. Therefore, Legendary wants to use M&A to expand its diversified business structure and jointly establish a series of derivatives industries.

4. Analysis of M&A Performance Based on BSC Method

4.1 Financial Dimension Evaluation.

In terms of its ability to pay debts, solvency is the ability of a company to repay its debt. The measure of long-term solvency is mainly derived from the asset-liability ratio. The short-term solvency measure is based on the quick ratio and the current ratio. The higher the ratio, the more secure the creditor's loan security.[4] By analyzing the indicators of Wanda's solvency, you can understand the current financial situation.

It can be seen from Table 1 that the asset-liability ratio of Wanda Films increased from 41.03 in 2015 before the merger to 49.40 in 2017 after the merger, an increase of 8.37%, which is close to the ideal standard, which means that the resource integration effect after the merger is good. The current ratio was 1.97 in 2015, which is very close to the internationally recognized ideal current ratio, which means that Wanda Films has strong short-term liquidity before the merger and can guarantee the payment of current liabilities. However, in 2017, the current ratio fell to 0.55, the quick ratio was 0.54, and the internationally recognized ideal value was 0.46. The result showed that the Wanda Group's solvency decreased after the merger.

Table 1 Wanda Films 2015-2017 solvency indicator

Project	In 2015	In 2016	In 2017
Assets and liabilities	41.03	45.57	49.40
Current ratio	1.97	0.70	0.55
Quick ratio	1.93	0.67	0.54

Operational capabilities to measure the efficiency of corporate asset operations. The indicators used to measure operational capability in this paper are account receivable turnover, current asset turnover, and total asset turnover. The higher the turnover of accounts receivable, the faster the collection and the shorter the age; the total asset turnover the higher the rate, the stronger the sales ability; the higher the turnover rate of the current assets, the better the utilization rate of the assets of the enterprise. The index of the three is directly proportional to the utilization of resources and the operational capacity of the enterprise.

As can be seen from Table 2, Wanda Film's accounts receivable turnover rate after the merger decreased significantly, from 34.07 in 2015 to 14.33, a decrease of 19.74, and the total asset turnover rate decreased by 0.17. This shows that Wanda Films is after the merger. The sales ability is weak, the inventory management capability is also reduced, and the institutional relationship between the company's current assets and total assets needs to be adjusted. The liquidity turnover rate increased by 0.68, which represents a high correlation between Wanda and Legendary's products. In summary, Wanda acquired the legendary film industry and did not operate well.

Table 2 Wanda Films 2015-2017 Operating Capability Indicators

Project	In 2015	In 2016	In 2017
Accounts Receivable Turnover	34.07	20.88	14.33
Total Asset Turnover	0.80	0.65	0.63
Current Asset Turnover	2.31	2.55	2.99

In terms of its development ability, this paper selects three financial indicators: net profit growth rate, net asset growth rate and total asset growth rate, indicating the change in the development capability of enterprises after mergers and acquisitions. The numerical value is directly proportional to the company's potential and development capacity.

It can be seen from Table 3 that the three financial indicators have significantly decreased from the merger in 2015 to the merger in 2016, and the development trend of net asset growth rate and total asset growth rate is basically the same. First, it is triggered by the continuous overseas acquisition of domestic private enterprises. There is a certain relationship between the market and the increasing regulation of overseas investment. Secondly, Wanda's acquisition of legendary film industry has restricted the development of the company, and even in the new restructuring plan announced by Wanda Film, Legendary Pictures has not been involved.

Table 3 Wanda Film Industry 2015-2015 Development Capability Analysis Indicators

Project	In 2015	In 2016	In 2017
Net profit growth rate	48.02	15.14	10.79
Net asset growth rate	203.50	14.00	12.67
Total asset growth rate	237.98	23.50	21.21

Profitability is the amount of income a company receives over a period of time. This paper selects ROE, and operating profit margin as indicators of profitability, reflecting the level of shareholder returns and the company's ability to profit.

As can be seen from Table 4, the ROE and operating profit margins fluctuated less before and after Wanda Group's acquisition of Legendary Film Company, which means that Wanda Group's profitability before and after the merger was basically stable, and Legendary Pictures did not enhance Wanda. The profitability of the group. This may because Wanda Group has not fully utilized the film resources of the legendary company. Although there are cooperation between films such as "Pacific Rim 2" and "Motian Rescue" after the merger, the performance is average and does not increase the level of shareholders' equity.

Table 4 Wanda Films 2015-2017 Profitability Analysis Indicators

Project	In 2015	In 2016	In 2017
ROE	13.02	13.16	12.99
Operating profit margin	18.09	13.86	14.15

4.2 Customer dimension evaluation.

In terms of its brand image. The image of Wanda as a cultural brand can reflect the effect of its strategic transformation. A good brand image is more likely to win the favor of customers, and its customers will have higher recognition of the brand. This article selects the number of Wanda Group's cinemas and accumulates them. Screen number indicators and brand influence achievements are used to analyze the brand effect of Wanda Group.

As can be seen from Table 5, Wanda Group has a stable growth in the number of cinemas and screens after the merger, and still ranks first in the domestic market share in the past three years. At the same time, Legend Pictures improved the quality of domestic film production and the popularity of Wanda Pictures in foreign countries, which is conducive to further enhancing the brand image. In addition, Wanda ranked first in the C-BPI chain of cinemas in 2015-2017. In 2017, Wanda Group won the "China Brand Global Impact Annual Award", which means that Wanda Group has considerable brand value at home and abroad. Brand reputation, cultural brand effect increased.

Table 5 Wanda Films 2015-2017 Brand Image Analysis Indicators

	In 2015	In 2016	In 2017
Number of theaters	292	401	516
Cumulative screen count	2557	3564	4571

In terms of customer recognition. From the perspective of the customer, evaluating the change in customer volume after the merger enables the company to better handle the integration of resources after the merger. This paper selects the total box office revenue and the number of people watching the movie to analyze the customer's recognition after the merger.

From Table 6, it is known that the total box office revenue and the number of people watching the movie are increasing year by year, which means that the customer group of Wanda Films continues to expand and the audience is more. At the same time, Wanda International Cinema was ranked in the top three in C-NPS in 2015-2017, reflecting the high level of customer recognition of Wanda Films and confirming the merits of this acquisition.

Table 6 Wanda Films 2015-2017 Customer Identity Analysis Indicators

	2015	2016	2017
Total box office revenue (100 million RMB)	63	76	87.8
Viewing people (100 million times)	1.51	1.85	2.1

4.3 Internal Process Dimension Evaluation.

In terms of its operational process, this paper selects management fees as an indicator for evaluating operational processes, as management costs reflect resource integration. In addition, this paper also uses the total period of management expenses, financial expenses and comprehensive expenses as the basis for the management expenses.

As can be seen from Table 7, Wanda Films continued to increase its management fees from 2015 to 2017, but its proportion of the period expenses decreased from 54.6% to 47%, a decrease of 7.6%, which is more obvious. This shows Wanda Pictures' emphasis on internal operations began to decline, and more attention was paid to the investment in sales expenses. Therefore, Wanda M&A Legend has not shown any improvement in its operational services.

Table 7 Wanda Films 2015-2017 Management Fees

	2015	2016	2017
Management expenses (100 million RMB)	5.25	8.89	10.6
Period cost (100 million RMB)	9.62	17.7	22.5

Internal management. Cross-border mergers and acquisitions are prone to conflicts between cultures and management systems, leading to the loss of senior talents and even directly leading to the failure of mergers and acquisitions. Therefore, the integration of culture and management systems after mergers and acquisitions is particularly important. This paper adopts the integration of internal organizational culture and management model as two important basis.

According to the five dimensions of Hofstede culture, the corporate culture of Chinese companies is very different from that of the United States, and M&A resistance is high. After the merger, Wanda has made full strategic considerations for cross-cultural integration and respected the cultural differences between the two countries.[5] However, after the merger, the resignation of the legendary high-ranking Thomas Tull and Luo Yi and Gao Yaoqun means the organization culture and management of Wanda Group. The system is still difficult to coordinate with the legendary film company, and the merger and acquisition of the company has failed.

4.4 Evaluation of Learning and Growth Dimensions.

Employee lift. The overall quality of employees determines the ability of enterprises to learn and develop. High-quality talents play an indispensable role in the management and operation of enterprises and the research and development of core competitiveness. Wanda Enterprises established Wanda Academy at the end of 2011 to train middle and high-level personnel. However, Wanda laid off nearly 6,000 people at the end of 2017. This is because Wanda Group's overseas investment has been growing year after year, which has led to the country's increased supervision and limited overseas investment. As a result, Wanda Pictures has been suspended and its market value has shrunk. The acquisition is its fuse.

Research and development and technology. The technology supports the development of film production. Through the acquisition of Legendary Film Company, Wanda Group has made great progress in the special effects research and development of the film, which enhances the audience's viewing experience, but after the merger, the two sides jointly produced “Warcraft” and “Pacific Rim 2” have all ended in disappointment. The Great Wall has even lost $75 million. This means that the legendary R&D and technical level are high, but it also requires a different approach to better integrate the technology research and development resources of M&A.

5. Summary

M&A can indeed bring fast access to overseas markets and enhance the international competitiveness of enterprises. However, not all mergers and acquisitions are successful. This paper uses the principle of balanced scorecard to evaluate the performance of Wanda Group’s M&A Legendary Film Company. The following conclusions were drawn.

From the financial dimension, Wanda's solvency after the merger has been reduced, and its operation is not good. In the new restructuring plan announced by Wanda Films, Legendary Pictures has not been involved, showing that its development capability is limited. Through the gloom of the cooperation video between the two parties, the profitability of the company after the merger is reduced, so from the financial dimension, the merger is not favorable; from the customer dimension evaluation, Wanda Group maintains a leading market share after the merger, the total box office The continuous increase in income and number of people watching also represents the recognition of Wanda Group by customers; from the internal process dimension evaluation, the proportion of management expenses has gradually decreased, and the poor box office of the joint film works of both parties has led to the resignation of senior management. It can be seen that the integration of resources is not good. Finally, from the perspective of learning and growth, Wanda’s continuous overseas mergers and acquisitions have led to the domestic government’s control of overseas investment in 2017. The large-scale layoffs of enterprises have restricted the development of employees and Wanda’s technical reference to the film after the merger has not brought substantial profits. Therefore, the merger is currently not ideal.

References

[1] http://www.chinawanda.com/index/introduction/15.html

[2] https://www.zgceo.cn/contents/2/1233.html

[3] S.Q. Gaozhan, J.R. Shi, H.T. Jiang, H.Y. Yuan and Y.W. Zhang: Foreign Economic and Trade, Vol. 35 (2016) No.6,p.51(In Chinese)

[4] H. Zhang and Y.M. Guan: Business Accounting, Vol. 31 (2010) No.11,p.28(In Chinese)

[5] L.H. Yao: Hubei Social Science, Vol. 28 (2014) No.5,p.91(In Chinese)