

Success and Failure of the Overseas M&A : Cases of Chinese Enterprises

Ruo-Nam Zhang ¹, Xin-Gang Huan ², Zhang Fan ³

¹ First Author P.D Business of school Chenbuk University, Korea.

² Second Author P.D Business of school Chenbuk University, Korea.

³ Corresponding Author Shandong University of political science and law, China.

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Abstract

Purpose—This paper aims to do research on success and failure of Chinese enterprises and suggest the implications to the Chinese enterprises by comparing the representative examples of Chinese enterprises' overseas M&A.

Research Design, Data, and Methodology—This paper selected by six cases of Chinese enterprises' overseas M&A to do the contrast. **Results**—Consulting company still plays a very important role in Chinese enterprises' overseas M&A because Chinese enterprises' overseas M&A is being placed in growth stage. And how to grasp the development trend of industry accurate and choose the correct target enterprises is a very important issue for Chinese enterprises which can make Chinese enterprises to avoid blind investment. **Conclusion**—Chinese Enterprises have to evaluate the target enterprise with the aid of authoritative investment and consulting company, focus on training qualified talents and the integration after the M&A when they Overseas M&A in the future.

Keywords: Overseas Mergers and Acquisitions, Chinese Enterprises, International Business, Multinational Corporations

1. Introduction

PricewaterhouseCoopers published its “M&A 2014 Review and 2015 Outlook” on January 27, 2015. According to this report, the number of Chinese enterprises' overseas M&A reached 272 in 2014, increased by 36% compared with the 200 in 2013. Despite lacking extensive transaction, the total transaction amount of Chinese enterprises' overseas M&A still reached \$56.9 billion in 2014, ranking second only to the historic peak of \$66.9 billion in 2012. The overseas M&A of China's enterprises presents an increasing trend year by year. Especially since 2008, due to the great impact of international financial crisis on developed countries and regions in Europe and America, numerous Chinese enterprises have carried out overseas M&A, both the transaction number and transaction amount have been increased successively. Besides, it is worth noting that the overseas M&A performance of Chinese private enterprises is more active. According to the data from Zero2IPO Research Center, the overseas M&A transaction number of private enterprises accounted for 43.6% of the total from 2009 to 2011, 50% in the first half of 2012 and 62.2% in the second half. Moreover, in the second half of 2013, the overseas M&A transaction number of private enterprises accounted for 88 among the 119 of the total, the transaction number reached \$4.2 billion.

The research objective of this paper is to do research on success and failure of Chinese enterprises and suggest the implications to the Chinese enterprises by comparing the representative examples of Chinese enterprises' overseas M&A.

2. Literature Review on the M&A process and achievements

2.1. M&A process

Porter's results show that the failure rate of M&A was 70% in the USA. By the reason that most enterprises can't create new value through M&A. Therefore, enterprises should be well prepared before they carry out the M&A determination for the following issues:

- (i) the reasons of the M&A;
- (ii) to what degree the management resources of the takeover target could work out based on its strategy;
- (iii) comprehensive and thorough inquiry to the M&A strategy and the target enterprise.

If the target enterprise appeared and the two sides have intention to negotiate , the two sides will enter the next phase—transaction phase. If the integration between the two companies failed any new value would not be created, so the integration phase is very important. And according to the findings of A.T.Kearney the failure rate of M&A was 30% and 17%, during the preparation phase and the transaction phase, while the failure rate during the integration phase was as high as 53%.

2.2. M&A achievements

2.2.1. Relevance between acquiring enterprise and acquired enterprise

The M&A outcomes between relevant-enterprises are usually higher than irrelevant- enterprises (Kaplan and Weisbach 1992; Lubatkin 1987; Salter& Weinhold 1979). If the relevance between these enterprises is high, there would be a lot of similarities among the management policies of senior managers, corporate culture, management structure and even operation programs, which would make the acquiring enterprise manages the acquired enterprise more efficiently (Palich et al. 2000; Robins and Wiersema 1995). In addition, the higher the correlation between these enterprises, the utilization of resources after M&A would be better, thereby creating more value.

2.2.2. Cultural differences between acquiring enterprise and acquired enterprise

The outcomes of overseas M&A are affected by culture. Datta & Puia(1995) took the 112 overseas M&A cases of American enterprises from 1978 to 1990 as the research objective, and found that the cultural differences between these enterprises are in inverse proportion to the value created by the acquiring enterprises. Barkema et al (1996) took the 116 overseas M&A cases of Dutch enterprises from 1966 to 1988 as research objective, and found that the cultural differences are also in inverse proportion to the M&A persistence. Therefore, if the culture between acquiring enterprise and acquired enterprise is similar, relatively speaking, the acquiring enterprise can have a better control to the acquired enterprise. Otherwise, the acquiring enterprise may be more likely to face the problems caused by cultural conflict. In summary, cultural differences can bring great impacts to the overseas M&A, and it is also the main reason leading to the failure of M&A (Barkema et al. 1996; Daniel and Metcalf (2001).

2.2.3. Control ability of acquiring enterprise to acquired enterprise

The most significant function of acquiring enterprise to acquired enterprise in management and operation is control (Doz & Prahalad, 1984). Nevertheless, the control to the acquired enterprise should be distinguished from that of the overseas subsidiaries. In terms of the wholly-owned subsidiaries, parent company can have full control of them, without limit on the transfer of cutting-edge technology, patent and other monopolistic assets (Pan & Chi, 1999). But in terms of the M&A, over- control of acquiring enterprise to acquired enterprise will cause the loss of freedom and the impediment of creativity of the later (Birkinshaw & Ensign, 2002).

2.2.4. Experiences of overseas M&A

Rich experiences will bring positive effects to the achievements of M&A. Vermeulun& Bakema(2001) stressed the importance of learning in the overseas M&A by noting that the process of overseas M&A is so complicated that having related experiences will be helpful in bring positive effects to the result. In addition, the achievements of the acquiring enterprise with rich related experiences will be more outstanding than those without experiences (Lei et al, 1996).

3. Evaluation of Chinese Enterprises' overseas M&A

The sixth wave of M&A is creating on a global scale. Chinese enterprises are hitting overseas markets at a rapid pace in recent years. However, the success rate of the Overseas M&A of Chinese enterprises was low because of a short history and without a lot of experience. And many Chinese enterprises lack of valid integration after M&A, so, the number of enterprises that have made healthy development and real expansion is few, which will induce high rate of failure in M&A. So, it's necessary to sum up experience and lessons through success and failure case to make a go of Chinese enterprises' overseas M&A.

This paper selected by six cases of Chinese enterprises' overseas M&A, do the contrast.

Figure 1: Case comparison

Acquirer	Acquiree		M&A method	experience of overseas M&A	acquirer grasp the development trend of industry	cultural distance	consult consulting firm about overseas M&A	Succeed or fails
	enterprise's name	Home country						
Lenovo	IBM	U.S.A.	Horizontal Integration	×	○	112	○	○
BOE	Hydis	<u>South Korea</u>	Horizontal Integration	×	○	66	○	○
GEELY	VOLVO	<u>Switzerland</u>	Horizontal Integration	○	○	91	○	○
TCL	Thomson	<u>France</u>	Horizontal Integration	×	×	87	×	×
BenQ	Simens	<u>Germany</u>	Horizontal Integration	×	×	73	×	×
SAIC	Ssangyong Motor	<u>south Korea</u>	Horizontal Integration	×	×	66	×	×

3.1. Summarizes the successful experiences

3.1.1. Acquirer should be sure to grasp the development trend of industry accurate and choose the correct target enterprises.

Lenovo's acquisition of IBM PC was based on its strategic development goal and the development trend of PC. After the M&A, Lenovo became the third-biggest maker of PC after Dell and HP. Through acquisition, BOE Group obtained the cutting-edge TFT-LCD technology which is still the major source of revenue up to now. Nowadays, many countries encourage the resource-saving and environment-friendly cars due to the rising price of the energy and the air pollution. So, Geely chose Volvo which has the sophisticated energy-saving technology and intellectual property. Because of that in 2014 Volvo's global sales amount was 465860, increasing by 8.9% than the previous year's 427840. Being the best operating performance over the last eight years, it created a new historical record.

3.1.2. Acquirer should focus on the Human Resources and culture integration.

It can be seen from the <figure 1>, Though there is a long cultural distance between Lenovo, BOE, Geely and its acquiree, the three enterprises achieved success in the overseas M&A. It depends on effective Human Resources and culture integration.

Lenovo made the commitment to employees that their salary will still maintain the original level. The salary system maximum retained original core technical talents. In order to narrow the culture gap Lenovo moved its headquarters to IBM's base in Armonk, New York and English as the official language is used in Lenovo. And Lenovo PC's global market share more than 20% occupies the first place in the world by 2014. Nowadays Lenovo is the world leader in PCs.

BOE's top management team made a promise what will not layoffs. But the most important thing was keeping the wages of the South Korea staff. Both sides always maintained frequent high-level contacts, increase personnel exchanges and the salary and benefits of the South Korean staff who were working in Beijing was not lower than South Korean.

Geely and Volvo executed independent management after M&A. In other words, the operation and management of Volvo without Geely's interference.

3.2. Draw lessons from failure case

3.2.1. Not hired the professional consulting company

In the case of TCL acquisition of Thomson, the overseas M&A led to a large loss for TCL. One of the vital reason was that TCL did not amply evaluate Thomson with the aid of the professional consulting company. At that time, Thomson had the larger debt problem and serious defect in management system. The quality of foreign assets were not high which was acquired by TCL so that TCL was in financial crisis. The purpose of acquisition of Thomson Television is to obtain the latest TV technology, but TCL just obtained the CRT TV technology which was being replaced by FPTV technology. And TCL have to pay a fee on top of that if it want to obtain any other patent technology. The main reason is that TCL doesn't know enough about the finance and Main business and products of acquiree. So, it is very important that the organization of professional evaluation can be involved in the overseas M&A team and help acquirer execute the overseas M&A. And the case of BenQ's acquisition of Simens and SAIC's acquisition of Ssangyong Motor likewise illustrate this point.

4. Conclusion

Chinese Enterprises can get following enlightenments from the comparative analysis of the cases.

First, Chinese Enterprises have to evaluate the target enterprise with the aid of professional consulting company. The corporation divested itself of its subsidiaries because subsidiaries is in debt. These liabilities usually reimbursed by the acquirer. As an acquirer, Chinese enterprises focuses on the value of intangible assets such as technology and markets owned by acquiree and the value that result from intangible assets in the future. But that can pose a problem how to evaluate the value of the intangible assets. Well, acquirer needs a professional consulting company's assistance to solve this problem.

Second, Chinese Enterprises have to focus on training qualified talents who will make a contribution to international business management. After the M&A, whether the acquirer and acquiree can realize the effective integration and synergistic effect are determined by that whether they own the transnational management talents who recognize the enterprise culture, understand the enterprise and industry developmental strategy trend, familiar with the international practices and local business environment, good at communicating with people from different countries.

Third, Chinese Enterprises have to focus on the integration after the M&A. The emphasis of Integration Strategy is different because the overseas M&A involves entirely different social system and cultural customs and each of acquirer has different motivations. In the process of integration acquirer has to focuses on the cultural differences between the East and the West were owned by acquirer and acquiree in order to make the advantages of enterprise culture integration and mutual promotion and the enterprise operate smoothly according to the objective, guideline and strategic plans. So, in this way the overseas M&A will succeed.

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