

## Analysis of Merger and Acquisition Strategy of Multinationals in China and Chinese Enterprises Countermeasures

### ANALYSE DE LA STRATEGIE DES ENTREPRISES A CAPITAL MIXTE ET ACQUISITION DES MULTINATIONALES EN CHINE ET LES CONTRE-MESURES DES ENTREPRISES CHINOISES

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#### Abstract

Mergers and acquisitions of transnational corporations in China presents the strategic trends in recent years. Merger and acquisition strategy of multinationals in China to successfully implement, not only objective necessity of political reform and economic development in China, there are also accidental by Chinese enterprises and government of the subjective errors caused. To prevent risk of multinational merger and acquisition in China, Chinese enterprises should raise awareness of multinational merger and acquisition, carefully chosen joint venture partners, build complete learning system in joint venture/cooperative, enhanced learning capabilities, and enhanced management of merger and acquisition strategies.

**Key words:** Multinational corporations; Merger and acquisition strategy; Joint venture; Cooperation

#### Résumé

Les fusions et acquisitions de sociétés transnationales en Chine présente les tendances stratégiques de ces dernières années. Stratégie de fusion et d'acquisition des multinationales en Chine pour mettre en œuvre avec succès, non seulement une nécessité objective de la réforme politique et le développement économique en Chine, il ya aussi accidentelle par les entreprises et le gouvernement chinois des erreurs subjectifs provoqués. Pour éviter tout risque de fusion et d'acquisition multinationale en Chine, les entreprises chinoises devraient mieux faire connaître fusion et d'acquisition multinationale, choisis avec soin des partenaires de coentreprise, de construire complet système

d'apprentissage dans la coentreprise / coopératives, l'amélioration des capacités d'apprentissage, et une meilleure gestion des stratégies de fusion et d'acquisition.

**Mots clés:** Les sociétés multinationales; Fusion et de la stratégie d'acquisition; Joint-Venture; Coopération

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In the late 1990 of 20th century, multinational companies merger and acquisition activity in China is increasing, from all indications, merger and acquisition of multinational corporations in China in recent years had a profound international background, this is a strategic merger behaviors. Grasping the nature of multinationals merger and acquisition strategy in China, it is the important basis for understanding transnational corporation mergers and acquisitions in China.

#### 1. THE NATURE OF MERGER AND ACQUISITION STRATEGY OF MULTINATIONALS IN CHINA

Different from the previous financial mergers and acquisitions or buy shells of mergers and acquisitions, merger and acquisition motives of multinational corporations in China in recent years, not for implementation of speculative gains, but through the merger and monopoly of the world markets for goods and investment, to seize the material and technical and human resources, successful implementation of global management strategy. It can be said that mergers and acquisitions of strategic motives of transnational corporations presents the strategic trends. To multinational

recently on China equipment manufacturing enterprise for multiple mergers and acquisitions as cases, although so far, multinational only respectively on some backbone Enterprise for mergers and acquisitions, under effect in domestic various forces, has not been to implement overall of strategic, and systematic of mergers and acquisitions (is on domestic different area, and same industry several backbone enterprise of mergers and acquisitions), has not been constitute of threat on China entire equipment manufacturing of key industry, and main area. But the trend of mergers and acquisitions to systematic, high specification, such as, after the United States Caterpillar company mergers and acquisitions in Shandong engineering machinery company, seek merging domestic construction machinery industry of key enterprises, such as Xiamen engineering machinery company, Weifang diesel power company, and Shanghai diesel power company of, reflects this trend.

## **2. COMPREHENSIVE ANALYSIS OF MERGER AND ACQUISITION STRATEGY OF MULTINATIONALS IN CHINA**

### **2.1 Characteristics of Mergers and Acquisitions Industry**

Multinational merger and acquisition in China in recent years mainly concentrated in three main areas: first, the area of production and supply of electric power and other energy; the second is basic materials area, such as steel, chemical raw materials industries; the third is consumer goods production area of beers, soft drinks, skin care products and so on. These industries have the following in common: with foreign investment in these sectors are relatively mature industry, foreign capital has formed a certain scale of production and capital accumulation in the domestic; these are industries that has been or is being lifted; Mergers and acquisitions industry has the characteristics of potential of large scale and high growth potential. In recent years, as China's economy continues to grow, rising standards of living, potential size and growth potential in the consumer goods industry began to emerge, so as to drive the demand for energy and basic materials industry rapidly rising, making it difficult to meet the market demand for the production capacity of these industries. In order to quickly dominate the market, transnational corporations have used mergers and acquisitions or expansion of investment into China.

### **2.2 Acquisition Ways Characteristics**

In General, mergers of transnational corporations in China in the following three ways: first, the restructured holdings acquisition, that is, through participation in the restructuring of domestic enterprises, acquisition of 50% per cent of its equity, to achieve control of enterprise

management purposes. For example, In March 2001, China tire industry leading enterprise --China Tire and Rubber Company and the world's largest tire manufacturer-Michelin formed a joint venture company, Michelin 70% stocks, venture companies invest US \$ 320 million reverse takeover of tire rubber company's core business and assets. Second, increased capital holdings acquisition, that is, in the original on the basis of China-foreign joint ventures, foreign capital increase and share, Chinese does not participate in the capital increase, lower the shares, so that the foreign share holdings. For example, In April 1994, Dalian Motor factory and Singapore Wester motor company established a joint venture of Wester (Dalian) Motor Co., Ltd. In April 2004, Wester further mergers and acquisitions the shares held by the Chinese side of Dalian motor company. Third, the share acquisition, that is, foreign companies at the same time offering a-shares and b-shares, or h-shares, acquired not circulation of legal person shares by agreement or holdings of a large number of b-shares, or h-shares, achieve the purpose of shares or holdings. Such as Beijing wagon limited company and Japan Isuzu motors and Itochu Shoji Corporation signed a cooperation agreement, Isuzu and Itochu joint agreements to purchase, one-time purchase of North brigade not listing circulation of legal person shares 4 20,000 shares of the company, 25% per cent of total share capital of Beijing wagon limited company, become the largest shareholder of Beijing wagon limited company.

### **2.3 Characteristics of Acquired Enterprise**

Acquired enterprise general is State or State holding enterprise has development years in domestic, has popularity high of brand, sound of market sales network, more advanced of technology, but due to management system does not perfect, history causes, has into business dilemma, enterprise was forced to overall sold or transfer part quality assets, such as: Dalian Motor Factory, Jiamusi Combine Harvester Factory, and Northwest Bearing Factory, and Shenyang Chisel Rock Machinery Company and so on, these enterprises are industry of leader or challenger, but into cash flow problems due to various reasons, shrinking sales, business difficult to continue, in order to enliven the State-owned assets, resolve some of the workers' employment, enterprises are forced to overall sold or transfer some good assets and joint venture with multinationals. Or for promoting the progress of technology and management need to seek foreign investment.

### **2.4 Characteristics of Merger and Acquisition Strategy**

In recent years, merger and acquisition strategy of multinationals in China is clear, they tend to choose the establishment of China-foreign joint ventures and foreign-controlled, final adoption of the foreign capital merger and acquisition, to a wholly foreign-owned enterprises.

Even some multinational corporations seeking holding status when they established joint ventures. Then, in the business course of China-foreign joint venture enterprise, marketing channels is controlled by foreign enterprises, implementation of "high and low" strategy, transfer of profits, or do not want to put in new technology, numerous contradictions with China, Cause in fact of business losses, forcing the Chinese transfer of ownership to the foreign, foreign acquisitions China shares, desire for realization of wholly-owned. For example, Fu Anjie railway bearing (Ningxia) Ltd., Wester (Dalian) Motors Ltd., Dalian Burton Motors Ltd, such these joint ventures were turned into a wholly foreign-owned enterprises by foreign merger and acquisition of Chinese shares.

### **3. ANALYSIS OF THE REASONS FOR THE SUCCESS OF THE MERGER AND ACQUISITION STRATEGY OF MULTINATIONALS IN CHINA**

Merger and acquisition of multinationals in China has an obvious strategic, but why the merger and acquisition strategy of multinationals in China can be successfully implemented? There are the objective inevitability of both political and economic reform and development in China, also with Chinese enterprises and Government error led to the contingency subjective.

#### **3.1 The Objective Necessity of Transnational Companies Successfully Implement the Strategy of Merger and Acquisition in China**

##### **3.1.1 Reform of State-Owned Enterprises Offers a Number of Opportunities to Multinational Mergers and Acquisitions Strategy in China**

Reform of State-owned enterprises had a high demand on foreign funds. There are nearly 400,000 State-owned enterprises in China, many companies will need restructuring or reorganization, there are three areas of funding gap in restructuring or reorganization process: first, the social security funds; the second is the restitution of funds banks' bad loans in State-owned enterprises; The third is the sale of State-owned assets of the funding gap in a competitive business. There are three ways to cover the financing gap: country financial; absorbing domestic and foreign investment; State can no longer provide huge amounts of money for the reform of State-owned enterprises, absorbing domestic investments, because lack of non-State-owned investment capacity and willingness and impossible to large-scale implementation domestic investment, which provides opportunities for transnational corporation mergers and acquisitions of State-owned enterprises in China.

##### **3.1.2 Conversion from Joint Venture and Cooperation Mode to Wholly-Owned Mode is the Inevitable of**

#### **Chinese Economic Reform and Development**

Cooperative and owned is two patterns of internationalization of multinational companies. Due to transnational corporations initial entry into the host country, transnational corporations did not familiar on host country policies, culture, market environment, host country governments development of a number of barriers to entry, sole risk higher than joint venture and cooperation. However, as changes in the host country environment caused location advantage of enhancements, transnational corporations increases experience through studying, enhancements and strengthened ownership advantage strategic motives of transnational corporations, risk and return of the wholly-owned and joint venture and cooperation mode has changed, wholly-owned gradually replaced so that joint venture and cooperation, replacing a variety of ways, merger and acquisition is one of the most important way. There are three reasons promoting the successful implementation of a merger and acquisition strategy of multinationals in China. First, the rapid development of China's economy for many years, China's growing importance in the world economy, the world's largest potential market is gradually maturing and Chinese market position gradually growing in the global strategy of transnational corporations in China, thus increasing the multinationals take sole mode of income. Second, after joining the WTO, China gradually open industries, lowering the barrier to entry of multinational merger and acquisition enterprises in China, thereby reversing the multinational joint ventures and wholly-owned of risk and return ratio. Third, the multinational companies operating in China for a period of time, get to know China and Chinese markets, which reduces the investment risk.

#### **3.2 The Subjective Contingencies of Transnational Corporations Successful Implementation Merger and Acquisition Strategy in China**

##### **3.2.1 Failure of Chinese Enterprises Implementation Joint Venture and Cooperation Strategy**

More important reason of Multinational companies from the joint venture and cooperation to the holding and to a wholly-owned strategy success is Chinese joint-venture, cooperation strategy failed.

First, the Chinese enterprises lack of knowledge on the complexity of the joint venture and cooperation. Joint venture and cooperation is a wide range of more complex problems on a variety of cultural, enterprises and strategies. To achieve the strategic purpose of the joint venture and cooperation, joint ventures, cooperation between the two sides have to properly address issues such as cultural conflict, distribution and disposal of the proceeds, technology learning and protection. China business knowledge on the complexity of the joint venture and cooperation is often not enough, more attention to possible benefits brought by joint venture and cooperation, ignoring the risk of joint venture and cooperation, results

to run some of the poor handling of the conflict, affecting the normal operation of the joint venture and cooperative enterprises, or foreign opportunism of inadequate preparations, finally was forced to participate in mergers and acquisitions.

Second, Selected not appropriate for joint ventures and cooperation partners.

When choosing a partner for Chinese enterprises are often too look at the size of the transnational corporations, technology and management of advanced degrees, and ignore the foreign joint venture of mind, ignored the two parties on the cultural fit, complementary capabilities and resources, as well as position in the joint venture and cooperative enterprises, and many other issues. Making some multinational companies not only to low cost entry into the Chinese market, and dominate in the joint venture and cooperative enterprises, for further mergers and acquisitions Chinese companies with an opportunity.

Third, the failure of joint ventures and cooperative learning mechanism in the process. Learning advanced technology and management experience is the main causes of Chinese enterprises and multinational companies to form joint ventures and cooperative enterprises, but Chinese enterprises often do not have to establish a learning mechanism in the process of joint-venture and cooperation. Learning mechanism failure caused results of China enterprise joint venture and cooperation loss of market, but haven't learned skills and experience.

### **3.2.2 Failure of The Merger and Acquisition of Chinese Enterprises Strategy**

First, goals of participating in transnational merger and acquisition is fuzzy and negotiation failure. When Chinese enterprises participating in transnational merger and acquisition, have only good intentions, there is a lack of long-term strategic objectives and effective negotiating routes design, eager to reorganization of assets, high quality assets on multinational mergers and acquisitions, bad assets, debt and the burden of bureaucracy has left China's parent company. High quality assets are joint ventures with transnational corporations and have not good grasped of commercial negotiation conditions and patterns, and give up control of a joint venture, parent company lost its core competitiveness, lost technology, brand and marketing, enterprise techniques and technology research and development in the future depends on the strategy arrangements of transnational corporation. Second, choosing the merger and acquisition of foreign investors misconduct. Different types of merger and acquisition of foreign investors, determine the effect of mergers and acquisitions different. International multinational consortium with strong financial strength, can easily mobilize huge amounts of money, holding and acquisitions of Chinese companies,

and asset consolidation, packing, then go to the foreign or domestic capital markets for cash, earn high profits. China to introduce such investors, although can avoid to be controlled on the technology and production, access to financial support for the time being, are unable to obtain knowledge of manufacturing technologies and production, marketing, does not help enterprises to raise the level of technology and management, and even lose the basis for long-term development. When many Chinese companies involved in mergers and acquisitions, without carefully assessing and weighing the introduction of different foreign investor to bring effects and interest and blindly participating in transnational mergers and acquisitions, resulting in counterproductive.

## **4. COUNTERMEASURES OF CHINESE ENTERPRISE FACES MULTATIONALS MERGER AND ACQUISITION STRATEGY IN CHINA**

### **4.1 Increasing Awareness of Multinational Merger and Acquisition Strategy**

First, clear understanding of the nature of merger and acquisition strategy of multinationals in China. Multinational merger and acquisition in China has not only access to markets, but sought trade monopolies and globally integrated supply chain. Second, fully understand the risks of joint venture/cooperative, understand the advantages and disadvantages of mergers and acquisitions, raising awareness of risk prevention. Joint venture, cooperation and mergers and acquisitions has a double-edged sword effect, to fully assess the risks of losing markets, brands and core technology in the process of joint-venture, cooperation and mergers and acquisitions, and increased awareness of risk prevention, to take effective measures to prevent risks to organization structure design, patent protection, and other aspects. Thirdly, recognizing the importance that keep own business brand and core technology for sustainable development. Brand and core technology is the key source of enterprise's core competitiveness, loss of brand and core technology will reduce the bargaining power of competition and cooperation of Chinese enterprises and transnational corporations, eventually reduced to matching supply of vendors of multinational corporations has a core competence .

### **4.2 Carefully Choosing a Foreign Joint Venture Partners**

When select partners in joint ventures, to thoroughly understand and analysis the strategic intent the foreign,

final judgment goal of foreign joint ventures take acquisitions as a strategy only get into the Chinese market in the early days, aimed at bypassing the Chinese industry control, or for long-term business cooperation with Chinese enterprises. If the foreigner is for long-term business cooperation, Chinese companies should identify own real needs, maintain their unique resources and advantages, from the practical needs of enterprises and the advantages complementary between the two sides, carefully chosen joint venture partners.

### **4.3. Strengthening Strategic Management Capabilities of Mergers and Acquisitions**

#### **4.3.1 Enhanced Ability to Develop Rational Merger and Acquisition Strategy**

At the time of acquisition, Chinese enterprises should have clear targets and strategies of merger and acquisition. As backbone enterprise, to research itself market status, confirmed whether needs participate in transnational mergers and acquisitions; if must by assets restructuring out dilemma, whether must by multinational mergers and acquisitions; if had to looking for multinational mergers and acquisitions, to clear the target by mergers and acquisitions, and developed specific programme of mergers and acquisitions negotiations, using itself of resources, keep on joint venture enterprise of control right, especially to clear Enterprise for technology route of led right; if mergers and acquisitions must to gave up independent development for premise, seeking borne the original debt and redundant staff placement by multinational enterprises. Otherwise, the value involved in mergers and acquisitions will be greatly reduced.

#### **4.3.2 Enhanced Ability to Identify Qualified Acquisition Investor**

based on reasonable estimation of the enterprise's own development bottleneck is shortage of technology, shortage of funds, or the shortage of market-oriented, Chinese enterprise careful comparison and calculation of industrial investors and financial investors, commercial investors to enterprise resources and benefits, conditions and cost of the enterprise delivered, choose different types of mergers and acquisitions investors.

#### **4.3.3 Strengthen The Capacity of Protection Brand and Technology in Mergers and Acquisitions Process**

First, before implement mergers and acquisitions, should correctly awareness and assessment brand assets value,

China enterprise should hired authority assessment institutions, used advanced of brand value assessment system to assessment brand assets, to prevent the local brand value of loss in foreign and joint venture enterprise mergers and acquisitions process; on the other hand, when mergers and acquisitions, high popularity and reputation of brand must to keep more independence, not easily is controlled by multinationals, this is key involved brand life .

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