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Gaining from the global ambitions of emerging economy enterprises: An analysis of the decision to sell a German firm to a Chinese acquirer

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ABSTRACT

This paper examines the issue of cross-border acquisitions by companies from emerging economies in industrialised countries: an important phenomenon that has recently found increasing emphasis in international business research. In analysing Chinese acquisitions of German firms in the machinery and equipment industry, the paper addresses the question of why firms from industrialised countries are sold to companies from emerging economies. Several real and imagined reasons may induce the German side not to sell; nevertheless, this type of acquisition occurs with increasing frequency. Using case study evidence and interview data, the study finds explanations for the decision to sell to a Chinese company. The results show that German firms can gain substantially from the global ambitions of the Chinese firms for advancement of their own business objectives. This is due to complementarities in the motivations for engaging in the deals, as well as the underlying strategic needs of both firms. In addition, the specific nature of the cooperation between both firms instils in the German managers a sense of control and security—either real or merely perceived—creating conditions that are favourable to the selling decision. Most importantly, in the context of emerging economy enterprises acquiring advanced economy firms, motivations on both sides of the acquisitions appear to go beyond the commonly known goals such as capital transfer and additional market access, as the acquisitions provide the companies involved with conditions favourable to expansion into previously inaccessible market segments. The findings of this study provide useful guidance for the development of future strategic relationships between firms from industrialised and emerging economies.

1. Introduction

Recent decisions to sell firms from industrialised countries to Chinese acquirers have received heightened attention. For instance, IBM's PC division (USA) was sold to Lenovo, Thomson (France) was sold to TCL, and MG Rover (UK) was sold to Nanjing Automobile and the Shanghai Automotive Industry Corporation (SAIC). In line with a trend towards increased Chinese outward foreign direct investment (FDI) activity, Chinese companies are intensifying their acquisitions of firms in world and industrialised country markets. To date, the motivations of Chinese firms for investing in developed countries and acquiring overseas companies have been subject to analysis in the literature, even if such analyses have been sporadic at best. These motivations range from the need to diversify and enter foreign markets to the acquisition of foreign know-how and strategic assets (Deng, 2004, 2007; Child and Rodrigues, 2005; Young et al., 1996).

Less understood, however, are the motivations on the side of the target industrialised country firms, i.e. of their managers or other responsible decision-makers, to sell to a Chinese acquirer. An array of reasons can be brought forward to raise scepticism about the feasibility of selling an industrialised country firm to an emerging economy acquirer. These reasons include the common perception that firms from emerging economies such as China are not yet ready for foreign acquisitions in advanced economies

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because they lack inherent firm capabilities and international competitiveness. Distance in the cultural and institutional environment of the target and acquiring firms, and worries about the real intentions of an acquiring firm from an emerging economic power like China often exacerbate such concerns. There may be strong fears that access to cutting-edge know-how and other intellectual property is the only aim of the acquisition.

But despite the many assertions regularly made against Chinese companies, and regardless of whether these reflect reality or are mere prejudices, Chinese acquisitions of industrialised country firms are increasing in number. This may indicate that the concerns noted above are either incorrect or too weak to prevent industrialised country firms being sold to a Chinese acquirer. Further, there may well be specific and possibly strategic reasons for selling to a Chinese or emerging economy firm in particular. Given the aforementioned concerns about selling to a Chinese firm on the one hand, and the reality of an increasing occurrence of such deals on the other, more research is necessary to understand why decisions are made to sell industrialised country firms to Chinese acquirers, even when interested purchasers from industrialised countries are available as viable alternatives. Why are these firms not sold to companies from other industrialised countries which are more familiar to the seller from cultural, institutional and other perspectives? Are there specific reasons for selling to a firm from an emerging economy like China?

Three main reasons make it important to address these questions. First, while acquisitions by industrialised country firms of companies in other advanced or emerging economies have been a common occurrence in the past, acquisitions by emerging economy firms in industrialised countries are a recent and mostly unexplored phenomenon. As suggested by the previous discussion, the context of these acquisitions is different, involving an acquiring firm whose possession of the necessary capabilities to acquire and manage a subsidiary in an industrialised country is uncertain. Secondly, there is a lack of accumulated knowledge on how acquisitions in this context can be undertaken most effectively. High failure rates of acquisitions in general do not make the prospects of success for Chinese acquisitions any better—rather, these prospects are likely to be worsened by the factors discussed above. Hence there is a need to consider what strategies may work best, where it is also particularly useful to take the perspective of target firms into account. Finally, addressing these questions will also illuminate the frequently raised question of whether outward FDI by emerging economy multinationals is a new phenomenon meriting distinct analysis, un-amenable to explanation via the frameworks customarily applied to firms from industrialised countries.

To address the above issues in this study, I analyse Chinese acquisitions in industrialised countries from a seller's perspective, by examining five case studies of recent Chinese acquisitions in the German machinery and equipment industry. My focus is on the rationale of the German side for selling to the Chinese bidder. The study employs this analysis to address some major shortcomings in the literature. Most importantly, the paper addresses the weaknesses created by the focus of most acquisition studies on the motivations of the buying firm, and of most studies on Chinese investments overseas on the motivations of the investing firm. An important contribution to the literature is thus made by focusing on the seller's perspective and the motivations of the target company in Germany. In addition, the paper offers insights on the nature of the investment flow from a developing to a mature economy, which to date remains fairly uncommon. To the best of my knowledge, no studies currently exist that have taken this specific perspective on the phenomenon of emerging economy firms' acquisitions in industrialised countries.

The study analyses the decision to sell to a Chinese acquirer along two different dimensions. The first dimension refers to the considerations that motivate the decision to sell. My findings suggest that the German case firms have their own distinct set of clearly spelt-out needs and objectives, based on which they prefer to engage in deals with Chinese firms in particular. As motivations of the German firms appear to mirror those of the Chinese acquirers, the intention of the German sellers is to reap some benefits for themselves from the global ambitions of their Chinese acquirers. The specific constellation of an advanced economy target and an emerging economy acquirer is significant here, as the increasingly competitive environment faced by both target and acquiring firms as a consequence of globalisation results in pressures and strategic needs on both sides that can be addressed most adequately through deals between them.

Given the concerns above about deals with emerging economy acquirers, the second dimension addresses how the selling side is reassured about the deal. This study finds that the strategic behaviour of the Chinese acquirer had to be geared towards assuring positive intentions and mitigating concerns, starting during the negotiation phase. Putting confidence-building measures in place to reduce any suspicions is thus found to be important. With both these dimensions adequately addressed, the German and Chinese managers presumed that nothing would stand in the way of fruitful cooperation and firm expansion.

While this study's findings reinforce pre-existing notions of acquisition activity (particularly that important goals for such acquisitions are commonly the allocation of capital to its most efficient use and the possibility of entering new markets) a new finding emerges that is specific to the context of an emerging economy enterprise acquiring an industrialised country firm. Through such acquisitions, firms place themselves in a position to enter previously inaccessible market segments and thereby expand their scope of business not only geographically, but also vertically; with the industrialised country firms enabled to enter lower-end market segments and the emerging economy firms finding a way to move into areas with greater technological sophistication.

The following section discusses the relevant aspects of the literature on the internationalisation of Chinese companies and on acquisitions from a seller's perspective. It also provides more detail on the research problem, in preparation for the analytical section. The third section outlines the methodology applied within this study and the fourth analyzes the data and findings and provides some preliminary propositions. A brief discussion section is then followed by some final conclusions.

2. Background and research problem

In recent years, FDI by developing and transition economy firms, particularly those from China, has risen substantially. These investments do not only target other developing countries, but increasingly also mature economies. The literature frequently