Chinese Multinationals: Analyses and Commentaries

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China’s Big Bid for Germany’s Industry 4.0 Technology

By Klaus E. Meyer

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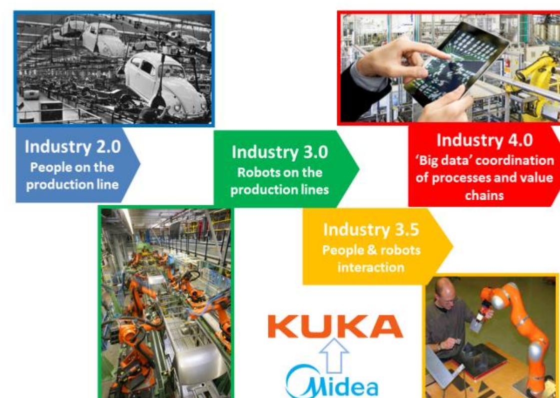
Midea, the Chinese household appliances (“white goods”) manufacturer just made what analysts called an ‘incredibly high’ bid for German robot maker Kuka. This acquisition would take the Chinese investor right to the heart of Industry 4.0: Kuka is a leading manufacturer of multifunctional robots that represent an important building block for enterprises upgrading their factories with full automation, the latest human-machine interface functionality, and machine-to-machine communication. Midea want a 30% stake in Kuka and have offered €115 per share. Kuka’s shares traded at €84 the day before and had already increased 60% since the beginning of the year. This offer values Kuka at €4.6 billion, which means Midea’s 30% stake would be worth €1.4 billion – on par with Beijing Enterprise’s February 2016 takeover of recycling company EEW which was the largest Chinese acquisition of a German firm to-date.

Midea’s takeover bid underscores Chinese interest in German Industry 4.0 technology; in January 2016, ChemChina paid €925 million for Munich-based KraussMaffei machine tools, in part because of their advances into Industry 4.0. Recent smaller Chinese acquisitions in the German machine tool industry, which include the partial acquisitions of H.Stoll by the ShangGong Group and of Manz by the Shanghai Electric Group are, in part, motivated by the objective to partake in the latest Industry 4.0 developments.

Why are Chinese so keen on Industry 4.0? China and Germany are the world’s industrial powerhouses, but with some differences. While China’s industry has grown largely on the back of low cost labor, German industry has been pushed into advanced automation by high labor costs. Now, China is facing radical demographic changes, and ‘cheap and hardworking’ young workers are no longer readily available. Thus, industry must change and develop new and less labor intensive manufacturing practices, and that requires more automated machines and robots. The Chinese government encourages this shift; its China 2025 plan envisages the country as the global manufacturing innovation center and prioritizes the development of intelligent manufacturing.



What are the key challenges Chinese firms face to adopt Industry 4.0? The first is that many manufacturers are still operating in the age of Industry 2.0 – the labor intensive phase. Industry 4.0 is about connected machines that generate huge volumes of data that are analyzed and exploited to not only make machines more efficient, but to

coordinate entire factories and value chains. Skipping an entire stage of industrial development – from Industry 2.0 to Industry 4.0 – may sound attractive, but requires a hard climb; it would mean introducing far more automated machines along with new forms of data-driven coordination. Critically, this requires new sorts of skills on the factory floor: people who can operate the complex machines and automated processes. In reality, many discussions I have with people in China are mainly about automation of production, rather than with integration of factories and value chains using Big Data analytics. This is where Kuka — one of the world's leading robot manufacturers — comes in. It's products could help China's manufacturers replace labor on the production line.

Should German industry be concerned? Industry 4.0 is built on an industry ecosystem involving many large and mid-size companies in Germany, including some that are owned by foreign investors. However, integration across organizational boundaries represents challenges in itself because Industry 4.0 involves sharing of large volumes of data between related enterprises. German companies are still working on how to create appropriate platforms and security procedures for inter-firm data interfaces. If a central player within this ecosystem were to drop out, or no longer be a trusted member of the community, this could theoretically be a concern. Kuka is a valuable partner in Industry 4.0 but, as far as I am aware, not so central that others should be concerned. At this stage, however, if there are further aggressive acquisitions, public opinion might swing. If German industry believe that Kuka should stay in German hands, then we should see a bidding war as German investors make a counter-bid for Kuka.

Would the competition authorities be concerned? Possibly. Chinese companies are far more vertically and horizontally integrated than typical European companies, including competitors of Midea in the white goods industry, such as Electrolux (Sweden), Bosch-Siemens (Germany) or Arcelik (owner of Beko, from Turkey). Imagine that one of these global players wants to build a new plant based on the latest Industry 4.0 technology: Would they be comfortable contracting a company that is owned by their competitor, and that presumably shares sensitive data with their owner? Perhaps not. In European competition law, there is a criterion known as vertical foreclosure: if a merger gives a company control over its competitors' critical inputs, that could be considered as an obstacle to competition. Whether these conditions would apply to robots is not clear, and Kuka does not have a dominant position in the market. Thus, intervention of the competition authorities would seem unlikely.

Why only 30%, and why hostile? It is rather unusual to make an unsolicited bid — popularly known as 'hostile' bid — for only a minority stake in a company. Midea has built up an equity stake of over 10% since the beginning of the year, and according to its press release does not intend to acquire more than a 30% stake. Presumably, this self-constraint is intended to reassure Kuka's business partners, whose trust in both the quality of the brand and the independence of the operations is critical for their business partnerships (see above). However, a 30% equity stake in a listed company is rarely stable. We do not need to look far for examples of gradually increasing equity stakes of Chinese investors. There are two recent ones in the German machine tool industry: Weichai Power is now the largest shareholder in Kion, and AVIC holds majority control of KHD Humboldt Wedag. In both cases — to the best of my knowledge — the entry of the Chinese investors was a friendly acquisition. However, Midea seems to play a different game. I do not know what their long-term game plan really is. However, investors and others with an interest in the industry will want to know.

Private Equity Helps Chinese MNEs Beat a Path to Europe

By Klaus E. Meyer

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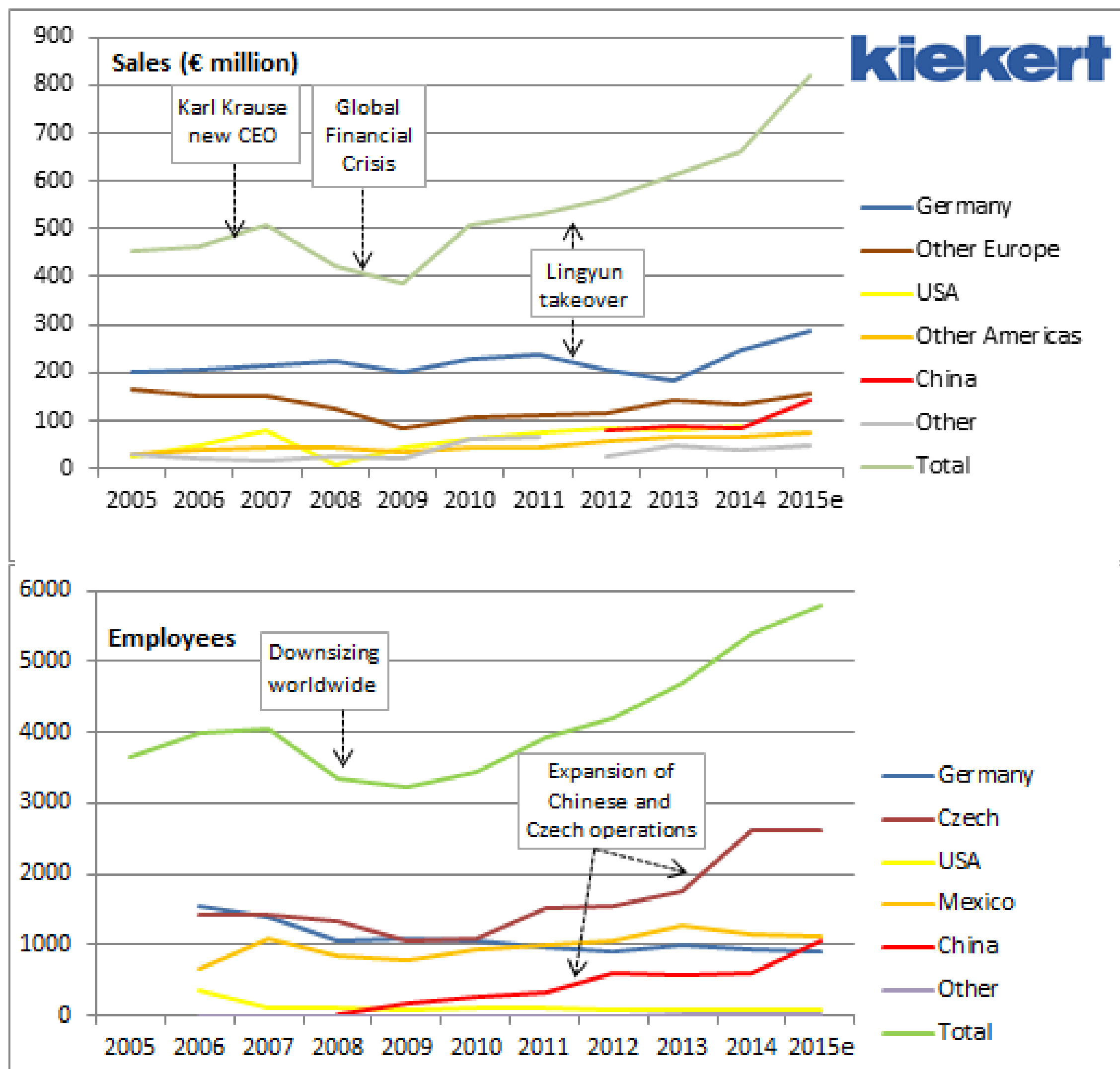
In recent Chinese takeovers of European companies, the only thing more remarkable than the identity of those new buyers is the identity of the sellers. In more than half of the mega deals, the seller is one (or more) private equity (P.E.) fund (Table 1). The question is, why do private equity firms and Chinese multinationals do so much business together? The answer is in what both sides stand to gain from each other.

What do P.E. funds do? Typically, at least in the cases listed in Table 1, a P.E. fund acquires a company because it's in financial difficulties, or

Target	Buyer	Seller	%	Location	Industry	Value (estimate)	Date
Syngenta	ChemChina	**Listed**	100 offer	Switzerland	Agricultural chemistry	€ 40 bn	2016 02
Pirelli	ChemChina	**Listed**	100	Italy	Automotive supplier	€ 7.1 bn	2015 11
Swissport	HNA Group	**Private Equity: PAI**	100	Switzerland	Airport services	€ 2.6 bn	2015 08
Avolon Holdings	HNA Group	**Listed (87% Private Equity)**	100	Ireland	Aircraft leasing	€ 2.3 bn	2015 08
Tnuva	Bright Foods	**Private Equity: Apex & others**	56	Israel	Dairy	€ 2.2 bn	2015 01
RF Power unit of NXP	Jinyin Investment	**Corporate (NXP)**	100	Netherlands	Semi-conductors	€ 1.6 bn	2015 11
EEW Energy from Waste	Beijing Enterprise	**Private equity: EQT**	100	Germany	Waste recycling	€ 1.4 bn	2016 02
Opera Software	Qihoo 360, Kunlun & PE	**Listed**	100 offer	Norway	e-commerce	€ 1.4 bn	2016 02
WMF	Haier	**Private Equity: KKR and Fiba**	100 bid	Germany	Household goods	Expected € 1.4 bn	2016 03
Madrileña Red de Gas	Gingko Tree (jointly with PGGM & EDF)	**Private Equity: Morgan Stanley Investments**	100	Spain	Utilities	€ 1.3 bn	2015 04
Groupe Du Louvre	Jinjiang Hotels	**Private Equity: Starwood**	100	France	Hotels	€ 1.2 bn	2015 01
Infront Sports & Media	Dalian Wanda	**Private Equity: Bridgepoint**	68.2	Switzerland	Sports marketing	€ 1.1 bn	2015 02
Punch powertrain	Yinyi Investment	**Private Equity: Grmv & others**	100	Belgium	Automotive supplier	€ 1.0 bn	015 02
Club Med	Fosun	**Listed**	100	France	Tourism	€ 939 m	2015 01
KraussMaffei Machines	ChemChina & P.E.	**Private equity: Onex**	100	Germany	Machine tools	€ 925 m	2016 01

at least underperforming. The objective is then to reorganize the company, for example by cutting costs and by repositioning it into new, more promising growth markets. This restructuring is driven by the overall objective to sell the company at the highest price, which can be achieved if the company is not only viable on its own, but positioned in an attractive industry. The company might than be listed on the stock market through an IPO – but if a corporate buyer comes along and puts more money on the table, even better. Some companies are in fact sold in a quasi-auction, inviting bids from competing potential buyers.

What are Chinese multinationals looking for? At this particular point in history, Chinese companies are relatively rich in cash, but relatively poor in international management capabilities – notably lacking capabilities to restructure a struggling business in another country. Many Chinese acquirers look to Europe as a source of technology or brands that they can, in the long run, transfer to their operations in China, and perhaps even use to eventually become a globally competitive business themselves (see my blogs of October 2014, November 2015, January 2016). Their preferred management approach is 'light touch' integration, which leaves the acquired operations relatively autonomous under their existing management teams, perhaps with added financial resources for new investments, and with practical help entering the Chinese



Source: Kiekert Konzertbericht, various years, obtained from www.Bundesanzeiger.de.

market. This 'light touch' approach, however, requires that the company is well run before the acquisition.

So, Chinese acquirers are looking for well-managed companies with a viable strategy and technologies and/or brands that are potentially useful in China. And, they are able and willing to pay a good price for such companies. P.E. funds, on the other hand, maximize their revenues exactly by creating such companies. Moreover, private equity investors are looking for the highest bidder who's not hobbled by sentiment – such as those that, for example, a family owner may have for the future of the company bearing his name. Last but not least, P.E. funds make takeovers easy by reducing the number of negotiating parties, and facilitating due diligence. Acquirers get to deal with fewer sellers than in a takeover of a listed company, and many hidden liabilities or reorganizational challenges have been resolved by P.E. players as part of their restructuring job. In fact, P.E. funds are increasingly aware what Chinese investors are looking for and cater to their needs, for example by providing advance information and extensive external due diligence. Thus, when P.E. and Chinese multinationals meet, supply meets demand, and the deal gets done.

What are the long-term implications for the new enterprise? As an example of how a company may prosper when both the P.E. fund and the Chinese MNEs play their role well, consider Kiekert – a German supplier of locking systems for cars. In the year 2000, Kiekert was acquired for € 530 million by Permira, a British P.E. fund who delisted the company in 2003. However, Permira burdened the company with too high debt and itself soon ran into financial difficulties. Thus, in 2006 a group of new financial investors – Bluebay, Silver Point and Morgan Stanley – took over and in 2007 installed a new management team led by Karl Krause (who still leads the company in 2016). In the first years of his tenure, he had to face the financial crisis, which hit the automotive industry hard, and Kiekert laid off about 20% of its global workforce. Yet, Kiekert used the crisis for corporate restructuring, and by 2010, it surpassed its pre-crisis output with a global turnover of € 507 million (Figure 1).

In 2012, Lingyun Industrial (part of the Norinco Group) acquired Kiekert from the P.E. investors. Lingyun applied the 'light touch integration strategy'. As the Kiekert CEO said in 2014: "We are operating autonomously, we are less key-numbers-driven than when financial investors owned Kiekert". With fresh financial resources, Kiekert expanded production in China and the Czech Republic, and grew its sales. In 2015, Kiekert acquired a local competitor in China's Henan Province, and grew its sales worldwide to over € 825 million, employing 5,800 employees, and holding 1600 patents. Its global market share recovered to 20%. Many of today's Chinese investors see Lingyun and Kiekert as a role model to follow.

With many – though not all – Chinese firms opting for the 'light touch' approach to their acquisitions, it is common for German middle managers, employees and even trade unions to prefer a Chinese investor over a P.E. fund. The 'light touch' management after the acquisition is attractive as it tends to provide management with greater autonomy, and greater job security to the workforce. However, it is often the restructuring led by the P.E. that placed the firm on a profitable growth path, thereby creating just the right conditions that make it possible for new Chinese owners to take a 'light touch' approach.

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Aggressive acquisition: the next stage of globalization for Chinese companies?

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By Klaus E. Meyer

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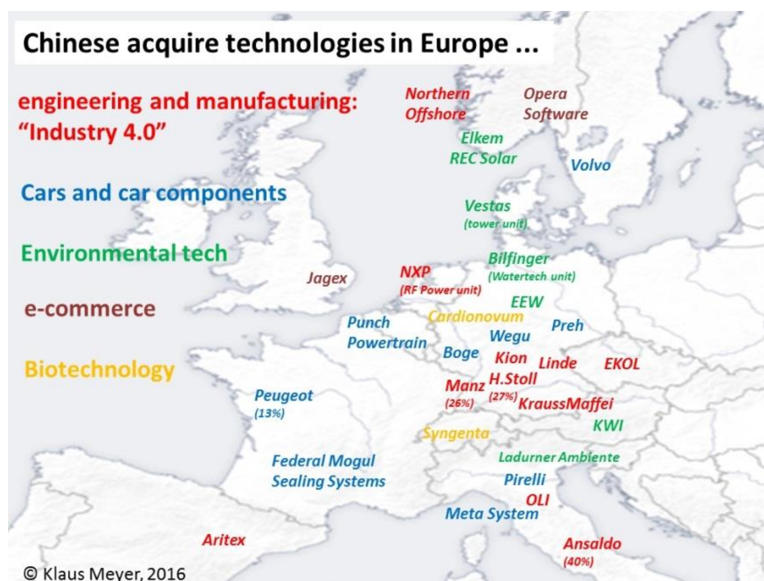
Chinese direct investment around the world is becoming more mature, and therefore more diverse in terms of investors, motives and locations. There is no typical Chinese investor; so for each individual deal it is important to look carefully at who this specific investor is, and what he wants. There may be answers in trends now emerging in the outward investment strategies of Chinese investors in Europe.

Trend 1: Chinese admire European technology and seek opportunities to bring that technology back to China. Technology-seeking acquisitions thus aim to enhance the acquirer's competitive position in China, and eventually also in global markets (see my blog October 2014). Since the technology is often embedded in the people and teams of the acquired company, Chinese investors often manage their acquisitions with a high degree of autonomy and retain the employees that came with these firm (see my blog January 2016).

This type of motive remains important not only for companies but also government policy. Thus, sectors seen as important for technology-seeking are aligned with the development policy priorities articulated in the Chinese government's five year plan (**Exhibit 1**).

- First, the automotive industry is big in China, and continues to grow (albeit at a slower pace than before). China wants to capture a bigger share of the value added in that industry, and does so by its firms taking over automotive suppliers across Europe. Major suppliers in Chinese hands include

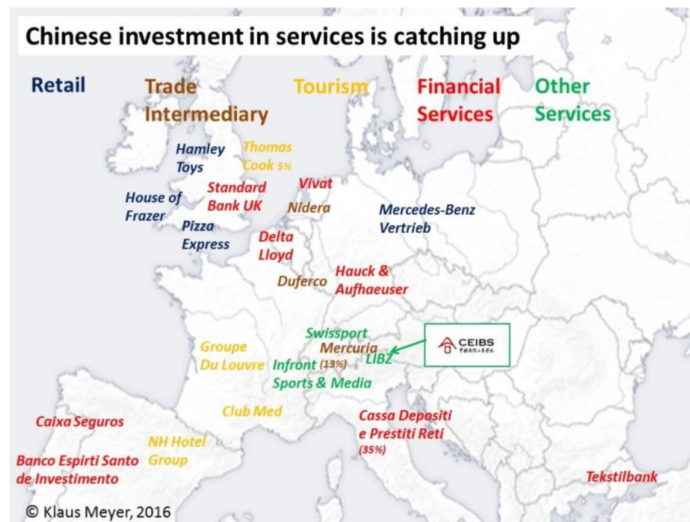


Kiekert, *Wegu* and *Saargummi* in Germany and – at €7.1 billion the biggest acquisition of this type – tire maker *Pirelli* in Italy. Often the acquirers are state enterprises in loosely related industries that try to enter this growth industry. Yet, some are serial acquirers that aim to become global partners for the automotive industry. For instance *Ningbo Joyson* acquired *Preh* in Germany, and with this European base then acquired smaller businesses such as the automobile division of *Technisat*.

- Second, China wants to upgrade its manufacturing industry to produce more complex products domestically, and to increase automation of manufacturing in view of rising labor costs. Thus, 'Industry 4.0' and the 'industrial internet of things' are hot topics in China. Chinese manufacturers try to acquire businesses that are at the forefront of industry 4.0, especially in Germany. The €925 million take-over of *KraussMaffei* in Munich by ChemChina in January 2016 reflects this ambition. Engineering technologies are also sought via minority stakes in companies such as Ansaldo in Italy and Stoll and Manz, both in Germany.
- Third, China faces huge environmental challenges, and technologies acquired abroad provide hope to help address these challenges. Major acquisitions in the green technology space include, for example, solar panel technology from *Elkem* and *REC Solar* in Norway, water management technology from *Bilfinger*, and waste recycling technologies of *Ladurner Ambiente* in Italy and *EEW Energy from Waste* in Germany. In fact, at a price of €1.4 billion the latter acquisition by *Beijing Enterprise Group* in February 2016 is the largest acquisition in Germany to date.
- Fourth, internet businesses like Alibaba and Tencent are booming in China – and they have started looking beyond the country. Their growth ambitions focus on market entry in other emerging economies and on the acquisition of proven business models and existing customer bases, especially in the USA which is leading Europe in internet business. However, in March 2016 a consortium involving *Qihoo 360* and *Beijing Kunlun* made a formal offer for *Opera Software* in Norway, valuing the company at €1.4 billion. Moreover, latest rumors suggest that *Shandong Hongda Mining* is targeting the British online gaming company *Jagex*, famous for its 'RuneScape' game.
- In a league of its own is *ChemChin*a's offer for *Syngenta* in Switzerland for €40 billion, which would provide *ChemChin*a access to the latest agrichemical and biotechnology competences and patents. These technologies are expected to help China enhance the productivity of its agriculture, and thus feed the increasingly demanding 1.5 billion Chinese consumers.

Trend 2: Chinese multinationals are expanding in service sectors (Exhibit 2). While China is still widely seen as the world's workbench, its

service sector has been catching up rapidly and is providing for an increasingly affluent middle class. Businesses from a broadening range of service sectors set their eyes on international growth:



- In financial services, the *Industrial and Commerce Bank of China* (*ICBC*) has a clear ambition to become a global player with its investment of *Standard Bank* in South Africa, and the take-over of *Standard Bank*'s UK investment banking operation. At the same time, the *Fosun* group is taking over insurance and banking businesses in Portugal, Belgium and Germany.
- A major ambition of the *Fosun* group is to become a global player in the tourism industry serving Chinese travelers exploring the world. Its highest profile acquisitions in this sector are French Resort chain *Club Med* and a minority stake in British travel agent *Thomas Cook*. The tourism industry also attracted major investments in two European hotel chains, *Groupe Du Louvre* in France and *NH Hotels* in Spain.
- In the trade sector, Chinese players have taken over European commodity traders such as *Nidera* and *Duferco*, and even retail chains like the UK's prestigious department store *House of Frazer* and the UK's leading toy retailer *Hamley's*.
- Business services featured prominently among Chinese investments in Switzerland in 2015, perhaps encouraged by the Sino-Swiss Free Trade Agreement. *Hainan Airlines Group* took over airport operating company *Swissport* for €2.6 billion while *Dalian Wanda* took over sport media and promotion agency *Infront Sports & Media* for €1.1 billion. Last not least, *CEIBS* (my employer) took over the *Lorange Institute of Business Zürich* to establish a European campus as basis for management education across continents.

Trend 3: Chinese emergent middle classes love European luxury brands. As an emergent new trend, Chinese entrepreneurs like to move up-market and add foreign brand names to their portfolio of businesses (**Exhibit 3**). Some technology-focused acquisitions mentioned above also provide access to brand names expected to help investors strengthen their position in China. Notably, the acquisition of *Volvo* provided *Geely* not only with technology, but with a European brand that is now aggressively promoted as premium brand in the Chinese market.

- In the food industry, Shanghai-based *Bright Foods Group* has been on a shopping spree that started with dairy businesses in New Zealand and Australia, and more recently included dairy business *Trnava* in Israel, cereal maker *Weetabix* in the UK and food trader *Miguel Alimentacio* in Spain. Reliable quality and safety standards for food are major concerns of those Chinese consumers who can afford imported goods – especially, but not only, baby milk formula.

- Even in niche industries, the appeal of European brands in irresistible. *Pearl River Piano* acquired the rights to the inactive German *Ritmüller* brand a decade ago ([see my blog November 2015]), and in January 2016 added Germany's largest piano maker *Schimmel* to its portfolio. Similarly, *Haers Vacuum Containers* acquired the Swiss metal drinking bottle brand *Sigg* in January 2016.
- In early 2016, European companies with world-renown consumer brands have been put up for sale by their private equity owners, and Chinese companies are rumored to be the leading bidders. The *Shandong Ruyi Group* (unsuccessfully) made a €1 billion bid for Paris-based *SMCP*, which owns the fashion brands sandro, maje and claude pirlot and was originally created through a spin-off from *LVMH*. Bids from China have also been received for German cutlery and kitchen utensils brand *WMF* and Danish TV and home electronics brand *Bang & Olufsen*.

Trend 4: **Chinese businesses (and individuals) are using foreign investments to diversify their risks.** Some may call this type of investment 'capital flight', but from the perspective of a risk adverse investor it always makes sense not to put all your eggs in one basket – even if that

basket is as big as China. Such risk diversification motivated, for example, Chinese Sovereign Wealth Funds' investment in the country's huge exchange reserves. Many projects mentioned before have risk diversification as a secondary motivation, but it is most obvious when investment goes into fixed assets such as infrastructure projects or real estate (Exhibit 4). Chinese investors have picked up assets such as Istanbul's *Kumport Terminal* in Turkey, the *Port of Piraeus* in Greece, the hospitals of *Espirito Santo Saude* in Portugal, and airports of Toulouse (France), Parma (Italy) and, unsuccessfully, Lübeck (Germany). Chinese state enterprises are also investing heavily in real estate and infrastructure development projects in the UK, including new business parks in London's *Royal Albert Docks* and *Manchester Airport City*, the *Hinkley Point Nuclear Power Station* (a £14-billion commitment!), the high-speed rail line between London and Birmingham, and offshore wind parks in Scotland.

Trend 5: Some individual investors pursue prestige projects that seem mainly about signaling to the world (and to friends and foes back home) that they have 'arrived on the global stage' (**Exhibit 5**). I am not always convinced about the strategic logic of all these investments, especially when investors put their money in activities that are only loosely related to their core business, and in a distant location in Europe. Some real estate projects, such as the

Palazzo Broggi in Milan, or shipyards for luxury yachts may qualify as prestige projects. The prestige motive is even more apparent when Chinese entrepreneurs buy into European football clubs like *Atletico Madrid* or *Espanyol Barcelona*, following a pattern established by Russian oligarchs a decade ago. Another crown jewel cherished by Chinese *nouveau riche* are French vineyards: *Alibaba*'s Jack Ma is literally in rich company with his March 2016 acquisition of the *Chateau de Sours*.

With the increased diversity of investors, their competence in managing overseas operations also varies. Analysts thus have to move from stereotypes to careful analysis of each investor's specific motives and competences to explain their strategies, and their likely impact – both in China and in the host economy.

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Strategic choices of China's state-owned multinationals

By Klaus E. Meyer

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State enterprises were widely believed to be doomed in the 1990s. With the fall of the iron curtain, privatization was sweeping from the Elbe to the Pacific: state-owned enterprises (SOEs) were perceived as inefficient mammoths unable to compete in a market economy. Yet, history has proven forecasters wrong: some SOEs have become important international players.

In China, for example, SOEs make up a major share of outward direct investments. So while private investors have gradually increased their share, many of the largest investment projects are still undertaken by SOEs. A question that readily springs to mind, therefore, is how does state ownership influence the strategies and operations of Chinese MNEs?

At home, Chinese SOEs benefit from the political support of their owners who can, for example, ease access to financial resources. While these owners typically expect the company to operate profitably (though not necessarily to maximize profits), they also expect contributions to political objectives. These additional resources and performance expectations primarily play out at the domestic level. It's less obvious how state-ownership affects operations outside of China.

That's why in two studies I've done with co-authors Ding Yuan, Zhang Hua (both of China Europe International business School) and Jing Li (Simon Fraser University, Vancouver) we look at how state ownership affects Chinese multinationals' outward investment strategies.

The Issue of Trust

In our first study, we focus on the reception SOEs get in host countries. In countries with a strong free-market ideology, such as the USA, SOEs are often seen as an anomaly and their legitimacy may be challenged due to a combination of ideological conflict, perceived threats to national security, and claims of unfair competitive advantage due to government support of home-grown competitors. These challenges directed specifically at SOEs induce them to adapt their foreign entry strategies to reduce potential conflicts and enhance their legitimacy.

In any country, foreign investors have to conform to the host country's rules and belief systems to establish local legitimacy. That's why when reflecting on his first experiences in Germany after taking over the ailing sewing machine maker Dürkopp-Adler in 2005, Mr. Zhang Min of the ShangGong Group summarized his experience by saying: "Nobody trusted us at that time". Only through persistent investment in the company, and delivery on early promises, did Mr. Zhang build up trust among the workforce, and within the local community.

Ideological inconsistencies are likely to emerge where firms entering a foreign market are

closely associated with their home governments. This is especially true in countries where a strong rule of law limits direct government interference in business. As a result, state-owned MNEs often need to work extra hard to earn the local stamp of approval, but it can be done. For example they can try aligning organizational practices to local norms and regulation, adopting organizational structures to imitate incumbents, or cooperating with local partners who've already earned the nod of approval from local players.

SOEs may also avoid a lot of scrutiny and pressure by investing in greenfield projects, rather than acquiring local firms. Our study shows that in countries where their legitimacy may be challenged, they prefer low-level equity investments and greenfield operations that provide a lower public profile. Acquisitions tend to receive more attention in local media, and they potentially involve short-term job losses. In contrast, greenfield investments typically bring more visible benefits such as new production capacities and new jobs. Hence, since more stakeholders in the host country are *directly* affected by foreign acquisitions than by greenfield investments, acquisitions face more public scrutiny.

But there is one way for investors who do use acquisition as their entry strategy to alleviate concerns about their legitimacy: through the degree of equity control. A lower level of equity makes a low-profile strategy possible and provides an important signal that an investor is working with local partners to align with the norms of the host country. Moreover, a low level of control limits the owners of the investing firm's ability to impose their objectives onto the local operations, and thus alleviates the suspicions of local stakeholders. Shared ownership also helps investors leverage the legitimacy of the local co-owner, and facilitates local regulatory approval where that's needed.

Diplomacy helps SOEs, Sometimes

Our second study focuses on the impact that diplomatic relations between countries have on multinational enterprises. Good diplomatic relations between nations can enhance investment opportunities by lowering political risks and reducing some barriers to entry, for example by providing early access to information on policy changes or public tenders. However, MNEs vary in their ability to benefit from these cordial relations at the diplomatic level. Those with stronger political connections at home may have an edge, as they can transfer these connections via diplomatic channels. So while diplomatic relations are important to SOEs, this may not necessarily be true for private firms.

The nature of the host country also matters. A transfer of 'political capital' via diplomatic relationships is more useful where a country's weak rule of law makes it less likely that there will be impartial treatment of foreign investors. In these countries, government power is less constrained, which increases political risks and entry barriers. By leveraging the political influence of their home government, well-connected MNEs can reduce the risks and barriers in the host country.

In terms of policy implications for Europe, our study implies that diplomatic activity at the national level is probably not a major factor when the Chinese are deciding whether or not to invest in the EU. There are two reasons for this. First, most of the investments that European countries try to attract are privately owned, and thus less responsive to the vagaries of diplomatic relations. Second, the EU competition policy framework establishes a fairly level playing field for competition and this curtails national authorities' scope for providing subsidies or preferential access to public sector procurement. Therefore, it's more difficult in the EU to convert political and diplomatic ties into competitive advantages than it is in many other parts of the world.

Further challenges

Our research shows that state-ownership may either help or hinder SOEs' outward expansion [ok?]. It's clear that many SOEs in today's China have more in common with German private firms than with the state conglomerates in the Soviet bloc of the 1980s. However, there are also important variations between them. First, many SOEs are listed entities in which a state agency maintains a substantive ownership stake, but not necessarily majority control; their strategies are thus influenced by an interplay of political and business actors. Second, SOEs under the authority of local governments are often acting more like private firms and are only indirectly subject to national policy directives.

Finally, it's worth bearing in mind that even private businesses in China usually need to maintain friendly relationships with the authorities when they pursue ambitious growth strategies. This is true both at home and abroad.

Resources:

Klaus E. Meyer, Ding Yuan, Jing Li & Zhang Hua, 2014, Overcoming distrust: How state-owned enterprises adapt their foreign entries to institutional pressures abroad, *Journal of International Business Studies*, Vol. 45, No. 8: pages 1005-1028.
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Is A Chinese Takeover Good Or Bad For Your Job?

By Klaus E. Meyer

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Online link: http://www.forbes.com/sites/ceibs/2016/01/25/is-a-chinese-takeover-good-or-bad-for-your-job/#116eff367ccb

- *Are there any differences when it's a Chinese company making the acquisition?*
- *What should employees expect when their company is taken over by a Chinese firm?*

When a company is taken over by a foreign acquirer this usually triggers a lot of anxiety in the workforce . The new owners will likely want to restructure the firm in some way to get value for their money. Some aim to drive up productivity by cutting slack, and for employees this spells job losses. Private equity investors typically fall into this category. Others aim to realize synergies between their existing and the newly acquired operations and this is especially bad news for middle management as a merged company rarely needs two headquarters and two sales organizations. A company that makes an acquisition within the same industry most likely pursues this type of 'synergy potential' approach.

But are there any differences when it's a Chinese company making the acquisition? What should employees expect when their company is taken over by a Chinese firm? When Munich machine tool builder KraussMaffei was taken over in January, the media reported that the workforce celebrated the news. Why were they so happy? Overall, the strategies used by Chinese companies acquiring businesses abroad have become more diverse in recent years; but in many cases, there *are* good reasons for optimism.

We can identify at least four different types of Chinese investors.

Diversifying, state-backed conglomerates are building groups of enterprises with loosely connected businesses at home and abroad. They are following the example of business groups in India, Korea and South East Asia – but in their case it's in state ownership. Such diversification is driven by a vision of long term gains from reverse knowledge transfers, and from bringing upmarket brands and technologies to the Chinese market. Yet, with limited international management expertise and few if any apparent synergies, the investor does best with a 'light touch' integration strategy. This means largely keeping the acquired firm intact, in order to leverage its strong points (brand value, quality products, etc.), while providing fresh capital for investment projects.

For companies like KraussMaffei and automotive supplier Kiekert, who previously experienced the tight purse strings and constant performance pressures of private equity owners, the new ownership of, respectively, ChemChina and Hebei Lingyun offered prospects of less interference, access to capital, and a chance to participate in the growth of the Chinese market.

However, such a strategy only works if the acquired firm was well positioned before the acquisition. Machine tool maker Schiess was not economically viable before the take-over back in 2004, and the new owners SMTCL needed almost a decade until they downsized the operation and created a new business model in which Schiess serves as a product development unit for SMTCL, the world's largest machine tool maker by units sold.

Some ambitious entrepreneurs who made a fortune in China are aiming to expand their business empire across the globe . Their motives also include knowledge acquisition, but they are also driven by the desire to diversify their wealth by investing in different locations and industries, and perhaps even a tad of managerial hubris (i.e. overestimation of their leadership capability).

The expansion of the real estate group Dalian Wanda into the entertainment industry, with targets like Legendary Entertainment in Hollywood and Atletico Madrid football club, falls into this category. Similarly, the Fosun group has expanded aggressively into the tourism and financial industries in Europe , with acquisitions ranging from the Club Med resorts to Frankfurt-based private bank Hauck & Aufhäuser.

Since these acquirers are building their empire and diversifying their financial risk, they are usually not focused on short term synergies, and so they likely use a hands-off approach and focus on growth rather than efficiency gains – which is good news for those working in the acquired firm.

Upgrading strategic challengers take a more step-by-step approach to grow within their own industry. For example, Pearl River Piano, which I discussed in my last blog, had grown in China to become the country's largest maker of pianos, eventually even overtaking Yamaha to become the world's number 1 by units. Yet, their Pearl River brand could not make inroads in foreign markets. So in 2004 they acquired and revived a 'sleeping brand', Ritmuller, which had not produced new pianos since the 1920s. But people who can afford a piano also make a careful distinction between 'German-sounding made in China' and 'Made in Germany by a traditional German company'. So to move into the premium segment, they needed a 'real' German brand. Hence, Pearl River's January 2016 announcement of its take-over of Germany's largest piano maker Schimmel with the promise to maintain and even grow their existing manufacturing facility in Germany makes a lot of sense.

Similarly, companies like Weichai Power and Sany were pursing growth within their industry with their respective German acquisitions in Kion and Putzmeister; at the time both were the

largest acquisition deals to date. Also, Haier's acquisitions of first Fisher & Paykel in New Zealand and recently of GE Appliances in the USA fall in this category. The acquired businesses contribute technology and brands, while the new Chinese parent offers financial resources and access to the Chinese market.

In these cases, the synergy potential is bigger than it would be for diversifying conglomerates, but so is the acquirer's ability to channel the acquired brand to Chinese customers, as long as its identity and quality standards are maintained. From the perspective of employees in the acquired firm, the upside likely outweighs the immediate risks. However, if the acquired company struggles in its own markets, or if the acquirer hits roadblocks in the Chinese market, as Sany did, private owners will be quicker than state-owners to react, and restructure their operations.

Experienced serial industrial investors are emerging among Chinese investors. They may have struggled with their first acquisitions and managed them with a light touch approach. Yet, companies like Bright Food Group and ShangGong Group (both listed companies part-owned by the Shanghai government) have made several acquisitions overseas. They thus face the question of how to integrate those different overseas operations.

Bright Foods Group has made nine acquisitions, including Synlait in New Zealand, Manassen Foods in Australia and Weetabix in the UK, along with several food trading firms. Their initial aim was to source high quality food products like milk, beef and fruit, for the China market. Yet, with a portfolio of overseas operations, they are now considering how best to integrate them.

Similarly, the ShangGong Group acquired Dürkopp-Adler in 2006 to add a high-end brand to their portfolio of textile machines. When they acquired Pfaff Industrial in 2013, they faced the challenge of how to integrate the two erstwhile rivals in Germany – a challenge more typical of one European company taking over another. The more Chinese investors mature, the more their strategic and operational challenges resemble those of Western firms.

In conclusion, when an acquirer promises the people in an acquired firm that their jobs are safe, it is always wise to be skeptical because acquirers want to keep the workforce motivated, even if they plan substantial cuts . Thus, employees of an acquired company should focus on analyzing the strategy and reputation of the new owners , and draw their implications from that. In the case of Chinese acquirers, many (but not all) of their strategies so far make the promise of job security quite credible!

Creating Value by Awaking a Sleeping Brand

By Klaus E. Meyer

Original publication: Forbes Blog (Online), November 9, 2015

Online Link: http://www.forbes.com/sites/ceibs/2015/11/09/creating-value-by-awaking-a-sleeping-brand/

- *Is there ever anything to be gained from buying a brand that's left for dead?*
- *Why would a Chinese manufacturer buy an inactive German brand as a basis for a China growth strategy?*

Is there ever anything to be gained from buying a brand that's left for dead?

When I first read about Pearl River Piano, it was a story about an acquisition of a famous German piano maker named Ritmüller that helped Pearl River to advance in the premium segment. Yet, there was a little problem: Ritmüller was supposed to be from the city of Göttingen and even though I had lived there for five years, I had never heard the name. So, I called an expert on the German music industry, and he hadn't heard about the company either. Now I was intrigued, and did what professors do when the facts don't fit: I dug into the archives. It turns out the real story is much more interesting.

In the archives, I found that Ritmüller piano factories were established in 1795, and had a strong run in the 19th century when they were one of the most prestigious brands in Germany. In fact, the man who later founded Steinway & Sons New York spent his apprentice years with Ritmüller. Yet the German brand went bankrupt in the financial crisis of 1929. On e-bay, historical pianos from the 17th and 18th century are for sale. Yet, in the current phone book of Göttingen, Ritmüller is a retailer of pianos, not a manufacturer. So, what did Pearl River Piano really buy? The brand seemed to be dead after 60 years without a new product, or was it just sleeping?

Subsequent to the acquisition of the rights to the brand name, Pearl River hired craftsmen and designers from Germany, developed new piano designs, and heavily invested in building the brand. Now, Ritmüller is Pearl River Piano's premium brand for both the Chinese market (including one seen at CEIBS Shanghai Campus) and for several export markets.

Acquiring a 'sleeping' brand name – especially a name from a distant country that no one would have ever heard of in China – seems to be an expensive way to build a brand. Essentially all the investment in marketing and brand development still has to be incurred; almost like building from scratch. Yet, in China it is not rare. A case that has particularly intrigued me is Klaus Meyer, which advertises itself as existing "since 1924 in Solingen, Germany". I had never heard about the brand before coming to China even though I am from Germany and my name is Klaus Meyer. So, what is going on? From the limited information on the website, I infer that similar to Ritmüller, the brand was inactive before it was acquired by a Chinese metal products manufacturer.

Even more ambitious are the plans of Beiqi Foton Motor which is working with a German team to re-create the Borgward brand of passenger cars. Founded by Carl Borgward, the brand was once known for its stylish designs and

had risen to become Germany's second largest car maker in the 1950s after VW, ahead of Mercedes, Audi and BMW. Yet, today few people under the age of fifty would have heard of the name. In 1961, Borgward was unable to pay its creditors and went bankrupt, one of the biggest industrial failures in Germany at the time.

The revival of the Borgward brand is led by a team of engineers including the founder's grandson, Christian Borgward. The Germany-based start-up company is 100% owned by Fotun, a maker of light trucks based in Beijing (not to be confused with the Fosun Group, another active Chinese investor in Europe). The plan was to manufacture Borgward cars in China, and initially to target the Chinese market, then expand to Europe two years later. In September 2015, the first new Borgward car in over 60 years was presented at the international automotive exhibition in Frankfurt; the Borgward BX7 is designed to challenge the Audi Q5.

Why would a Chinese manufacturer buy an inactive German brand as a basis for a China growth strategy? First, in China, German names are associated with precision engineering and reliable quality, even if the product does not actually come from Germany and is not made by a German company. The German country-of-origin brand image is amazingly strong, considering that products from neighboring countries in my view often live up to comparable quality standards. Such a strong brand name obviously helps German manufacturers in China – but it also creates a strong responsibility not to undermine it (these days, some folks in VW are not especially popular among German exporters).

Second, Chinese companies usually face a major challenge when taking their business international as their company names are long-winding, and many of their brands sound funny in English translation. Yet, creating an international name is always a challenging exercise. Some hire expensive consultants to create artificial names that are supposed to express their values – while not conflicting with anyone's legal titles, nor have any negative associations in any major language. B uying an inactive brand creates a shortcut to creating a brand from scratch: it communicates an ambition to pursue the values that the brand used to stand for – in the above cases that was craftsmanship and quality engineering. For example, the Ritmüller brand name communicates Pearl River's ambition to manufacture pianos based on German traditions and meeting German quality standards.

Foreign sounding brand names are not new: think of Scandinavian-sounding Haagen-Dazs (a US company) or Italian-sounding Giordano (a Hong Kong company). In China, where foreign names are only weakly protected, it is common to find fictitious German names for technology products, French for fashion and cosmetics, or Italian for furniture. Yet, consumers are getting savvy, and ask for the authenticity of the brand. That's where inactive brands come in: they offer not only the sound of a foreign name, but

a connection to a specific tradition. Yet, to create an authentic brand, they need to be complemented by hiring experts from the respective country: Pearl River hired German piano-makers, whereas Borgward's development team is based in Stuttgart, Germany and consists of engineers and executives who previously worked for top European manufacturers.

Thus, awaking a sleeping brand may signal a forceful entry in a new market segment. Yet, to be sustainable, such a strategy needs substantial investment to create a quality product and an authentic brand identity.

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India and China's New Motives for Foreign Investment

By Klaus E. Meyer

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- *Many recent large projects by Indian and Chinese investors don't seem to fit the usual pattern of what drives foreign investment*
- *for many recent projects out of China and India, their primary aim is to build the capabilities of the investing company itself*

Many recent large projects by Indian and Chinese investors don't seem to fit the usual pattern of what drives foreign investment. Traditionally, the primary motive for most foreign investment projects is either to access new markets, to access resources (minerals, energy or agriculture) or to enhance operational efficiency (e.g. through lowering labor costs, improving logistics, or reducing tax burdens). But for many recent projects out of China and India, their primary aim is to build the capabilities of the investing company itself . How will they manage these projects, and how will we be able to tell if they're doing a good job?

The capabilities that these firms want to build range from technology and brands to managerial competences (such as marketing to premium customers), engaging with international partners (such as financial advisors and private equity), managing R&D processes, and leading creative people. Many firms that have been spectacularly successful in their home markets in India or China are still lagging their global peers in these areas.

Consider three examples. India's Tata Group made a series of acquisitions of technologically-advanced but financially struggling businesses in the UK, including Corus Steel, Tetley Tea, and Jaguar Land Rover. These acquisitions don't fit any of the traditional acquisition motives because they do not (primarily) aim to sell Indian products in Europe, nor do they reduce costs of existing operations, nor do they provide access to natural resources. In fact, the acquired organizations are barely operationally integrated with older units of the Tata Group. So why did Tata do these deals? In addition to financial motives (risk diversification), these acquisitions were fuelled by the ambition to build managerial competences in global business, for example in the management of acquisition processes. Thus the main expected benefits lay in the long-term contribution to building the capabilities of the acquiring firm – Tata.

Similarly, Geely, a private car manufacturer from Jiangsu province, China, has acquired Swedish car maker Volvo and British Manganese Bronze (famous for making London Taxis). The primary motives behind these acquisitions were not related to European markets, efficiency improvements or resource access. Rather, Geely aimed to use the acquired brands and technologies to strengthen its position in China, specifically by introducing new premium brands to the Chinese market, and by enhancing technologies in its existing operations. In 2014, Geely even announced its intention to serve the US market with the Swedish Volvo brand made

in China; whether this will materialize remains to be seen.

As a third example, consider the SGSB Group. In 2005, it was a struggling manufacturer of industrial sewing machines which realized that to survive against Japanese and German competitors in China, it needed to upgrade its technology and, preferably, add a German brand to its portfolio. With these aims, SGSB acquired German premium brand Dürkopp-Adler, which was struggling financially. Their brand and technologies were valued by clients in China, e.g. automotive suppliers, yet Dürkopp-Adler had failed to build a distribution channel to serve these potential clients. Hence, there were obvious synergy potentials between the two. After several ups and downs during the post-acquisition process, SGSB managed to build a strong and profitable position in the Chinese market. In 2013, SGSB (now renamed SG Group) made two further acquisitions leading the industry consolidation and challenging Japanese global leaders.

In all three examples, the strategies were quite different from what we typically see when Western firms go abroad. Tata, Geely and SGSB all contributed financial resources to target firms facing serious liquidity constraints, and created bridges to potential customers in emerging economies. Thus, all three companies invested in new production facilities in China where the European brand would be *built* for the Chinese market, but *marketed* as a European brand. However, their primary aim was not to exploit these resources, but to enhance the parent's capability base with an eye on much longer-term strategic objectives.

However, these capability-building projects raise (at least) two questions: first, how should we assess the performance of such acquisitions overseas ? If knowledge transfer to the parent is the main objective, then the financial performance of the subsidiary is not an appropriate performance measure. Ideally, one would look for indicators of received knowledge, of new product innovations facilitated by received technologies, and of organizational changes in the parent as proof of insights gained from the management practices of the acquired firm. Such indicators are hard to create, however, let alone be objectively measured by independent observers (such as professors blogging about business). Yet, without evidence that such 'soft' contributions actually take place, there remains the suspicion that capability-building acquisitions are – at least in some cases –public relations exercises justifying poorly-thought-through strategies .

Second, how can a relative laggard company actually manage the process of acquiring and reverse transferring advanced technological and managerial know how? The operational challenges are manifold, and often magnified by cultural differences between the acquirer and the target organization. To start, how can a technological laggard identify the sources of a leaders' superior performance? How can knowledge that is embedded in organizational processes, or even the education system, be communicated to recipients outside of the organization? How can knowledge from the acquired firm be utilized in a recipient organization (the acquirer) with very different structures and culture, say authoritarian leadership in China versus flat hierarchies in Northern Europe. It requires exceptional leaders to realize the full potential of capability building investments!

Chinese Multinationals: Ambitious Challengers taking High Stakes

By Klaus E. Meyer

Original publication: Forbes Blog (Online), October 20, 2014

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- *it remains to be seen how well they can manage those acquired operations in distant countries.*
- *The aggressive path of building international operations of Chinese businesses challenges traditional models of international growth.*

In recent years, Chinese businesses have made aggressive moves onto the global stage. A decade ago, only very few Chinese companies had major operations beyond the country's borders. Yet by year 2014 some companies like Lenovo, Huawei and ZTE are earning more than half of their revenues abroad. Innovative companies as diverse as baby stroller maker Goodbaby, and Mindray that makes medical equipment, have become world leaders with their own focused niche strategies.

Others have undertaken ambitious acquisitions, encouraged by the Chinese government's "going out" policy. Technology and brands of mid-size German companies have attracted private investors such as Sany Heavy Industry and Jiangsu Jingsheng Group, as well as local government enterprises usually known in the West by their acronyms such as CQLT, LYIC or XCMG. Some even acquire businesses abroad that are bigger than they are themselves, such as Geely's acquisition of Volvo in Sweden and WH Group acquiring Smithfield Foods in the USA. Others lead the consolidation of their industry, from traditional industries like SGSB in textile machine to recently emerged sectors such as Hanergy in the solar panel industry.

Choices

What is remarkable about this rapid catch up is not only its pace, but the choice of acquisitions in distant locations as the mode of entry by relatively inexperienced firms. In the early 2000s, such acquisitions were mainly undertaken by state enterprises targeting companies for sale at a low price because they were in financial difficulties. However, the pattern has quickly matured. In the years since 2010, private companies have become more active, and their targets include companies doing well in their established markets. Yet, while the Chinese are getting better at negotiating acquisition deals, it remains to be seen how well they can manage those acquired operations in distant countries.

The aggressive path of building international operations of Chinese businesses challenges traditional models of international growth. Normally, companies would build their international operations step-by-step, starting with modest investment in places that are not-too-different from home. Learning from these early operations, they would build their knowledge base of both the local market and the global business environment, which then enables informed further investments and international growth. For Chinese companies, such a gradual path would be particularly

suitable because they lack international experience in their top management teams – the current generation of business leaders rarely has overseas education or expatriate assignments on their resumes.

This lack of experience in managing international operations can lead to an underestimation of the challenges of international business , such as managing a cross-cultural workforce and engaging with politicians, journalists and NGOs in other countries. The danger of overconfidence is particularly pronounced for businesses that have been very successful in their home country but had limited exposure to foreign competition, regulation, and cultures. Many Chinese businesses have generated valuable competences, entrepreneurial self-confidence, and a quest for new challenges. Yet, this may not be enough to tackle challenges overseas.

To appreciate these challenges, consider mistakes that European and American businesses made when they first came to China in the 1990s. They struggled to understand the role of various government entities, they were confused by the interplay of formal rules and local practices, and they had to accommodate the culture of Chinese employees and consumers. These observations help to predict the challenges that Chinese companies will experience. For example media, trade unions and journalists play fundamentally different roles in the USA and China – even if there are similarly named organizations. Put a word like 'trade union' into Google translate, and you obtain a Chinese expression. Yet, this tells you little about how and why such an organization may influence a foreign investment operation, and how businesses may work with them for the benefit of both the company and its employees. Understanding such local conditions requires learning in the country, engaging with business partners, and personally interacting with people both in and outside of the workplace.

Chinese companies move much faster than others, often before they have built management teams with solid knowledge of host societies. Is that a problem? Not necessarily. It just comes with much higher risks! Those that are effective in learning about local practices and in acquiring and integrating new competences may be able to build international operations quickly. However those who fail to build managerial capabilities to lead the operations they acquire, face a high risk of failure. They may not only fail to achieve their technology acquisition goals, but may have to subsidize a loss-making overseas affiliate over many years.

Many Chinese businesses want to become global players. Their rapid outward investment is generating great opportunities, but it is much too early to evaluate its success. The path to the global stage takes them through thorny landscapes – both literally and metaphorically. Those who learn and adapt to those unfamiliar territories are most likely to survive and prosper in the next decade.

Further Readings:

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How China's MNCs can Build Trust Abroad

By Klaus E. Meyer

Original publication: Forbes Blog (Online), July 16, 2014

Online link: http://www.forbes.com/sites/ceibs/2014/07/16/how-chinas-mncs-can-build-trust-abroad/

- *In international business, trust is not given, it must be earned.*

Distrust of State-related Firms

Chinese multinational report unreasonable objections to their investment plans in some places. In the USA, high profile cases included the refusal of the proposed acquisition of Unocal by CNOOC, and a recent rejection of a windmill park operated by SANY. Similarly, Australia objected to the takeover of Rio Tinto by Chinalco, while the Canadian authorities let CNOOCs acquisition of Nexen go ahead but clearly communicated that they would not approve similar acquisitions in the future. In fact, some countries introduced special screening procedures for acquisitions by foreign state-owned entities.

Underlying these obstacles is public opinion suspicious of Chinese investors, and state-related firms in particular. Allegations towards these firms range from unfair competitive advantages due to the state's financial support to the lack of positive spillover benefits due to their presumed low level efficiency. In resource rich countries like Canada and Australia, concerns over the control of their natural resources add to public concerns, whereas in the Chinese are not alone in this. Russian oil major Gazprom frequently attracts political opposition in Central and Eastern Europe.

Some arguments may hold true, others are thinly disguised new forms of protectionism. Either way, state-related firms have to find ways to overcome the distrust marking their arrival. What can they do to overcome distrust and to establish business operations abroad?

Structuring the deal

In the first instance, foreign investors can structure their deal in ways that avoid conflicts with critical stakeholders. Our recently published research [Meyer, et al., JIBS 2014] highlights two ways in which Chinese SOEs adapt their foreign investments in countries where distrust is potentially high. First, they avoid acquisitions, which tend to trigger public debate and in some cases a need for regulatory approval, in favor of greenfield investment, which tend to attract less media hype. Second, when acquiring a local firm, they take a lower equity stake allowing for a substantive role of local investors presumably trusted by local stakeholders. Such high profile adaptations help gaining legitimacy and overcoming distrust.

Operating collaboratively

Beyond the ownership structure, foreign investors can earn the trust of a local community in many ways. For example, they may keep incumbent managers or founding entrepreneurs, and hence leverage their reputation. Also, local stakeholders may have particular concerns, such as employment in the local community, the retention of R&D units and collaborations, or the identity of the acquired firm's brand. They look for credible commitments. Especially at early stages,

communication is key – internally with with middle management and shop floor workers, and externally with local media and whoever is influential in the particular locality, from the city major to the trade union. Likewise, local stakeholders will be looking for a perspective for themselves, within the new subsidiary or otherwise. Keeping what is important to locals goes a long way to earn respect. And keeping promises builds trust.

Ultimately, earning trust in a host society is not only about respecting local laws, but to actively demonstrate alignment with local norms. To be considered legitimate, investors have to do more than following the letters of the law, it requires showing genuine respect for the values and norms of the host society – not just the letters of the law but the spirit of the law!

Lessons for All Multinationals

Legitimacy with host societies is important to all multinationals; nobody likes to host an elephant in the proverbial China shop. Chinese MNEs are not the only ones who find that challenging: US companies have in recent years clashed with European values in areas such as labor rights (Amazon, Walmart, GM), abuse of dominant market position (Microsoft, Google), protection of privacy (Google, Facebook), and tax avoidance (Starbucks, Amazon). They too are seen with distrust in some circles. Winning in the court of law is one thing; winning in the court of public opinion is a much bigger challenge. Yet, public opinion shapes future business opportunities, directly and indirectly.

Reference:

Meyer, Klaus E., Ding, Yuan, Li, Jing & Zhang, Hua (2014). Overcoming distrust: How state-owned enterprises adapt their foreign entries to institutional pressures abroad. Journal of International Business Studies, 45(8): 1005-1028 http://dx.doi.org/10.1057/jibs.2014.15.

From our Own Research

How do Chinese state MNEs overcome the distrust they face in some countries?

Klaus Meyer, Ding Yuan, Jing Li & Zhang Hua, Journal of International Business Studies, 45(8): 1005-1028.

Argument: SOEs are facing more challenges to their legitimacy in some countries, esp. rule of law & shareholder oriented ones, and in high tech countries. Hence, in these places, they demonstrate legitimacy by avoiding acquisitions, especially full acquisitions.

Findings: host country characteristics	Acquistion (viz Greenfield)	Level of Equity in Acquisitions
Rule of Law	0	+
Rule of Law * State Ownership	**0**	--
Shareholder Protection	0	++
Shareholder Protection * State Ownership	**-**	--
Technology Intensity	+	++
Technology Intensity * State Ownership	--	**--**

Data: Subsidiaries of Listed Chinese MNEs

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China's strong presence in Africa must become a fruitful collaboration

By Klaus E. Meyer

Original publication: Financial Times, February 3, 2014

Online link: http://www.ft.com/intl/cms/s/2/41755446-842c-11e3-9903-00144feab7de.html#axzz2saoV8fjT

Just arrived in Ghana, I flipped through a local magazine and was struck by its selection of best cartoon of 2013: a map of Africa marked by a vast Chinese footprint and President Obama walking over the map making tiny US footprints and looking rather puzzled.

The Chinese have indeed left a very strong footprint in many African countries, as western nations are belatedly finding out. However, people on both sides still struggle to convert this solid footprint into fruitful collaboration. Business schools can help any such collaboration by aiming to enhance mutual understanding and help businesses to bridge the TWO very distinct cultures.

Today Chinese companies feature prominently in any review of the large investments in Africa, be it as investors, constructors, or as financiers. African economies need such projects, not only to unlock the value of their natural resources, but to fill critical gaps in their infrastructure. Naturally Chinese investors are first interested in connecting the mines to ports from where resources can be exported.

Yet Chinese investments extend much further. In Ghana for example, a Chinese state company from Shandong province has announced its intention to build an aluminum plant. Such a project is strategically important for a country that is trying to create more value added to its raw material exports. Economic updates on various African countries suggest that the Chinese not only have a presence almost everywhere, but account for many of the largest new loans and the largest investment projects. The potential for mutually beneficial business is vast and appreciated by leaders on both sides.

Yet, despite these obvious opportunities, the relationship between Africa and China is anything but smooth. On a strategic level, questions are asked about whether the Chinese engagement in Africa is really as beneficial as is claimed. Nigerian Central Bank Governor Lamido Sanusi created quite a stir when he argued that China's engagement in Africa resembles the former colonial masters' in the sense that Africa is exporting raw materials and importing manufacturing goods. Such a view is supported by the fact that some African countries have

experienced a decline in manufacturing's share of GDP in recent years.

Some also argue that infrastructure financing from Chinese sources may not be as favourable as it appears. For example, Ghana's opposition party made a big fuss about the conditions of a US$3BN loan agreed in 2011, arguing that the conditions were too cumbersome. Others criticise loans that are tied to engaging Chinese construction companies or purchasing goods from China. But it was not so long ago that European aid money also had similar strings attached.

When Namibian Prime Minister Hage Geingob asserted that whoever comes to Namibia must come on Namibian terms that sounded reassuring. Yet, when Namibia (population 2.3 million) negotiates with China (population 1.35 billion) the bargaining power may not always be finely balanced. Moreover, contracts may be signed by political leaders more concerned with their personal interests than that of their nation.

Yet even more challenging: when it comes to personal interaction, Chinese and Africans still seem to be light years apart. The shortage of internationally experienced managers is a pivotal weakness for Chinese companies as they start operating in multicultural settings.

This mutual lack of cross-cultural competences highlights two challenges for business education in China and Africa. First, such competences are hard to develop in organisations that traditionally have limited internal diversity; business education has a critical role in facilitating the development of cross-cultural sensitivity among business leaders. Second, leaders who are at ease communicating across cultural boundaries may still find cross-cultural conflicts arising at lower levels of the hierarchy. Thus, future leaders not only need cross-cultural experience in a classroom setting, but they need practices and processes that they can use to facilitate cross-cultural experiences throughout their organisation, encompassing everyone who may come into contact with foreign colleagues, customers, or suppliers.

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