Study on the Countermeasures of Chinese Enterprises

Cross-border M & A failures ---- Case Study Based on SAIC’s acquisition of Ssangyong

Li Juan

Management College, Wuhan University of Technology, Wuhan, China
543640293@qq.com

Abstract: After the 2008 financial crisis, China shows strong growth in cross-border mergers and acquisitions team, while through the number of the failed mergers cases over the years, the implement of cross-border mergers and acquisitions (M&A) of Chinese enterprises found unsatisfactory. Through a comprehensive analysis of the reasons for the acquisition of a typical failed case of SAIC Ssangyong car, the text summed up experience and lessons for Chinese enterprises that should be learnt from the process of mergers and acquisitions, and provided recommendations for Chinese companies which are going to transoceanic mergers and acquisitions.

Key words: Cross-border M&A; Corporate Strategy;Integrated Security;Cultural integration

1. Introduction

The 2008 financial crisis made a result that stock market turmoil and the housing market flounder in the USA, moreover, it evolved into a global economic crisis eventually. But it’s also an opportunity for many Chinese enterprise, Chinese entrepreneurs are on the path of the cross-borderM&A, and the development trend of Cross-borderM&Ain China increased year by year. Although Chinese enterprises have big effects in overseas M&A markets with capital, scale, technology and other advantages, also faced with much risks and challenges. In fact, China's achievements in overseas mergers and acquisitionsis not been going smoothly. The typical fail cases of Chinese enterprisescross-border M&A during 2009-2015 are presented in Table 1.

Table 1 Typical fail cases of Chinese enterprises cross-border M&A during 2009-2015

<table>
<thead>
<tr>
<th>Year</th>
<th>Typical fail cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>SAIC’s acquisition of Ssangyong; Chinalco’s deal with Australia</td>
</tr>
<tr>
<td>2010</td>
<td>Tencent takeover bid for the ICQ; CNOOC’s $5 billion bid for Ghana Jubilee oil field cooperated with Ghana's national oil company; Huawei’s acquisition of Motorola</td>
</tr>
<tr>
<td>2011</td>
<td>Guangming Group’s deal with American GNC; Huwei’s acquisition of American 3LeafSystems</td>
</tr>
<tr>
<td>2012</td>
<td>Minmetals Group’s acquisition of Anvil</td>
</tr>
<tr>
<td>2013</td>
<td>China’s gold group bought African Bakrie gold company; Hanlong Group’s acquisition of Australia Sundance</td>
</tr>
<tr>
<td>2014</td>
<td>Shanghai electric bought Italian AEN energy company</td>
</tr>
<tr>
<td>2015</td>
<td>DiDi’s acquisition of Uber China</td>
</tr>
</tbody>
</table>

According to a survey by relevant institutions, in addition to some large enterprises, 70% of of Chinese enterprises is the first time to implement overseas M&A and up to 90% companies even have not any investment experience in the country of acquired company. In the area of mining industry that china enterprises like to acquire, the rate of fail even up to 80%. The data provided by
the International financial data company Dealogic, showing that Chinese enterprises’ cross-border mergers failure rate is the highest in the world in 2009, up to 12%; This ratio fell to 11% in 2010, but still the highest in the world. Because the lack of experience in our overseas mergers and acquisitions, in addition to domestic M&A theory development is not perfect, M&A theory doesn’t play a good role as people expected. SAIC is a typical automobile group in China, and the acquisition of Ssangyong is referred to as "the first case of China's auto industry overseas mergers and acquisitions". The failure of SAIC’s acquisitions, shows that China's overseas M&A experience is insufficient seriously. The analysis of the acquisition process can rich the research about M&A cases in China. It’s important to help Chinese enterprises to go abroad and implement mergers or other investments. In this paper, it can make a positive significance for foreign mergers and acquisitions by studying the cases of SAIC acquisition.

There are a lot of researches on the case, but the innovation of this paper is from the perspective of cultural studies. Under the comprehensive analysis of this case, including inadequate preparation, imperfect acquisition plan, existing "reef" in cultures integration and lacking of international management, we strive to resolve the problem of cross-border M&A in China, and proposes the corresponding countermeasures.

2. Theoretical development

There are many Chinese scholars have researched about the reason of acquisition failure for Chinese enterprise. Han Ting[1](2007) point out that integration efficiency and the failure of cultural integration take a responsibility to the failure of mergers and acquisition. And there is a comma point between the failure acquisition cases, they all ignored the importance of culture in mergers and acquisitions. The labor conflict is another cause for the acquisition failure thought by Yuan Qinghong[2] (2007). The Chinese scholar Zhuang Enping[3](2007) make a further stay in labor conflict in the process of acquisition, and point out some recommendation to cultural integration after cross-border M&A for Chinese enterprise. Liu Xiaorong[4](2011) show that the cause of acquisition failure is the deficient cognition on the difference about national culture and corporate culture from the perspective of cultural integration. Yan Hai[5](2012) point out the payment is another cause for acquisition failure.

Stigler, the Nobel laureate economist, point out that many famous American companies develop with the merger or acquisition. It’s visible that the M&A play an important role in enterprises development. However, most of the mergers and acquisitions were not successful. The McKinsey, make a survey about the 116 acquisition of the largest industrial enterprises in Britain and the United States between 1972 and 1988. On the basis of the financial information in 1986, the results show that only 23% of the mergers and acquisitions are effective, failure rate has reached 6%, and leaving 16% isn’t explicit. In 1992, the UK's largest 100 companies senior management in-depth interviews by PWC, the results show that the management of the investigation about 54% think that the M&A is failed. The two surveys conducted by Commercial International Company (Business International) in 1973 and 1988, show that the failure rate of the two acquisitions were 49% and 56% respectively. Timur Kuran & William H. Sandholm[6](2008) research in the effects of cultural integration on mergers and acquisitions by the nature of culture itself. The paper also emphasizes the importance of cultural integration.

3. Analysis of Case - SAIC’s acquisition of Ssangyong

3.1 Introduction of Case

The purpose of SAIC acquiring Ssangyong is to improve the technique rapidly by taking
advantages of its brand and the R&D (research and development ability) ability. Through the acquisition, SAIC can give full play to its advantages in the fund and market. Meanwhile, the positive effect of acquisition can be observed if the acquisition is achieved\(^7\). On October 28, 2004, SAIC reached a particular agreement with Ssangyong. Then, four senior executives from SAIC were sent to manage Ssangyong with ex-chairman of Ssangyong. However, SAIC realized that it was difficult to get the core technical documents and test specification. And the labor union of Ssangyong held the strike to express their dissatisfaction and indignation with job cut. In 2008, the global financial crisis caused a huge loss in Ssangyong, who was difficult to receive the assistance from the government due to its low status. On February 6, 2009, the local court in Seoul judged that SAIC should give up the control of Ssangyong, but retain the right of part of assets. Meanwhile, the stock rights held by SAIC were reduced to 11.2\%, that is, the loss of SAIC could reach about 30.76 billion RMB, which indicated that the acquisition initiated by SAIC was completely failed.

3.2 Reasons of failure

(1) Inadequate preparation and Information
The crisis of Ssangyong is not just only financial problem, but the absence of inner management and the mistake of market positioning. But SAIC haven’t found the fundamental problem, just make capital investment, the fundamental problem still left. For Chinese companies, they should be aware of the implement of acquisition mustmatched strong strength and ability, not just capital, but also technology and management ability. In cross-border M&A, management ability is another large challenge to acquirers. Despite the SAIC is the domestic first-class car company, also at the forefront in market. But over the past few decades, in the aspect of automobile enterprise management, SAIC’s independent operation and management experience is limited, mainly depending on the foreign party in the joint venture.\(^8\)

(2) Existing "reef" in Culture Integration
Korea is a country with a strong nationalism, and the consciousness of xenophobic is very strong. So for a Chinese company to acquire a Korean enterprise, as the first attempt to its overseas mergers and acquisitions, is not a wise decision. SAIC apparently not aware of that the Salary pattern and employment pattern in Korean company is different with typical Chinese company. For example, trade unions in China is just a decoration, do not remove any real significance to enterprise's development. But in Korea, the staff in trade union is professional, and they can make a difference in the decision of the board of directors, but SAIC ignored this apparently. The wrong understanding of Korean culture need to take a responsibility for this acquisition failure, we can call it culture “reef”.\(^9\) On the contrary, the company Geely’s acquisition of Volvo is successful, because it researched the culture of Volvo deeply, including the opinions of the trade union. Obviously, the company culture or the national culture can be a key to cross-board mergers and acquisitions success.\(^10\)

(3) Lacking of international management
After SAIC had the control of Ssangyong, they had not appointed a team with rich international management experience to manage the company operation. Meanwhile the ability of international management of SAIC retains to be improved under the surroundings that Chinese enterprises overseas M&A is just beginning. So in this acquisition, the error of SAIC is that Ssangyong's technology digestion and absorption is not do well, and the ineffective management makes the company can’t be a profitable enterprise. These all show the SAIC’s weakness in the international management system and the lack of talent cultivation in internationalization.
(4) Financial crisis not the fundamental
Chinese enterprise had to realize that the failure of many company is not just because of financial problem, the financial crisis just a fuse. So capital investment is not the fundamental solution. In the case of acquisition, there are many reasons in the failure of Ssangyong. In Korean, the operation of automobile industry mostly depends on bank loan, so the European market demand decreases make a direct result of capital chain gap. But the inner management problem is the basic reason, and the management doesn’t take effective countermeasures to financial crisis in the first time. So the financial crisis just speed up the failure of Ssangyong, it happened to be a catalyst.

4. Countermeasures for Cross-border M&A
4.1 Making right decision in the early stage
(1) Making a correct strategic target
The strategy formulation is the key for acquisition, so it’s important to make a correct strategic target. In the background that the environment of political and economic turmoil, and the relationship of interest is complicated, Chinese enterprise need to adjust our strategy in the process of cross-border M&A. To introduce win-win idea to the implementation of the M&A, and to analyze the pattern of overseas M&A deeply, is a good choice to Chinese enterprise. In the process, all enterprises not only to consider their own interests, should also consider to China's international responsibility and obligation.

(2) Selecting and evaluating acquired company
First of all, when choosing target enterprise, we need to analyze the industry characteristics and need do these tipsas far as possible. Firstly, the target should have the consistent corporate value and culture with the current businesses. Secondly, enterprise with poor credit and management is not a good choice. Thirdly, the target may be may be competitors, suppliers, but not the customers. Then, to accurate the value of target enterprise is necessary to acquisition. Enterprises should make full use of all available resources, to assess the target enterprise’s financial position, cash flow, the brand value and market leadership position. The purpose is to avoid of paying high cost for a low value company.

(3) Avoiding risk effectively in M&A
In the process of M&A, enterprises need to know the policies and laws of the country where the acquired company located. The restriction of policy and legal regulations play an important role in cross-border M&A, even decides the acquisition success or failure. For example, Lenovo’s acquisition of the PC business of IBM, the investigation of CFIUS is breathtaking to Lenovo Group.

4.2 Choosing appropriate payment
Selecting the appropriate payment can avoid high payments and the shortage of cash flow. On payment, enterprises should avoid using a single cash payment. Chinese enterprises can choose cash, equity, leverage payment, flexible combination of options and so on. The installment plan is a good way to reduce the repayment pressure when you pay in cash, and it also can reduce risk.

4.3 Formulating integrated security in post-processing
(1) Establishing Chinese firm’s integrated security system of overseas acquisition
China doesn’t have perfect security system of overseas acquisition at present, which causes that the firms can’t get assistance from the government during the process of overseas acquisition. So, it is of great important for China to formulate Chinese firm’s integrated security system of overseas acquisition. In this regard, it can be established from nine aspects, including theoretical research, policy design, the guidance of public opinion, the distribution of resource, strategic layout,
hard power, soft power, smart power and executive capability.

(2) Establishing acquisition performance appraisal system

Acquisition performance appraisal system can solve the problem of acquisition motive. When formulating appraisal system, we should consider the firm level, social level and economy, politics and diplomacy level synthetically. Hence, the acquisition performance appraisal system of Chinese firms can be established from nine aspects as well, including desired performance, relationship between major countries, international repercussions, global layout, domestic economy, social development, environmental implication and economic security. Moreover, the acquisition performance appraisal system can be modified through model establishment, policy simulation and bifunctional feedback, which will make it a dynamic security and appraisal system.

5. Conclusion

For China’s enterprises, the progress of overseas expansion is very hard, while it can bring many benefits for the enterprise, including expanding the scale of enterprises, opening up the international market. But the cross-border M&A is only a way, not perfect. There are also many other ways to achieve Chinese enterprises internationalized. Before implementing M&A, the acquired company should be analyzed combined with the actual situation of their own enterprise. Meanwhile, formulating merger strategy and avoiding of merger risk is a good way to improve the rate of success. Moreover, integrated security in post-processing is a key to acquisition success. Finally, the cultivating of talents, the introduction of globalization and the redesign of organization guarantee mechanism all can help to successful implementation of overseas M&A for Chinese enterprises.

References