Università
Ca'Foscari
Venezia

# Master's Degree

in Languages, Economics and Institutions of Asia and North Africa
(D.M. 270/2004)

**Final Thesis**

# Merger and Acquisition as a method adopted by Chinese companies to internationalize


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**Academic Year**
2020 / 2021

## TABLE OF CONTENTS

## LIST OF ABBREVIATIONS

BoD= Board of Directors

CEO= Chief Executive Officer

CNOOC= China National Offshore Oil Corporation

FDI= Foreign Direct Investment

GDP= Gross Domestic Product

MNC= Multinational Corporation

MNE= Multinational Enterprise

MOFCOM= Ministry of Commerce

PBC= People’s Bank of China

R&D= Research and development

RMB=Renminbi

SME= Small and Medium Enterprises

SOE= State Owned Enterprises

# INTRODUCTION

As a consequence of the unstoppable growth of the Chinese economy, today Beijing's capitals are present in practically every country in the form of investments in the most strategic companies. Just to make an example, many Chinese companies have invested, via acquisition or other internationalization methods, in most of the Italian key companies operating in various sectors: Chem China, a chemical State-owned enterprise bought the majority stake of Pirelli & Co. S.p.A., leading enterprise in the tyres sector; State Grid, the biggest company operating in the industry of utilities, obtained a controlling interest over Cdp Reti S.p.A, which is active in the electric energy sector; finally the People's Bank of China partially controls companies like Eni, Tim, Enel. This display of economic overwhelming dominance is coming from a country which less than one hundred years ago has been under the control of the War Lords, few years later has been devastated by the Civil War between Nationalist and Communist Parties and until 1976 has been under the dictatorship of Mao Zedong, which politically and economically isolated the country from the rest of the world leaving it in a situation of widespread poverty and backwardness. However the designation of Mao's successor, Deng Xiaoping, set the stage for China to gradually become one of the world economic leaders and even substitute the Soviet Union before and Russia after in their rivalry against the USA in the optic of a superpowers dualism.

The principal event which led China to successively obtain such achievements has been the 1978 “Open door policy” ( in Chinese “门户开放改革”), which entailed the gradual integration of the Chinese economic system to the world's economy. Anyway this system has never been completely set free from the Government, which through a strict control over the enterprises and the retention of the five-years-plan typical of the communist economic system, have always had the last word in matter of production goals and investments direction. Despite the support of the Party, since the beginning the Chinese companies showed a marked and obvious backwardness if compared with the foreign ones, thus instead of spurring domestic companies to expand abroad, the Government firstly promoted foreign ventures inward internationalization with the establishment of “Special Economic Zones” which through different types of incentives had the purpose to attract foreign investments. By working side by side with foreign experienced multinationals, a large number of Chinese companies managed to seize this opportunity and somehow exploited and partially absorbed those ventures' precious know-how. After few years the Chinese Government, which in the meantime, through the already mentioned policy, collected a huge quantity of foreign currency, in an effort to promote the then more mature Chinese companies outward internationalization, launched, at the end of the last century, the new “Go out policy” (in Chinese “走出去战略”), which consisted in a sequence of measures, such as the Government financial backing, aimed at facilitate the domestic State-owned enterprises expansion abroad. Finally, in December 2001, the country joined the WTO.

These events spurred the Chinese companies' internationalization towards less developed areas in order to seek natural resources before, and more industrialized countries to explore new assets and markets after.

In this dissertation, the first chapter will be fully dedicated to the explanation of the dynamics and the reasons that led China to be the first country in the world for outward foreign direct investments today, and also a focus on the new Chinese international ventures will occur with the purpose to analyse their behaviour and the potential difficulties encountered abroad. Finally, actual issues such as the increasing scepticism showed by the host countries' administrations towards those ventures and the impact of the recent financial crisis will be deepened. The second chapter will make clear the different modes of entry a company can use to penetrate in a foreign country, in particular the internationalization through Merger and Acquisition (M&A) will be explained, and the reader will be able to understand the motivations, the many outcomes, the procedures and the potential obstacles that characterize such a commonly used expansion method. Finally, the last chapter will be a case study focused on Haier Group company internationalization strategy and, more in particular, internationalization through M&A. Through the example of Haier, today the biggest home appliances manufacturer, will be possible to understand how, through the

Chinese Government support and a certain amount of entrepreneurship, a company with an initial situation of disadvantage managed to gradually place itself almost side by side with the world giants in very short time. Then, in a second time, will also be possible to understand, through concrete examples, how the adoption of different and well-planned M&A operations made the Chinese multinational expand at such point to become a leading global company surpassing the actual establishment made up by extremely experienced firms coming form developed countries.

As a “Language and Management to China” student, the choice of international M&A made by Chinese companies had the purpose to mix together my passion for the Chinese culture and my interest for one of today's most debated topics: the always more widespread presence of the Chinese capitals worldwide, which is a clear sign of the Chinese economy superiority.

# 摘要

由于中国经济不可挡地增长，现今从北京来的资金以投资方式在世界各个家的最战略性的公司流转。比如说，通过并购或者其他国际化的方式，许多中国企业向在不同行业运营的大多数意大利关键公司投入了重资: 中国化工集团公司， 也就是一家国有企业， 收购了在轮胎产业领先的倍耐力轮胎股份公司（Pirelli & Co. S.p.A）的多数股权; 再比如说，世界上最大的公用事业公司叫做国家电网公司，收购了运营于电力行业的 Cdp Reti 股份公司的控股权；最后，中国人民银行控制了意大利埃尼（ENI）、意大利电信集团（TELECOM）、与意大利国家电动公司埃内尔（ENEL）等公司的少数部分。

这个压倒性经济优势的表现是来自于不到一百年前遭到所谓军阀控制，就为国民党反对共产党的内战所摧毁，最后为毛泽东关注政治和经济孤独主义，造成普遍贫困和落后境地的独裁统治的中国。然而，在毛泽东的继任者邓小平的主导下，中国逐渐成为世界经济领导之一，在美俄冲突取代了二者，甚至在超级大国二元论中奠定了基础。中国经济相继取得这些成就的主要事件是于 1978 年发布的"门户开放改革" 政策；政策的最重目标是渐渐将中国经济体系融入到世界经济体制中。无论如何，因为完全附着共产主义经济制度的原因，政府对国内企业一直预留了十分严格的控制并保留五年计划的经济体系，所以中国企业从来不完全逃脱过政府的控制，甚至是政府一直对国内企业生产目标和投资方向保留最终决定权。尽管共产党所提供支持，从一开始，如果与外国公司相比中国公司就表现出明显的落后。因此，刺激国内企业向海外扩张之前，中

国共产党首先建立四个"经济特区"，以促进外国企业向内扩张并吸引外国对中国的投资。通过与外国经验丰富的跨国公司并肩工作，许多中国公司已能随便吸收这些公司的珍贵诀窍和技术。与此同时，中国政府通过"门户开放改革"这一政策已收集大量外汇, 并二十世纪未宣布《走出去》战略。那个新战略的目的为推进那些已经得到国际经济经验的中国企业的国际化。在上个世纪末中国政府颁布的《走出去》战略包括一系列措施，比如说政府财政支持，旨在促进中国国有企业向海外扩张。最终，中国于 2001 年 12 月加入世贸组织的。此事件早便促进中国企业先到不发达的地方寻找新资源，然后到比较发达的国家去了解新市场。
在本论文中，第一章将完全致力于解释导致中国在对外直接投资方面成为第一个国家的动态和原因。此外，还将专注于新的中国跨国公司，以便分析其行为和在国外所遇到的潜在困难。最后，从外国政府对那些新中国跨国公司所提出的怀疑以及晚近金融危机对中国公司的影响这两个实际问题将得到加深。第二章将明确跨国公司可以用来进入外国的不同方式；尤其是，读者将了解并购这种常用国际化方式的动机，结果，程序以及潜在的障碍。终于，最后一章将贡献介绍海尔集团公司的国际化战略，特别是关于通过并购实现国际化的个案研究。通过如今最大的家电制造商海尔集团的例子，在第三章的第一段中读者将了解到如何通过中国政府的支持并企业精神，一家原来处于劣势状态的公司在很短时间内几乎达到像那时候是世界最巨头公司一样的水平。此后，在第二段中，读者还将从实例了解如何通过不同而精心策划的并购，海尔占据家电领域的领先地位，超越来自发达国家，已具有丰富经验的企业。

作为汉语和中国企业管理的大学生，我选择采用了并购这个国际化方式的中国公司为论题在于两个主要原因：第一，我对中国文化的诱惑力很深，  第二，我对中国经济现今与世界各国相比具有明显优势此话题大有兴趣，也就是最有争议的话题之一。关于这一点，中国在世界各地的投资量一直上升证明了中国经济已占据领先地位。

# 1. THE INTERNATIONALIZATION OF THE CHINESE COMPANIES

## 1.1 The rise of the Chinese economic openness

After a long declining period which went from the second half of the nineteenth century to the first half of the twentieth century, in the last seventy years Chinese economy has been characterized by a phase of development. From 1949 to 1978 the main objective of the Chinese economy was the self-reliance, and the country just imported those durable goods that could enhance the production capacity. In that period the weight of the import-export activity was just about 5% of the total GDP, anyway China started to reach a 4% annual economic growth rate keeping it up with the world average. In those years the countries that registered the highest growth rates were the Newly Industrialized Economies (NICs) : Taiwan, Hong Kong, Southern Korea and Singapore, with an astonishing 6% GDP annual growth.

Since the 1970s China decided to imitate those countries and consequently opened up its market to the foreign commerce, leveraging its comparative advantages in the labour-intensive industries, given by the low labour costs, in order to finance the development of the so called capital-intensive industries, and since then the foreign trade gained more and more importance making China the sixth biggest exporter in 2001.

Over the years the composition of the exports changed deeply, from the manufacturing sector and the heavy industries it started to shift toward the electronics sector, a clear signal that the Chinese market cleverly adapted to the international demand, and this dynamism in its exportations helped to create a huge trade surplus over the years.

Another element that contributed to open the Chinese economy and make China even more tied to the international commerce has been the 1978 “Open door” policy, set off by the Chinese leader Deng Xiaoping; since then the Chinese GDP grew by 9% every year on average, no country ever reached such a rapid, remarkable and yet consistent growth.[1]

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1 Lemoine F., (2005), transl. it., *L'economia cinese*, Il mulino, Bologna, 2005, 75-76.

The “Open door”policy, which has been determinant to increase the FDI activity in China, was issued in a period of deep changes, most of them promoted by the Government: along with the opening to the international commerce, also the increase of the working population, the re-organization of the State sector and the establishment of a solid private sector, and thereafter the “Go out” policy and the internationalization of the RMB marked a further step forward in order to make China’s economy heavily dependent to the external environment. In the 80’s China started a price liberalization policy in the agricultural industry that immediately become one of the main drivers of the country's development; contemporaneously in that decade FDIs, thanks to the 1978 policies, started to surge in a rapid way.[2] China then decided to develop an efficient industrial sector; first the Party made possible to the enterprises to retain a part of  the earnings, then in the following decade, under the new president Jiang Zimin and the prime minister Zhu Rongji, started a massive restructuring of the State sector: the oldest and most inefficient SOEs were closed down, anyway the remaining ones were still numerous, so those operating in the same industry were incorporated creating huge firms considered key players in a given sector and denominated “National Champions”, which under the guidance of the Party started to further grow up and even cross the national borders. Simultaneously a sort of welfare concept started to arise, and the Chinese middle class born. The steps forward made by the industrial sector weren’t over yet, and, as an experiment, some of the less important sectors of the economy were opened to the flourishing private businesses. The privatization wave also involved the SOEs ownership, and in 1994 all those firms were converted in public listed companies, in order to make possible a partial participation of private citizens in the ownership structure.[3] Obviously to be listed they needed a national stock exchange, thus the Shanghai and the Shenzhen Stock exchanges were inaugurated. At this point the burgeoning inward FDI activity, encouraged by the fiscal incentives, the cheap labour and the institutional facilitations promoted by the Government, made Chinese foreign currency reserves become massive. In 1991 the amount of inwards FDI was $ 4,4 billion, in 1992 $

2 Chiarlone S., Amighini A., *L'economia della Cina: dalla pianificazione al mercato*, Carocci, Roma, 2007, pp. 16-18.

3 Chiarlone S., Amighini A., *L'economia della Cina: dalla pianificazione al mercato*, op. cit., 2007, pp. 28-32.

11 billions, in 1997 $ 45 billion and in 2002 more than $ 50 billion, making China the most attractive country at the eyes of the foreign investors. The external presence become increasingly important, firstly through minority acquisitions, then with wholly owned foreign enterprises (WOFEs);[4] the inward Foreign Direct Investments were not only made up by capitals, but also by technologies, know-how and expertise in the most cutting-hedge sectors, and this growing foreign presence made possible also an innovation process in the Chinese enterprises, which since then started to slowly decrease the gap with the well-established international competitors. This innovation process along with the fast-growing concentration of the domestic market and the increasing of the investments in productivity made by Chinese enterprises set the scene for the flowering of the services and in general the tertiary sector.[5] The difference between the traditional planned economy and this new type of economy is huge, and in order to make it sustainable, a revolution in the financial system was necessary: apart from the creation of the two Stock Exchanges, in order to better support the economy, four commercial banks were established to substitute the People's Bank of China. Finally the approval of the “Go out policy” in 1999, which entailed favourable credit terms to the Chinese new ventures, given additional pace to the internationalization process of such firms, and the admission to the WTO in 2001 has been the definitive achievement for an economy that fifty years before was one of the weakest in the world.[6]

With that new series of incentive policies the internationalization of the “National Champions” were favoured, and the accumulation of huge reserves of foreign currency along the years were obviously the main fund for those incentives. SOEs started to go global in order to search the strategic assets needed to fill the many gaps that still existed with the main multinationals from the developed countries and also with the purpose to obtain international competitiveness. In a focus on ensuring the resources needed to overcome the disadvantages given by their international inexperience, these firms didn’t

4 Lemoine F., (2005), transl. it., *L'economia cinese*, op. Cit., Bologna, 2005, 99-103.

5 Chiarlone S., Amighini A., *L'economia della Cina: dalla pianificazione al mercato*, op.cit., i, Roma, 2007, pp. 77-79.

6 Chiarlone S., Amighini A., *L'economia della Cina: dalla pianificazione al mercato*, op.cit., i, Roma, 2007, pp. 40-41.

lose time and, as a result, some of the most outstanding deals that were made in the last twenty years involved Chinese companies.[7]

The growing economic importance of China mixed with the ideology of "National pride" and greatness adopted by the Government concurred to launch some challenging projects. In the last years China along with the United States was considered the most prominent country in the international scene and the actual President, Xi Jinping, accomplished the task to further increase the country's importance over the world with such large-scale projects like the "One belt one road" initiative, which aims at the construction of new infrastructures that can better link China to the developing countries of the Middle-East, Africa, involving also Europe. Another project is "Made in China 2025"; this last proposal aims at the promotion of a further development of the industrial sector through the adoption of ICT technologies in order to increase the effectiveness of the Chinese production chain and to enhance the added value in the Chinese manufacturing companies. Finally the "Asian Infrastructures Investment Bank", which already includes more than one hundred countries wishing to make investments in the less developed regions in order to facilitate their progress, and the consequent integration process.[8]

## 1.2 FDI towards China: main characteristics

Although the "Open door policy" was launched in 1978, the FDI towards China reached a certain amount only at the end of the 1980s, then grown continuously in the following two decades. The reason why FDI initially struggled to increase is because even if the economic development started way earlier, huge steps forward in the liberalization of the economy were made only at that point. Also needs to be mentioned the trend of those years that led the more developed countries to start investing in the developing areas, beginning a massive outsourcing activity mainly focused in the manufacturing sectors. If we concentrate on China, the flow of investments coming from foreign investors had had some

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7 Lemoine F., (2005), transl. it., *L'economia cinese*, op. cit., pp. 115-117.

8 Musu I., *Eredi di Mao: economia, società, politica nella Cina di Xi Jinping*, Donzelli, Roma, 2018, p.131-137.

different peculiarities and wasn’t uniform overall: first is the evolution of the sectors which were targeted by FDI; if initially FDI were mainly directed toward the manufacturing industry, then later the technology and services sectors started to gain importance, and today R&D investments are overwhelming while FDI in manufacturing activities are decreasing. The motivation is that in China, salaries for non-specialized personnel are increasing, and thus for this kind of activity investments are always more often directed to other South-east Asian countries which are living a similar growing path. Another point of unbalance is that inflows come principally from others East-Asian countries, anyway this is mainly due to Honk Kong preponderance: in fact Hong Kong often acted as an intermediary between China and those developed countries' multinationals which didn’t want to invest directly in the Dragon Country due to fiscal motivations. Hong Kong has also always been an intermediary of those capitals that illegally out-flowed from China and were then re-invested there; the explanation for this activity is that the Chinese administration reserves better conditions to the foreign investors than the Chinese ones. Anyway, as said, also the other East-Asian Countries are strictly intertwined with China, and their majority is due to the many Chinese emigrants living in those countries and investing back in their native land. Finally, if the greatest part of inflow FDI was at first mainly directed to the coastal regions, where at those times the firsts SEZ (Special Economic Zones) were established, today the trend is changing, the urbanization and the cost of life in that area is getting unsustainable and thus the Government arranged for the construction of a huge system of infrastructures in the Western regions; this caused the partial hijacking of the investments initially directed to the coastal regions toward the inner ones.[9]

Apart from the growing consumer market (due to the already cited burgeoning welfare which concurred to create a huge middle-upper class), the other factors of production and inputs China can offer to the MNEs investing there changed with the times.

In addition to the low labour costs, other advantages of outsourcing in China were mainly the lower capital cost and the large manufacturing capacity; but over time, the increasing expertise of the Chinese human resources added some new and more in-step-with-times drivers, such as the low-cost product design in R&D and the improvement in production

9 Lemoine F., (2005), transl. it., *L'economia cinese*, op. cit., pp. 96-102.

quality.[10] Focusing on the other factor that pushed foreign investors in China, which is the growing market, is quite obvious to explain: in a country with a middle class of more than 500 million people characterized by a relatively high household income and an high brand awareness given by the possibility to choose among different products, gave them more individuality, which has been quite a market revolution.[11] Those drivers made today's China the country which hosts the largest number of MNE affiliated workers of any economy, employing around 24 million people. Just to give a brief example, some of the most important companies involved are Occidental Petroleum (coal mining), Motorola (semiconductors/mobile phones), General Motors and Volkswagen (automotive), Dow Chemical (chemicals), Heinz (food), P&G (personal care products), HP (electronics). The majority of the investments, including the ones which were made by the above-mentioned MNEs, have been made under form of wholly owned foreign enterprise. Even if in the last years the FDI provenance trend hasn't been subject to any variation and the principal countries of origin are still the Asian ones, showing that cultural similarity is obviously important in this context, more recently the United States, Japan and Europe accounted for an always bigger portion.

Year by year the amount of foreign investments directed towards the manufacturing industry decreased, while the proportion of FDI directed towards the high-tech industry, the service industry and the retail industry, coming mainly from the developed countries, increased. MNEs in the IT hardware, the automotive industry, the pharmaceuticals and biotechnology invested massively in R&D, and the inwards investments under form of technology are the new way to obtain access to the Chinese market and also obtain the full sustainment of the Government. In the 90's the rate of inward FDI under form of technology started to increase and firms like Motorola, Microsoft, Nokia, General Electric set in China some R&D centres, many of them acting as R&D hub centre in Eastern Asia. Why those westerns MNEs decided to open their technological headquartiers in China? The reasons are many, and change according to the already mentioned resource oriented/market oriented FDI divergence. Talking about the former, one of the main reasons is that unlike the EU, the amount of science, technology and engineering expertise in China is superior

10 Collinson S., Narula R., Rugman A. M., *International Business*, Pearson, Harlow (UK), 2017, pp 689-693.

11 *China's middle class holds the keys to luxury in China*, article from "Jing Daily".

(second only to the United States), and this qualified personnel is also available at lower costs. Talking about the latter, a principal driver for this kind of choice can be the fact that many industrial partners moved to China, and so the proximity between a given R&D centre and its manufacturing and previously Western-based customer, which then decided to move to China. Furthermore China is also becoming a leading market for some technologies typical for example of the mobile phones market: in fact Chinese customers are known for their advanced use of mobile devices services making it convenient for companies to operate in such environment to establish R&D activities there in order to stay continuously up-to-date. It's clear that this network of R&D investments brought in by the most famous MNEs has the local firms, the research institutes, the universities and widely speaking the entire national system of innovation as main beneficiaries. The R&D investment were immediately perceived by the Party as a fundamental factor enhancing the domestic development, and nowadays China spends more than double the UK on R&D, with an annual growing rate in recent years set at 9%. China has 20 million people in higher education, and established more than 60 industrial parks dedicated to Chinese graduates returning back from abroad and willing to start their own businesses. Well-educated graduates and an efficient science and technology infrastructure are important national assets which have now the task to underpin the growth of the many domestic high-tech firms.[12]

### 1.3 From FDI recipient to FDI source

In 2014, for the first time, the Chinese outward FDI exceeded inward FDI, which started to decline in 2009 (Fig. 1), marking a fundamental turnaround in the Chinese economy. Anyway differently from the inward trend, the outward investments started to increase only few years ago, and in a very short period China become one of the main sources. In the first years the Chinese outward investments were principally made with political purposes: in

12 Collinson S., Narula R., Rugman A. M., *International Business*, op. cit., pp 693-694.

fact China was considered as leader of the third world Countries, so the investments done had the goal to legitimize in a certain way this role.[13]

**Fig. 1. China's Inward and Outward investments turnaround (in billion USD).**[14]


Anyway since the end of the last century, China realized that in order to sustain a long term growth it was fundamental to ensure the energy and the rough materials that weren't available in the homeland. This is the reason why twenty years ago the 50% of the Chinese FDI were concentrated in the energy and the oil sector, and Africa and Latin America, the continents with more abundance of rough materials, were the principal targets of this stream of investments. Obviously the strategy considered by the Chinese Government was a win-win one, and the amount of infrastructures built in in those regions as compensation is unprecedented. Thereafter from 2005 on, Chinese outward FDI towards more developed

13 Musu I., *Eredi di Mao: economia, società, politica nella Cina di Xi Jinping*, op. cit., 2018 p. 131.

14 Source: Song Z. M., Xiong W., Risks in China's financial system, working paper 24230, National Bureau of Economic Research, NBER working paper series, Cambridge, Massachussets, 2018, p. 23.

and technologically advanced countries increased, and the source of these investments were always more often private companies.[15]

Even if still small in absolute terms, Chinese outward FDI started to quietly gain importance; as China economy were a capital-surplus one, the Chinese Ministry of Commerce (MOFCOM) implemented some policies in order to encourage the internationalization of the National Champions, which as we know has been denominated "Go global policy". [16] The policy adopted by the Party had the purpose to promote the international presence of domestic enterprises in the new sectors characterized by innovation, and the change in the destination of the foreign investments decided by the Party highlighted the rising importance of the high-tech industries such as the ICT, consumer electronics and automotive.[17] Haier in the household appliances sector, Hengan International in the biotech  sector, Geely in the car sector, and again Lenovo, Huawei and Xiaomi, Alibaba and Tencent are the names of some of the most famous Chinese companies that successfully chased innovation abroad becoming rapidly world's leader in some of the most innovative industries.

The Chinese industrial enterprises, which have worked along the years for the European, American and Japanese multinationals under subcontract, at a certain point decided then to climb up the added value chain in order to make more profits selling directly the goods produced by them in the most developed regions. This has also been possible thanks to the know-how acquired along the years thanks to the proximity of the flourishing foreign MNEs established in Chinese soil which consequently favoured the technological progress of the Chinese companies. As for inward internationalization, also outward operations are driven by market seeking and asset seeking reasons. For example, those firms focused on the improvement of their production, took control of some experienced enterprises which could act as skilful distributors acting a market seeking outward investments. Other companies expanded abroad to seek tangible assets, such as technology, machinery, plants, or intangible assets, such as managerial know-how, brands and patents. In general, it can be

15 *La Cina a caccia di energia*, article from "Il caffè geopolitico".

16 Poncet S., *Inward and Outward FDI in China*, Pantheon, Sorbonne, Economie, Université Paris, 2007, p. 6.

17 Musu I., *Eredi di Mao: economia, società, politica nella Cina di Xi Jinping*, op. cit., p.140.

said that the reason for Chinese outward FDI was the need for the knowledge useful to become a strong global competitor.[18]

## 1.4 Late mover implications

Needless to say that the proximity of the Chinese enterprises to the main foreign MNEs wasn't enough, for the formers, to fill the technological and innovation gap with the latters, because even if in possess of a good replication ability, also the most efficient firm could never perfectly imitate another enterprise *modus operandi*. The main factor that pushed Chinese organizations to internationalize is thus the lack of ex-ante strategic assets to be replicated abroad. Actually that is a different motivation from that which drove the developed countries MNEs global when the globalization started, which was defined “asset exploiting”. In our case we are talking about developing countries MNEs, that started to exploit the benefits coming from globalization through internationalization just few decades ago. More than exploitation of assets that they actually didn't have, in this specific case we are going to talk about assets exploration, which indicates the successive acquisition of assets abroad through different modalities.[19]

If we use the perspective of the Dunning's OLI model, which states that every organization which internationalize has three types of advantage coming from the assets owned (O), the location chosen (L) and the internalization activity (I), we will see that these emerging multinationals, like their older competitors from developed economies, are in search of the right locations and willing to internalize new assets in order to create value. However they typically do not own better technology and their management capabilities are usually not world class, in other terms, a big chunk of the O part seems to be missing. Under the perspective of managerial resources, Chinese MNEs lack English speaking, internationally experienced managers, with good communication skills needed to interact with local managers, employees, and politicians in host countries. Many Chinese executives are not

18 Musu I., *Eredi di Mao: economia, società, politica nella Cina di Xi Jinping*, op. cit., p.64-80.

19 Li P. P., Toward an integrated theory of multinational evolution: The evidence of Chinese multinational enterprises as latecomers, in “*Journal of International Management*” n.13, Elsevier, 2006, p. 299.

aware about the ‘rules of the game” overseas, managers at Chinese MNEs have a long way to go before they can be able to master international norms and regulations, some of which are very different from their familiar habits at home.[20] The lack of those soft-skills, along with tangible and intangible assets like technology, strong brands, and marketing and management know-how, fully explain the need and the will for Chinese MNEs to expand abroad.[21]

As starting from this point of disadvantage, Chinese companies rearranged themself to compensate the initial lack in strategic assets and took profit from the deep interrelation with others economic and institutional domestic actors. This interaction somehow ensured them the supply of some strategic assets needed in order to reach the global competitiveness, but overall those organizations focused on their unique capabilities, which may not be that innovative, but may nevertheless constitute a comparative advantage relative to the capabilities of their global competitors.

For example, even though the past Chinese mobile phone makers didn't possess world-class technologies or brands such as those owned by Samsung, Nokia or Motorola, some Chinese firms’ skills in fast imitation and creative packaging have enabled them to penetrate certain overseas markets. Learning is thus a new motivation that pushed a MNE to pursue internationalization, and instead of the ‘I will tell you what to do’ mentality typical of the old establishment coming from developed economies, many Chinese MNEs started to go abroad in order to learn.

With the final purpose to better explain this “reversed” internationalization process, the more recent LLL (linkage-leverage-learning) model can be integrated to the OLI framework with the aim to fully understand the path started by the new “Dragon Multinationals”. As the name suggests, it’s through the repetitive leveraging of different linkages that the firm can develop, or learn, a set of skills needed to internationalize.[22]

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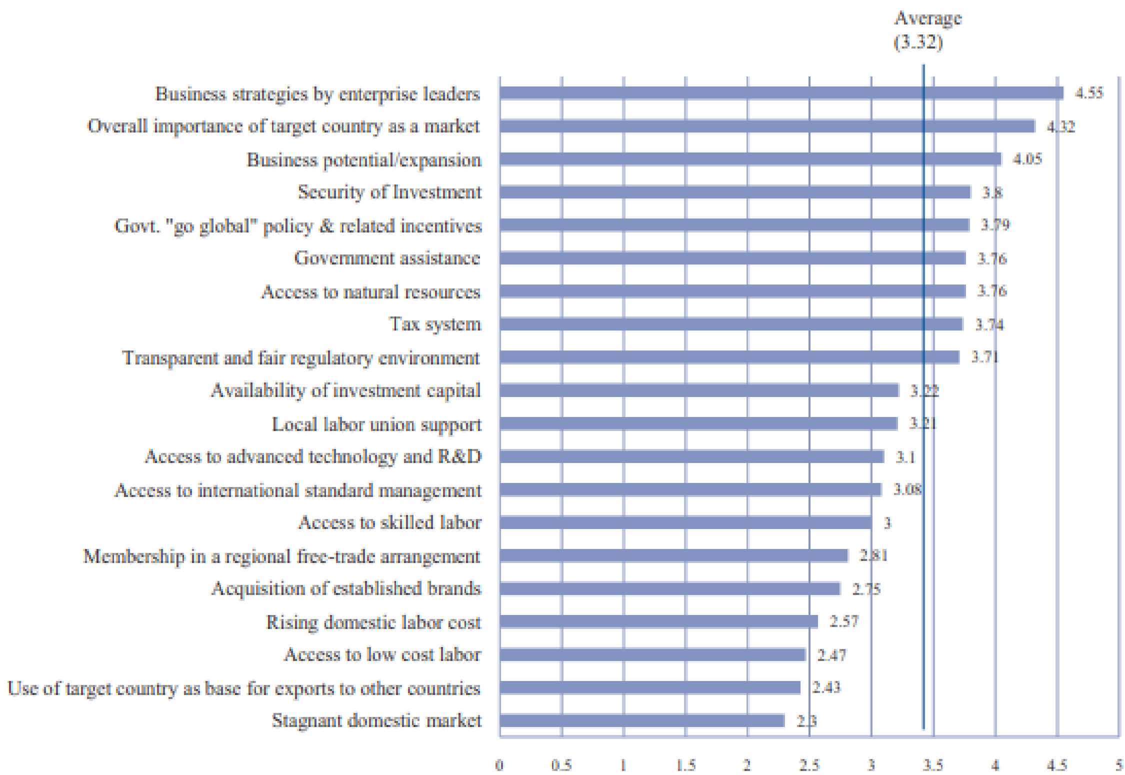
20 Peng M. W., The global strategy of emerging multinationals from China, in “*Global Strategy Journal”* n.2, Wiley Online Library, 2012, p. 99.

21Alon I., Child J., Li S., McIntyre J. R., Globalization of Chinese firms: theoretical universalism or particularism, in *“Management and organization Review”*, Cambridge Core, 2011, p 197.

22 Peng M. W., The global strategy of emerging multinationals from China, in “*Global Strategy Journal”* n.2, op. Cit., p. 100.

**Fig. 2. Driving forces of current OFDI by Chinese SOEs.**[23]




1.5 Factors that pushed Chinese enterprises abroad

We will now resume the main advantages owned by the Chinese enterprises that concurred to push them to internationalize.

1.5.1 The State incentives (SOEs)

When we talk about Chinese firms internationalization, it's important to remember that the support given by the different institutions has been fundamental to compensate the disparities with the developed countries' MNEs and fill the gap given by their late-mover condition. Shortfalls in distinctive capabilities, the liabilities of newness and the liability of

23 Source: Alon I., Wang H., Shen J., Zhang W., Chinese State-owned enterprises go global, in *"Journal of Business Strategy"* vol. 35 n. 6, Emerald Group Publishing Limited, 2014, p. 10.

foreignness are all typical obstacles Chinese ventures need to face. In this case the interest that the Government has is concentrated towards those large SOEs that used to drive the economic growth, advancing the technological infrastructure and enhancing the national competitiveness.[24] The motivation is that in China, more than in the other countries, companies ran by the State have always been prevalent, and as a consequence have always occupied a huge number of workers, with the result that even if underperforming and loss making, they were anyway kept alive.[25] When expanding in other countries, these multinational companies are backed by the Party through loans with interest rates set below the market average, which brings to a softer budget constraint. Benefits are also coming from the home country embeddedness and the consequent ability to engage in beneficial relations with organizations to provide access to resources controlled by others: in short, the incentives included under the "Go Out policy", which in fact have only the internationalizing SOEs as beneficiary. With the advancement of the globalization process in the 21st century, the Chinese Government realized that actively participating in this process was fundamental to enhance China's influence, and then stipulated many bilateral treaties with other administrations; consequently many inefficiencies in the tax system, in the red tape, and in the legal and financial systems were adjusted. Apart from incentives for outward FDI, the Government also eased the burden for the privately owned enterprises streamlining the administrative procedures, simplifying the capital controls, provisioning guidance for the foreign investments and reducing the general risks. The most important institutions of the country like the PBC, the MOFCOM, the State-Owned Assets Supervision and Administrative Commission and many others formulated those pro-outward FDI policies in perfect coordination due to the convergence of the interests about the benefits brought by the increase in the outward FDI such as the rise of the exportations and the new technologies brought in through the global expansion. In 2007 almost 7'000 Chinese companies engaged in OFDI in 173 countries establishing over 10'000 enterprises.[26]

24 Luo Y., Xue Q., Han B., How emerging market governments promote outward FDI: Experience from China, in *"The Columbia Journal of World Business"* n.45, Elsevier, 2009, p. 69.

25 Song Z. M., Xiong W., Risks in China's financial system, op. Cit., 2018, p. 20.

### 1.5.2 The need for innovation

The nationalistic goals that are shared among the Party and SOEs along with the latter's overwhelming importance in term of occupation are the reasons why the incentives in order to go global are almost uniquely enjoyed by the latter. This is a factor that highly increased their economic power and made them dominant in China. Anyway another issue, which is the pursuit of innovation, is what indiscriminately pushed SOEs and POEs overseas.

In particular, in the past, the Chinese enterprises, after discovering their lack in innovation capacity, started to copy other organizations innovation and, in other cases, to pay the fees needed to acquire, for a given period, a certain technology. Now the same, tired of paying high licensing fees, have increasingly decided to buy, with the Government sustainment, rather than rent, breakthrough innovation capabilities under form of both technology and talents through takeover. Taking the case of Huawei, the company built 16 R&D centres around the world and hired many high-profile executives, like William Plummer, which is the firm's vice president for external affairs; he's based in Washington DC and is a former U.S. Diplomat. Many Chinese auto manufacturers like JAC, FAW, and Chang'an are operating in Turin, Italy, with R&D centres based there. Anti-Western and overall more protectionist cultural currents are quite strong in the homeland, but private Chinese corporations operating overseas have embraced foreign senior talents. Plummer, for example, is hardly the only high-ranking Westerner who has worked at Huawei. In 2010 the organization recruited John Roese, the former Chief Technology Officer of Nortel, to direct the company's North American R&D efforts, and a year before former British Telecom CTO Matt Bross was hired to oversee Huawei's entire $2.5 billion R&D operations. Both had reported directly to Huawei's founder and chairman, Ren Zhengfei, a former Chinese military officer. In the same way, turbine manufacturer Goldwind recruited American Tim Rosenzweig, an renowned figure in the clean-energy field, to serve as the first CEO of its U.S. operations. He in turn brought in other executives with clear capabilities in cross-cultural operations.

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26 Luo Y., Xue Q., Han B., How emerging market governments promote outward FDI: Experience from China, op. Cit., 2009, p. 70.

Machinery manufacturer Sany, leader of the market together with Caterpillar and Komatsu, initially tried to succeed in the European and U.S. markets by relying on Chinese talents and technologies. But a few missteps encouraged the venture to establish R&D centres closely connected to its European and U.S. headquarters and to staff them with technicians coming from those areas. In short, we've seen Chinese firms making a coordinated and effective effort to fill the biggest gaps in their innovation capacity through increasingly widespread foreign acquisitions and agreements.[27]

### 1.5.3 The saturation of the domestic market

The inward internationalization which characterized China since the "Open door" policy caused the enhancement of the competition in the Chinese domestic market and its consequent saturation. More precisely, with "inward internationalization" is meant the long process that began with the economic reforms of 1978, and that brought the most innovative MNEs from the developed countries to invest in China. Anyway along the years the injection of the foreign capitals in the domestic businesses through participations in JVs gave also rise to some innovation activity: in fact the presence of capital coming from abroad guaranteed a certain degree of know-how sharing between foreign and domestic firms. And again even if not investing in the domestic firms, just the presence of the most famous multinationals of the world, top-players in their respective sector, made the Chinese market competition rise sharply. The cutting-hedge innovation activity underpinned by these enterprises along with the extremely high market concentration driven the domestic organizations to innovation but also put a huge challenge on them, the outcomes of which depends on their absorptive capacity, which is the ability to catch and internalize the know-how spilt over from the many foreign corporations.

The domestic enterprises which showed the best absorptive capacity, are those better able to incorporate the knowledge coming from an high-competitive market and who invest more in R&D activity, labour training and competitive capabilities. Those organizations, which through that practice managed to stay "neck-by neck" with the leading multinationals, tend,

27 *Why China can't innovate*, article from "Harvard Business Review".

on average, to further increase their investments in R&D activity intending not to lose their competition with such foreign players. On the other hand, in the case the absorptive capacity is limited or simply absent, the enhanced competition within the domestic market would just discourage those less innovative, laggard domestic corporations which will have in the meantime a huge gap to fill with the leading companies.[28]

## 1.6 Destination countries and industries of the Chinese outward FDI

Once analysed the principal motivations and advantages that pushed Chinese businesses to internationalize, we are now going to deepen the "pull factors" that attracted them. Over the years Chinese outward FDI were directed towards different countries and sectors, and the Government instructions had a huge influence in favouring a given location through bilateral treatments or a certain industry through incentives in order to enhance the Chinese global competitiveness in the most advanced sectors. First and foremost Chinese firms seem to be investing into countries that do not fit the typical profile of host locations. Since the 90s there has been some important variations in the geographical distribution of China's foreign operations. If initially investments toward Oceania, Europe and North America were almost null, they started to surge since the begin of the new century and in just four years, from 2003 to 2007 they almost doubled from 5% to 10%. Anyway, as already specified, Asian countries dominated this trend, and in particular are, for the same motivations previously mentioned, Hong Kong and Indonesia the countries which lead the Chinese FDI recipient chart. Another important destination are tax heavens like Cayman Islands, and the reason is, as for Honk Kong, the preferential policies towards capitals coming from abroad. (Fig. 3)

Generally speaking either state owned or private owned Chinese enterprises are attracted from rich countries with abundant natural resources: the formers with a more "nationalist" purpose, i.e. guarantee to the home country easy access to such natural resources; the latter

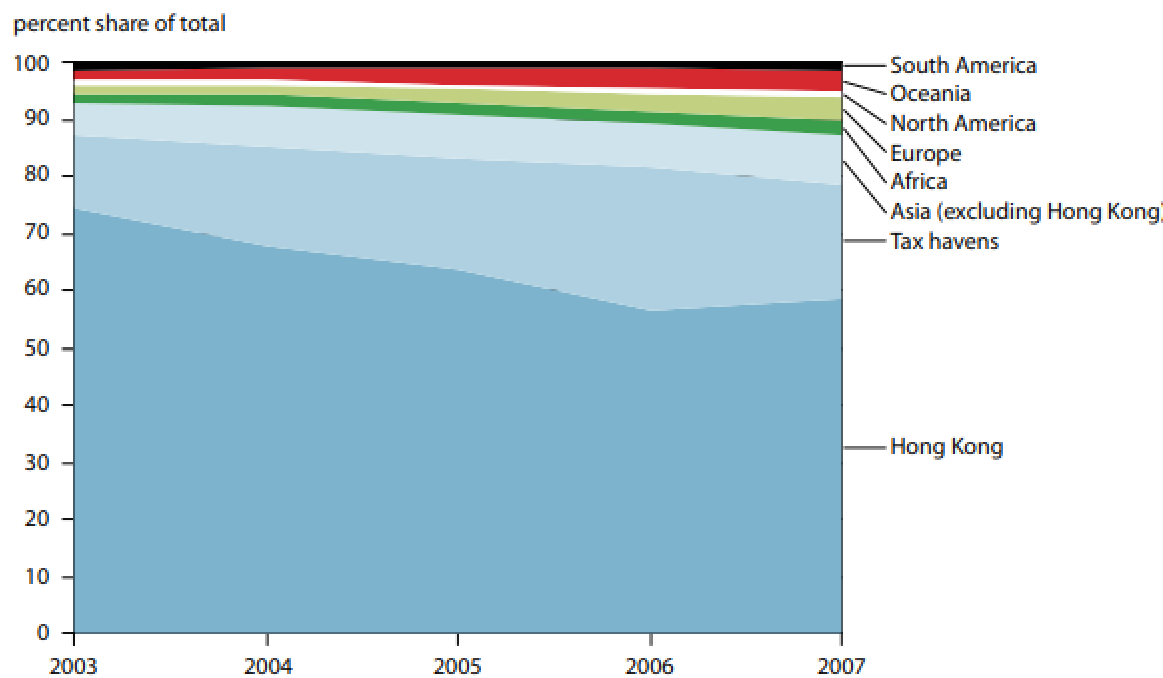
28 Sourafel G., Yundan G., Holger G., What Determines Innovation Activity in Chinese State-owned Enterprises? The Role of Foreign Direct Investment, in "*World development*" vol. 27, Eleviser, 2008, pp. 866, 872.

in order to follow their state-owned counterparts in those kinds of investments with the intention to provide related products and services to the deals already made by the Government. If some countries that have a huge natural resources endowment are far, politically unstable or have a low democracy index, this factor will surely obstacle Chinese POEs: in fact the absence of stable institutions that can guarantee these firms a long-term investments security is a big problem. The same problem doesn't exist when we talk about SOEs, because the tendency of the Party to promote political affiliations and connections with other developing host countries administrations. This Government-Government relation strongly reduces the risks and also removes any economic uncertainty, even if the almost complete absence of private shareholders interested in the profitability of the deal, the sense of "National Pride" under the acquisition of foreign corporations, and the consequent limited fear of failure given by the constant support of the Party make those deals often inefficient and underperforming..[29] This bring again us to confirm that the SOEs are the only beneficiaries in these Government policies, while Chinese POEs are less "covered" and so more risk adverse, consequently the losses deriving from a wrong decision in matter of FDI destination will have heavy repercussions on the shareholders. As a natural consequence, POEs, unlike the public ones, obviously prefer to invest in countries which are not too far. Anyway, from a wider perspective, Chinese SOEs along with POEs have some competitive advantages when compared to the developed countries multinationals willing to internationalize in riskier countries, and this is because the lack of democracy, which is a common characteristic of China and other developing countries, that make Chinese enterprises used to operate in such an unregulated business environment. Strategic-asset seeking to pursue innovation is always more frequently one of the most important reasons of internationalization made by Chinese companies because Chinese political framework makes the innovation activity in home soil always more challenging, thus under this aspect those firms don't have any ownership advantage, and tend to internationalize in more suitable countries. In this case, the search for innovation forced those multinationals to point at industrialized countries whose political framework, unlike China, permitted them to carry out some innovation activity. Sometimes enterprises can

29 Ramasamy B., Yeung M., Laforet S., China's outward foreign direct investment: Location choice and firm ownership, in "*The Columbia Journal of World Business*" n.47, Elsevier, 2009, pp. 17-18.

gain key advantages by creating some synergies deriving from the technological advantage gained abroad and the advantage deriving from the low costs available in the home soil. In this case the internalization of the technologies found abroad through, for example, acquisition, will guarantee a competitive edge internationally and also in the domestic market. As for market seeking OFDI, countries chosen are usually stable ones, making the incidence of privately conducted MNEs bigger. Apart from the size of the market and others indicators such as per-capita GDP, Chinese firms also tend to prefer countries in which they already used to export goods enacting a more gradual expansion.[30]

**Fig. 3. Geographical distribution of China's OFDI stock, 2003-2007**.[31]

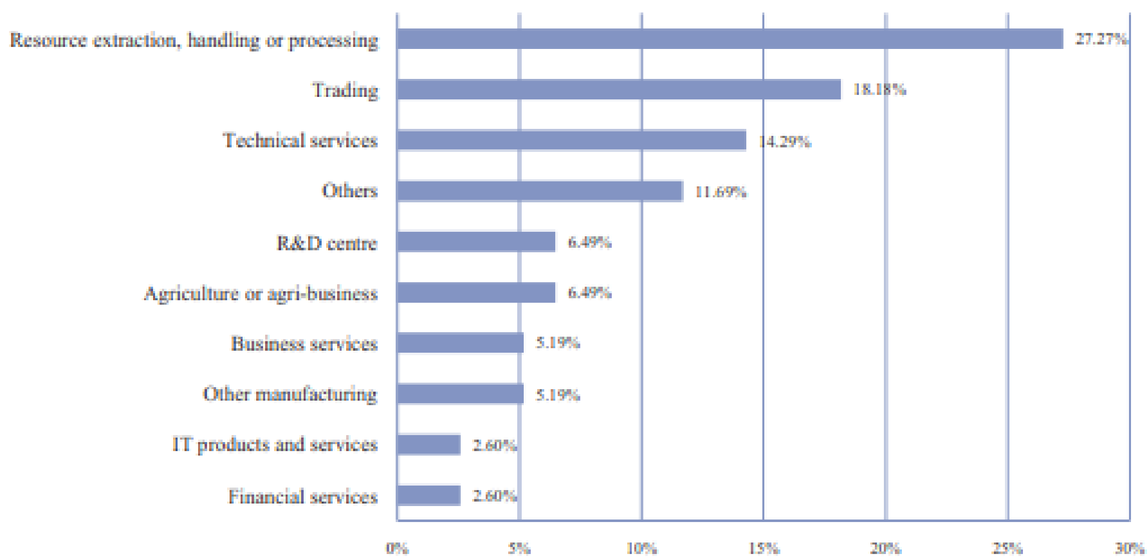



30 Poncet S., *Inward and Outward FDI in China*, op. Cit., 2007, p. 5-7.

31 Source: Rosen D. H., Hanemann T., *China changing outbound foreign direct investment profile: drivers and policy implications*, Peterson Institute for International Economics, 2009, p.5.

Changing trends were are detected in the target industries: manufacturing accounted for nearly 60% of OFDI in the 1990s, but had dropped to a mere 3% by 2008. Investments made by SOEs are principally in the fields of resource extraction, trading, and technical services; resource extraction, in particular, takes the lion's share. Others sectors that gained momentum are the services sector, in particular business services, finance and retail.[32]

**Fig. 4. Field of overseas business activity by Chinese SOEs.**[33]




1.7 Chinese SOEs

It's clear that the SOEs are the backbone of the Chinese economy; having the monopoly of the most important sectors, those giants are strongly linked to the Party and this is the main reason of their overwhelming dominance. Even if today the Chinese State Owned Enterprises are still the most important Chinese companies worldwide (among the 93

32 Poncet S., *Inward and Outward FDI in China*, op. Cit., 2007, p. 6-7.

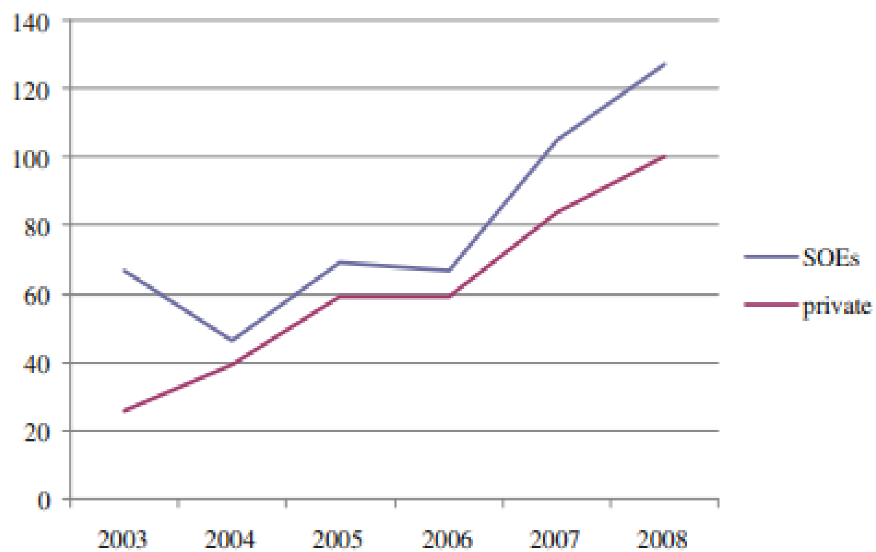
33 Source: Alon I., Wang H., Shen J., Zhang W., Chinese State-owned enterprises go global, op. Cit., 2014, p. 9.

Chinese enterprises ranked in the Fortune Global 500, most of them are run by the State), they are still hindered by heavy inefficiencies, corruption and excess in the production capacity. Nowadays the contribution to the National GDP given by the POEs is way bigger than in the past, the importance of the entrepreneurship is clear and the private sector now employs the majority of the Chinese workforce. The SOEs are still important, but are not the only responsible for the creation of occupation and economic wealth as in the past, and their relevance gradually decreased. In fact, the issue, in today's China, is the blurred relation existing between market and public sector, so that making a distinction between private and public enterprises is not easy. The motivation for this is that entrepreneurs, willing to keep a good relationship with the local administrations, considered as the "real owners", used to pay them a "rent" which is more something like a bribe. The ownership system in China is extremely complex to understand, and enterprises that people think to be private, such as Lenovo, have instead a participation of a public organization in its corporate ownership structure. A different example are Huawei or Haier, companies initially thought as "collective", owned by the employees and somehow always linked to the local Governments, but that successively started to differ from the concept of State Owned Enterprises thanks to their domestic and international achievements, which allowed them to obtain the needed freedom. And again other enterprises, even if not directly run by the State are strictly controlled by the Government organisms through parallel Board of Directors that constantly control the work of the entrepreneurs. Differences are also present among the same SOEs, and depend by the controlling entities behind them: obviously the most important and powerful SOEs are controlled by Beijing, while many others firms are under the control of provincial and local entities, this last type of SOEs are not directly under the spotlight, they do not share national goals and do not receive any sort of incentive in order to internationalize. In every case the Government detects every illicit activity, and in the case of the biggest companies sometimes turns a blind eye on some of them due to aforementioned strong relationship between them. Public and private enterprises are also firmly intertwined in reaching a common goal: make China the most important economy in the world. Pursuing this goal always in the optic of a strong national pride background sentiment, is the main driver of those solid and sometimes ambiguous relationships between private entrepreneurs and Government officers.

With Zhu Rongji, the privatization of the SOEs were encouraged, and since then public organizations have more and more frequently minority private shareholders, which can now even become part of the Board of Directors. In the meantime SOE's started to be listed in the Chinese stock exchange and the new president Xi Jinping, which remarked the importance of the presence of the State in the key sectors, started its fight against SOE's inefficiencies. Anyway today, although the numerous reforms in the past, the SOEs are still much more inefficient than the POEs, and one of the main reasons for this is that in fact the public protection always bailed them out from bankruptcy, protecting them from any threat coming from potential competitors, that are nothing more than other public companies. Under the last two Presidents two important investments fund have been created with the purpose to manage optimally the numerous and huge SOEs: under Zhu Rongji was founded the State-owned Asset Supervision and Administration Commission (SASAC), today the biggest economic entity in the world, which have the task to optimize the aggregate value of the Chinese SOEs. The SASAC led the transformation process of the SOEs corporate structure, nominated the managers and promoted the mergers among SOEs belonging to the same sector. Steps forward have been made also with Xi Jinping, under which has been created the State Capital Investment and Operation Companies (SCIO), whose principal duty is to convey the State capitals in the sectors which are considered fundamental for the Chinese economy (nowadays telecommunications, energy, military and traditional heavy-industry sectors are considered fundamental in the Chinese growth plan) and decide the fields where disinvestment are necessary. Finally anti-monopoly institutions have also been created: those organisms guarantee a fair competition between SOEs and other organizations in the perspective of an harmonic economic development. The supervision over the biggest monopolies in China must not been intended as an obstacle against the free market, on the contrary, as Xi Jinping said, the market has a key role in China in order to well distribute the resources needed for the development, but it need strict rules which are guaranteed by the Communist Party. Under this point of view the preoccupations of Xi Jinping are many, because different developed Western countries, at least before the 2008 Financial Crisis, followed the path of economic deregulation, a concept that doesn't fit well with the Chinese Party's idea of supervision and control. It's clear that the Party is afraid of the development of a market of goods, because this can also foster a "market of ideas",

ideas that could satisfy the unlimited need for innovation, but that at the same time could be disruptive for the Party because of their democratic facets. In an effort to keep a strict control the Party enacted, along the years, an effective strategy of adaptation to the main economic, social and technological changes, but always leaving the market of the goods to its inertia.[34]

**Fig. 5. Number of Chinese OFDI by firm type, 2003-2008**.[35]




SOEs benefited from this situation, but at the same time there are also some negative sides: the main of which is the diffidence showed by the foreign countries due to the linkage between such companies and their authoritarian Government. Moreover the financial help provided by it in some cases made the Chinese companies be accused of unfair competition and this heavily damaged their reputation. Under this perspective a recent trend indicates that for this reason, Chinese private enterprises are now finding it easier to go overseas,

34 Musu I., *Eredi di Mao: economia, società, politica nella Cina di Xi Jinping*, op. cit., Roma, 2018, p. 80-91.
35 Source: Amighini A. A., Rabellotti R., Sanfilippo M., Do Chinese State-owned and private enterprises differ in their internationalization strategies?, in *"China Economic Review"* n.27, Elsevier, 2013, p. 316.

even if, again, the absence of any form of State incentive make every choice more risky. To conclude, a SOE has, on average, more advantages than a POE when going abroad, and this is basically possible thank to the greater financial resources available that give them the possibility to internationalize more smoothly through the hiring of, for example, high-profile personnel. Such human resources have the task to optimally handle the problems deriving from any dynamic included under the denomination of liability of foreignness like the cultural divide evident in factors like the different market, regulatory standards, legal environment. They must consequently be able to manage expatriate and foreign personnel, negotiate with organized labour and other stakeholders not present in China, meet quality and safety standards, adhere to tax and accounting rules, effectively manage foreign exchange risks, and have a suitable communication and public relations strategy. In everyone of the aforementioned tasks, SOEs ability to allocate resources is indefinitely higher than privately owned enterprises.[36]

## 1.8 Barriers to the Chinese outward FDI

The growth of the OFDI was due to the internationalization of the Chinese enterprises made in order to keep a certain level of global competitiveness, however, in some cases, the help of the State wasn't sufficient.

Among the most common barriers for Chinese organizations to go abroad are the protectionist policies and the excessive costs that must be faced not only to internationalize, but also to operate in another country. About the protectionist measures, the most developed countries have regulatory mechanisms that have the purpose to prevent potentially harmful investments, and many Governments have tightened investment rules in recent years, mainly to face the emergence of new acquirers coming from China and the Middle East. The politicized takeovers made by Chinese companies, which are strictly linked to the Party, brought the OFDI targets countries to be suspicious of those kind of investments; an example is the China National Offshore Oil Corporation’s (CNOOC) attempted takeover of the US oil firm Unocal in 2005, a case which will be discussed later in this dissertation.

36 Alon I., Wang H., Shen J., Zhang W., Chinese State-owned enterprises go global, op. Cit., 2014, p. 6.

Even more recently, heated debates about acquisitions made with political purposes took as an example the Chinese investments in Australia (where a series of takeovers in the mining sector were  made), in Korea (after the bankruptcy of Ssangyong, the Country's biggest auto maker) and in many other countries, most of which are developing ones. The problems about the takeovers with political reasons are a daily issue, and the main sectors in which such operations take place are shifting from the traditional ones to the high-tech, and this kind of assets are mainly available in the industrialized countries.

Another main issue against the internationalization of the Chinese corporations, is coming from inside, and is given by the lack of strategic planning among the Chinese SOEs executives: except from some global companies, the profit margins for China's internationalizing businesses, given their strong export orientation, largely still derives from the domestic production process rather than from distribution and service provision abroad. Surveys in recent years have found that Chinese executives' still mainly rely on domestic markets and use exporting activity just as a way to make up their revenues. The preoccupation about the domestic business is still overwhelming, and business leaders avoid opportunities to operate outside China and still consider the risks coming from overseas expansion to be high compared with the potential short-term profit opportunities within the country. Many Chinese CEOs have a gut feeling that they eventually need to go abroad, but only a minority are trying to act, while the greatest part of them is only planning to do it in an undefined future. Anyway the rapidly changing economic dynamics given by the Chinese new growth model are slowly affecting the mindset of Chinese executives; this process can be accelerated with the right motivational incentives and a corporate governance structure that encourages future oriented strategic planning. Many Chinese firms have the liquid assets to go abroad but lack the due confidence to deal with such obstacles. By comparison, it is easy to buy mining assets in a scarcely regulated country in Africa, it is a much greater challenge to run manufacturing or service operations in the U.S.

Several high-profile organizations have figured out that they are bad equipped to face those challenges: the difficulties of leaving home are one of the main principles of the FDI theory, but in the case of first world countries firms, which come from heavily regulated markets, the technological catch up problem doesn't exist. Apart from technologies, the multicultural workforces in the United States and much of Europe amplify the culture disparity felt by Chinese executives coming from the uniform Han China. Chinese managers abroad often struggle to understand the importance of, for example, workplace anti bias rules compared to headquarters where discrimination based on employees' region of origin and gender is quite common.

Not only foreign, but also domestic politics remains a barrier to overseas expansion. Despite the general liberalization of the regulatory framework, Chinese firms still need approval for every  investment they make overseas, and projects can be voided by Government bodies for many motivations: fear that bureaucrats would be held responsible for failures, preoccupations about hot money outflows, concerns about State losses or potential privatization, or anxiety about potential unemployment issues given by shifting jobs to countries with lower wages. Even if a deal is eventually approved, the involvement of various politicians with unstable attitudes toward overseas projects often hinder decisions and makes the process much more time consuming than it should be. In few words, in the fierce competition for global assets, Chinese businesses are at a clear disadvantage if they must wait too much time for approval of overseas projects. These problems not only hampers individual firms' tactical planning but also damages the global reputation of all Chinese enterprises if an investment is withdrawn after a waiting period of several months. Moreover, top-level sentiment is important in a nation where political favouritism is often the fundament of business. While policy has changed to support overseas investments, politics have took opposite guidelines in recent years. Despite encouragement to "go global," Chinese State fund denominated China Investment Corporation money-losing deal in the Blackstone group and CNOOC's unfortunate bid for Unocal were met with public scepticism and even popular accusations of treason. Anyway the global financial crisis enhanced the expectations that China would be further promote the global expansion, and now it again seems that the political wind is blowing outward, carrying delegations to acquire undervalued stocks in the United States and Europe.[37]

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37 Rosen D. H., Hanemann T., *China changing outbound foreign direct investment profile: drivers and policy implications*, op. Cit., 2009, pp. 13-15.

## 1.9 The 2008 financial crisis impact on the Chinese internationalization wave

The 2008 Financial crisis gave China an unprecedented opportunity to take possession of the strategic assets owned by some of the best players operating in the key sectors of the Western developed countries. If in the United States takeovers of strategic companies made by Chinese organizations are subject to strict control by the Government, the same cannot be said about Europe, and Chinese SOE and State Owned financial funds started their large-scale acquisitions campaign.

In 2010 companies China Three Gorges (which is responsible for the construction of the Three Gorges Dam in Hubei) and State Grid acquired, respectively, the 21,5% and the 25% of Energias de Portugal and Redes Energéticas Nacionais, important companies active in the electric energy distribution in Portugal. Successively, in 2014, State Grid also secured Efacec, the main Portuguese enterprise operating in the electronic sector, and in the same year, it took over the 35% of the Italian Cdp Rieti. Italy, one of the countries that most suffered the financial crisis, has been one of the favourite targets of the Chinese acquisition wave, after Germany, Great Britain and France, and always in 2014 other Chinese companies acted minority participations in iconic businesses such as Eni and Enel, Fiat, and Telecom Italia, in order to ensure themselves a chair in the Board of Directors of such experienced enterprises, and somehow secure a certain amount of intangible assets under form of managerial knowledge. After Italy, the Chinese acquisition wave involved France and Germany: in the former, Chinese capitals entered with the purpose to bail out the company Psa Peugeot Citroen, and the SOE Dongfeng took over the 14% of the total share becoming major stockholder in conjunction with the Peugeot family and the French State. Focusing on more “unusual” sectors where China started to invest is the wine sector; in the last years China become the 5th biggest wine consumer and the 8th biggest producer. In this case the Chinese acquirers climbed back the added value chain by acquiring the French vineyards from where China used to import its wine: the Bordeaux Chateau. Up to 2008 more than 75 vineyards already had been purchased from Chinese investors which aimed at selling back in China the wine produced there. The author of such strategic move has been the Chinese food and beverages giants Longhai group, which in 2008 also acquired the Chateau Latour-Laguens. Anyway, also the tourism industry has been targeted, and certain investors bought the same vineyards with the purpose to diversify their activity: it's the case of Zhang Jinshan, president of the Ningxiahong Group, which operates in the sector of alcoholic drinks. In this case mister Zhang decided to transform the vineyard he secured in something similar to a touristic attraction for the Chinese who come there for the wine and the gastronomy, in an effort to promote locally the wine they produced in China. But Zhang himself also affirmed that “buy a Chateau will allow us to import in China the wine we produce in Europe…Buy a Chateau is a way to secure the processes, the methods, the technologies related to the wine market”. The access of the Chinese capitals also in more “delicate” sectors is well witnessed by the takeover of the 7% share of the French Eutelsat, leader in the market of satellite communications, by the China Investment Corporation. In the past the French giant already remarked its willingness to penetrate in an burgeoning market like China, which is planning to launch many satellites in the medium term, but the presence of the Chinese fund in the ownership of Eutelsat set the protest of the United States, one of the company's main customers, which don’t want to share the same technologies with China.

Moving to Germany, the first economy in Europe, China become, in 2012, the first foreign investor for number of operations, exceeding the United States; here the principal targets of the main acquisitions are the *Mittelstand*, German name for the family-owned small and medium enterprises which generally have never been listed in any stock exchange. A great number of these enterprises usually managed to become world leader in a specific niche sector, because along the years got specialized in a given process until perfection. These firms are the embodiment of non-stop innovation, long-term planning and high quality management, given by the presence, for many years, of the same entrepreneur; those previously depicted qualities are fundamental for those enterprises to not depend on the banks, and are also the strategic assets most sought by the Chinese enterprises, this explain their preference for this type of business.

The case of Putzmeister, world leader in the production of concrete machinery, which in 2012 has been acquired by Sany Heavy Industry company Ltd. for 360 million has been somehow pioneering due to the fact that usually owners of the *Mittlestand* have always been reluctant to sell their property because they thought that this could have involved the firing of the personnel and so inevitably could have damaged their own reputation at a local level. But when the crisis started, Putzmeister was forced to start a restructuring project that put the enterprise in financial difficulty, and this situation strongly facilitated the acquisition by Sany. The operation was concluded in just two months, and the Chinese group did some clever moves: first they didn't fire the local personnel, and this decision made possible the accomplishment of the takeover in a very short period, thereafter they decided to keep the HQ in Germany, that's because, as already said, the *Mittelstand* typically operate in niche markets, and a huge market as the Chinese one, where mass production is a fundamental ingredient for the success, would inevitably damage the effectiveness of such enterprises. Since 2008 more than 30 German SMEs have been took over from Chinese groups, and the number is increasing every year. That means that due to the crisis, Germany is unveiling more and more frequently its know-how, that includes the branding capacity, the clients management, the fragmentation of the market when commercializing a product; in very few words all this knowledge now is easily accessible to the Chinese corporations.

Even if United States and Europe were and still are the areas that most suffered the financial crisis, the U.S., unlike Europe, have an important organism that analyses every acquisition made in home soil by a foreign investor which is called CFIUS (Committee on Foreign Investments in the United States). In the meantime Chinese entrepreneurs know exactly what they are looking for in every region of Europe in order to enhance their global, and also domestic competitiveness, and finally give shape to a strong global brand able to compete with the Western giants in the same markets. The crisis voided every doubt towards the Chinese investors: if they managed to obtain a huge amount of strategic assets in Italy, Portugal, France, Germany is not only because financial necessities of these Countries, but also because in the most recent period China has started to be considered as a reliable partner. Obviously the main beneficiary is the Middle kingdom, which took profit of the impelling necessities caused by the financial crisis to access to the old establishment's technologies and the assets that in the past were inaccessible.[38]

38 Cardenal J. P., Araùjo H., (2016), transl. it., *Come la Cina sta conquistando l'Occidente*, Feltrinelli, Milano, 2016, pp. 211-220.

Conclusion

The rapid growth of the Chinese economy allowed the Chinese companies to fill the huge innovation, experience, and even financial gap with the large multinationals coming from the developed countries principally through two steps. The inward internationalization, which was triggered by the 1978 “Open door policy” and which made possible the accumulation of financial reserves before; and then the outward expansion sustained by the ”Go out policy”, which through financial incentives made available those reserves for the domestic SOEs which were willing to enlarge their operations abroad. Not only the companies, but also the population in general started to enjoy a common welfare which sharply increased, allowing China to rapidly abandon the denomination of third world country. Anyway the Government good management and all the other advantages linked to it have sometimes been insufficient to permit the expansion of certain firms due to their unavoidable global inexperience and their sometimes counter-productive strong cooperation with the State which made them encounter numerous entry barriers mainly embodied by the host Governments fierce opposition. However the last financial crisis, which saw the industrialized countries as main victims, allowed the Chinese companies to become an always more appreciated business partner thanks to the above mentioned financial resources and to the guarantee given by their own Government.
In some way, the Government can be thus considered as a double-edged sward, able to determine the SOEs successes and failures. Finally, along with those State companies, also a great quantity of private enterprises, pushed by the pursue of efficiency and profitability, more than national pride and the Party directives, managed to become global firms.

# 2. CROSS-BORDER M&A MADE BY CHINESE COMPANIES

## 2.1 Modes of entry chosen by the Chinese companies

After many time being second ranked in the OFDI chart, in 2020 China surpassed the USA and become the first country for direct investments abroad, with a total of $ 163 billion invested. Now we know that those incredible results are coming from the need by Chinese enterprises for internationalization and the subsequent support given by the Government. In fact this process, which is still evolving, at it's really first beginning wasn't very smooth: many Chinese businesses firstly attempted internationalization in many different ways before finding the right method to gain value and ensure themselves competitiveness beyond the national borders. Chinese MNEs used to imitate their more experienced western counterparts, and sometimes this strategy has been quite successful, but in many other cases the singularity of those companies made this imitative tactic useless or even counter-productive.[39]

Obviously, at the beginning of this process, Chinese entrepreneurs used a cautious approach which included entry modes that didn't even involve a direct investment toward the destination country: exporting were then the most common mean adopted since the firsts of the 80s, when the “Open door policy” were relatively new. Exporting, which now is one of the many means used to operate abroad, were then the sole method used by Chinese firms to penetrate in overseas markets.

Another way that doesn't involve the direct investment in the destination country is OEM (Original Equipment Manufacturer) which is a sort of advanced export activity in which the most common strategy is to exploit the Chinese company cost advantage and the foreign counterpart brand advantage for the purpose to obtain high efficiency given by economies of scale. Many Chinese industrial giants, such as Galanz, become famous producing and assembling, even simultaneously, different products for many foreign MNEs, and along the

39 *La Cina primo paese al mondo per investimenti esteri diretti*, article from “La Repubblica”.

years their bargaining power increased at such point that allowed them to conduct different projects under very profitable conditions with the world leader MNEs. Even though quite soft and doesn't involve the acquisition of any asset, through this strategy the Chinese companies can easily overcome the liability of newness in a given market; on the other hand a negative side of OEM is the potential conflicts between partners and the difficulty to control the relationship between them.[40]

Along with the years Chinese enterprises started to enhance their presence overseas, and we denoted that the need for mature markets and new assets required in order to be more competitive have always been the key factors that driven this trend. As Chinese companies started to evolve, they understood that working full time side by side with the leader players was a principal condition to gain international competitiveness in a given sector. The form that FDIs assumed was thus largely influenced by a given venture strategic intent; one of the firsts methods Chinese government used to advocate as a mean of internationalization was Joint Venture, which is a way to expand that includes the cooperation between two different economic activities with the purpose of combining their assets. As a great number of enterprises coming from China implemented market-seeking activities, especially in other emerging countries which generally have a high growth potential and a similar culture, establishing an advantageous market position prior to competitors there, and find a reliable partner that could facilitate the introduction into the new environment was considered as a key issue. A fast method to penetrate is fundamental, and international JV with a local partner was the better way to permit the organization to seize the market opportunity, moreover the enlarging company could also exploit the low cost capabilities of the target organization. Anyway Joint Venture doesn't involve the union of the partners, which remain two separated entities, thus again, as for OEM, the negative implication is the difficulty to handle the relationship among the venturers optimally, due to the potential controversies that can emerge between parties which come from different cultures and that often aim just at their personal advantage.[41]

40 Ding Q., Akoorie M., Pavlovich K. Going international: The experience of Chinese companies, in *"International Business Research"* Vol. 2 n. 2, CCSE Journal, 2009, p. 150.

41 Cui L., Jiang F., FDI entry mode choice of Chinese firms: a strategic behaviour perspective, in *"The Columbia Journal of World Business*" n.44, Elsevier, 2008, p. 434-435.

To avoid this kind of problem acquisition is advised: M&A has been massively promoted by the Chinese government since the end of the last century, and it's now one of the most chosen internationalization methods among the local enterprises. Since the beginning of the new century it all of a sudden started to be frequently adopted firstly from SOEs, then later also from POEs. Takeover involves the fast internalization of the entire target company or just of part/division of it, which may include the desired technology or brand. By acquiring the potential target, conflicts among partners are partially reduced, and a total control over the technology acquired given by the sole ownership allows the investing firm unrestricted access to the new resources from which it can extract value fully exploiting its advantage. Also in this case drawbacks are present, such as the potential payment of a premium price by the purchaser due to the wrong assessment of the target assets; at the same time those, if not properly exploited by the purchaser, can even lose value and become cumbersome. Greenfield is the more advanced level of internationalization and involves the purchase of overseas assets and also the establishment of subsidiaries within target markets from scratch. Implementing a greenfield approach means doing a long-term procedure that can bring the internationalizing company to set up offshore R&D, local design, local manufacturing, or sales units in a worldwide context; in this case the enterprise is supposed to be a global competitor with huge international experience behind.[42] When talking about global oriented ventures, strong synergy and coordination among different units is fundamental. Greenfield first makes easier to execute a localization strategy, allowing the global firm to hire its own personnel and introduce its own practices easily reproducing those used in domestic land and that made the organization competitive all over the world. Taking into consideration the huge cultural gap between Chinese and foreign companies, this strategy constitutes a huge advantage: in this case liability of foreignness can be reduced through the training of locally selected staff that can more easily carry out parent enterprise administrative practices.[43] This mode of entry is mainly used to maintain the total control over the operations developed abroad, and by doing so the required high level of coordination between different subsidiaries and the headquarter is guaranteed. The high

42 Ding Q., Akoorie M., Pavlovich K. Going international: The experience of Chinese companies*, op. Cit.*, 2009, p. 150.

43 *Ibidem.*

degree of control among the entire global business network shows its full effectiveness when operating in a market where the level of competition is particularly high. Such level of control is even more required by those Chinese organizations which have in low-cost and high quality manufacturing skills in always more cost-sensitive mature markets, their principal point of advantage; following this way of reasoning a strong synergy between headquarter and subsidiary would surely bring this cost-based competitive advantage at another level. By being present as a local business in a foreign region, this expansion route also strengthens the credibility of the company's brand given by its omnipresence, in this optic the different foreign subsidiaries established could perform the role of regional headquarters and further enhance the company's coordination.[44]

After those points of strength, main drawbacks present are the slower route to internationalization that greenfield project implies: in fact a huge amount of time is needed to implement it. Another point of disadvantage is the high-cost of the investment, which can impose financial risks and pressures over the organization. Qingdao Haier, which will be took as a case study in the last chapter, used this mode of entry to penetrate developed and also developing markets, starting with the establishment of manufacturing facilities and taking profit from its comparative advantage in the labour cost. Greenfield is considered as the last step of internationalization, while M&A, in turn, is considered as a step forward after OEM and JV; finally, export, is usually the first step that a company willing to expand abroad climbs. Obviously a certain degree of international business experience is requested before implementing more binding approaches.[45]

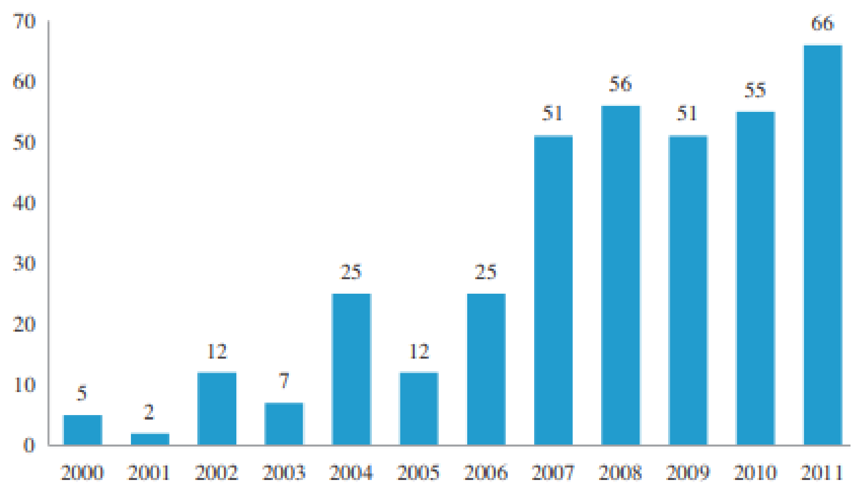
44 Cui L., Jiang F., FDI entry mode choice of Chinese firms: a strategic behaviour perspective*, op. Cit.*, 2008, pp. 435-436.

45 Ding Q., Akoorie M., Pavlovich K. Going international: The experience of Chinese companies*, op. Cit.*, 2009, p. 150.

## 2.2 Why M&A

Since the beginning of the new century, M&A has been a common approach used by enterprises to enter into the foreign markets. To understand the magnitude of takeover as expansion method, according to the World Investment Report 2010, the OFDI coming from emerging countries has increased to a record high of 25% of the global total, and that's thanks to the increasing number of acquisitions[46]. In particular, OFDI from Emerging Economies have increased from $37 billion in 2004 to $182 billion in 2008, and internationalization through M&A rapresents the 66% of the total investments. In China M&A is commonly used, and during the first decade of the new century, Chinese M&A number increased from the 5 completed in 2000 to the 66 completed in 2011 (Fig. 6), with a total number in that period of 350 deals and a value of $32 billion. M&A is thus confirmed to be one of the most reliable and commonly used modes of entry not only in the emerging economies, but worldwide.[47]

**Fig. 6. China's cross-border M&As 2000-2011.**[48]




46 Boateng A., Qian W., Tianle Y., Cross-border M&A by Chinese firms: an analysis of strategic motives and performance, in "*Thunderbird International Business Review*", Vol. 50, No. 4, Wiley Periodicals, 2008, p. 260.

47 Nicholson R. R., Salaber J., The motives and performance of cross-border acquirers from emerging economies: comparison between Chinese and Indian firms, in *"International Business Review*" n.22, Elsevier, 2013, p. 963.

48 Source: Li J., Li P., Wang B., Do cross-border acquisitions create value? Evidence from overseas acquisitions by Chinese firms, in *"International Business Review"* n. 25, Elsevier, 2016, p. 477.

In the new Chinese globalizing economy, where phenomena like industry consolidation, privatization and liberalization are nowadays dominant, M&A found the way to gain importance, even if in some cases, as we will analyse in the next paragraphs, the creation of value is not always guaranteed. The fact that late internationalization made Chinese firms backward in several industries, and also that today's products rely on so many different critical inputs and the global success is given by so many different factors, makes it easy to understand why most businesses cannot longer maintain cutting-edge sophistication without moving abroad.[49] The globalization and also the adaptation abilities made foreign MNEs very competitive in China, those ventures learned how to operate in that environment and as we know the domestic market quickly become saturated. Always stronger competitors pushed the Chinese companies overseas to find quick solutions that would permit them to bring inside those technologies that are useful in order to keep up with such competitors, and M&A, which allows the acquirer to rapidly internalize the fundamental assets needed, is considered as the best one. As mentioned previously, Joint Ventures with foreign MNEs were a first attempt made by Chinese companies to learn from the world leaders, anyway in some cases it didn't allow a sufficient know-how spillover and thus the Chinese partner didn't have the chance to fully absorb the needed knowledge (a symbolic example is the acquisition of MG Rover made by Nanjing Automobile after the failure of the latter's JV project with FIAT group, which has been accused by the Chinese company to not openly share its know-how). This gave impetus to the use, by the Chinese MNEs, of a more rapid and resolved method.[50]

Apart from avoiding certain conflicts of interest, as said M&A is also often chosen due to its rapidity: in today's economy, where product life-cycle is way shorter and the competition is always fiercer, readiness in tap in different and more suitable markets and in ensure the right asset faster than competitors and without growing organically is fundamental.

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49 Boateng A., Qian W., Tianle Y., Cross-border M&A by Chinese firms: an analysis of strategic motives and performance, op. Cit., 2008, pp. 260-261.

50 Rui H., Yip G. S., Foreign acquisitions by Chinese firms: a strategic intent perspective, in "*The Columbia Journal of World Business*" n.43, Elsevier, 2008, pp. 221-222.

Acquire an already locally established company, would allow the MNE to obtain those key resources needed to gain competitive power in both the domestic and the international market. In the case of asset-seeking motivation, through the rapid internalization of patent-protected technologies, superior managerial and marketing skills, expertise and knowledge; while referring to market-seeking reasons, easily overcoming entry barriers and special government regulations that can create a hindrance to foreign corporations when tapping in a foreign market. M&A allows the acquiring firm to avoid all those time-consuming and expensive negotiations needed to build up a subsidiary abroad from scratch by securing an organization that already knows the local culture, the different business practices and the international constraints, and that furthermore already knows the local suppliers and distribution networks, the most effective local marketing channel and other fundamental skills given by the experience gained by operating in a given environment.[51] Focusing on Chinese businesses, the advantage would even be greater, because of their culture's uniqueness and also its huge gap with almost every other developed country's culture, and, again, given the lack in cross-cultural and communication skills by Chinese managers. After the internalization of the new assets and skills by the acquiring firm, it may happen that the co-existence of those high-value, front-end assets like marketing skills, brand, entrepreneurship, coming from the acquisition of a developed market's company, and the back-end capabilities like low-cost of production and R&D and the government ownership and support coming from operating in China, if cleverly leveraged, can generate some synergy activity; in this case, the value added by this operation would be huge.[52] Synergy is a broad concept that encompasses different sources of value gains, including economies of scale and scope, increasing market share and power and advantage coming from tax- and exchange-rate differentials between countries. It is then proved that combining activities through M&A strongly increase a firm's capacity to produce a superior output, to obtain a larger market share and to increase the profitability in the long run.

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51 Nicholson R. R., Salaber J., The motives and performance of cross-border acquirers from emerging economies: comparison between Chinese and Indian firms*, op. Cit,*, 2013, p. 966.

52 Nicholson R. R., Salaber J., The motives and performance of cross-border acquirers from emerging economies: comparison between Chinese and Indian firms*, op. Cit.,* 2013, pp. 965-966.

Apart from gaining access to paramount resources, M&A is mostly used by those businesses whose purpose is to diversify their markets: by expanding their activity abroad in different countries, they would reduce both operational and financial risk that are given by tying their economic success to just one market thus making their earnings less volatile. Operating in this way, some value would surely be added to the business through benefits given by the exchange rate differences, market power given by international scope, and ability to arbitrage tax different regimes to their own advantage. For all the motivation explained above, cross border M&A is an entry mode that would ensure to the global firm either long-term and also more immediate benefits[53]

### 2.2.1 Acquisitions and synergies, the example of Lenovo acquiring IBM PC division.

Since the degree of synergy between acquirer and target companies is the factor that determines the success or failure of the M&A deal, the following lines will be used to illustrate a pragmatic example given by Lenovo, Chinese company founded in 1984 and leader in the consumer electronics market, which in 2005 acquired IBM's PC division for $ 1,25 billion. The internationalization of Lenovo was coherent with the Chinese "Go out" policy, and the acquisition of IBM pc division was necessary, due to the saturation of the domestic market caused by the presence of many international competitors such as HP and IBM itself. Since Lenovo's executives started to realize that further improve the current 30% market share was not possible, the exploration of other markets was seen as the best choice in order to grow, also calculating the huge potential of the international IT market that at the time was estimated to worth $ 200 billion. Anyway, Lenovo top management immediately figured out they were lacking several things, first of all a worldwide recognizable brand and the human talent needed to run and manage such global brand. Even tough extremely complicated, Lenovo opted for an expansion through M&A after certifying that organic growth was a process that would have employed too much time. At the same time, IBM let Lenovo know that they were looking for a company to sell their PC

53 Nicholson R. R., Salaber J., The motives and performance of cross-border acquirers from emerging economies: comparison between Chinese and Indian firms*, op. Cit.,* 2013, pp. 965-974.

division: in fact IBM's PC unit profitability was at the time very low, and that was due to IBM's policy focused on other more innovative units like the software one. Furthermore the IBM huge overall investments, which were principally directed toward such innovative units, continued to burden also those ignored business divisions characterized by lower revenues making them progressively more cumbersome. At first sight, the choice of IBM's PC division as target of an acquisition from Lenovo was seen from the entire IT industry as risky, not only because an inexperienced Chinese company was going to start a complex transaction like an acquisition, but especially because this acquisition involved a smaller organization coming from a developing country purchasing a bigger enterprise leader in the IT market ( Lenovo's total annual revenues at that time were around $ 3 billion, while IBM revenues amounted to $ 12 billion).

Once understood the motivations behind IBM's PC unit scarce profitability, before completing the acquisition, Lenovo's top management with the help of financial advisors started to analyse how to turn the unit in a profit-making business. They discovered that although their target's gross profit margin was higher than Lenovo's, IBM PC unit net profit was null because of the above mentioned unavoidable expenses. Starting from this point, mixing together the new acquired unit advantages with Lenovo's strong points was the prerequisite in order to make the new unit more profitable and consequently make Lenovo a global brand. Immediately Lenovo's top executives realized that under their own guidelines, characterized by high cost control and high efficiency in manufacturing given by the Chinese low-cost labour and their procurement capabilities, the newly acquired unit could have unleashed all its potential becoming way more profitable. Just to make an example, synergies in the previously cited two aspects made possible, for the new incorporated unit, huge savings, cutting the assembling expenses from $ 24 to $ 4 per unit produced. Successively, another huge integration effort was done in order to make Lenovo's products present in every consumer segment thanks to the wider range of brands available after the acquisition: the PC unit, still bound by its old linkage with IBM company, manufactured only commercial products for large business clients, totally ignoring small and medium ones. But under Lenovo the situation changed, and the new venture started to sell IBM's innovative products such as the new Thinkpad also to low and medium size businesses and even directly to the worldwide high-end consumers, while Lenovo PCs continued to be sold mainly to the domestic market. With this strategy Lenovo cleverly leveraged IBM high-end products potentials in order to approach a more innovative consumer archetype together with its internal PCs dominance in the domestic market. With this strategy, the problem about the lack of international competitiveness regarding Lenovo's brand was circumvented: if people that needed to buy a high-end innovative product could feel doubtful in front of a Chinese brand, at the same time IBM logo was and still is globally considered synonym of quality and innovation. For this reason IBM logo and sales team were retained, especially the latter in order to guarantee to the customers the same level of services till then provided.

To finish, the clever synergy between Lenovo company low-cost domestic orientation and IBM's PC division innovation and global orientation set the success of this acquisition; since synergy also mean avoiding any overlap, Lenovo executives managed to keep the two branches operating in two different geographic areas, with two dissimilar ranges of products directed toward a different costumer base.[54]

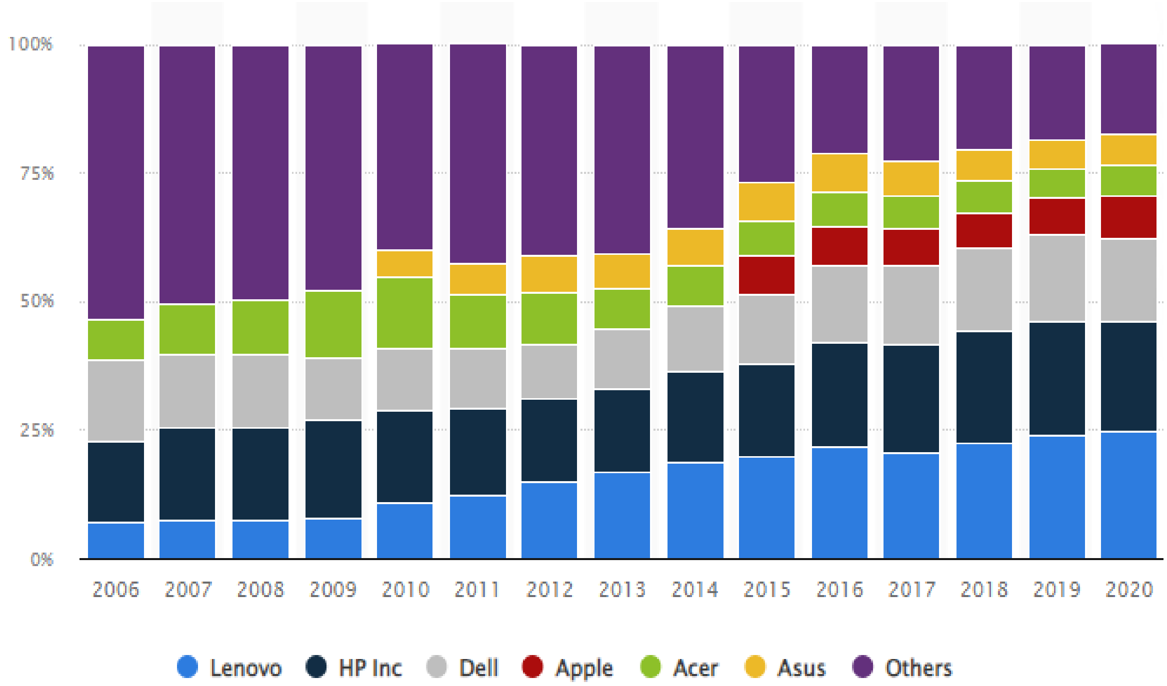
After the acquisition, Lenovo total revenues jumped from $ 2,8 billion in 2005 to $ 13 billion in 2006, with a gross profit margin of 14%[55], two points higher than that of the previous year, while the company's PC global market share, that in 2005 was 5,8%, increased to 6,4% in 2006 (Fig. 7).[56] Anyway the most important result obtained was that the operation paved the way for the future dominance of the Chinese venture in the global IT market. In this example we see not only new assets, like IBM logo, services, know-how and Think technology, but also new market conquered with just one strategic move in an incredibly short time.

54 Chuan Z. L., Lenovo: an example of globalisation of Chinese enterprises, in *"Journal of International Business Studies"* Vol. 38 n. 4 – International expansion of Emerging Market Businesses, Palgrave Macmillan Journals, 2007, pp. 574-577.

55 *Lenovo Group Revenue 2006-2021*, macrotrends.com.

56 Chuan Z. L., Lenovo: an example of globalisation of Chinese enterprises, *op. Cit.*, 2007, p. 577.

**Fig. 7. Market share held by the leading personal computer vendors worldwide from 2006 to 2020.**[57]



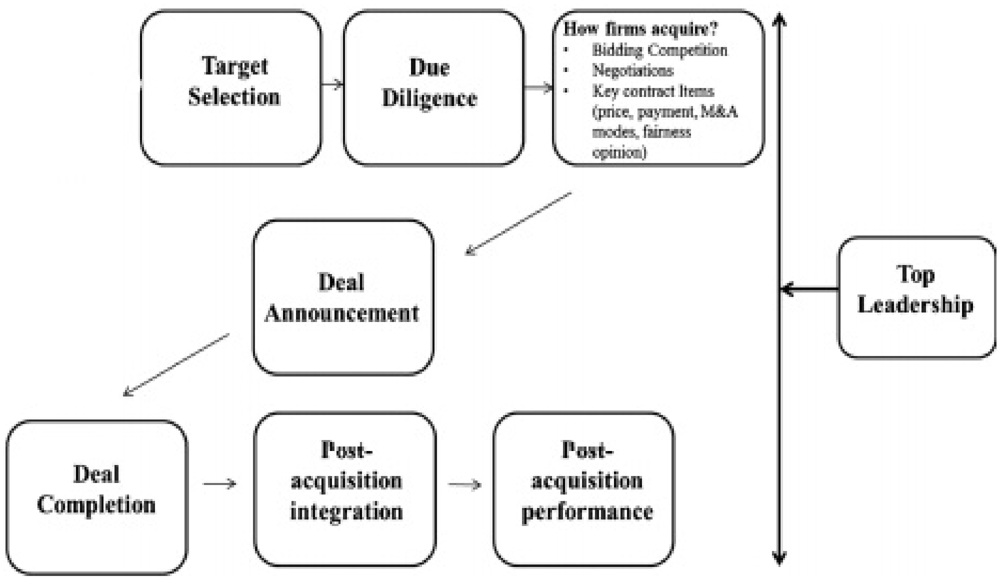

2.3 Acquisition procedure

M&A process includes various stages, the phase where the bid is presented and the target enterprise will consequently accept or refuse the offer is only the main stage of an acquisition, which actually starts from the understanding, by the potential claimant, of its own motivations and, thereafter, the selection of the suitable target firm. Thereafter comes the due diligence phase[58], which involves particular care-taking prior to enter into an agreement with the other party[59], then starts the competition among bidders and, at a later time, the negotiation among the acquirers, targets and advisors about the key contract items

57 Source: *Market share held by the leading personal computer vendors worldwide from 2006 to 2020*, Statista.com.
58 Zhu H., Zhu Q., Mergers and acquisitions by Chinese firms: a review and comparison with other mergers and acquisitions research in leading journals, in "*Asia Pacific Journal of Management*", Springer Science&Business Media, New York, 2016, p. 1124.
59 *Due diligence*, Wikipedia.en.

like pricing, potential premiums, payment premium and so on. After the announcement and the completion of the deal, starts the post-acquisition stage, which includes the post-acquisition integration and the post-acquisition performance. Each step could influence the degree of value created not only for the claimant, but also for the target, and consequently must be studied in depth.[60]

**Fig. 8. M&A process.**[61]




60 Zhu H., Zhu Q., Mergers and acquisitions by Chinese firms: a review and comparison with other mergers and acquisitions research in leading journals, *op. Cit.*, 2016, p. 1124.
61 Source: Zhu H., Zhu Q., Mergers and acquisitions by Chinese firms: a review and comparison with other mergers and acquisitions research in leading journals, *op. cit.,* 2016, p. 1140.

### 2.3.1 Target selection

Even if every enterprise choose the potential target following its own needs and necessities, there are some characteristics owned by it that tend to attract acquirers independently by their specific needs: generally companies which decide to expand are more willing to secure more popular targets, for example technological start ups that are in possess of some crucial innovative capabilities and are driven by fast mechanisms given by their lean size and at the same time unique technology. In those cases, internationalizing enterprises tend to purchase organizations with a lower likelihood of personnel departure after the acquisition, because small corporations often imply singular employees having many tasks, most of which need an high degree of knowledge. Also efficient downstream organizations or nearby targets with capabilities not comparable to those of the claimants are quite popular, and, last but not least, low valuation, divested assets, struggling enterprises are, especially recently, always desirable targets. On the other hand, acquirers are less inclined to purchase large-sized firms or firms with scarce availability of informations, in fact when identifying the right target with which obtain synergies a big hurdle is embodied by the information asymmetry, which is the difference in information quantity and quality owned by the two parties involved in the deal. Often target companies' ownership have an incentive in make public any favourable information, and keep in secret any unfavourable (but at the same time relevant) detail. Information asymmetry can seriously obstacle the acquisition process and its output by causing the misunderstanding among the parties. In such cases informations obtained from reputable investment banks and financial funds that back the potential targets, or again particulars obtained thanks to the relationship with a target's prominent alliance partners can help the internationalizing company to recognize its true value avoiding this obstacle. Anyway by doing consultation service, investment banks earn large incentives by recommending organizations with strategic misfits and promoting high premiums, while understanding the true value of a firm through connection with its strategic partners could bias acquirers towards potential companies they already know. The claimant consequently should not ignore acquiring firms with good prospective but lacking direct ties: dyadic relationship is then important, but not fundamental in defining the possible target of an acquisition.[62]

### 2.3.2 Due diligence

After choosing the most suitable enterprise to be purchased, due diligence when carrying out the transaction is then requested to optimize the value obtained from it.[63] Due diligence is a fundamental activity in the M&A process, because it allows the buyer to check and confirm pertinent information about the seller in detail. A thorough due diligence process includes a team of experts that carefully examine the target's operations, management, human capital, intellectual property, technologies, and that fully understand the enterprise's obligations such as their debts, leases, distribution agreement, pending and potential lawsuits, long-term customer agreements, warranties, compensation agreements, employment contracts and similar, in order to be better informed to make the right decision and close the deal with a sense of certainty.[64] Due diligence is especially requested in the case of Chinese enterprises purchasing foreign assets, because due to their lack in international acquisition experience, they need to be more careful when selecting potential targets, in order to avoid any miscalculation when assessing their resources and capabilities. At the same time this practice is also especially advised for companies exploring in China with the aim of uncover an accurate picture of assets, potential slack resources, and liabilities that otherwise could not be found due to the sometimes ambiguous economic environment. Among the primary purposes of the due diligence, apart from correctly evaluate potential valuable resources and capabilities, is the identification of problems and risks that target prefers to hide from potential acquirers; as an example, because of the thorough due diligence conducted by Lenovo prior to the takeover of IBM PC unit, the

62 Zhu H., Zhu Q., Mergers and acquisitions by Chinese firms: a review and comparison with other mergers and acquisitions research in leading journals, *op. cit.,* 2016, pp. 1118-1119.

63 Zhu H., Zhu Q., Mergers and acquisitions by Chinese firms: a review and comparison with other mergers and acquisitions research in leading journals, *op. cit.,* 2016, p. 1132.

64 *Due diligence in Mergers and Acquisitions*, article from "Business Benefits Group".

Chinese multinational identified a little deficiency in IBM's Thinkpad product, thus saving million of dollars.

### 2.3.3 Bidding competition

The following step the claimant have to follow is to make its first offer. It goes without saying that the more accurate will be the analysis made by the experts during the due diligence stage, the more appropriate will be the offer, and a well-studied first offer would surely exert a strong positive influence over the possibility of an acquisition to be accomplished and the eventual rivals to be outbid. If the target's condition is fundamental for the acquirer to make a proper offer, simultaneously the acquirer financial situation is the first thing the target would like to understand in order to guarantee itself a prompt payment without any delays typical of a potentially insolvent company.[65] In this optic, the backing of trustworthy legal investors  means bidder's high funding capacity; it is also confirmed that more efficient but at the same time less wealthy bidders are more likely to be outbid by their less efficient but wealthier rivals: this is a key advantage for the Chinese firms. Sometimes could also happen that two or even more firms jointly bid, this approach is called club bidding; club formation can cause the decrease of the premium that the target can ensure itself due to the limited number of competing bidders imposed by the club's high entry barriers.

Pricing and payment type are fundamental contract items, pricing is calculated and negotiated among acquirers, targets and investment banks; when the target is a listed enterprise, a common method to find a price reference is to use its recent stocks price peak.[66] Focusing on the type of payment, three possibilities are the most chosen: payment by cash, payment through stock transfer, and payment by a combination of cash and stock. It has been confirmed that Chinese businesses are more likely to use cash to conduct this sort of transaction, without any big difference between privately and publicly owned

65 *Acquisition process: how to acquire other companies*, article from “Upcounsel”.

66 Zhu H., Zhu Q., Mergers and acquisitions by Chinese firms: a review and comparison with other mergers and acquisitions research in leading journals*, op. cit.,*, 2016, p. 1124.

enterprises. The real difference lays in the method used to raise the cash needed: POEs tend to use internally generated cash to finance M&A compared to SOEs which, as we know, are more likely to use debt.[67]

Apart from price and payment there are more particular contract items typical of such large-scale deals, those are contingent earn-outs, material adverse changes (MACs) and the fairness of opinion.[68] Contingent earn-out is structured to minimize the costs of valuation uncertainty and moral hazards in acquisition negotiations and consists in a contingent payment that the seller only receives from the buyer when some specific performances (revenue, EBITDA, gross profit growth or the signing of particular contracts) are met. The earn-out is a strategic way, for the buyer, to hedge any eventual risk of overpaying, while at the same time, thanks to the clause, the seller can take profit of the potential benefits coming from the materialization of some results that the business he's willing to sell may obtain; that's why, for the period specified in the clause, the seller is expected to stay on board working as a partner of the purchaser. This period can last also several years, during which not only the seller, but also some key employees can keep working in the company in an optic of retention that could permit the seller to optimize the revenue by maintaining the relationship with key partners and suppliers, and the buyer to perfectly learn the expertise needed to run properly the new secured business once the seller will leave his post.[69] Material adverse changes (MAC) clause can be implemented when a change in circumstances that significantly reduces the value of the enterprise takes place.[70] The motivation of such clause to be present is due to the fact that, even if relatively rapid, M&A transaction requires a certain period of time due to the negotiations, and until the deal is not accomplished, the parties are then subject to risks. MACs is the underlying cause of 69% of acquisition terminations and 80% of renegotiations that lead to substantial changes in the deal price. Finally, the last special clause, that is fairness of opinions, involves the

67 Sun Z., Vinig T., Hosman T. D., The financing of Chinese outbound mergers and acquisitions: is there a distortion between state-owned enterprises and privately owned enterprises?*,* in "*Research in International Business and Finance*" n.39, Elsevier, 2016, p. 378.

68 Zhu H., Zhu Q., Mergers and acquisitions by Chinese firms: a review and comparison with other mergers and acquisitions research in leading journals*, op. Cit.*, 2016, p. 1125.

69 *Earn-outs and contingent payments*, article from "Business owner's playbook".

70 *Material adverse change*, Wikipedia.en.

assessment of a third party, generally an investment bank, to indicate proper due diligence and ensure the quality of a transaction, providing an opinion about whether or not the proposed price is relatively fair.[71]

### 2.3.4 M&A completion and post-acquisition performance

When completed, provided that the target chosen is coherent with the strategic intent and upon the correct analysis made by the experts through the use of due diligence, the M&A will tend to generate value. Benefits can be distinguished in immediate or short-term, given by the stock reaction in the days corresponding to the announcement date, and long-term benefits that are spread in the successive years and are given by the effective synergies among the two businesses and the consequent achievement of determinate long-term goals. Immediate stock reaction is given by the investors expectations of market efficiency and the guarantee of future benefits given by the takeover at the eve of the announcement day; apart from expected synergies, ownership structure and corporate control situation of the acquirer are the main factors needed to quantify those expectations. It's reasonable to assume that, unless the investment is merely made for financial returns purposes, the investing firm has the intention to absorb knowledge and expertise from the target, and the potential gains coming from the acquisition are mirrored in a premium price paid for its shares. Stock price should as a consequence rise on the announcement day of the project as the informations about the acquisition become of public domain, generating what is called an abnormal return (AR), that is the difference between the actual return of a security and the expected returns. Obviously, as long term value is not always guaranteed, also immediate benefits could not happen, and share price reaction can be reduced or even be negative as scepticism increase. In the case the two companies cannot find the expected synergies, investors can doubt whether the deal has been accomplished in the right way, without hubris that could bring the acquirer to overpay for the acquisition and without

71 Zhu H., Zhu Q., Mergers and acquisitions by Chinese firms: a review and comparison with other mergers and acquisitions research in leading journals, *op. Cit.*, 2016, p. 1125.

moulding the target strategy to the acquirer's own objectives undermining the potential cooperation by acting a mere imitation tactic.

As previously said, corporate governance is a fundamental issue in determining hypothetical short-term benefits. This is because potential conflicts and discrepancies in informations perception among shareholders and managers can be value-disruptive. Managerial entrenchment in pursuing personal interests over the interests of the organization as a whole can compromise the internationalization efforts, in this case the concentration of managerial power and ownership in the hands of few majority shareholders that act also as managers, avoiding any conflicts of interest, would correspond with higher returns even if by this way, sometimes minority shareholders decisional power could be ignored. Another problem, as already indicated, is the potential ownership of the government: due to issues correlated to ownership transparency, managerial competence and preference for political interests over economic gains and shareholders profit maximization, SOEs ownership, which is characterised by expropriative behaviour and often ignore the opinion of minority shareholders, is perceived as value disrupting by investors. Finally also group affiliation made by companies provide significant negative short-term returns, that's the reason why investors suspect that complicated group structures entrench controlling shareholders and increase the possibility of expropriation and internal conflicts, offsetting the relative benefits. In all the above mentioned cases, aiming at avoiding expropriation of minority shareholders powers caused by major shareholders, internal corporate control mechanisms are advised: in this case a totally independent Board of Directors is the main instrument to intermediate among control and ownership, and to safeguard the interests of the shareholders, ensuring that firm's decisions are made in behalf of all the shareholders.[72]

Even if short-term wealth creation is an important factor for organizations and overall investors, firms largely aim at achieve long-term value creation by integration and consequent synergies. By failing in effectively coordinate the new pool of knowledge, roughly the 80% of mergers fails in creating value with the consequence of making acquisition totally void and even counter-productive. The integration acted in the post-

72 Ning L., Kuo J. M., Strange R., Wang B., International investors' reaction to cross-border acquisitions by emerging market multinationals, in "*International Business Review*" n.23, Elsevier, 2014, pp. 812-815.

acquisition period is a challenging task for acquirers, and along with the other processes characterizing an acquisition are all factors that would surely be decisive in order to improve the post-acquisition performance. Integration process after acquisition tends to be dynamic, and in the firsts phases that characterize the post-acquisition period, communication across businesses increases as workers change their routines. However, over time communication peaks and after that falls as workers develop common ground. Besides, procedural and informational justice related to post-acquisition process are found to deeply affect the linked performance. Again, Board of Directors have a fundamental role during the post-acquisition integration processes and post-acquisition performance: by implementing stronger mechanisms such as long-term incentive plans instead than simply ensuring compensation protection, the Board could somehow align the interests of managers and shareholders and consequently minimize personal entrenchment that would surely make post-acquisition performance poorer.[73]

Going back to Lenovo's example, after the deal IBM employees retention was ensured through the guarantee given them by Lenovo's executives of career opportunities and compensation invariance. The new executives also immediately clarified that Lenovo's corporate culture used to differ from any other Chinese company by being open and not rigid. About the new top-management, half of it was made up by old IBM managers, while Chinese executives occupied the positions of Chairman, CEO and CFO.[74]

## 2.4 Factors influencing the creation of value in Cross-Border M&As

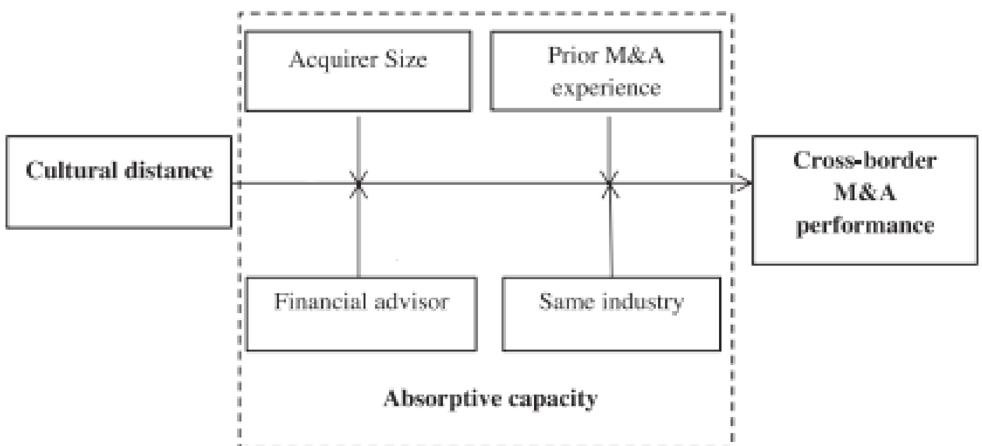
Even if acquisition is one of the most common ways to gain international competitiveness, the degree of benefits brought to the companies involved in the project is hardly predictable due to the many conditions and unexpected events such an important strategy entails, which make value creation only potential. In particular, among the factors that affect the creation of value are destabilizing ones, which could depend by the external environment, like the

73 Zhu H., Zhu Q., Mergers and acquisitions by Chinese firms: a review and comparison with other mergers and acquisitions research in leading journals,*op. Cit.,*, 2016, pp. 1122-1124.

74 Chuan Z. L., Lenovo: an example of globalisation of Chinese enterprises*, op. cit.,*, 2007, pp. 576.

cultural differences of the two organizations, or could be more firm-specific such as managerial self-interest and stabilizing ones, which can be internal to the companies like the size and the strategic intent of the management, the industry relatedness and the possibility of prior M&A experience, or also external like the help of a financial advisor. Those last four features are thus positively related to the corporation's absorptive capacity, which determines its ability to assimilate value and consequently apply new knowledge intending to improve organizational learning when implementing an acquisition, while cultural distance and managerial self-interest concurs to interrupt value creation.

**Fig. 9. Cultural distance and cross-border M&A performance.**[75]




2.4.1 Absorptive capacity and its determinants

· Firm size and strategic intents

The way and the purpose for which companies implement a M&A mainly depend by their strategic intent, a peculiarity which is also determined by their size: Global oriented

75 Source: Li J., Li P., Wang B., Do cross-border acquisitions create value? Evidence from overseas acquisitions by Chinese firms, op. Cit., 2016, p. 475.

businesses which focus on worldwide competitive positions but also keep an eye on the domestic market (Lenovo, Huawei, Haier) are the global players which managed to become monopolies thanks to the law of market imperfection, which makes possible the growth of some firms which are then inevitably going to crush the weaker competitors. This “monopoly advantage” is the fundamental prerequisite for those MNCs to overcome the various obstacles coming from operating globally, and permit the firms to internationalize effortless due to their international reputation. Monopolistic advantage is usually given by the exploitation of some strong proprietary assets and the strong synergy and integration among them, which makes those huge companies fearsome competitors in almost every part of the world. Having the great majority of Chinese businesses insufficient assets to become monopolies, they expand abroad in order to ensure the missing assets through acquisition. In fact globalization in China is relatively recent, thus the monopolistic advantage is just privilege of few Chinese MNCs just lately become global; in few words the exploitation of the monopolistic advantage by Chinese multinationals in order to more smoothly accomplish various M&A projects is just a recent phenomenon. Firms which are not global players could encounter more obstacles when internationalizing, and this is due to their scarce integration and lack of global competitiveness which make their hypothetical targets more suspicious and less aware of their overall condition. Furthermore those companies, due to their scarce experience, could misuse the assets eventually secured or could have uncertain global orientation, a factor that could hinder the execution of the strategic plan. After global giants, another type of Chinese multinational is the domestically-oriented enterprise whose principal goal is to compete with foreign MNCs in home soil thanks to the fundamental assets obtained abroad (an example could be Dalian Machine Tool, which purchased its US and German rivals in 2005). Thereafter another type of venture are trade-oriented firms which acquire foreign assets under form of manufacturing expertise as a mean to allow themselves to produce by their own the goods previously exported before their finishing. Finally a great number of Chinese MNEs start as niche market player and buy strategic assets abroad aiming to gain leading position in a given small sector. Obviously every organization that have the appropriate financial means and an adequate knowledge can successfully conduct an acquisition, anyway the outcomes depend from  its planning abilities; at the same time, as seen in the latest years most of the target companies lived a gradual loss of competitiveness and profitability which made them more affordable, it's thus the acquirer's duty to discover the potentials that characterize such target.[76]

· Industry relatedness

Once the organization decided to grow by means of acquisition, industry relatedness, which measures the degree to which two companies are operating in related markets, is a crucial factor. Industry relatedness and the consequent corporate coherence are concepts that should be associated with a better sharing of technological experiences and knowledge bases needed to produce similar commodities in similar markets.[77] Following the concept of industry relatedness we can distinguish between two different types of M&A which are horizontal mergers, when the acquirer and the target operate in the same industry and are also at the same level of production, and vertical mergers, which involve two companies active in the same industry but at a different level of production.[78] Even if described here as an indicator of value creation, not every M&A involves industry relatedness: sometimes firms can purchase each other just basing on a certain degree of industry similarity and accordingly implementing a slight diversification policy. Those companies usually aim at create economies of scope, given by the production in tandem of a wider range of goods or services, which is possible when having some components in common, bringing to lower costs. Finally, enterprises can pursue conglomerate approach when diversifying in many different and not correlated sectors by securing firms operating in completely different markets. Industry relatedness is a result of accurate study by the acquirer managers, anyway this is possible only in case of availability of a great quantity of informations. By operating in the same industry, misunderstandings between the companies during the negotiation and

76 Wu X., Yang X., Yang H., Lei H., Cross-Border Mergers and Acquisitions by Chinese firms: value creation or value destruction?, in "*Journal of Contemporary China*" Vol. 25 n. 97, Routledge, 2015, pp. 134-135.

77 Teece J. D., Rumelt R., Dosi G., Winter S., Understanding corporate coherence. Theory and evidence, in *"Journal of economic behavior and organization"* , n. 23, Elsevier-science, 1994, p. 2.

78 *Horizontal vs Vertical Acquisition: know the difference*, article from "Careerminds".

cultural shock in the post-acquisition stage could be avoided. In short, by choosing targets operating in the same industry, due to the prior knowledge, better strategic assessment can be made and losses caused by the contingency of a premium price would be avoided.
The exploitation of the operational and market synergies when conducting a M&A that entails industry relatedness would surely boost the absorptive capacity of the acquirer, duplicative function can be reduced and economies of scale can be realized. In addition the learning process would be smoother, because the repetition and the experimentation which enables tasks to be performed better pertains to new developments which are close to previous activities already implemented inside the organization and then more easily reproducible by intuition.
In conclusion by diversifying not in a random way but adding activities that somehow can be relatable to some aspects of the existing business and thus showing a certain degree of coherence, absorption capacity can be favoured. On the contrary, when an acquisition is totally unrelated and the organization is implementing a conglomerate approach, some benefits could be voided and the scarce complementarity among the two firms could make coordination costs higher. For those reasons related acquisitions are valued more than unrelated ones, and targets operating in the same product market seem to be more attractive and able to increase the acquirer's value.[79]

· Prior M&A experience

Acquirer's prior experience may influence the organization perceived risk, its uncertainty and its unwillingness to commit resources and hence the same firm value.[80] Furthermore, as industry relatedness is an important condition for creating benefit in a M&A by speeding up the learning process, prior knowledge given by experience would in the same way quicken the operation of international acquisition. Generally, experience has a positive effect on

79 Teece J. D., Rumelt R., Dosi G., Winter S., Understanding corporate coherence. Theory and evidence, op. Cit., 1994, p. 2-4.

80Du M., Boateng A., State ownership, institutional effects and value creation in cross-border mergers & acquisitions by Chinese firms, in "*International Business Review*" n. 24, Elsevier, 2015, pp. 435.

performance if all the later takeovers occur in similar industries, this is because too much heterogeneity in acquisition experience may impede the organization a smooth learning process, making every time the successive deal slower and the implicated learning process always more difficult due to the diverse and at the same time insufficiently specialized knowledge acquired.

Along with the concept of prior experience, also acquiring firm's CEO continuity is salient in order to make the learning and in general the absorption process smoother always due to experience motivations; on the other hand those kind of benefits couldn't be present in case of CEO replacement between two takeovers. Acquirers that undertake multiple takeovers are usually more able to secure larger benefits from the last deals, anyway it is also true that too many unrelated takeovers made by the same firm are potentially counter-productive because of the potential increase in integration costs. Favoured by a certain degree of acquisition's homogeneity, CEO continuity makes the company's integration capability increase deal after deal and shortens the time used to conduct and conclude the new operations. Learning and time needed to accomplish the deal (which depends on the contingent obstacles the firm may have to face) are then inversely proportional, the importance of learning by doing given by repetitive acquisitions is clearly a chief factor in the creation of value when making an acquisition.[81]

· The help of a financial advisor

As seen, experience and relatedness permit the acquirer to obtain more informations in a faster way compared to situations of unrelatedness and liability of newness; this informations can allow the enterprises to precisely assess the target business in order to fully understand, before the deal is done, the value involved in the transaction. When purchasers have insufficient informations about the claimed company, professional advisors can be hired to help the acquiring firm. In addition to the financial expertise, professional advisors can also support cross-border M&A in several other aspects; many of them, in

81 Aktas N., De Bodt E., Roll R., Learning from repetitive acquisitions: evidence from the time between deals, in *"Journal of Financial Economics"* n. 108, Elsevier, 2013, p. 110.

particular those involved in such international operations, have a worldwide network of offices in many different countries, with people having huge experience in working across cultures. They can help mitigate the cross-cultural problems between the purchaser and the target and their global networks and experience can allow them to source talents and knowledge globally while dealing with every potential cross-cultural issue in M&As. Sometimes even the most experienced firm is likely to hire external financial advisors if the deal they're conducting is particularly complex.

However hire a financial advisor is not free, and when doing this the organization must consider if the benefits brought are coherent with his compensation. By the way, given the fact that many Chinese companies are primarily purchasing strategic assets such as superior technology and are implementing expanding policies that also involve high economic and political risk, along with the fact that the majority of Chinese acquirers have heretofore suffered lack of experience when venturing in the global market, the potential benefits of employing a professional consultant in these cases would be expected to outweigh the costs.[82]

In 2004 TCL investment of  $ 560 million to restructure the colour TV and DVD business units of Thompson SA in France, led to substantial losses for several consecutive years; the failure of the project was due to the wrong assessment of the French organization made by TCL, which in fact didn't call on a professional consulting company and only afterwards discovered that Thomson had large debt problems and serious defects in the management system. Moreover  Thomson key technology were at time about to be replaced by another more innovative one, and its value was thus compromised.[83]

82 Li J., Li P., Wang B., Do cross-border acquisitions create value? Evidence from overseas acquisitions by Chinese firms, op. Cit., 2016, p. 476.

83 Zhang R. N., Huan X. G., Fan Z., Success and failure of the overseas M&A: cases of Chinese enterprises, in *"East Asian Journal of Business Economics", vol* 3, n.2, EABEA, 2015, p. 29.

2.4.2 principal causes of value disruption

· Cultural distance

Basing on the host country chosen for internationalization, implementing an M&A could be more or less difficult; acquisitions of organizations situated in farther nations usually entail higher cultural distance and thus more obstacles. Cultural distance exacerbates information asymmetries and besides heavily affects M&A outcomes, especially in terms of knowledge exchange, due to the fact that people coming from different backgrounds deal with relationships and rules in a different way. In the post-acquisition stage, cultural differences can negatively affect the value creation through the adverse effect on the retention of important people working in the secured company. Cultural clashes, in this case, are often resolved by drastic solutions such as the replacement of this people with acquiring firm's own personnel. Sometimes can also happen that those human resources don't even wait for the replacement to happen and then leave by their own. In this case the valuable knowledge embedded in those executives and employees would be lost and consequently a huge damage on the learning process of the acquiring enterprise would happen. If there is a lack of cooperation many outcomes would be denied; post-acquisition integration is fundamental to facilitate the exchange of knowledge coming from the two different cultural environments. M&A is a process where an high communication among the interested parties is needed, it's thus obvious that in such a situation cultural differences are crucial. Without communication and exchange of informations people trust less each other, and consequently the transfer of intangible firm-specific assets towards a more culturally distant country is also more difficult. All these problems could bring, in a first time, to asymmetries in information availability, and the increased management resistance when negotiating intercultural transactions would surely affect the performance of the combined business increasing the costs needed to accomplish the acquisition. Given the fact that internationalizing companies from emerging countries usually transfer the obtained technology inwards for its exploitation, knowledge embeddedness in the local environment of the target country surely increases the challenges when exchanging knowledge. Innovation capacity and design know-how are among the most desirable assets when acquiring a new organization, but those are usually embedded in a group of engineers and technicians who are familiar with the local business' managers and the local habits, and this explain how absorption is difficult to implement. Finally the eventual political distance between the two countries, would increase difficulty in establishing mutual trust, and bring then to suspicion and hostility, with the result that target company employees may stop cooperating and even begin to resist and fight against the claimant firm, increasing the overall efforts needed to conclude the operation. On the other hand the economic, institutional and political uniqueness of China could also increase the value embedded in an acquisition: knowledge diversity among Chinese and foreign MNEs would mean new opportunities for the creation of specific know-how given by a cooperation that would bring inside the enlarged organization new routines and knowledge. Rapidly incorporating new knowledge can "train" the absorptive capacity and facilitate the innovation mechanism, also for future acquisitions, by enabling the individual to make new associations and linkages.[84]

· Managerial self-interest

Managers bad behaviour can cause the deviation from the maximization of the value guaranteed when conducting a M&A in different ways, but always resulting in post-acquisition value destruction. Monetary compensation, hubris and defence tactics adopted by the targets are among the most common self-interest examples showed by companies CEOs. In particular, as for compensation, it can sometimes happen that CEOs are driven to conduct more takeovers by permanent, large increases in their expected financial compensation than by strategic benefits. In case of senior executives the acquisition can be highly motivated by a post-retirement director opportunity, and again, they can be less inclined to assume risks in M&A when their compensation somehow includes a large portion of inside debt holding. Talking about target CEOs, sometimes those can be motivated to take actions against acquisition because in this way the major part of the

84 Li J., Li P., Wang B., Do cross-border acquisitions create value? Evidence from overseas acquisitions by Chinese firms, op. Cit., 2016, pp. 473-474.

executives could lose their power or eventually be forced to leave their post during the post-acquisition stage.

For the same motivations anti-takeover programmes can be implemented by managers; those include anti-takeover provisions or well defined pension plans. As we will see in the last paragraph of this chapter, those are all incentives used by target enterprise's managers to resist in case of potential acquisitions. Sometimes CEOs which are located in the centre of a network can take advantage of it to avoid market discipline to be imposed over their corporate control and so increase managerial entrenchment, obtaining private benefits from a potential value-destroying M&A. Finally narcissism, seen as the engagement in M&A by managers not to maximize firm value but with the only purpose to confirm their own value, is confirmed to be another common issue.[85]

## 2.5 Failures of M&A projects, the case of UNOCAL

Being foreign political opposition one of the main obstacles Chinese ventures must face, especially when acquiring companies operating in strategic sectors, we're now going to illustrate a real example of takeover failure given by this reason, which is CNOOC's attempt to acquire the American Unocal in 2005.[86]

CNOOC is the third largest national oil enterprise in China, and it's owned by the government through the SASAC's State fund, it's main business is the exploration, exploitation and the refining of crude oil and natural gas outside China. The company was incorporated in Beijing in 1982, and since its foundation its primary purpose was to ensure China the energy needed for the country's rapid growth, thereafter in 1999 was listed on the New York and the Hong Kong stock exchange. Considering the fact that Chinese reserves of natural resources only account for 1% of the world's total, the corporation has been

85 Zhu H., Zhu Q., Mergers and acquisitions by Chinese firms: a review and comparison with other mergers and acquisitions research in leading journals*, op. Cit.,* 2016, pp. 1115-1116.

86 Wan K. M., Wong K. F., Economic impact of political barriers to cross-border acquisitions: an empirical study of CNNOC's unsuccessful takeover of Unocal, in *"Journal of Corporate Finance"* n. 15, Elsevier, 2009, p. 447.

particularly active in the acquisitions of energy assets in foreign countries through M&A, continuously expanding abroad and sustained by the loans given by the Chinese government and in particular the People's Bank of China.[87] Well-suitable with CNOOC's targets standard, Unocal was a Californian oil corporation, and like its potential acquirer, was operating in the oil exploration market. The organization was founded in 1890 and considered one of the the major multinationals operating in the American oil industry. During its history the company has been involved in many domestic and global energy projects: except North America, the enterprise had operations in Europe and Asia reaching $ 8,2 billion of gross revenue in 2004 placing itself ninth ranked among the biggest American oil companies. In 2005 it was purchased by Chevron and become a wholly owned subsidiary, ceasing its operations as independent organization.[88]

During the firsts years of the new century, while the total value of M&A activities was surging to outstanding levels, many governments started to tighten the scrutiny on those acquisitions, and USA were one of those: national security, especially in some sensitive industries like those involving fundamental infrastructures and technologies, was the main reason, and the CFIUS, an inter-agency mechanism with the purpose to review the national security implications in foreign investments, was the principal supervisor.

On January 6, 2005, after private talks between the two companies, the Financial Times unveiled that CNOOC was considering to offer approximately $13 billion in order to acquire Unocal; if the transaction would have been accomplished, it might have represented the largest cross-border acquisition ever made by a Chinese enterprise.[89] CNOOC's top management thought that the American company offered a nice fit with their overall strategic orientation, which mainly centred around three themes: a focus on production and reserve growth, development and expansion of natural gas business and maintenance of industry-leading cost management and financial discipline. The hypothetical merger would have been compelling in terms of scale, technical skills base and industry logic, CNNOC gas and oil reserves would have increased by 79% while production would have more than

87 *CNNOC*, Wikipedia.en.

88 *Unocal*, Wikipedia.en.

89 Wan K. M., Wong K. F., Economic impact of political barriers to cross-border acquisitions: an empirical study of CNNOC's unsuccessful takeover of Unocal, op. cit., 2009, pp 449-450.

doubled. However, almost simultaneously also Chevron expressed its interest, making CNOOC rise its offer to $ 18 billion. In the same time CFIUS committee experts found out that CNOOC's interest in securing Unocal surely wasn't correlated with adequate financial resources, in fact the Chinese giant net income in 2005 amounted to $ 3 billion[90], thus the venture would have been forced to obtain a loan from the Chinese Government.[91] In particular, the Chinese venture could have drawn $ 7 billion from the Government and another $6 billion in low-interest loans from State banks in case of bidding victory. This made the committee realize how easily CNOOC could have taken advantage over its bid rival Chevron.[92] Anyway this advantage was considered "unfair" because directly linked to the Chinese Government and moreover obtained with the purpose of accomplishing an acquisition in a key sector like the oil extraction and refining industry. In addition those were the first years characterizing the Chinese government sponsorship of massive foreign investments, and since most of which were made in the U.S, this obviously triggered the American Government preoccupation: in particular it believed that China was just serving its own interests and totally neglecting any concept of mutual benefit. All those reasons made the US congress attempting to forestall the takeover of Unocal by offering no support to the CNOOC's bid and on the contrary expressing strong disapproval. In addition to this, the CFIUS made the oil company suffer one more setback by encouraging the dialogue between Unocal and Chevron intending to quicken the deal among the two companies, thus leaving CNOOC very short time to resolve the issue. CFIUS, by its side, rejected any request made by CNOOC for a further investigation over its own bid with openness purposes and, on the contrary, let the Chinese MNE know that a potential investigation would have been accorded only if Unocal voided its deal with Chevron.[93] Doing so the committee totally ignored the Chinese venture's pledge to continue, in case of bidding victory, Unocal's practice of selling and marketing substantially all the oil and gas produced

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90 *CNNOC Net Income 2006-2021*, Macrotrends.com.

91Schortgen F., Protectionist Capitalists vs Capital Communists: CNNOC's failed Unocal bid in perspective, in *"Asia Pacific: perspectives",* University of San Francisco, 2006, p. 5.

92 Petrusic M., Oil and National Security: CNNOC's failed bid to purchase Unocal, in *"North Carolina Law Review"* vol. 84 n. 4, 2006, p. 1390.

93 Wan K. M., Wong K. F., Economic impact of political barriers to cross-border acquisitions: an empirical study of CNNOC's unsuccessful takeover of Unocal, op. cit., 2009, pp. 450-451.

from its properties in the U.S. market, to retain all the firm's employees and to persuade the potential target executives to join the management team of the future combined company, in few words suspicion over CNNOC's background prevailed over the venture's real intentions. In the meantime the position of  Chevron about a post-acquisition integration was diametrically opposite, aiming at lay-off as many employees as possible in order to save money. With the CFIUS by its side, Chevron increased its offer to $ 17,9 billion, and the many delays caused to CNOOC's by the US congress through the implementation of various laws caused the Chinese withdrawal and theChevron's victory.[94] The American enterprise had many factors that worked by its favour: regulatory clearance, the support of Unocal's board and the backing of U.S. lawmakers, who questioned if economic and national security concerns would have been threatened in the case of a major American corporation operating in a strategic sector being acquired by a competitor with significant ties to its own Government.[95]

However, by doing so, the US Government not only damaged CNOOC by making them lose time and a good opportunity to expand into the American market and obtain key capabilities, but also indirectly damaged all the American businesses working in that sector, because implicitly raised the costs for foreign firms willing to purchase US oil corporations. As a consequence the price of the shares of the US oil companies fallen to reflect an effective contraction in their expected acquisition premiums, and continued to fall every time the US government somehow took some hindering action. Meanwhile the market quotation of the foreign corporations operating in the same sector didn't drop, damaging the American companies international competitiveness. Summing up, it has been ascertained that, due to this event, the total loss suffered from every organization which was part of the American oil industry (13 US oil refining enterprises and 66 oil and gas exploration firms) amounted to nearly $59 billion. Anti-CNOOC takeover events had discouraged foreign acquirers from buying US oil companies and in particular large ones, and, in fact, in the period corresponding to those events, the incidence of cross-border M&A between foreign

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94 Casselman J. W., China latest "threat" to the United States: the failed CNOOC-Unocal merger and its implications for Exon-Florio and CFIUS, in *"Indiana International and Comparative Law Review"* vol. 17 n.1, 2007, pp. 162-163.

95 *China's CNOOC drops bid for Unocal*, article from "NBC news".

multinationals and American ones decreased sharply. After this failure the Chinese organization changed target country for its international expansion project, accomplishing in the following years many M&As with companies operating in several countries like Australia, Canada, and Nigeria. The Government opposition, and the successive ratification of FINSA (Foreign Investment & National Security Act), which further promoted national security priority over foreign-sourced FDI, revealed itself as a double-edge sword: if by one side it aimed at prevent political threats coming from "dangerous" countries, on the other hand it caused direct economic damage to the interested targets and indirect damage to other organizations operating in the same sector.[96]

## 2.6 Hostile acquisitions

When a company acquires another corporation against the wishes of the latter the term hostile takeover is used. This sort of bid can take place when an organization attempts to take control of a given firm without the permission or the cooperation of it's Board of Directors. In this case, even if the motivation for purchase is the same as "normal" acquisitions, the distinctive trait is that the target organization's management does not approve the takeover for different reasons.[97] Even if the threat of an hostile offer could be a strong incentive for the target company to pursue always better results given by the pressure exerted by the external environment, it can also be potentially damaging for reasons that vary depending on the same "nature" of the acquisition, that can be strategic (long term benefits), or financial (short term profit). If we talk about strategic acquisitions, hostile takeovers are often damaging because make post CBMA integration more difficult to implement and furthermore slow down innovation processes because of potential conflicts of interest among the new top management and the presence of discrepancies in the common vision. Although hostile offers were popular in the developed countries already during the 1980s, today this sort of acquisitions are much less aggressive precisely

96 Wan K. M., Wong K. F., Economic impact of political barriers to cross-border acquisitions: an empirical study of CNNOC's unsuccessful takeover of Unocal, op. cit., 2009, pp 453-455.

97 *Hostile Takeover*, article from "Investopedia".

because of value disruption reasons that make the Board of Directors and also the shareholders willing to avoid it, favouring the implementation of anti-takeover mechanisms.[98] On the other hand takeover is often seen as a way, for the acquirers, to pursue short-term profit, for example by selling some assets of the new acquired venture. Anyway also in this case the impact of a hostile acquisition on the target company may be terrible, resulting in drastic changes in the ownership structures and in the strategic plan. In particular a damage to the top management environment could be made by the introduction of new executives coming from the acquiring enterprise to make decisions with the pure intent of personal short-term benefit, without consulting the target management and employees. The hostile operation could then cause changes with a rapid shift of the corporate main objectives which will be then more focused on the short term. Finally, the customers could find it inconvenient to patronize a business which lack in long-term profit; in fact the priority given to the short-term financial benefits could easily lead to the drop of stock price after some time and ignoring the strategic interests of creditors, minority shareholders, and customers could definitely undermine the old organization's strategies and concern. The fact that M&As are considered as a method to increase shareholders value explain why target managers are often willing to cooperate with purchasing firms. Only with friendly negotiation a smooth takeover and also a smooth management transition can be accomplished and this is explained by the fact that in more recent times, instead of hostile takeovers, acquiring organizations prefer to secure large stakes of the target firm just to put the due pressure on the Board of Director in order to drive it in doing the right choices. [99]

Although Chinese companies are more inclined in using non-hostile acquisition when buying in less developed countries, anyway hostile takeovers are often necessary when conducting M&A in developed countries, where higher level of investor protection and more transparent rules for M&A exist. In this kind of situation, in lieu of the target company approval, the acquirer can conduct an hostile acquisition in different ways: buy

98 Sun S. L., Peng M. W., Ren B., Yan D., A comparative ownership advantage framework for cross-border M&A: the rise of Chinese and Indian MNEs, in "*Journal of World Business*" n. 47, Elsevier, 2012, p. 5.

99 Ali H. M., Hostile Takeovers as corporate governance: a legal analysis of tender offer and proxy contest in China and Malaysia, in *"Corporate Ownership & Control"* vol. 11 issue 4, 2014, p. 559.

the necessary target's stock in the open market, issue a tender offer or employ a proxy fight.[100] A tender offer circumvents the target organization's Board of Directors allowing the purchasing company to address its offer directly to the target firm's shareholders. The offer, which must be announced to the public, is then accepted, prior offeree BoD approval, when the target shareholders tender their shares. If the premium price proposed by the offerer satisfies the target and all the other conditions are fulfilled, the acquirer is contractually obliged to purchase each tendering shareholder's shares following the terms set forth in the tender offer. This method of hostile acquisition is often used, and many target companies are acquired by either the original hostile bidder or the subsequent ones in the takeover battles. When talking about corporate takeovers, tender offer can be classified into full offer and partial offer; the former, which is the proposal by the acquiring company to purchase all the shares of the potential target, is generally adopted when the tenderer will is to annex the target enterprise. With this strategy the purchaser wants to enlarge its business' within a short amount of time for motivations like the availability of large amount of working capital at hands to be exploited. When the offerer makes a full offer, not every target shareholder may agree to sell its shares, in this case the offerer may just acquire a controlling portion of them. Full offer is the most direct way to wholly own the target business, anyway full offer is rarely conducted as hostile takeover, that's because in a full offer the investor's takeover intention is clear and thus if the transaction is accomplished there is always the will of the target enterprise. Moreover it's quite unusual that the hostile acquirer puts most of his working capital into one specified investment without any particular guarantee, in that case partial offer is preferred.

A partial offer is a takeover in which the offerer purchase a significant portion of the target shareholder's shares; it's used when the will is to barely obtain a certain number of target shares to become a major stockholder. Partial offer usually occurs when a listed organization largely needs public investment capital to diversify, strengthen and expand its business within a specific period. Many transnational investment companies and MNEs take the partial offer as an opportunity to aggressively conduct their overseas hostile takeovers. Partial tender offers are commonly used by Chinese companies in order to become shareholders of a given organization; by this way the hostile takeover target's

100 *Hostile Takeover*, article from “Investopedia”.

Board would not be replaced by the acquirer executives, but some pressure will be exerted in order to obtain strategic know-how and assets, and to be present in the BoD with the aim of understand the controlling mechanisms.[101] A concrete example of hostile acquisition through tender offer is the 2015 acquisition of the Italian Pirelli, world leader in the tyres industry, by the Chinese SOE ChemChina, which become then major shareholder owning the 45% shares of Pirelli's through a $ 7 billion deal.[102] In China tender offer is primarily regulated by the Chinese Administrative Measures on the Acquisition of Listed Companies. Anyway, in the case a Chinese company is about to be acquired through hostile takeover, legislation establishes that the acquirer bid price must not exceed a certain limit. Generally, a non-listed enterprise with highly concentrated ownership is almost impossible to be took over, that's because in that case the management team and the ownership correspond, having then an absolute power to reject any takeover bid; it goes without saying that tender offer is basically directed towards publicly listed companies with a widely dispersed ownership held by a huge number of shareholders. Since Chinese companies are mainly listed SOEs, the main solution to this problem adopted in China has been the issuing of non-tradable shares in order to ensure an absolute controlling power over the organization by the State. This kind of shares can only be transferred or sold through an agreement between the purchaser and the shareholder and are then not tradable through exchanges in the secondary market; this constitutes a hindrance for acquirers to initiate this kind of takeovers in China.[103]

Another way to acquire a company without the complete permission of the target shareholders is the proxy fight, in which opposing groups of stockholders attempt to persuade each others to allow them to use their shares' proxy votes. When this happen, the firm that is making the hostile takeover must strive for obtaining enough proxies in order to have the possibility to accept its own offer. If proxy fight is won by the hostile acquirer, the existing BoD members are removed and replaced by those who launched the initiative, the new BoD is then coherent with the acquiring company objectives. Short term benefits are

101 Ali H. M., Hostile Takeovers as corporate governance: a legal analysis of tender offer and proxy contest in China and Malaysia, op. Cit., 2014, p. 559-563.

102 *Pirelli*, Wikipedia.en.

103 Ali H. M., Hostile Takeovers as corporate governance: a legal analysis of tender offer and proxy contest in China and Malaysia, op. Cit., 2014, p. 559-563.

also here one of the main motivations: proxy fight can be done aiming at the promotion of the firm restructuring, the selling of the entire business or the distribution of the excess cash to the new shareholders. Proxy contest is often coordinated with hostile tender offer in order to open another front of attack and further increase the already high pressure on the target corporation incumbent directors, this procedure is thus particularly used in corporate takeovers. Proxy contest has many positive sides that mainly benefit the corporate governance sphere, such as restricting unreasonable internal control, improving corporate management structure, encouraging a balanced development of capital market, promoting democratization by giving the minority shareholders a certain degree of decision-making power. Proxy fight can also happen when  involving several major shareholders of a listed company to compete for the controlling power. In China this strategy often ended up with a failure, that's because the ownership structure of most Chinese companies is highly concentrated, the external shareholders are then unlikely to exert pressures on the controlling shareholders. Another reason is that Chinese legislation in matter of proxy contest is still underdeveloped and it's consequently ignored by the Chinese companies, deleting any form of democracy.[104]

To prevent the unwanted takeover, the target organization might use pre-emptive defence strategies: among the most common tactics are the “Differential Voting Rights” imposed on some stocks that will then have less voting rights but will pay higher dividends, this will incentive potential acquirers to invest on this kind of stocks for the higher returns but will make it more difficult for them to generate the votes needed for hostile takeover to be accomplished. Another tactic is the so called “Employee Stock Ownership Program”, in which the potential target's employees own a substantial interest in the actual company's board and thus may be more inclined to hinder through their voting power any potential hostile acquirer. Again “Crown Jewel” involves  the selling of the most valuable assets if there is an hypothetical hostile takeover, in this case the target organization will be less attractive to the purchaser. Stockholders can also resort to the “Shareholder Rights Plan” which allows the existing shareholders to purchase the newly issued stock at a discount price if one shareholder had previously bought more than a stipulated percentage of it. If

104 Ali H. M., Hostile Takeovers as corporate governance: a legal analysis of tender offer and proxy contest in China and Malaysia, op. Cit., 2014, pp. 563-565.

everyone of the remaining shareholders is then able to buy more shares at a discount, such purchases will surely concentrate the ownership diluting the potential hostile bidder's interest, and the acquisition price would rise substantially. Last but not least other provisions devised to protect the company from undesired acquisitions are “people poison pill” that provides for the resignation of key personnel in the case of hostile acquisition and the “golden parachute” which more than a defensive strategy can be considered as a pre-emptive plan, which guarantees, to the executives of the target enterprise, huge benefits like bonuses, severance pay and stock options among others, in the case they are terminated as a consequence of takeover. All the above mentioned provisions can be issued by the Board as an option or a warrant attached to the existing bye law and can be revoked just at the discretion of the Board.[105] The possibility of those plans to be activated usually make the bidder disinclined to takeover the corporation without the approval of the Board of Directors.

## Conclusion

In today's economy, readiness is a fundamental factor that can determine a company's success or failure; following this line of thinking, M&A, which permits to internalize entire companies or divisions, is considered as one of the best ways to expand abroad. Either to secure new assets or to pursue new markets, since the beginning of the new century, Chinese companies have accomplished multiple acquisitions in many parts of the world with the backing of the Government. Anyway acquisition is often not a smooth operation at all, due to the presence of many different interests coming from  the acquirer ownership, the acquiree Board of Director and the potential advisors. In particular, these last figures are often requested, being acquisition process made up by many stages which include the decision of the strategic plan, the choice of the right target, the selection of the right payment method and the implementation of a well-planned post acquisition strategy. About this last phase, it's normal that, when conducting cross-border operations, the difficulty is

105 *Shareholder rights plan*, Wikipedia.en.

exacerbated by the potential conflicts given by the cultural clash, which can hinder the flow of informations.

Only when the above mentioned stages are carried out optimally the internalized unit brings the due value to the new parent company, otherwise the operation can even reveals itself as value disruptive. In some cases takeover are simply not possible to conclude, and this can be due to the host government opposition or, more simply, due to the target company unwillingness to cooperate; in the last case many are the measures that can be adopted by the target's Board in order to obstacle the potential acquirer.

# 3. HAIER CASE STUDY: HOW THE COMPANY GAINED GLOBAL LEADERSHIP THROUGH CROSS-BORDER M&A

It has been illustrated, in the previous chapters, how M&A brings value to the acquiring company and the reasons why Chinese firms, but not only, prefer this method to others when internationalizing. In fact, during this dissertation, few examples have already been made to let the reader better understand the theories reported; anyway this chapter has the objective to make clear, through a final and more comprehensive case, how thanks to strategic acquisitions, Haier, today the world leader manufacturer of home appliances, despite initial scarce international experience and technology just sufficient to penetrate less developed markets, become a global company.
First Haier history and its organic internationalization strategy are presented, then a focus on the expansion through acquisition will be done, in particular everyone of its last four major acquisitions will be analysed in order to clearly understand motivations, outcomes and potential post-acquisitions conflicts and solutions.

## 3.1 Haier Group background and internationalization

If we consider the fact that Haier operates since neither forty years, and that along its history competed against companies the major part of which was founded in the first decades of the last century, it is easily understandable the effort made in order to fill its gap with those old established giants. In particular the venture didn't lose any time and since its foundation considered to push itself beyond the national borders with the purpose to become one of the firsts Chinese born global companies.

### 3.1.1 Foundation and domestic diversification stage

Even if completely disconnected with the actual ownership of Haier Group Corporation, the company's origins date back long time before its actual foundation in 1984. During the 1920s, a refrigerator factory was built in the city of Qingdao with the aim to supply the Chinese market; however, after the establishment of the People's Republic of China in 1949, the factory was taken over by the Government and  turned into a State-owned enterprise. Up to 1980s, the business had a debt which amounted to RMB 1,4 million and overall suffered from scarce infrastructure, poor management and lack in quality controls; production was very slow, rarely surpassing 80 refrigerators a month and the factory was close to bankruptcy. As a young manager named Zhang Ruimin was appointed as director in 1984, Haier Group has been founded with the initial denomination of Qingdao Refrigerator Co.[106]

Main responsible for the economic growth, as we know the “Open door” policy was at the same time also main motivation for the increasing competition given by the always stronger presence of foreign competitors attracted by the Chinese new investment policies. The Chinese market started then to change its rules, and  Zhang started to consider a competition based on quality, service, design and technological capability as more effective than a strategy based on cost competition. In line with this optic Haier decided to obtain innovative technology from more advanced foreign companies through strategic alliances with leading global firms operating in the appliances sector, and in 1984, after a JV agreement, the Chinese firm started to import new refrigerator equipment from the German Liebherr. This strategic move allowed Haier to get in contact not only with key assets like equipments, but also innovative production methods and quality control systems that, valorized from Zhang managerial capabilities, led the organization to conquer the Chinese refrigerator market in very short time. Haier continued its expansion by licensing the new technology and implementing an active learning R&D strategy with the construction of a sophisticated department with more than 40 top-engineers trained by Liebherr's technicians in Germany and then successively sent back. After only one year from the acquisition of Lieber's key assets, the Chinese company was able to introduce on the market its new own

106  *Haier Smart Home*, Wikipedia.en

innovative refrigerator, which  instantly placed them as one of the leading refrigerator brands in China.[107]

However, until 1991, the enterprise was still focused on a single product, thus Zhang Ruimin decided to diversify the production into new markets ranging from freezers to air-conditioners, obviously with the final purpose to offer the consumer only four-star quality products. It took Haier only three years to successfully establish itself in those two new industries, and up to 1994 the company's total sales reached the amount of RMB 2,56 billion, with a net profit of RMB 200 million. After that Haier continued its horizontal expansion in the white goods market by starting the production of water-heaters, microwave ovens and washers; finally, in 1997, the organization tapped into the brown households market starting the production of PCs and televisions.

In order to rapidly diversify its knowledge and production in all those aforementioned new product markets, Haier implemented a series of domestic acquisitions with the purpose to obtain in a short time specialized expertise from Chinese small companies with already established facilities and distribution channel but with a bad financial position. When Haier decided to implement this domestic diversification strategy, the Chinese appliances sector was already experiencing intense competition given by the large scale entry of big foreign companies, this caused many domestic SMEs to rapidly lose market share and clients, with heavy financial drawbacks, and with the direct consequence that the Government tried to "allocate" them to more successful enterprises in order to protect workers from losing their jobs. The fact that Haier was considered as one of them contributed to its being approached or offered in regard to acquiring a number of loss-making and indebted enterprises, most of which in possess of great technologies. Thus in 1991 the organization acquired Qingdao Air conditioner Factory and Qingdao Freezer Factory, then the acquisition of Red Star Electric Appliance Company and Hefei Yellow Mountain Television Company took place. All those operations were basically made for free, Haier had just the obligation to balance those companies' debts with the government. To better understand the hindered potential profitability of those newly acquired companies, it's sufficient to know that just one year

107 Duysters G., Jacob J., Lemmens C., Yu J., Internationalization and technological catching up of emerging multinationals: a comparative case study of China's Haier Group, in *"Industrial and Corporate Change",* Vol. 18, n. 2, Oxford University Press, 2009, pp. 325-329.

after its acquisition, Red Star company turned profitable, and in 1996 the firm was renamed Haier Washing Machine company. A similar set of events followed the acquisition of Hefei Yellow Mountain Television Company, which in just one year increased tenfold its production capacity. By the end of the century and through a process of rapid acquisition of a wide set of skills in a wide array of appliances, Haier obtained strong domestic position in particular regarding the production of washing machines, refrigerators and air conditioners, which at times were the organization's main source of revenue.[108]

### 3.1.2 Internationalization through export, OEM and JV

Under Zhang directorship, Haier started exporting in 1986, when it was still using the old name, and in 2000 the total exporting revenue reached $ 2,8 billion, with clients situated in over 160 countries. In particular, at time, the company exported 60% to Europe, 20% to Japan, 16% to South East Asia and 4% to other places and owned 38.000 sales offices, almost 12.000 service centres and 56 trading centres abroad. In fact, Haier's director wanted to internationalize since the beginning for two main motivations: the feeling that home market was saturated due to the  pressure exerted by the presence of global players such as GE, whirlpool or Electrolux, and most important the ambitious willingness of Haier's top executive to become one of the global dominant companies in the sector of appliances. In particular Zhang Ruimin thought that the best way to fight against the actual major players and future competitors was to make them feel Haier's presence in their respective domestic home market. Exporting seriously helped Haier to gain international market share and overall prompted the company's brand to worldwide customers. As almost every venture starting the internationalization path, Haier firstly used to adopt indirect export with the intermediation of an agent to counterbalance its inexperience; however this phase lasted very short time and the Chinese enterprise quickly moved to direct export. This transition allowed the firm to rapidly obtain fundamental experience. Zhang, following the philosophy of “hard first”, immediately started its direct export activity toward the most

108 Duysters G., Jacob J., Lemmens C., Yu J., Internationalization and technological catching up of emerging multinationals: a comparative case study of China's Haier Group, op. Cit., 2009, pp. 330-332.

ambitious markets: Western Europe, more precisely Germany and UK, then Japan and the US, obtaining immediate success and establishing itself as a strong brand, and demonstrating to the biggest competitors its products quality and potentials. The firm rapidly gained a highly desirable industrial image enabling itself to compete globally, and only in a second time started to send its products also to developing countries through agreements with the strongest local distributors, taking advantage of a well-built brand.[109] While getting more and more global, the business engaged in a consolidation process of its operations adopting a geocentric perspective that allowed it to capture advantages from its global coordination. In the same period ICT technologies were introduced in order to quicken the company's logistic mechanisms, enhance its innovation capacity and supervise the responsiveness to the market, allowing Haier to discover or even create, in some cases, new niche product markets through which gradually expand in new countries.[110] Zhang Ruimin called this strategy “finding chinks”, that is find those market segments, present in every region, which have been neglected from large companies to enter, mainly for the relatively low degree of added value guaranteed. In this case, the core ability in creating such market opportunities consists in inspiring new consumer demand by proposing the right products.[111] For example, the organization's repairmen found out that in the Indonesian countryside power surges were pretty common, thus producing and exporting in that market a specific washing machine prototype; and again in Japan after discovered that the lack of space in the domestic environment was a common issue, Haier instantly took profit of the situation and rapidly put itself on the top of the compact refrigerator producers market.[112] Like for exportations, Haier started to sign JV deals with developed countries first and then with developing countries after. First with Mitsubishi in 1994 with the aim to set up China's largest air conditioner plant in the Shandong province; then in the US, firstly through OEM

109 Du Y., Haier's survival strategy to compete with world giants, in *“Journal of Chinese Economic and Business studies”,* Vol. 1 n. 2, Routledge, 2003, pp. 260-261.

110 Bonaglia F., Goldstein A, Mathews J., Accelerated Internationalization by Emerging multinationals: the case of white goods sector, MPRA, 2007, pp. 25-26.

111 Yi Y., Yao G., Enlightenment from the internationalization strategy models of Haier Grouo of China, in *“Proceedings of the 8th International Conference on Innovation & Management”,* Wuhan University of Technology, 2012, p. 1189.

112 Duysters G., Jacob J., Lemmens C., Yu J., Internationalization and technological catching up of emerging multinationals: a comparative case study of China's Haier Group,op. Cit., 2009, p. 334.

since 1994 cooperating with distributors like Wallmart and other importers. In this context the firsts problems regarding mature markets emerged, because due the high scepticism towards Chinese manufacturing quality, American importers didn't allow Haier brand on the products. Anyway after a short period Haier started to sell its products under its own name through the joint venture made with a local organization which sold almost 200.000 compact refrigerators. Successively Haier targeted Indonesia, first through an OEM contract and successively in 1996 with a Joint Venture agreement which implied also the building of a manufacturing plant again with the Sapporo group, becoming in few years one of the major players in that market.[113] At the same time also many other Asian companies which noted Haier's products superior quality and design, started to express their interest about a joint-production with the company, and by the early 2000s Haier established partnerships with enterprises situated in the Philippines ( Haier LKG Electrical Appliances Ltd.), Malaysia (Haier Industrial Asia Ltd.), and Bangladesh ( Hayes and Haier Appliances company Ltd.). Not only Asian but also European, Middle-east and African companies started to deal with Haier. In Europe it set Yugoslavia as European production hub[114],while in Africa and the Middle-east, after a non-equity presence through many agreements with local distributors, the enterprise established a Joint-Venture in Jordan with the South Electronics Company, then moving to Africa with three manufacturing JVs made in the early 2000s in Algeria, Tunisia and Nigeria, taking the leading position in those regions. Finally the Chinese company jointly created, with the Japanese appliances giant Sanyo, the Haier-Sanyo alliance, which allowed the Chinese multinational to rapidly penetrate the Japanese market.[115]

113 Duysters G., Jacob J., Lemmens C., Yu J., Internationalization and technological catching up of emerging multinationals: a comparative case study of China's Haier Group, op. Cit., 2009, pp. 333-335.

114 Du Y., Haier's survival strategy to compete with world giants, in *"Journal of Chinese Economic and Business studies",* Vol. 1 n. 2, Routledge, 2003, p. 261.

115 Bouyoucef A., Chung S., The internationalization of Chinese multinationals in the Middle East and Africa: The case of Haier, in *"Review of Business and Finance Studies",* Vol. 6, No. 2, IBFR, 2015, pp. 59-60.

### 3.1.3 Greenfield and firsts acquisitions in developed countries

Following it's "three one third" principle, which set as main internationalization goal the almost total reliance on the foreign sales with one third of the company's goods to be produced and sold in China, one third to be produced in China and sold overseas and then one third to be manufactured and sold overseas, Haier rushed into acquisition and greenfield projects. After exporting for many years its commodities in the whole continent through its production facility in Yugoslavia, Haier established its European distribution hub in Varese, one of the main white commodities production centres in Europe, also catching the opportunity to work neck by neck with many competitors, which established in Northern Italy their production plants. Then in 2001 the organization made its first European acquisition when it decided to secure Meneghetti's refrigerator plant in Padua in order to produce there refrigerators designed specifically for the European market.

In the meantime the company, which made a name for itself in the American market by leading the small refrigerators and also wine cellars industries, leveraged its dominating position there in order to enter in the field of washing machines, an higher end product which commanded superior profit margins. In order to do this the enterprise built, in 1999, a factory in Camden, South Carolina, with a production capacity of more than 500.000 refrigerators per year, which allowed the implementation of on site production, advised when manufacturing large appliances that otherwise could not be easily imported. China reinforced its presence in the US with the establishment of a design centre in Los Angeles and a trade centre in New York. With the US economy going through a recession, Haier had even started to export its higher-end products back to China, targeting affluent costumers, thus demonstrating its adaptability and flexibility when put in front of newer challenges[116]. Even if dominant in few niche markets, Haier results in the American major industries like refrigerator and washing machine were unsatisfying with an almost insignificant share after three years: American people still favoured home-made companies like GE, Whirlpool, Maytag or global brands like Electrolux. Zhang Ruimin localization based internationalization strategy seemed to be ineffective and local customers didn't perceive

116 Duysters G., Jacob J., Lemmens C., Yu J., Internationalization and technological catching up of emerging multinationals: a comparative case study of China's Haier Group,op. Cit., 2009, p. 333.

Haier as a local brand even after all the efforts made. As a consequence in 2005 Haier attempted it first large acquisition and expressed its willingness to takeover Maytag company, the then US third largest producer of home appliances, for the amount of $1,28 billion. In any case, despite the collaboration offered by two US private equity funds, Maytag was already in negotiations with other interested investors, and besides, the offer coincided with the attempt by CNOOC to buy Unocal, which as we already know triggered Americans' protectionist sentiments also concerning those sectors normally not included under national security influence.[117]

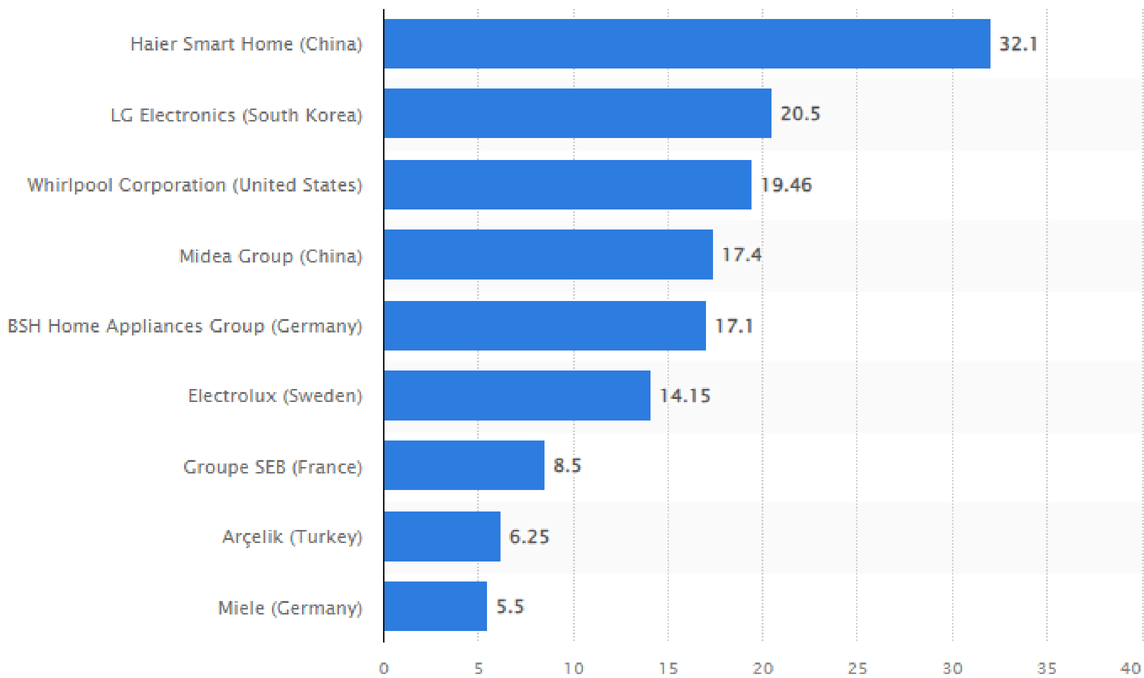
### 3.1.4 Major acquisitions and global company

Anyway the first large-scale acquisition was only postponed, and in 2011 Haier set the scene for the final act in order to become one of the world leading home devices companies by acquiring the appliance unit of Panasonic's subsidiary Sanyo, ensuring itself the right to use the Japanese enterprise's brand along with the well-known brand Aqua in South-east Asia. The following year the Qingdao based firm secured the New Zealand home appliances manufacturer Fisher & Paykel Appliances Holdings Ltd. In 2016 the multinational corporation made its biggest acquisition by purchasing GE Appliances division and, consequently, securing also the 50% of the ownership of Hotpoint and minority ownership of the Mexican Mabe, which were previously under GE company's ownership. Finally, in 2018, Haier acquired the Italian MNE Candy S.p.A. and consequently also the property of the brand Hoover, previously acquired by Candy.
In the meantime Haier production quality improvement and innovation never slow down; the firm started its cooperation with Cogobuy Group, one of the most famous IT companies in the world, adopting its web platform with the aim to manufacture innovative smart appliances which can communicate through the Internet. This interactivity can guarantee the user enhanced performance that can strongly improve the quality of life through, for example, automation of repetitive tasks, increased personal productivity and enhanced

117 Bonaglia F., Goldstein A, Mathews J., Accelerated Internationalization by Emerging multinationals: the case of white goods sector, op. Cit., 2007, pp. 20-21.

home security. Leader and Casarte are the last two brands present in the Haier's wide portfolio, both were created internally and are the only two brands which are present in every appliance range. In 2020 Haier is the world's first producer of Home appliances, with a total revenue of RMB 209,7 billion ($ 32,1 billion), a net profit of RMB 8,8 billion ($ 1,3 billion), and with an EBIT of RMB 9,5 billion ($ 1,4 billion) employing almost 100.000 people. The organization is ranked 435th in the "Fortune Global 500" chart.[118]

**Fig. 10. Selected leading home appliances manufacturers worldwide ranked by revenue in 2020. (in billion USD)[119]**




118 *Haier Smart Home*, Wikipedia.en.

119 Source: *Selected leading home appliances manufacturers worldwide ranked by revenue in 2020,* Statista.com.

## 3.2 Haier acquisitions motivations and outcomes

If Haier firsts domestic acquisitions were made mainly to internalize new products manufacturing know-how and facilities, the latest major acquisitions have been made less for quantity and more for quality reasons. Secure new technologies to enhance existing platform products, obtain well-known brands normally associated by premium consumers to higher end products and at the same time not ascribable to a Chinese company, get rapid new markets penetration leveraging previous customer-related expertise to position itself among the dominant players become the new necessities of Haier, which in the meantime strengthened its position as a global company. Through many strong regional brands Haier built its global reputation and simultaneously maintained the due fundamental background coherence needed by MNEs that operate in many different home appliances markets which differ in location, price range, and product features. Chinese companies and in general developing countries firms have for many decades been tied to raw materials and generally low added value products exportation, and the strong will to break down this kind of prejudices made Haier a sort of precursor.[120] After an introduction of Haier's internationalization facets we are now going to analyse, through some comprehensive financial informations, what we consider the four main acquisitions made by the Group: Sanyo Appliances (Japan) in 2011, Fisher&Paykel (New Zealand) in 2012, GE Appliances (USA) in 2016 and Candy S.p.A. (Italy) in 2018, and the contribution they generated to Haier's global growth.

### 3.2.1 Acquisition of Sanyo Appliances

Sanyo Electric Company was founded in 1947, and since the beginning operated in fields like speakers, information communication, batteries, commercial machinery and home appliances. In 2002 the corporation owned 158 overseas affiliates and its sales worthed $ 15,2 billion. The same year the company's president Satoshi Yue, in the midst of an

120 Liu H., Li K., Strategic implications of emerging Chinese multinationals: the Haier case study, in "*European Management Journal*" Vol. 20 n. 6, Elsevier-science, 2002, p. 704.

internal reorganization of the business processes, with the aim to better coordinate the foreign operations and increase its low profitability, led his management team to Haier to learn how to optimally run their respective business units following CEO Zhang Ruimin methods. As a result, Haier and Sanyo established an overarching competitive and cooperative relationship. Sanyo reformed its structure by establishing four business units and decreasing its total HQ employees. Anyway, the reform failed badly and the enterprise's profitability didn't show any improvement; in addition, the 2004 Chuetsu earthquake worsened Sanyo's financial position by damaging one of the company's most important production plants.[121]

In 2007 Sanyo, following its business restructuring plan, and heavily constrained by its financial difficulties, sold its refrigerators production to Haier, then in 2008 sold its semiconductor unit to ON Semiconductors, and the mobile phone division to Kyocera. Few time later, in December 2009 the Japanese MNE has been acquired by Panasonic, which in fact finished the brand Sanyo.[122] The company, which was interested particularly on Sanyo's lithium batteries business, ignored at the same time the other units inside the new subsidiary like home appliances, which was as a consequence managed in an inappropriate way due to its overlap with Panasonic relative appliance unit. This brought the acquisition to disappointing outcomes, making Panasonic operations duplicative and its structure oversized.[123] In an effort to slim it down, in 2011 Panasonic sold Sanyo's entire home appliance business to Haier in a deal that, including the 2007 acquisition of the refrigerators production, worthed $ 130 million.[124]

The deal established for Haier the possibility to sell appliances under Sanyo and Aqua brands in the South-east Asia, in particular the acquisition meant a better access for Haier to the Japanese major appliances market, which at the time worthed $ 11,5 billion, accounting for 20% of the overall Asia Pacific major appliances market value.[125] At the same time the acquired Sanyo Appliances was officially renamed Haier Aqua Sales Co Ltd., the

121 Iñiguez de Ozoño S., Ichijo K., *Business despite borders, Companies in the age of populist anti-globalization,* Palgrave Macmillan, 2018.
122 *Sanyo,* wikipedia.en.
123 Iñiguez de Ozoño S., Ichijo K., *Business despite borders, Companies in the age of populist anti-globalization, op. Cit.*, 2018, p. 216.
124 *Haier to buy Panasonic's Sanyo white goods unit*, article from Reuters.com.
125 *Haier gains ground in Japan and Southeast Asia through Sanyo acquisition,* article from Euromonitor.

organization had the main function in managing the new Brand Aqua in Japan. To better support the Haier's Japanese business development and coordinate the manufacture and sale of white goods in that area Haier Asia International Company was established in Osaka in 2012. After the acquisition Haier strived for maximising the synergy among the many functional teams of the two companies rearranging resources in technology, manufacturing, sales, marketing and the service network from a global point of view, obtaining strong efficiencies through economies of scale and scope. Manufacturing facilities, an R&D centres and many sale offices have been established in Japan and the products started to be commercialized under Haier and Aqua brands, targeting different consumer segments in all the Asia-Pacific macro region. Nevertheless, some problems were present in the post-acquisition phase, starting from cultural discrepancies: Haier's culture based on individual performance compensation system wasn't coherent with the Japanese cultural values based on equity and team compensation. To decrease the possibilities of a potential cultural clash, the individual goal compensation model was thus enacted incrementally, starting from the R&D department to employees who could develop the most innovative products, then successively to other departments, and at the same time the new parent company let the new teams decide how to distribute such bonuses. Anyway being Haier not well-known to Japanese consumers, Aqua employees were initially very sceptical about the organization's future success and thus not very involved in the project. In order to guarantee an high degree of people's retention, Haier team, which seriously concerned about integrity of the system in the post-acquisition phase, introduced in the new subsidiary Haier's typical structure management mechanisms which gave the new employees high degree of entrepreneurship. The results showed that, in the years following the acquisition, the rate of resignation among the new 7.400 employees was nearly zero.[126] Thanks to these measures, Sanyo Appliances turned back to profitability just eight months after the acquisition, and in 2012 the total sales of the division reached $ 350 million with a profit of $ 26 million and a margin of 7,4% (Fig. 11). In the period corresponding this deal, Haier revenues increased from $ 8,8 billion in 2010, to $ 12,5 billion in 2012, while net profit went from $ 414 million to $ 685 million (Fig. 15). This acquisition was then fully coherent with the

126 Iñiguez de Ozoño S., Ichijo K., *Business despite borders, Companies in the age of populist anti-globalization, op. Cit.*, 2018, pp. 217-220.

corporate's background expansion framework, which was triggered by the increasing awareness that global consumers started to have for Haier. Through this acquisition Haier entered the Japan laundry market gaining share similar to big companies like Sharp, then reached 8% share in Japanese refrigerator market, and took the lead in the freezers market with a 31% share. Summing up the company gained in just one move a total 7% market share in the Japanese appliances sector, becoming the fifth major manufacturer after Panasonic, which still hold the lead with 19%, then Toshiba, Hitachi and Sharp.[127]

**Fig. 11. Sanyo financial information before and after Haier's acquisition.**[128]

| YEAR* | REVENUES* | NET PROFIT* | NET PROFIT MARGIN |
|---|---|---|---|
| 2007 | 15.995,00 | -384,00 | -2,4 |
| 2008 | 19.514,70 | 273,20 | 1,4 |
| 2009 | 18.913,30 | -1.002,40 | -5,3 |
| 2010 | 18.162,20 | -563,00 | -3,1 |
| 2011** | NA | NA | NA |
| 2012*** | 350,00 | 26,00 | 7,4 |

*in million USD **date of the deal ***data refers only to the appliances division

### 3.2.2 Acquisition of Fisher & Paykel

A year after the acquisition of Sanyo appliances division, Haier successfully acquired New Zealand's national treasure-class home appliances brand Fisher & Paykel, an iconic firm with many achievements of brand awareness and image in key developed markets thanks to its innovative products. [129]

127 *Haier gains ground in Japan and Southeast Asia through Sanyo acquisition,* article from Euromonitor.
128 Source: Iñiguez de Ozoño S., Ichijo K., *Business despite borders, Companies in the age of populist anti-globalization, op. Cit.*, 2018, pp. 216, 219.

Fisher and Paykel Appliances was established in 2001 after the splitting of the former Fisher and Paykel Industries in Fisher and Paykel Appliances Holding Ltd. And Fisher and Paykel Healthcare Corporation Ltd. Under old entity, during the past century, the company become a leading appliances exporter, starting its operations in the domestic market and then rapidly expanding in all the Australasia region. In the 1980s the business took a leading role in appliances thanks to its advanced R&D department, as a consequence its products started to be considered as the most innovative on the market. In the meantime Fisher & Paykel absorbed many local famous brands and directed its exporting activities toward more than 80 countries. After the separation, the new Fisher & Paykel Appliances made its first cross-border acquisition in the US with the purchase of Dynamic Cooking Systems Inc, leveraging its previous presence in the States and at the same time guaranteeing itself high engineering quality. In 2006 the company secured the Italian cookware business Elba from DeLonghi, successively renamed Fisher & Paykel Appliances Italy S.p.A. When the acquisition from Haier took place, the corporation was leader in the market of dishwashers, in particular it was developer of many next generation models like the Smart Drive and the Smart Load dishwashers, which used microprocessors to offer a better performance to the users, and the efficient DishDrawer which was considered the flagship product. Beside dishwashers, Fisher & Paykel manufactured and still manufacture cookware and laundry appliances.[130]

In 2007 financial difficulties due to the internationalization costs emerged; at that point Haier come to the rescue: the firsts contacts between the two companies date back in 2009, when a technology exchange agreement which included also an arrangement of mutual sourcing of products has been signed. The contract established the commitment of the two parties to sell their relative products in their respective domestic markets and allowed Haier to tap in the New Zealand and also Australian markets. According to the agreement Haier secured 20% of the stakes of Fisher & Paykel, making possible for the latter to refinance its debts. As also seen in the case of the previous acquisition of Sanyo, even this time Haier concluded the deal in two different stages by obtaining, in November 2012, the total

129 Chang C. C., He Y., Pan S., How could Chinese companies apply Mergers & Acquisitions to SMEs for self-innovation, in "*International Journal of Organizational Innovation*" vol. 13 n. 2, 2020, pp. 73-74.

130 Fisher & Paykel, wikipedia.en

amount of Fisher & Paykel's shares to complete the $ 766 million deal.[131] Through this acquisition Haier continued its global expansion strategy after the sharp increase in washing machines and refrigerators sales in South-east/Pacific area regions with the acquisition of Sanyo. The takeover of Fisher & Paykel gave Haier the possibility to enhance its presence in Europe and the US by leveraging the new subsidiary's already established distribution channel, and localized manufacturing and R&D facilities, and consequently enhance its brand recognition in those regions. The transaction has also been helpful for Haier to overcome the stigma of poor-quality Chinese products by consolidating the R&D and manufacturing capabilities of high-end home appliances and securing a wider brand portfolio able to target larger home appliances markets in the developed countries. Besides Haier further strengthened its position in the Chinese higher-end appliances market making its total sales grow another 6% in China in 2013. China, which still is Haier's biggest market, seized then the 78% of the company's total sales volume.[132]

While Haier didn't change the senior management team of Fisher & Paykel, it applied also in this case the individual goal combination compensation model; and again, as for the previous acquisition, the new controlled company's antecedent compensation policy was consistently different by Haier's: Fisher & Paykel's salesmen, service employees and senior leaders all used to collect fixed compensation, in line with the prevailing business practices in New Zealand and Australia. Inspired by Haier's practices, the corporation restructured its compensation policies by decreasing the amount of fixed compensation and making it more linked to goals achievement. Furthermore the firm structure was eventually reconfigured under a product/function/region matrix; Cooking Australia or Commercial Sales China are just two examples among the 500 new micro enterprises established through this strategy, everyone at the same time supported by the HQ but also burdened by its own entrepreneurial responsibilities.[133]

Through Haier heavy investments, Fisher & Paykel R&D capabilities have been strengthened, and in the first 18 months following the acquisition, the New Zealand venture

131 Iñiguez de Ozoño S., Ichijo K., *Business despite borders, Companies in the age of populist anti-globalization, op. Cit.*, 2018, p. 222.

132 *Haier Group to buy Fisher & Paykel,* article from Euromonitor.

133 Iñiguez de Ozoño S., Ichijo K., *Business despite borders, Companies in the age of populist anti-globalization, op. Cit.*, 2018, p. 222-223.

hired 80 engineers and designers for its two main R&D centres and opened a new design quarter in Auckland. As a consequence of the investment and the integration of the resources coming from the two companies, many innovative products have been developed jointly, and 70 of them have been launched in 2013, the major part working with smart technology, and equipped with other innovations like the direct-current dynamo which permit 30% of energy saving. When the acquisition took place, Fisher & Paykel employed roughly 3500 employees, in only one year the company recovered from its financial crisis and net profit came back to the pre-crisis level (fig. 12). Since the acquisition, the company continued to focus on developing its brand in North America, Australia and New Zealand.[134] By its side, through this acquisition Haier increased its total revenues to $ 14,1 billion ( 12% more than the previous year) and net profits to $ 907 million ( 32% more than the previous year) (fig. 15). Haier and Fisher & Paykel together accounted for the 42% of the sales in the home appliance market in New Zealand and reached a global market share of 2,9%, placing itself as sixth consumer appliance firm for total sales, and first for units produced.[135]

**Fig. 12. Fisher & Paykel financial information before and after Haier's acquisition**.[136]

| YEAR | REVENUES* | EBIT* | NET PROFIT* | CAPITAL EXPENDITURES* | DEBT RATIO | EBIT MARGIN | NET PROFIT MARGIN |
|---|---|---|---|---|---|---|---|
| 2009 | 855,82 | 73,24 | 39,90 | 55,50 | 0,6 | 8,6 | 4,7 |
| 2010 | 714,70 | 47,25 | 21,60 | 21,60 | 0,43 | 6,6 | 3 |
| 2011 | 675,70 | 36,70 | 14,90 | 19,25 | 0,36 | 5,43 | 2,2 |
| 2012** | 624,00 | 26,70 | 5,50 | 34,50 | 0,31 | 4,3 | 0,9 |
| 2013 | 667,70 | 56,14 | 31,70 | 29,40 | NA | 8,4 | 4,75 |

* in million USD **date of the deal

134 Ge G. L., Stringer C., Ding D. Z., Chinese FDI in New Zealand: what are Chinese investors looking for ?, in *“Thunderbird International Business Review”* Vol. 59 n. 3, Wiley periodicals, 2017, p. 393.

135 Iñiguez de Ozoño S., Ichijo K., *Business despite borders, Companies in the age of populist anti-globalization, op. Cit.*, 2018, p. 223.

136 Source: *In relation to a takeover offer by Haier New Zealand Investment Holding Company Limited,* Fisher & Paykel Appliances Holding Limited target company statement.

### 3.2.3 Acquisition of GE Appliances

Even if the acquisition of Fisher and Paykel gave Haier new impetus especially in the domestic market, from 2013 the MNE experienced a slowing down in domestic sales performance due to the cessation of the Government's subsidy program related to the acquisition of appliances. Even though the shrinking of the Chinese consumer market, the country's economic growth never stopped, and this resulted in a notable wage and production cost increase; those two drawbacks heavily undermined Haier, which still used to manufacture and sell the majority of its appliances in home soil.

Another challenge, this time coming from the external environment, was the acquisition of the Italian Indesit Appliances, leading manufacturer in Eastern Europe and Russia, made by Whirlpool in 2014, which surpassed back Haier and returned to be the top ranked appliances manufacturer in the world. With that operation, Whirlpool further enriched its portfolio with premium brands, and more than Haier, the American company conquered consumers trustworthiness toward premium appliances quality, throwing itself to a dominant position in the higher-end households consumer market. Furthermore the acquisition made the American enterprise presence in Europe and its overall world coverage stronger highlighting Haier's over reliance on its domestic market.

To effectively contrast Whirpool dominance Zhang Ruimin started to fight against inefficiencies and increasing production costs, and in 2014 announced that the organization was undergoing a major downsizing transition. At the same time the firm strengthened its focus over customer demand and subsequent product quality, directing the great majority of its investments toward the R&D division.[137] To definitely boost up its foreign activities and surpass again its rival Whirlpool, the Chinese giant decided to find its space in the US market, which at the time corresponded to the 10% of the world total major appliances market, by capitalising its previous presence there. In fact, after more than 15 years since its establishment, Haier revenue coming from the US was only $ 500 million in 2015, with a market share still at 3%. Haier domestic advantages didn't seem to help the company in penetrating the US market, still highly concentrated and dominated by few major

137 *Haier encounters new challenges,* article from Euromonitor.

manufacturers like GE, Whirlpool, Electrolux and, more recently, the Korean LG and Samsung.

Consistent with Haier's effort in international expansion, the organization announced the acquisition of GE Appliances division in 2016 for $ 5,4 billion. GE Appliances was a sub-unit operating under GE Corporation, which designed and manufactured refrigerators, cooking stoves, dishwashers, washers, dryers and air conditioners. Since its foundation in 1907 the unit has been leader in product innovation, and the first to launch many new appliances such as the combined washer/dryer or the toaster oven. Its shares in the US appliances market reached 16% in 2013, just behind Whirlpool's 30%, while only few years before the firm conquered the 19% of the market. Anyway during the last 20 years, GE Appliances performance has been stagnant in terms of market share and profitability. Focusing on this last indicator, the unit's revenues didn't change from 1990 to 2000, being steady at $ 5,7 billion; after reaching a $ 7 billion peak in 2007, the organization sharply lost profitability after the 2008 financial crisis.

At the same time, GE Appliances gradually lost importance inside GE corporation and in 2013 its revenues accounted for just 5% the company's total revenues which amounted to $ 147 billion. To face the situation, GE executives made many efforts aimed at increasing the unit's efficiency and innovation capabilities; some result were reached but up to 2014 it was still the second less profitable, ahead of the Energy unit, with revenues around $ 8,4 billion and profit of $ 430 million (Fig. 13). Apart from this GE Appliances was also the least global business unit within GE Corp., and almost the entire amount of its revenues were generated within the US market, in contrast with other units which almost completely relied on the global market. Considering the unit relative scarce results in the last years, GE first attempted to sell it in 2008 for $ 8 billion, however the operation has not been successful principally due to the global crisis which worsened the potential acquirers' financial condition. Considered the unstable situation, GE executives provisionally put aside the idea to sell the unit and tried a last attempt to revitalize it through heavy investments: the production chain, which was previously situated in low-cost countries has been brought back into the US in order to change the unit's brand image and differentiate it from rivals which were looking to compete on price through the off-shoring of manufacturing activities. The in-shored plants have been renovated, modernly equipped and upgraded to output new and more innovative products. Nevertheless those efforts didn't reverse the unit's declining trend, and at the same time the new setting of the domestic market, which seen the entrance of new Asian competitors, with their low prices and innovative product features, witnessed a sharp increase in competition, with the Asian ventures taking large chunks of market shares from the US old establishment. Facing such a fierce market competition, General Electric leadership decided to put again the Appliances division on the market, this time at a much lower price, and in 2016 the company entered an agreement with the Swedish appliances maker Electrolux for $ 3,3 billion. Anyway, the deal was blocked by US anti-trust agents under concerns of market power, given the fact that Electrolux presence in the US was already strong. Haier Group announced on January 15, 2016 the acquisition of the unit for $ 5,4 billion also thanks to the backing of the State-owned China Construction Bank and China Development Bank, and, from U.S side, the Bank of America. Initially, the $ 2 billion premium paid by the Chinese firm raised many questions, anyway Haier was firmly convinced about doing the right move, and that price clearly showed the strong willingness of the enterprise to exploit and expand its position in the American market.

After the greenfield carried out in the past, the acquisition of an existing business with an optimal market position, newly established product facilities, technological know-how and a loyal costumer base revealed itself as a much more effective approach in order to gain access to the US market. The purchase of GE, an iconic company with its more than 100 years of history, contributed in making Haier way more "American", and the strategic choice dictated by Zhang Ruimin in matter of localization has been enacted. Furthermore, as previously said, the unit was the most "domestic" in GE portfolio, with over than 95% of sales generated within US boundaries. It consequently had a well-established supplier and buyer domestic network, in a market characterized by an extremely concentrated retail distribution system (Best Buy, Wall-Mart, Sears and Kmart account for over 70% the retail sale of home appliances). Haier, which had had particular difficulties in American soil especially due to retailers scepticism, found, with the acquisition of GE appliances, a rapid solution to this problem, and therefore bypassed any barrier to the exportation of Haier's other products in the US market. For cost saving reasons Haier moved some of GE production plants to China, and in the meantime the enterprise exploited its huge retail network in home soil to leverage GE premium brand image and introduce its products to the Chinese consumers, further expanding its dominance in the Chinese and South-east/Pacific region.[138] Immediately after the acquisition Haier propagated its operating model to the new unit, which has been then divided into fourteen autonomous micro enterprises, everyone which followed the parent company's guidelines in matter of value creation. This model effectively reinvigorated GE appliances, and especially its water heater division.[139]

Given Haier's previous experience in the US, the acquisition has been a quite smooth process, and despite unique challenges like learning how to manage unionized labour and integration of GE systems with Haier's, it permitted the Chinese multinational to fully exploit a fundamental market like the American's.[140] In just one year, from 2016 to 2017, the company revenues grown from $ 17,9 billion to $ 23,8  billion (+ 33%), EBIT went from  $ 929 million to  $ 1,28 billion (+ 37%), the net profit from $ 763 million to  more than  $ 1 billion (+ 33%), and total assets increased from $ 20 billion to $ 22,7 billion (Fig. 15). By its side, GEA division recorded in 2017 a revenue of $ 6,7 billion, + 35% respect the previous year, and a market share of 20,7%.[141] (Fig. 13)

**Fig. 13. GE Appliances Financial information before and after Haier's acquisition.**[142]

| YEAR | REVENUES* | NET PROFIT* | DEBT RATIO | NET PROFIT MARGIN |
|---|---|---|---|---|
| 2013 | 8338 | 381 | NA | 4,6 |
| 2014 | 8.404,00 | 431,00 | 0,53 | 5,1 |
| 2015 | 6.125,00 | 471,80 | 0,5 | 7,7 |
| 2016** | 4.970,00 | 70,00 | NA | 1,4 |
| 2017 | 6.719,00 | 278,00 | NA | 4,2 |

*in million USD    **date of the deal

138 Zhao J., Haier's acquisition of GE Appliances, in *"Journal of Business Diversity"* vol. 19 n. 4, 2019, pp. 111-120.
139 Shoemaker P. J. H., Kuhn J. S., Haier: ecosystem leadership, in "*Strategy & Leadership*", vol.49 n. 5, Emerald Publishing Limited, 2021, p. 18.
140 Zhao J., Haier's acquisition of GE Appliances, op. Cit., 2019, p. 119.
141 Zhao J., Haier's acquisition of GE Appliances, op. Cit., 2019, p. 112.
142 Source: Zhao J., Haier's acquisition of GE Appliances, op. Cit., 2019, p. 114.; *GE 2016 Annual report.*, *Haier Smart Home 2017 Annual report.*

### 3.2.4 Acquisition of Candy S.p.A.

After the Joint Ventures with many local manufacturers in South-east Asia, the Middle-east and Africa , and the acquisitions made in Japan, New Zealand, the U.S., Haier decided to go visit back the Old Continent to enhance its presence. Whirlpool acquisition of Indesit made the gap between the American multinational and Haier evident in the region, in particular the Qingdao company was only ranked sixth by market share there, behind Whirlpool, BSH, Electrolux, Samsung and LG.[143] In 2018 Haier announced the acquisition of the Italian appliances manufacturer Candy Group for the amount of € 475 million; at the moment of the acquisition, the Italian multinational owned 6 manufacturing plants situated in Europe, China and Turkey, and 45 subsidiaries around the world, most important the Group owned a wide brand portfolio starting from the international brands Candy and Hoover and following with a great amount of regional brands.

The Italian firm started its operations in 1927 and from the beginning was specialized in washing machines; after the World War II it started to export its products in the U.S., taking profit from the American flourishing market. Propelled by its innovative washing machines, Candy rapidly expanded and in 1961 inaugurated its new modern manufacturing plant in Brugherio, near Milan, and established sales offices in France and Germany, then a new plant has been built always in Northern Italy. Through the acquisition of many Italian businesses which made its production more diversified, the company become the fourth manufacturer of major appliances of the country. Candy heavy investments in R&D and its diversified brand portfolio, made it a tough competitor especially in the most developed markets: in 1990 the company held a 5% market share in Europe and exported more than half of its production. Thereafter Candy expanded in Russia, an unexploited market with good potentials, and in the same time started to takeover regional competitors in Spain, France, Germany and overall Great Britain, indeed in 1995 Candy acquired Hoover European Appliances. In the last two decades the enterprise specialized in the production of Smart Appliances using Bluetooth technology, and in the meantime it followed a downsizing strategy mixed with production delocalization in order to cut down the overall costs. After the acquisition of the Italian company, Haier moved its European HQ to

143 *Haier takes over Candy to gain a steady foothold in Europe,* article from Euromonitor.

Brugherio, and appointed Yannik Fierling, CEO of Haier Europe, as Candy's General Manager, while Candy's previous executives kept their chairs in the Board of Directors. Up to 2017 Candy revenues reached $ 615 million, anyway it recorded a $ 7,6 million loss; the Group's produced and commercialized washing machines, air dryers, refrigerators and freezers, and also ovens, microwaves, kitchens and vacuum cleaners, with a total production capacity which amounted to 6 million pieces.[144]

With the contribution of the acquisition, Haier reached a market share of 15,1%, and enhanced its global leadership in the appliances industry; anyway even if the purchase of the Italian enterprise only allowed Haier to slightly increase its sales volume gap with Whirlpool, the key impact of this acquisition went beyond the mere numbers and consisted in the further consolidation of the European market.: once secured Candy, the Chinese giant surpassed Samsung and LG to become the fourth major producer of the continent.[145] In particular, after the acquisition, Candy-Haier European market share in refrigeration appliances reached 22,7%, while laundry appliances peaked to 19,8%, making the company particularly dominant in those industries. From a more strategic point of view, the deal allowed Haier to secure a strong European brand, which has since then started to be proposed in the Chinese market, making Haier's product selection even more diverse.[146] Synergies have been made especially in the field of smart appliances, in fact the two companies both had the common belief that those devices would have been dominant in the future. Since the very first moments after the acquisition, Haier integrated its production with Candy's innovative appliances equipped with voice and smartphone control, extending its connected home technologies to challenge the strongest competitors.[147]

Apart from strengthening Haier's presence in Europe and injecting into the company new technology, the two firms complementarity in term of brand portfolio and product platforms increased Haier market coverage in terms of pricing and offering, making possible to provide many different products solutions to a global customer base. Last but not least the acquisition not only gave Haier a rapid positioning in the region, but also gave the

144 *Candy (company),* Wikipedia.en

145 *Haier takes over Candy to gain a steady foothold in Europe,* article from Euromonitor.

146 *Qingdao Haier has completed the acquisition of Candy on 8th Jan 2019. Candy is now a wholly-owned subsidiary of Qingdao Haier,* Haier Smart Home official Website.

147 *Candy (company),* wikipedia.en.

company's local executives the possibility to work closely with Candy's experienced management and to learn from them the secrets of the unique Italian design and style.[148] Soon after the acquisition, heavy investments have been made from Haier to increase Candy's production, in particular 10 millions have been directed toward Candy's main plant and R&D centre in Brugherio. At the end, the choice revealed itself as successful, because it permitted Haier to export to China part of the commodities produced in the Italian plant during the first months of 2020, when China was in the middle of COVID-19 pandemic.[149] In 2019, Candy's revenue amounted to $ 1,1 billion, in fact it still were unprofitable due to financial settlements, anyway profitability was reached in the following year (Fig. 14). After the acquisition Haier further increased the production of washing machines, which together with refrigerators accounted alone for more than half the total revenues of the multinational in 2020[150].

**Fig. 14. Candy S.p.A. financial information before and after Haier's acquisition.**[151]

| YEAR | REVENUES* | NET PROFIT* | NET PROFIT MARGIN |
|---|---|---|---|
| 2017 | 615,00 | -7,60 | -1,2 |
| 2018** | 640,00 | -9,90 | -1,5 |
| 2019 | 1.146,00 | -16,50 | -1,4 |
| 2020 | 1.095,00 | 0,42 | 0,04 |

*in million USD **date of the deal

148 *Qingdao Haier has completed the acquisition of Candy on 8th Jan 2019. Candy is now a wholly-owned subsidiary of Qingdao Haier,* Haier Smart Home official Website.
149 *Candy (company)*, wikipedia.en.
150 *Revenue of Haier Smart Home co. ltd. From 2010 to 2020, by product,* Statista.com.
151 *Source*: *Candy Group S.p.A.,* infoaziende.it; *Candy Group S.p.A.,* reportaziende.it; *Haier Smart Home 2017 Annual report.*

**Fig. 15. Haier financial informations from year 2010 to 2021**.[152]

| YEAR | REVENUES* | EBIT* | NET PROFIT* | CAPITAL EXPENDITURES* | DEBT RATIO | EBIT MARGIN | NET PROFIT MARGIN |
|---|---|---|---|---|---|---|---|
| 2010 | 8.883,00 | NA | 414,00 | NA | NA | NA | 4,7 |
| 2011** | 11.402,00 | NA | 564,00 | NA | NA | NA | 4,95 |
| 2012** | 12.556,00 | NA | 685,00 | NA | NA | NA | 5,45 |
| 2013 | 14.132,00 | NA | 907,00 | NA | NA | NA | 6,4 |
| 2014 | 14.234,00 | 1.011,00 | 804,00 | 324,00 | 0,23 | 7,1 | 5,65 |
| 2015 | 14.419,00 | 806,00 | 693,00 | 402,00 | 0,2 | 5,6 | 4,8 |
| 2016** | 17.945,00 | 929,00 | 763,00 | 398,00 | 0,37 | 5,2 | 4,25 |
| 2017 | 23.808,00 | 1.276,00 | 1.011,00 | 634,00 | 0,36 | 5,4 | 4,25 |
| 2018** | 28.190,00 | 1.466,00 | 1.150,00 | 1.056,00 | 0,33 | 5,2 | 4,08 |
| 2019 | 29.106,00 | 1.176,00 | 1.105,00 | 901,00 | 0,3 | 4 | 3,8 |
| 2020 | 32.121,00 | 1.481,00 | 1.367,00 | 1.072,00 | 0,3 | 4,6 | 4,25 |
| 2021 Q3 | 26.978,00 | 1.952,00 | 1.587,00 | 779,00 | 0,63 | 7,2 | 5,9 |

*in million USD **years in which deals were made

Conclusion

Starting from a strong position at home and a leading position in many international niche markets, Haier implemented four close major acquisitions to secure premium brands, technology, R&D complementarity. The company also tapped into new markets in order to obtain fundamental strategic advantages and successively assume a leading position in the international mainstream appliances markets thus becoming a major global appliance multinational. Obviously during this period Haier never interrupted its organic growth, and M&A were made in countries in which the company already had some kind of operations. Since 2010, the year before Haier's acquisition of Sanyo, to 2019, the year after the company secured Candy S.p.A., the Chinese multinational revenue increased threefold from almost $ 9 billion to more than $ 30 billion. Along with the growth in revenue and EBIT, Haier increased also its capital expenditures, which are the funds an organization

152 Source: *Haier Smart Home Driven by Outstanding Premium and Overseas Performance with Strong Revenue and Profit Increase in 9M 2021*, Yahoo Finance; *Haier Smart Home*, Stock.us; *Haier Smart Home 2021 Q1-Q3 Interim Report,*

uses for the purpose to acquire, upgrade, maintain or more in general invest in physical assets as plants, technologies or equipment. In fact in the previous paragraph we've seen through pragmatic examples how Haier, after every acquisition, made further investments to make the newly acquired assets perform at their very best; the renewal of Brugherio plant in Italy and the hiring of engineers to be employed in Fisher & Peykel new HQ are just two of them. In the meantime the company also managed to keep its liabilities largely lower than its total assets with a debt ratio that never surpassed the 37%. However, Haier's flexibility, adaptability, and its executives high degree of entrepreneurship are the main factors that permitted, after every acquisition, the maximum degree of integration and synergy, allowing every new subsidiary to give its best contribution for the common goal.

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