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*How does Chinese M&A investment in Germany create value?  
A process perspective*

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# 1 Introduction

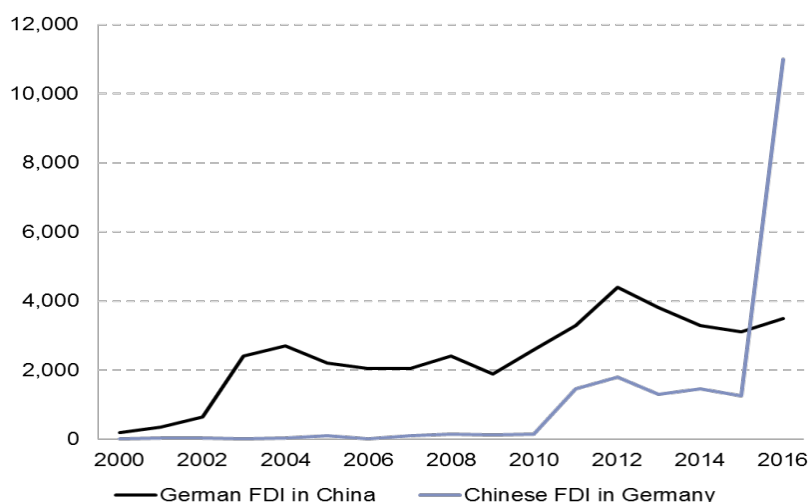
## 1.1 Aspiration

In January 2008, The Economist magazine featured an article entitled “The Challengers” about the rise of multinationals from emerging markets. A decade later, this epithet still appears valid, although a new breed of emerging economy firms has taken the center stage, challenging the global dominance of existing players.

In the past two decades, a rapidly growing number of Chinese firms have resorted to overseas investments in pursuit of strategic assets and diversification into new regions and industries. Particularly in recent years, Chinese firms of various sizes and backgrounds have been engaged in internationalization, notably by means of M&A.

Europe stands out as one of the most favorite host regions for Chinese firms. In 2016 alone, the Chinese invested EUR 35 billion in the European Union, out of which over thirty percent flew to Germany. The year of 2016 was phenomenal in that annual Chinese FDI flows into Germany outpaced the others around for the first time (see

*Figure 1*) in history.



*Figure 1: Value of FDI transactions, 2000-2016*

*Source: estimates based on papers by Merics/Rhodium Group (January 2017)*

Although it is a widely accepted notion that the Chinese firms like other emerging economy firms are seeking strategic assets, there is little knowledge about how the Chinese challengers create value through the acquisitions in Germany. The nascent, dynamic Chinese M&A activities in Germany create a laboratory for enriching and extending existing internationalization theory, as suggested by e.g. Cuervo-Cazurra (2012) and Ramamurti (2012).

In this dissertation, I aim to answer the focal question “How does Chinese M&A investment in Germany create value?”, whereas I lay the focus on the process in which the Chinese deploy growth strategies and enact changes during the post-M&A integration.

As found by Liu & Deng (2014), there lacks research on how Chinese firms among other emerging economy firms create value through post-M&A integration, and to what extent they differ from developed economy firms in their approaches. With this dissertation, I shall make contribution to the burgeoning literature on cross-border M&A of emerging economy firms by narrowing the research gap on the process perspective and proposing an alternative theoretical framework to account for value creation strategy in the course of accelerated internationalization by emerging economy firms.

Next, I shall discuss the context briefly, in which the research is embedded, before elaborating on the research objectives and intended contribution.

## 1.2 Context

Before the recent wave of M&A activities from Chinese firms in Germany, there



were at least four other major waves of M&A worldwide, beginning with the Americans' expansion into Europe in the early decades of the 20<sup>th</sup> century and most remarkably after the World War II. Their international activities were, in turn, followed by similar waves by the Europeans in the 1960s, the Japanese in the 1970s, and the Korean in the 1980s. Despite some shared institutions such as cultural background and governmental encouragement, the motives of internationalization of the Northeast Asian Trio (China, Japan and Korea) diverge.

The Japanese and Korean multinationals offer precedents for Chinese firms that are latecomers to the world stage (Jun & Rowley, 2014; Rowley & Paik, 2009). Particularly, Japan had established itself as one of the leading contributors of foreign direct investment outflows (UNCTAD 2018). In the course of globalization, a number of Japanese conglomerates such as Toyota, Mitsubishi and Sony etc. became household names in many parts of the world. Japanese multinationals resembled their counterparts in Europe or the United States, in that they transferred competence in technology, production and management to host economies and tended to apply tight control of their overseas subsidiaries (Fitzgerald & Rowley, 2016). In other words, the primary goal of the internationalization of Japanese firms was to exploit competitive advantage. Remarkably through enhanced integration of supply chain on a global scale, Japanese multinationals succeeded in overtaking their western competitors (Trevor 1983).

Korean firms started out with internationalization in neighboring countries and gradually expanded to more distanced regions (Guillén, 2003), while Asia remains the most important host region for Korean overseas investment (Yang et al., 2009). The staged model of internationalization, tapping accumulated knowledge over time, alludes to a motive for internalization similar to that of Japanese multinationals,

namely, exploitation of competitive advantage and cost reduction (Dunning et al., 2018).

Hemmert & Jackson (2016) advises caution about generalizing internationalization patterns of the Northeast Asian countries, arguing that the seemingly institutional and cultural similarities may mask micro-level differences. Compared to Japanese and Korean firms, Chinese firms seem to follow a different path of globalization and have shown strong propensity to seek and acquire strategic assets such knowledge and brand name most remarkably in recent years (Dunning et al., 2018), as they lack competitive advantage to capitalize on. In what follows, I will discuss the globalization and cross-border M&A of Chinese firms.

The new millennium marked a turning point in the global foreign investment landscape, as emerging economies started to become active on the world stage. Against this backdrop, firms from China its globalization process through outbound foreign direct investment.

In 2016, with a total investment of 218 billion US dollars, China surpassed the United States (189 billion dollars) to become number one in cross-border M&A investment for the first time. That year, China invested more than twice as much as it did in 2015, while US outbound investment decreased by 15 percent. In addition, China outstripped the United States in terms of average deal size (302 million dollars vs. 131 million dollars) according to World Investment Report (UNCTAD 2016).

The Chinese governmental support played a pivotal role in propagating the surge of outbound investment. The government has been using its power to cultivate national brands and global players. The central pillar of its strategy is the “Go Global” policy, which encourages Chinese firms to make outward investment. It was initially

introduced in 1999 and has evolved over time to include a plethora of other policies enacted at a wide range of administrative levels, from central government through provincial down to municipal. Qualified investors were granted preferential treatment, including relaxed authorization procedures, financial incentives such as tax deductions and low-interest loans, as well as aid in the form of professional services related to overseas investment. As a result of these incentives, Chinese firms are increasingly setting their sights on overseas markets. They prefer cross-border M&A as the means to acquire strategic assets, including international market knowledge and cutting-edge technology, because such strategic assets, especially intangible assets, are difficult for firms to obtain without formal governance structures in place (De Beule & Van Den Bulcke, 2013).

As strategic assets are the principal goal of cross-border M&A, Chinese firms most frequently target developed economies. Germany stands out as one of the favorite host regions for Chinese investors. Notwithstanding the stereotype of Chinese equating Germany to quality and rigor, there is a factual basis for the preference. To start with, Germany has a well-established manufacturing base, providing investors with varying financial means a broad choice of potential acquisition targets. Many of these manufacturing companies are so-called hidden champions. The hidden champions are highly specialized small to medium-sized enterprises, which are undisputed market leaders in their respective niche markets and in the meantime largely unknown by the public (Simon, 2012). Coincidentally, Germany and other German-speaking countries are a major hub for hidden champions. Furthermore, Germany is known for its research and development (R&D) capabilities on multiple technological fronts and possesses extensive knowledge and expertise regarding Industry 4.0, biopharma, autonomous driving, to name just a few.

All of these areas fall under the category of strategic assets and are highly sought after by the Chinese firms which are eager to migrate up the value chain and become global players.

The impact of strategic asset-seeking acquisitions usually takes longer to become apparent, as integration of value-creating assets is a lengthy and difficult process (Wu, 2015). Especially, is it unlikely for Chinese investors to unlock the full potential of the cross-border M&A in the short run. Not only do the Chinese firms have relatively limited technological capital and innovation capabilities, and lack international experience, they are also constrained by their absorptive capacity, i.e. the ability to recognize the value of new information or knowledge, assimilate, and apply it to commercial ends (Deng, 2010). With this limitation in mind, Chinese investors new to cross-border M&A increasingly adopt a “soft and selective approach”, also known as “partnering approach” to the post-M&A integration (Kale & Singh, 2009; Kale et al., 2009). Such approaches typically require the incumbent management to be retained, while the mother companies send only a handful of staff from China to fill specific positions, on a temporary basis in most cases. To the best of my knowledge, most of the Chinese staff seconded to Germany assume the roles related to finance or controlling, or act simply as coordinators to facilitate information flow between Germany and China. More often than not, the Chinese representatives refrain from taking an active part in operations, regardless of the level of seniority in the mother companies in China. Although Chinese investors have only taken on actual general management roles in a small number of cases, the active involvement of CEOs from China has been essential to the success of M&A by Chinese firms in Europe (Chen et al., 2016). However, details about the involvement of Chinese CEOs have been largely elusive.

### 1.3 Research objectives

In spite of a growing body of literature on cross-border M&A in general, the process perspective on M&A by emerging economy firms has been largely neglected (Liu & Deng, 2014). More specifically, extant literature deals with primarily motives of cross-border M&A or stock market reaction, whereas the growth patterns after the acquisition are understudied. Theory as well as empirical analysis on Chinese investors' value creation strategy and post-M&A integration approach is particularly scarce for lack of publicly available information.

In measuring value creation, scholars typically apply event studies, which are constrained to a short time horizon by default. As Chinese investors typically have longer investment horizons, longer-term value creation (>2 years) should be of greater interest.

Within the scope of this research project, the dissertation aims to make the following contribution to academic research on Chinese cross-border M&A, especially in Germany. Firstly, it shall shed light on long-term shareholder value creation, while post-M&A integration unfolds. Extant research is mainly concerned with the impact of cross-border M&A on the short-term shareholder value of the acquiring firms (Asquith, 1983; Faccio, McConnell, & Stolin, 2006; Firth, 1980; Masulis, Wang, & Xie, 2007; Mitchell & Stafford, 2000; Schwert, 2000). In contrast, Chinese culture values long-term orientation much more than Western cultures (Hofstede, Hofstede, & Minkov, 2010). Secondly, it shall decipher the recent growth patterns in the post-M&A phase, building on the theories developed previously, such as the "light-touch" integration approach (Liu & Woywode, 2013). Last but not least, it shall enrich and extend theory on value creation strategy by emerging economy firms, especially by Chinese firms through cross-border M&A.

The research project consists of three parts. The first part delivers a comprehensive literature review on value creation strategy and related topics of emerging economies firms, especially Chinese firms, through cross-border M&A to ascertain research gaps. The second part is an empirical in-depth study consisting of three prominent M&A cases, which have aged at least two years to allow for a temporal analysis of the evolution of the Chinese acquirer and the German acquiree(s) as a combined group. This approach complies with the replication logic, where each case is treated as a different experiment, confirming or disconfirming observations (Yin, 2014). The last part synthesizes the findings of the single cases and discuss their implications. To conclude, I offer a novel framework for future study on value creation strategy of Chinese M&A investment, which is derived but can be extended from the Sino-German context.

## 2 Literature review

### 2 Introduction

Mainstream western theory predicts that firms internationalize to exploit competitive advantages. However, Chinese firms among other emerging economy firms, are believed to engage in cross-border M&A to attain strategic assets to overcome latecomer disadvantages (Deng, 2009; Liu & Woywode, 2013; Luo & Tung, 2007; Nicholson & Salaber, 2013).

Chinese outbound investment grows at much a faster pace than would be predicted by traditional growth theory, whereas a considerable amount of investment channels into more mature economies in the West (Athreye & Kapur, 2009). Unlike established players from developed economies, Chinese firms usually lack the expertise and capabilities to manage complex international operations in general

(Peng, 2012) and are less likely to enhance innovation performance through M&A in the short run (Wu et al. 2015).

The accelerating cross-border M&A activities of emerging economy firms have evoked a remarkable increase in academic as well as managerial interest (Kotabe & Kothari, 2016). However, the process in which the latecomers absorb knowledge and leapfrog over established players has thus far gained little coverage in research (Lahiri, 2011; Peng et al., 2008).

Meanwhile, scholars remain equivocal about what theories could account for the M&A activities of the emerging economy firms. One camp (e.g. Dunning, 1993; Li & Oh 2016) contends that new theory is not required, as the explanatory power of existing theories such as the OLI (Ownership, Location and Internalization) framework still holds, with a twist; the other camp (e.g. Matthews, 2006; Luo & Tung, 2007) argues that the wealth of literature which centers on the Western multinational firms is irrelevant for understanding the internationalization of the emerging economy firms. Alternative theories such as the LLL (Linkage, Leverage and Learning) framework would do a better job. Reconciling the two camps, Cuervo-Cazurra (2012) and Ramamurti (2012) plead that the unique features of internationalization of emerging economy firms create a laboratory for extending existing internationalization theory.

## 2.2 Methodology

In systematic reviews addressing complex questions, database searching often accounts for as little as 30 percent of the total number of relevant articles (Greenhalgh & Peacock, 2005). Being mindful of the constraints of database search, I chose a dyadic approach to scout for relevant papers, building on the approach suggested by Morgan & Gagnon (2013).

I started out with a systematic search in the EBSCOhost electronic database focusing on peer-reviewed journals. Inspired by the approach suggested by Deng (2012, 2013, 2014), I used a combination of keywords, i.e. “Value creation”, “Cross-border M&A” and “Chinese firms”, which underpinned the research interest in question. In congruence with the implementation of the ‘Go Global’ policy initiated in 1999 by the Chinese government, and China’s entry into the World Trade Organization (WTO) in 2001, Chinese firms started to engage in cross-border M&A en masse around 2000. Consequently, I scouted for articles published between 1<sup>st</sup> January 2000 and 30<sup>th</sup> June 2017. A total of 410 articles matched the search criteria. To ascertain relevance, I screened each article manually by reading the abstract. If the abstract failed to provide sufficient information for a clear-cut decision, I went on to review the introduction, and under circumstances also the conclusion section. An article would be excluded, if it met no less than one of the criteria listed below. As a result, 64 articles passed the screening, representing a survival rate of 16%.

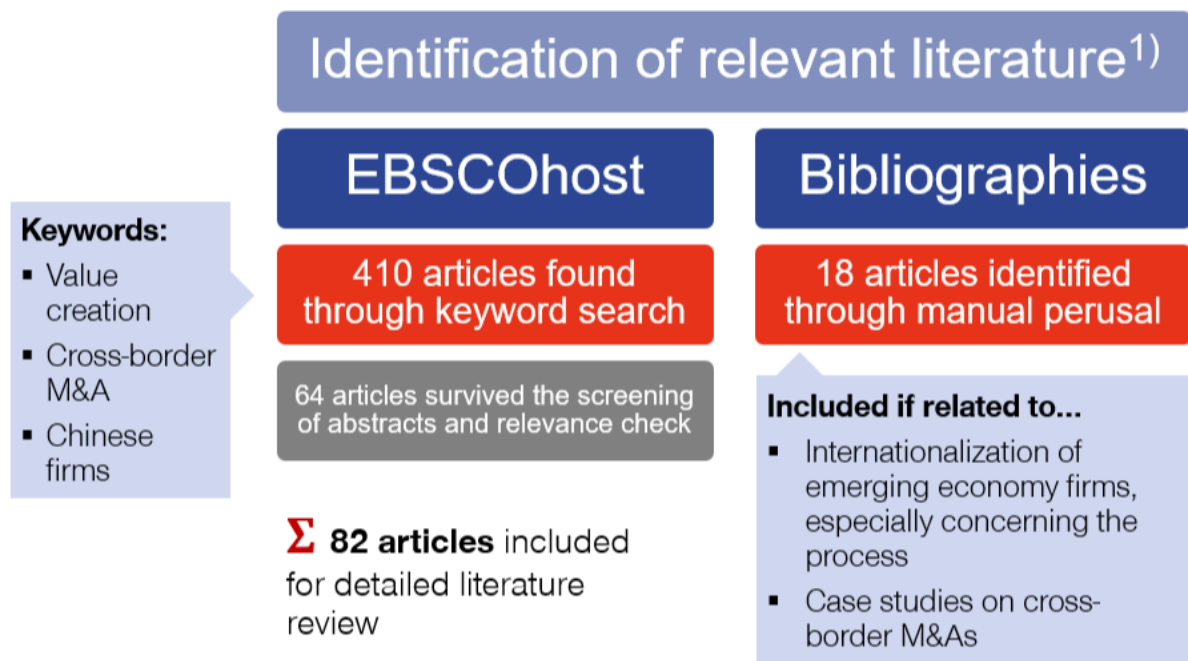
No.	Criteria
1	Not related to M&A
2	Domestic M&A only
3	Cross-border M&A in emerging economies
4	Focus on certain functional areas such as Human Resources
5	Focus on international joint ventures
6	Focus on the financial sector

*Table 1: Screening criteria for literature review*

*Source: Self-compiled by author*



At the second step, I scanned the bibliographies of the papers that are most relevant to the research topic, in order to identify additional articles of interest. Consequently, I included another 19 articles in the literature review. In total, qualified articles amount to 82. A graphical illustration of the identification of relevant articles is shown below.



*Figure 2 : Literature review methodology and outcome*

*Source: Self-compiled by author*

The qualified articles are from 26 different outlets. International Business Review, Journal of World Business and Thunderbird International Business Review altogether account for nearly 60% of the articles included in the literature review. Reflective of the nascent nature of the research field, articles in the last three and half years make up almost 60% of all qualified articles. A summary can be found in Table 2: Outlets and year of publication of qualified articles *Table 2*.

Journal	2000	2004	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
International Business Review	1									2	1	4	7	6	21
Journal of World Business				1				1	2		1	4	4	3	16
Thunderbird International Business Review					1		1	1	1	4	2	1			11
Journal of Organizational Change Management									1	1	1	1	1		5
Asia Pacific Business Review						2		1		1		1			5
International Journal of Emerging Markets							1				3				4
The European Journal of Comparative Economics												1			1
Emerging Markets Finance & Trade										1					1
Asia Pacific Management Review										1					1
Entrepreneurship: Theory and Practice				1											1
Procedia Social and Behavioral Sciences							1								1
Industrial and Corporate Change						1									1
Asian Economic Policy Review											1				1
Asia Pacific Journal of Management			1												1
Journal of Policy Modelling													1		1
Asian Business & Management										1					1
Management and Organization Review							1								1
Management International Review (MIR)													1		1
International Management Review					1										1
Review of Development Economics												1			1
Working paper													1		1
The World Economy												1			1
Journal of International Business Studies											1				1
Economics of Transition										1					1
Journal of International Management		1													1
Journal of Business Research						1									1
<b>Total</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>12</b>	<b>10</b>	<b>14</b>	<b>15</b>	<b>9</b>	<b>82</b>

*Table 2: Outlets and year of publication of qualified articles*

*Source: Self-compiled by author*

## 2.3 Discussion

Shimizu (2004) was one of the first papers to systematically take stock of literature on cross-border M&A and classified the themes in three categories: (1) mode of entry in a foreign market, (2) dynamic learning process from a foreign culture, and (3) value-creating strategy. Most well-known frameworks on cross-border M&A had focused on the first theme, e.g. the internationalization theory (Hymer, 1970), resource-based view (Barney, 1991), the eclectic paradigm (Dunning, 1993), and transaction cost economics (Hennart, 1994). At that time, developed economy firms dominated the arena of cross-border M&A, whereas M&A investment from emerging economies was yet at an early stage. Logically, scholars had mainly studied cross-border activities through the lens of the developed economy firms.

The following years saw a remarkable drift in academic research on cross-

border M&A, as scholars increasingly turned their attention to emerging economy firms, which strove to gain a foothold in the world economy (Zhang & Filippov, 2009). Meanwhile, value creation strategy and integration process found broader interest in the academia. Some prominent examples are the linkage-leverage-learning (LLL) framework (Mathews, 2006), partnering/light-touch approach for post-M&A integration (Kale et al., 2009; Liu & Woywode, 2013) and a multilevel tentative model focusing on Chinese overseas M&A (Liu & Deng, 2014). A summary of prominent research on cross-border M&A is found below.

Papers	Conceptual frameworks (non-exhaustive)	Lens <sup>1)</sup>	Theme <sup>2)</sup>
Hymer, 1970	<b>Internationalization theory:</b> Multinationals must adapt to the local environment in each country and coordinate their activities in various parts of the world and stimulate the flow of ideas across their ownership network	DEF	(1)
Barney, 1991	<b>Resource-based view (RBV):</b> advantages a firm can gain by being the first to implement a strategy based on first-mover access to and the development of a specific resource, while preventing competitors from gaining access to it	DEF	(1)
Dunning, 1993	<b>OLI/eclectic paradigm:</b> Ownership, Location, and Internalization, (OLI) are three potential sources of advantage that may underlie a firm's decision to become a multinational	DEF	(1)
Hennart, 1994	<b>Transaction cost economics (TCE):</b> rents are earned whenever the benefits of co-operation are greater than the costs of organizing it; The choice of business forms depends on transaction costs involved	DEF	(1)
Mathews, 2006	<b>LLL:</b> Newcomer and latecomer MNEs make use of linkage, leverage and learning (LLL) process with the explicit goal of gaining strategic assets not available at home	EFF	(1), (2)
Kale et al., 2009/ Liu & Woywode 2013	<b>Partnering/Light-touch approach:</b> the acquirer and the target firm remain structurally separated with the target firm organization and identity left intact, but achieves synergies through the selective coordination of business activities	EFF	(2), (3)
Liu & Deng, 2014	<b>A multilevel tentative model for Chinese overseas M&amp;As</b> consists of three levels: institution-, organization- and individual level, the last of which is especially understudied	EFF	(1), (2), (3)
...	...	...	...

1) DEF=Developed economy firms; EFF=Emerging economy firms

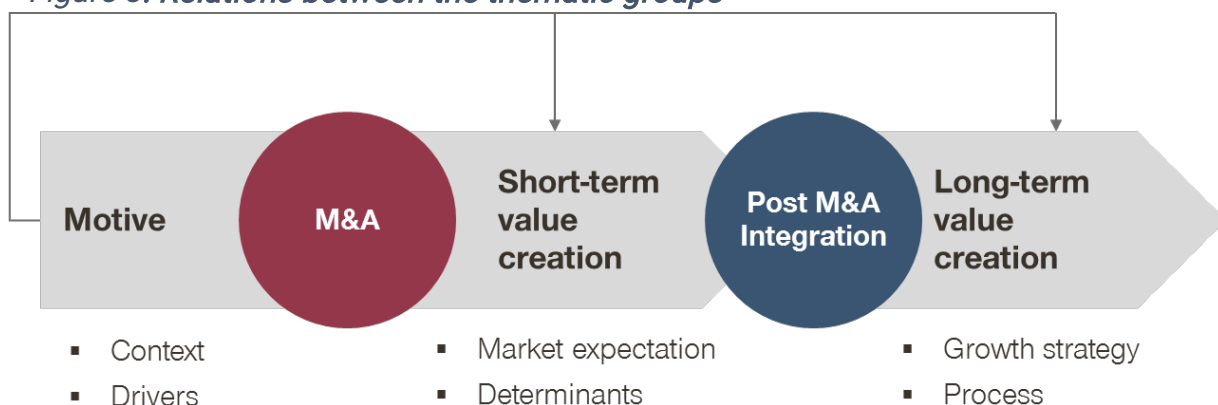
2) According to classification of Shimizu (2004): (1) mode of entry in a foreign market, (2) dynamic learning process from a foreign culture, and (3) value-creating strategy.

*Table 3: A selection of prevailing research on cross-border M&A*

*Source: Self-compiled by author*

Sticking to the focus on the process perspective of cross-border M&A, I deliberately diverted from Shimizu (2004) and categorized the relevant literature into three thematic groups as follows: Group 1 – motive for cross-border M&A, Group 2 – short-term value creation, and Group 3 – long-term value creation. Motive addresses the question why an emerging economy firm engages in cross-border M&A. It offers hints how the acquirers intend to create value afterwards. Short-term value creation, in this research context, equates to the stock market reaction to the announcement of the transaction, conventionally measured as cumulative abnormal returns in a short time window. It reflects the market's expectation on the synergy between the transaction parties, before the actual integration starts. It is subject to speculation to what extent the longer-term growth aspect has been factored into the market reaction. The last but the most important group from the process perspective is long-term value creation, which can only be realized through post-M&A integration. The relations between all three thematic groups are visualized as follows:

*Figure 3: Relations between the thematic groups*



*Source: Self-compiled by author*

As a result of my perusal of the articles, 26 articles fall in the thematic group "Motive". 10 articles touch upon short-term value creation and 54 articles relate to long-term value creation. Another eight articles, which cannot be clearly categorized, are flagged as "Mixed", a fourth category. Since some articles fall in more than one

thematic group, the sum of the aforementioned articles per category amounts to 98. Almost all articles take the lens of the emerging economy firms, either solely or in addition to that of the developed economy firms, as one would expect given the search criteria. However, outliers persisted, as database research returned nine articles that only focus on developed economy firms as acquirers. That said, all of them relate to long-term value creation. In order to contrast long-term value creation approach between the developed economy firms and emerging economy firms, I intentionally kept them in the review (see *Table 4*).

Panel A: Number of articles					Panel B: Articles in percentage				
Theme	EE	D & EE	DE	Total	Theme	EE	D & EE	DE	Total
MO	24	2	0	26	MO	24 %	2 %	0 %	27 %
VC_S	10	0	0	10	VC_S	10 %	0 %	0 %	10 %
VC_L	32	13	9	54	VC_L	33 %	13 %	9 %	55 %
MI	2	6	0	8	MI	2 %	6 %	0 %	8 %
<b>Total</b>	<b>68</b>	<b>21</b>	<b>9</b>	<b>98</b>	<b>Total</b>	<b>69 %</b>	<b>21 %</b>	<b>9 %</b>	<b>100 %</b>

Note: MO=Motive, VC\_S=Short-term value creation, VC\_L=Long-term value creation, MI=Mixed; Total equals 98, as the thematic categorization is not unique

*Table 4: Articles by theme and lens*

*Source: Self-compiled by author*

In what follows, I discuss the articles by thematic group. The “Mixed” group does not warrant a separate sub-chapter. Instead, I refer to the articles categorized as “Mixed”, wherever suitable during the discussion.

### 2.3.1 Thematic group 1: Motive

Simon (2012) asserts that “Globalia”, or globalization is unstoppable. The integration of sovereign markets into a single global market creates tension and competitive pressure. Consequently, inefficient firms can no longer shelter behind protectionist barriers (Bartlett & Ghoshal 2000). Against this background, cross-

border M&A are becoming more and more popular.

The acquiring firms in cross-border M&A often fall prey to liabilities of foreignness (Hymer, 1976; Zaheer, 1995). On top of that, firms from emerging economies have to tackle liability of country of origin, because of perceived weakness of the home country's economy (Chang et al., 2009). They are often referred to as the "latecomers" to the world economy. "Coming late" is, however, relative -- Gerschenkron (1962) depicts the rapid internationalization of American and German firms to catch up with the UK, the leader of the world economy in the 19<sup>th</sup> century. Today, emerging economy firms are eager to internationalize through M&A as a shortcut for catch-up strategy (Mathews, 2002).

Mathews (2006) suggests that the incumbents see the world as full of competitors who are trying to imitate their success. Recent research suggests that the motives for firms from emerging economies to expand abroad are fundamentally different from those from developed economy firms (Buckley et al., 2007; Fortanier & Tulder, 2009; Li, 2007; Luo & Tung, 2007). The latecomers, or the challengers, view the world as full of resources to be tapped and leveraged. The latecomers to the global business have to find ways to break into this advanced world (Gerschenkron, 1962; Mathews, 2006). They catch up with competition through repetitive learning and doing, and oftentimes amid accelerated internationalization combined with strategic and organizational innovation (Bonaglia et al., 2007). The winners typically envision the world market as their home market well before they achieve the scale conventionally considered necessary for globalization.

The emerging economy firms are looking to more likely explore than exploit assets. They use cross-border M&A an effective way to improve their competitive advantage and performance (Gubbi et al., 2010). In order to access advanced

management and marketing skills, emerging economy firms would prefer to target firms in developed, mature markets, i.e., characterized by high-quality resources (Gubbi et al., 2010). As suggested by Harrison et al. (2001), front-end high-value capabilities and resources available in developed economies, when combined with the back-end low-cost capabilities in emerging economies, can create uniquely valuable resource combinations that result in higher market valuation and globalization realization.

Comparing Chinese multinationals to their peers from other emerging economies, Athreye & Kapur (2009) maintain that the flow of investments from China took place much faster than what traditional growth theory would suggest and that a large part of these investments found their way sooner into developed economies. Some scholars, e.g. Kumar (2009) and Fortanier & Tulder (2009) even contend that the Chinese firms are rewriting the rules of cross-border M&A, as the traditional theory of internationalization appears ill-suited to account for the Chinese overseas M&A activities. Due to distinct features of the Chinese multinationals, one should take caution in generalizing Chinese firms to represent all other emerging economy firms in cross-border M&A (Deng & Yang, 2015).

Chinese firms resort to M&A abroad in pursuit of international expansion and diversification, and more importantly to acquire strategic assets. Strategic assets are firm-specific resources and capabilities that are difficult to trade and imitate, scarce, appropriable and specialized (Amit & Schoemaker, 1993), including technology, research and development capabilities as well as management know-how. As Chinese firms start out from a 'resource-meagre' position (Wang et al., 2012), the Chinese government urges domestic firms to acquire strategic assets overseas so that the Chinese national champions can eventually compete successfully in the

global landscape (Alon et al., 2011). Luo & Tung (2007) suggests that Chinese multinationals use “spring boarding” to offset lack of competitive advantage and international experience, while countering competition in the home market from more established international players. Along the similar line of argument, Wu et al. (2012) concludes that the acquisition of an international firm helps build brand awareness in the domestic market, where the international venture is a sign of success.

The asset-seeking motives of Chinese multinationals’ cross-border M&A have found broad interest in research e.g. Child & Rodrigues (2005), Deng(2009), Rugman & Li (2007), Rui & Yip (2008), just to name a few. Nevertheless, there has been little in-depth analysis on the nature of strategic assets sought after by Chinese multinationals through M&A abroad, especially in the developed economies. As Boateng et al. (2008) suggests, there is a set of diverse motives behind the cross-border M&A activities by Chinese firms. As such, generalization is not warranted.

The role of the state in China has been permeating and evolving since the inauguration of the economic reforms in late 1970s (Yang & Stoltenberg, 2014). The “Go Global” policy is one of the pillar national strategies, the essence of which is to encourage Chinese firms to go abroad in order to build world-class corporations competing successfully on a global level. Local, national, and international environments have been constantly reshaping the co-evolution between Chinese institutions and the Chinese multinationals (Carney et al., 2009; Yang & Stoltenberg, 2014).

In the aftermath of the 2008 global economic crisis, when many assets in Western countries became more affordable, many Chinese firms expanded their international business through M&A and leveraged their low cost position to gain a foothold over there. This new investment behavior coincided with the timely



relaxation of foreign exchange restrictions by Chinese authorities and a series of governmental stimuli from May 2009 onwards (Yong, 2011). The state not only actively facilitates and encourages overseas FDI, but also encourages investment specifically in R&D in developed countries to enhance China's innovative capability (UNCTAD, 2005).

Since the financial crisis around 2008, the rising labor cost coupled with shortages of workers has posed a serious challenge for many Chinese firms. Many of these firms view M&A abroad as an avenue to get out of their predicament, to migrate up the value chain, and establish global brands (Yang & Stoltenberg, 2014).

The existence of rival norms and interests in China and different levels of influence over public policy ensures the continuation of a complex struggle to define China's economic system and the role of associations in it. Traditionally, the state-owned enterprises or SOE were the driving force behind Chinese outbound M&A investment (Peng et al., 2011). As a matter of fact, not until 2003 did the Chinese authorities give green light for privately owned enterprises or POE to invest abroad. Aspiring Chinese POE took upon the opportunity seriously, as they craved for strategic assets abroad to build competitive advantage, in the absence of an institutional support network enjoyed by many SOE on the home turf (Stroem, 2013). Meanwhile, one should not overlook the diversity between central and local SOE along multiple organizational dimensions (Li et al., 2014), a phenomenon referred to as "diversity in capitalism" which extends traditional assumptions of comparative capitalism to account for a more dynamic understanding of institutions (Crouch 2005; Lane & Wood, 2009). Central SOE have the formal mandate to support macro-level industrial growth, and social welfare distances them from purely profit-maximizing practices; whereas local SOE are made more autonomous and market oriented firms

with greater flexibility. Tao et al. (2017) maintains that such differences in the formulation of their strategic priorities and resource positions not only intrinsically shape how SOE act in domestic business environments, but also how they navigate foreign markets.

Wang (PwC, 2017) observes no any substantial difference between SOEs and POE concerning the motives for cross-border M&A. Some SOE may be more concerned about their market position, the ranking of the company, and fit with national strategies. POE may be more concerned about the long-term return on investment and capital market performance. But in essence, they all strive to gain access to strategic assets that are needed for long-term future growth.

### 2.3.2 Thematic group 2: Short-term value creation

Prevailing studies apply event study methodology to measure short-term value creation by means of stock market reaction to the announcement of the cross-border M&A. The rationale, according to Hitt et al. (1998), is that share price movement of the acquiring firm reflects the investors' rational expectations on future operating performance.

Literature shows that stock market reaction to announcement of M&A deals can go in any direction. The same holds true for emerging economy firms (e.g. Aybar & Ficici, 2009; Bhagat et al.; 2011; Chen & Young, 2010; Lebedev et al., 2015; Ning et al., 2014 etc.)

Except for De Beule & Sels (2016), who focus on Indian investors, all papers included in this section of the literature review concern Chinese firms which acquired firms in developed economies. The event studies in these papers all report non-negative cumulative abnormal returns through cross-border M&A for acquirers'

stocks on Chinese stock exchanges over a short-term time window, lending evidence for short-term value creation through cross-border M&A. Chinese investors' sentiment towards cross-border M&A is plausibly positive, since the government incentivizes Chinese firms to grow fast and big, not only in home market but also abroad (Chen & Shih, 2008). The resulting explicit and implicit benefits associated with cross-border M&A deals tease investors to buy into the story (Gaur et al., 2007).

Determinants of value creation in the short term can be classed in three categories: the first one relates to the acquirer, the second one relates to the acquiree and the last one is the interaction between the acquirer and the acquiree. In

No.	Paper	Factors that determine short-term value creation		
		1	2	3
1	Du & Boateng (2015)	investor ownership status	institutional distance	foreign exchange reforms
2	Li et al. (2016)	cultural distance	absorptive capability	
3	Tao et al. (2017)	political risk in host market	investor ownership status	
4	Deng & Yang (2015)	intensity of M&A's		
5	Nicholson & Salaber (2013)	target industry (service vs. manufacturing)	host country (developed vs. emerging economy)	
6	De Beule & Sels (2016)	innovative capacity	target industry (high-tech or not)	
7	Boateng et al. (2008)	n.a.	n.a.	n.a.
8	Ning et al. (2014)	investor ownership status	corporate governance/control system	
9	Gu & Reed (2013)	investor ownership status	cultural distance	industry relatedness
10	Yang & Zhang (2015)	political connections	governmental intervention	preferential access to bank financing

the case of Chinese-led M&A, investor ownership status (category I), i.e. SOE vs. POE, is one of the most important determinants for value creation. Category II mainly deals with idiosyncrasies of host countries or target industries, while category III centers on the institutional differences between the two parties involved in an M&A deal, mainly referring to cultural differences. *Table 5* and *Table 6* summarize the determinants of short-term value creation and categorization of the determinants across the papers included in this section of the literature review.

***Table 5: Determinants of short-term value creation***

*Source: Self-compiled by author*

No.	Paper	Determinants related to ...		
		... the acquirer	... the acquiree	... interaction
1	Du & Boateng (2015)	x		x
2	Li et al. (2016)	x		x
3	Tao et al. (2017)	x	x	
4	Deng & Yang (2015)	x		
5	Nicholson & Salaber (2013)		x	
6	De Beule & Sels (2016)	x	x	
7	Boateng et al. (2008)	n.a.	n.a.	n.a.
8	Ning et al. (2014)	x		
9	Gu & Reed (2013)	x		x
10	Yang & Zhang (2015)	x		

*Table 6: Categorization of the determinants of short-term value creation*

*Source: Self-compiled by author*

### 2.3.2.1 Category I – Acquirer-related determinants

One cannot get around state ownership as one of the most tested acquirer-related determinants for short-term value creation of Chinese cross-border M&A. However, the jury is still out there in this matter (e.g. Chen & Young, 2010; Karolyi & Liao, 2010; Sun et al., 2002; etc.). There will likely be no unequivocal consensus thereon, as varying involvement of different tiers of governmental bodies obscures the analysis (Antkiewicz & Whalley, 2007; Gu & Reed, 2013).

Du & Boateng (2015) find that that formal state ownership has positive (0.12) and significant ( $p < 0.01$ ) impact on shareholder value creation, as the acquirers listed on mainland China stock exchanges experience wealth gains in the range of 0.48% to 1.52% over a 10-day event window for cross-border deals in the period from 1998 to 2011.

Ning et al. (2014) confirm a positive stock price reaction on average to cross-border M&A announcements made by Chinese firms listed on the Hong Kong stock

exchange over the period between 1991 and 2010. However, the positive impact is mediated, if the acquirer is state-owned or -controlled. It may suggest that the international investors, who have the lion's share of trading volume on the Hong Kong stock exchange, discount the good news on the ground of potential principal-principal conflicts, for example. Gu & Reed (2013) find that Chinese cross-border M&A have not destroyed value for Chinese shareholders, based on share market returns from the Shanghai, Shenzhen, Hong Kong and US markets during the period between 1994 and 2009. State-owned or -controlled firms are found to have negative impact on value creation, although statistically insignificant at 5 percent level.

The examples above indicate the ubiquitous yet inconclusive literature about the impact of the state ownership on abnormal returns for the shareholder of the Chinese acquirers. Firms with different ownership status are associated with different capabilities and behave differently, depending on different institutional constraints and competitive pressures (Zhou & Witteloostuijn, 2010). SOE are not merely an ownership structure or a form of corporate governance, but rather products of the institutional environment (Bruton et al., 2015; Child & Rodrigues, 2005; Peng, 2000). Especially in China, where SOE are perceived as a major element of economic institutions, they act practically as extended arm of the government to steer economic activities, (Bai et al., 2006; Sun et al., 2002; Tian & Estrin, 2008). Consequently, the ownership status of acquiring firms may signal different implications for the market performance of cross-border M&A.

Chinese SOE can obtain preferential treatment from the government and a favorable allocation of resources, which in turn improve the value of the companies (Blanchard & Shleifer, 2001; Sun et al., 2003; Tian & Estrin, 2008). Du & Boateng (2015) elaborate that the privilege of Chinese SOE may prevail in cross-border M&A thanks

to low-cost loans, tax rebates and other incentives. This kind of advantage lowers the cost of capital or perceived riskiness for SOE and in turn increases firm value (Morck et al., 2008). If the perceived riskiness of firms connected to the state is low because of preferential credit access or potential government bailout support in the event of financial crisis, firm value should increase (Boubakri et al., 2012). There is also evidence that political connections put firms in a situation to access preferential treatment from a broad range of state institutions (e.g. Faccio et al., 2006; Wu & Xie, 2010). Yang & Zhang (2015) also find a positive correlation between state ownership and shareholder returns Chinese from cross-border M&A. Based on a data set of 108 Chinese cross-border M&A 2001 to the first quarter of 2012, the average cumulative abnormal return of state-owned buyers (0.02) was found to be higher than that of non-state-owned buyers (0.00) and is significant at the 5 percent level.

Nevertheless, the preferential treatment for the SOE may turn into a burden, when they extend their activities abroad (Lin, 2010). The cause lies in the perceived weak corporate governance associated with state ownership in addition to possible political intervention (Ning et al., 2014). Investors may be skeptical about the political motivations of cross-border M&A by SOE acquirers, resulting in lower abnormal returns for shareholders (Tao et al, 2017).

Unlike SOE, private firms have to compete based on their technological and marketing capabilities in order to survive and prosper (Peng, 2001). Moreover, private firms tend to be more effective than SOE in terms of market orientation and innovation (Peng et al., 2004). In addition, many private firms have greater flexibility and autonomy in terms of management and decision making. This implies that private firms may be able to compete in foreign markets and integrate target firms more effectively than SOE, thus leading to a higher level of performance (Liu et al.,

2016).

### 2.3.2.2 Category II – Acquiree-related determinants

Drawing on a sample of Chinese firms during the period between 2000 and 2012, Tao et al. (2017) suggest that the announcement of cross-border M&A leads to a positive stock market reaction. The positive shareholder return can be ascribed to the political risk in the host market to a certain degree. The strategic assets that are much sought-after by Chinese investors often reside in developed economies with high governance quality as well as low political risk (Cui et al., 2014; Liu et al., 2016; Nicholson & Salaber, 2013). Stock markets reward such acquisitions, evidenced by higher cumulative abnormal returns. Nicholson & Salaber (2013) also confirm that Chinese M&A in developed economies tend to generate higher returns to shareholders. Furthermore, the same study finds a positive correlation (0.04, significant at 1 per cent level) between value creation and the target being manufacturing companies. Bracing for the “Made in China 2025” national strategy, Chinese investors seem to be optimistic about the long-term prospect of the local manufacturers that engage in cross-border M&A from Chinese manufacturers in the pursuit of strategic resources.

De Beule & Sels (2016) propose an interesting theory, suggesting a U-shaped relationship between research intensity of Indian acquirers and their cumulative abnormal return following acquisitions in Europe. More specifically, firms with no research capacity can benefit from the acquisition by accessing advanced targets, whereas firms with extensive research capacity outperform any of their Indian competitors as these firms have the absorptive capacity to not only explore but also exploit the knowledge base of the acquired target. Furthermore, the authors find a

positive effect of the acquisition of a high-tech target company, regardless of the absorptive capacity of the acquirer. No similar research has been done for Chinese acquirers to the best of my knowledge. But I do expect to observe a similar pattern for Chinese multinationals. Targets with advanced technology in developed economies are particularly attractive for Chinese firms which are keen to move up the value chain. Those early movers among Chinese firms, which have accumulated a fair amount of experience through cross-border M&A and developed stronger absorptive and innovative capacity, are poised to benefit more from acquisition of high-tech targets.

### **2.3.2.3 Category III – Interaction-related determinants**

Cultural distance refers to the difference between the culture of the acquirers and those of the acquirees (Hofstede, 2001) and determines to a large extent the mode of interaction between the two parties. Cultural distance stems from many sources, e.g. history, religion, and linguistic differences (Riad & Vaara, 2011). It is a double-edged sword, which may have positive impact on value creation (e.g. Larsson & Finkelstein, 2001) or negative impact (e.g. Gu & Reed, 2013). All in all, it is expected that cultural distance would increase the level of uncertainty in the post-M&A integration (Kang & Jiang, 2012).

Li et al. (2016) investigate the impact of cultural distance on value creation based on a sample of 367 transactions by Chinese firms between 2000 and 2011. The cross-border M&A led to cumulative abnormal return over a 10-day window, while cultural distance showed negative correlation (-0.04, significant at one percent level) with value creation. Only firms with greater learning and absorptive capacity were found to fare better with cultural differences. In contrast, Du & Boateng (2015) does not find significant correlation between cultural distance, as a proxy for informal



institutional distance, and value creation.

### 2.3.3 Thematic group 3: Long-term value creation

Cumulative abnormal return as a common measure of M&A performance has remarkable limitations (Haleblian et al., 2009), because the event study methodology is ill-equipped to account for the synergy realized in post-M&A integration, which usually takes years (Capasso & Meglio, 2007). Since emerging economy firms seek strategic assets and consequently attach less importance to the face value of the target (Rui & Yip, 2008), it is sensible to look at longer-term measures to fully assess success or failure of the acquisition (Peng & Beamish, 2014; Slangen, 2006; Song, 2014). It is particularly true for Chinese acquirers, considering that the Chinese culture values long-term future orientation (Hofstede, 2001).

Therefore, scholars apply other measures to examine long-term value creation of M&A. Capasso & Meglio (2007) and Cording et al. (2010) cite e.g. the usage of accounting measures as well as managerial self-reports to measure M&A success. From time to time, scholars also use non-financial measures such as innovation outcomes, technological performance or knowledge transfer to measure M&A success (Thanos & Papadakis, 2012), which even sometimes result in opposite conclusions (Chen & Werle, 2016).

Post-M&A integration belongs to the most important factors for M&A performance and main source of value creation (Angwin & Meadows, 2015; Gomes et al., 2011; Larsson & Lubatkin, 2001). Given its long-term and uncertain nature, post-M&A integration resembles reality in flight (Pettigrew et al., 2001). Consequently, scholars need to focus on strategy, structure, process and culture etc. over time (Chen et al., 2016). Long-term value creation is often achieved through incremental changes rather than a grand master plan of the mother company (Yahagi & Kar,

2009). Careful implementation, an interplay of strategy and process, makes a major difference in the success of M&A (Ahlstrom, 2014; Hitt et al., 2004; Graebner et al., 2010; Jacobides & Kudina, 2013; Phene et al., 2012; Rumelt, 2011).

### 2.3.3.1 Challenges in post-M&A integration

The post-M&A integration is crucial for materializing the intended synergy and full of challenges in the meantime (Child et al., 2001). Deloitte (2016) finds that only 5% of Chinese M&A overseas turned out to be profitable. Another report by Phoenix Media Thinktank (2016) is more optimistic and reports a 20% success rate based on the recent deals in 2016. In what follows, I lay out the typical challenges that confront Chinese acquirers in post-M&A integration.

In general, Chinese acquirers have to battle not only liability of country-of-origin (Elango & Sethi, 2007; Harvey et al., 2005; Lee & Lee, 2011), e.g. institutional weakness and lack of global dominance of the home country, but also liability of emergingness (Madhok & Keyhani, 2012), which involves skeptical regulators, unions and other stakeholders in the host country. Rui et al. (2016) further explores particular challenges that confront emerging economy firms during integration of cross-border M&A. These include e.g. few specialized providers, relative knowledge isolation, and increasing consumer sophistication etc.

Transaction costs economics associates risks and costs with cultural distance, according to which cultural distance may take a toll on cross-border acquisition performance (Shimizu et al., 2004; Steigner & Sutton, 2011). In contrast, the resource-based view regards the distinctive cultures of different partners as inimitable, value-creating resources (Dong & Glaister, 2009). Cultural distance can be a useful vehicle to prompt learning differences in beliefs and values, and practices have the potential to promote learning and innovation (Vermeulen & Barkema, 2001).

There is, however, a nuance within the concept of cultural distance. Namely, national cultural distance and organizational culture distance affect M&A performance differently (Ahammad et al., 2016; Weber et al., 2009, 2011). Organizational culture is not immune to national culture in a multinational organization. However, the individual situation and approach at the firm level mediate the relationship between national cultural difference and M&A performance. For example, Shenkar (2001) highlights the human role in the course of integration, suggesting that human perceptions are individual, experience-based, flexible and richer than a formula-determined, context-ignorant and fundamentally static measure of cultural distance. Managers are an integral part of the acquired company's resources. Therefore, one of the significant determinants of acquisition success in the long run is the retention of acquired firm employees, especially the key persons (Ahammad et al., 2012; Krug et al., 2014). Furthermore, if the managers themselves identify with the new owner, they would show greater commitment, facilitate cooperation and in turn contribute to improving the M&A performance (Hassett, 2012). If managed effectively, the seemingly detrimental cultural distance may actually facilitate the post M&A integration (Rottig, 2013).

Ranft & Lord (2002) and Junni (2011) maintain that knowledge transfer is one of the primary objectives of M&A, and plays a significant role in synergy realization. The ability of a firm to create value relies on a set of intangible, knowledge-based resources (Leonard, 1998). The success of knowledge transfer largely comes down to the absorptive capacity of the acquirer, which belongs to the most extensively research topics around long-term value creation of cross-border M&A by emerging economy firms. It consists of the ability and motivation of the organizational members to access and make use of external knowledge (Minbaeva, 2007). There is

extensive research on the concept of absorptive capacity per se and its determinants, components, and outcomes (e.g. Marabelli & Newell, 2014; Roberts et al., 2012).

Absorptive capacity builds on prior knowledge and develops cumulatively through the creation and acquisition of new knowledge and learning (Zahra & George, 2002). Firms need a certain level of absorptive capacity before they can benefit from technologies developed by other firms (Cuervo-Cazurra & Ruib, 2017). Furthermore, firms of higher absorptive capacity are found to be better equipped to assimilate, create and apply knowledge for building a competitive edge (Lane et al., 2006). In the context of cross-border M&A, the extent of a firm's prior related knowledge may determine the M&A performance (Shimizu et al., 2004).

Firms also ought to develop combinative capabilities so that they can synthesize and acquire new knowledge and generate new applications from those resources of the acquired firms (Zollo & Singh, 2004). Although acquisition of critical knowledge paves the way for value-creating activities, there is no guarantee of a direct translation into strong competitive market positions or high performance (King et al., 2004). Junni & Sarala (2013) emphasizes that absorptive capacity is a dynamic organizational-level capability that essentially resides within the employees of the organization (e.g. Minbaeva, 2007). It is a challenge for Chinese acquirers in particular, as Chinese managers tend to fall short of communication skills, cross-cultural knowledge and foreign management experience (Dietz et al., 2008), while the Chinese acquirer's absorptive capacity determines, to a large extent, the performance of their cross-border M&A (Deng, 2010).

Stated-owned Chinese firms may have additional barriers to overcome in cross-border M&A. The SOE are perceived as political actors (He & Lyles, 2008) due to their affiliation with the state. Under circumstances, such perception can pose challenges

and increase institutional pressure on the SOE in host countries (Luo & Rui, 2009).

### 2.3.3.2 Post-M&A integration strategy and process

In the cross-border M&A, the choice between autonomy and integration has always been a conundrum for managers (Zhu et al., 2015). Hitt et al. (1996) notes that acquiring firms exert two types of corporate control, i.e. financial control and strategic control, to manage the acquired firms. Financial control is ex post supervision and tends to focus on short-term financial performance, not involving restructuring of the acquired firms in most cases. In contrast, strategic control is preemptive and involves greater integration efforts. Strategic control is considered necessary for long-term value creation and more effective for acquirers looking for synergic growth following M&A (Chatzkel & Ng, 2013). In fact, most Chinese acquirers claim to apply strategic control to their acquired foreign entities in Germany (Chen et al., 2016).

Haspeslagh & Jemison (1991) note that there are three different integration modes for cross-border M&A, i.e. absorption, symbiosis and preservation, in descending order of autonomy for the acquiree. In the absorption mode, the acquiree concedes complete power to the acquiring firm, effectively surrendering its own identity. In the symbiosis mode, the acquirer and the acquiree start out as separate units but converge and become increasingly indispensable to each other over time. Last but not least, in preservation mode, the acquiree retains autonomy and faces minimal intervention from the acquirer.

The right degree of integration for a particular cross-border M&A depends on many factors. Among others, the internationalization strategy of the parent firm carries a big weight. It comes down to the question, whether it is pursuing a multi-domestic (different strategies in different countries) or global (a rather uniform

strategy copied to different countries), and the extent of strategic, cultural, and organizational compatibility (Duncan & Mtar, 2006). Tian & Slocum (2014) argue that a subsidiary needs to craft its own business strategy to succeed in its own country. The location-bound subsidiary business strategy interacts with strategic mandates from the headquarters in influencing subsidiary performance. This allows for a proactive and dynamic role of subsidiary business strategy.

The acquirers from the developed economies would prefer the absorption mode, as they emphasize maximizing synergy within a relatively short time period (Bhabra & Huang, 2013). Traditionally, they would take a power or efficiency perspective to partially or fully integrate the business acquired overseas to take control of new acquisitions and rationalize the operations (Child et al., 2001). The downside to the approach is that drastic changes threaten to undermine the brands and capabilities of the acquired firms and lose experienced incumbent managers, exactly what the Chinese investors want to lay their hands on (Madhok & Keyhani, 2012).

Therefore, Chinese firms would avoid taking the traditional structural integration approach (Liu & Woywode, 2013; Zheng et al., 2016 etc.). More specifically, Chinese firms tend to grant their overseas subsidiaries a high level of autonomy, in an effort to overcome the obstacles to reverse knowledge transfer by the “knowledge-superior” subsidiary, including the lack of motivation on the part of the subsidiary to share knowledge (Schüler-Zhou & Schüller, 2013).

Kale et al. (2009) introduce the notion of partnering approach, a post-M&A integration approach that resonates with emerging economy multinationals. They often keep the acquired foreign entities structurally separate, while merging business activities only selectively and gradually. As a result, the acquired firms continue to

enjoy a high degree of operational autonomy freed of the complexity embedded in the conventional integration approach. As a positive side effect, it would be easier for the acquirers to retain key personnel and maintain the original identity of the acquired firms.

The partnering approach, which is conducive to cooperation and knowledge sharing, lies somewhere between symbiosis and preservation. Madhok & Keyhani (2012) refer to it as a genuine collaborative partnership rather than an imposition of hunter upon hunted, with the management of the acquired firm retaining almost complete operational freedom. Without collaboration of the incumbent management, it would be difficult for the Chinese acquirers to capture the value from cross-border M&A, as bitterly shown in the case of TCL's acquisition of Thomson's TV and DVD operations in Europe in 2004.

Retaining the management team and granting them autonomy create a constructive atmosphere in the acquired firms, send a positive signal to stakeholders, help obtain industry-and firm-specific knowledge, leverage the target firm's human and social capital, reduce post-M&A uncertainty among customers, suppliers and employees, and motivate the management team to improve productivity (Kale et al., 2009). While Kale et al. (2009) mainly bases his findings on the cases of Indian investors in US and Europe, Liu & Woywode (2013) show Chinese investors in Germany achieved positive results applying the same approach. Due to the contextual characteristics of Chinese cross-border M&A, such as cultural influences and the learning perspective, Chinese investors touch softly on, or in other words, partner with their acquired firms in Germany (Liu & Woywode, 2013). Schüler-Zhou & Schüler (2013) add that Chinese firms impose no rigid rules regarding authority over decision making in their foreign subsidiaries. In doing so, the Chinese firms are able

to engage in multiple, simultaneous and sequential acquisitions, which would be practically impossible, if they had chosen conventional absorption-like integration method (Grant & Baden-Fuller, 2004).

Warner et al (2004) suggests that state-owned parent companies seem to exercise more control through the assignment of headquarters' personnel to overseas subsidiaries and frequently request duty visits to the headquarters for briefing and reporting. The paradigm is changing over time. In a more recent study, Schüler-Zhou & Schüller (2013) find that while the reliance on reverse knowledge transfer exerts a strong and positive influence on the subsidiary's decision-making autonomy, the impact of the state ownership of Chinese acquirers on subsidiary autonomy seems limited, notwithstanding the pressure to conform to bureaucratic rules and regulations.

Privately owned firms' control patterns tend to be less bureaucratic, with a high level of subsidiary autonomy (Warner et al, 2004). However, there are no statistically significant differences between privately owned and state-owned Chinese parent companies in terms of the intensity of their overseas control (Schüler-Zhou & Schüller, 2013). Further, in studying patenting activities after cross-border M&A by Chinese firms, Anderson et al., (2015) also find no noticeable difference in the degree of autonomy provided by SOE and privately owned firms, implying converging post-M&A integration strategies.

#### 2.3.4 Conclusion

Chinese firms have increasingly resorted to cross-border M&A in the most recent wave of globalization since the beginning of the 21<sup>st</sup> century. By carrying out M&A in developed economies, Chinese firms strive to acquire strategic assets that help them to rise to global payers. Typically, such strategic assets represent a bundle of value-



creating resources including advanced technology, innovative processes, established brand names, etc. (Luo & Tung, 2007).

Short-term value creation results, as measured by cumulative abnormal returns in a given time window, are mixed. The determinants for short-term valuation of Chinese overseas M&A overlap with those carried out by developed economies, notably institutional and cultural distance and absorptive capacities, just to name a couple of examples. Beyond that, scholars are also interested in the extent to which the linkage to the governments would impact value creation. Again the results are mixed.

In light of the motive of strategic asset seeking, most Chinese acquirers have a long-term investment horizon, which set them apart from the universe of investors active in cross-border M&A. The implication for academic research is that it is much more important to understand how Chinese acquirers cope with post-M&A integration in the long run to create value.

Post-M&A integration has profound impact on value creation and performance (Haspeslagh & Jemison, 1991; Weber et al., 2012). It is crucial in determining synergy potential and the subsequent success of the marriage (Oberg & Tarba, 2013). Integrating acquired firms means acquiring different bundles of strategic resources and redeploying them post-M&A (Wei & Clegg, 2017). Chinese investors have recently shown strong preference for the so-called partnering approach during post-M&A integration. In essence, it is a phased integration approach (Quah & Young, 2005). More specifically, in phase one (usually year 0 – 2), the acquirer focuses on gaining the trust of the stakeholders of the acquired firm, minimizing drastic changes. Only in phase two (from year 2 onward), the acquirer enacts restructuring including replacement of senior management. Dong & Glaister (2009) give one possible

explanation that Chinese firms may be constrained by the nature of their resources, which may be both imitable and substitutable, so that they may tend to be more culturally responsive to their foreign partners.

Previous research has primarily focused on the impact of cross-border M&A on the short-term shareholder value of acquiring firms from developed countries (e.g. Faccio, et al., 2006; Schwert, 2000). Yet few look deeper into the companies' subsequent growth over an extended time period after acquisition and the roles of the acquirers and the acquirees play respectively in corporate governance and value creation.

There is so far limited research on how Chinese M&A activities overseas create value in the longer run. Conventional Western theories struggle with incorporating the long-term orientation of Chinese acquiring firms. The lack of reliable public information obscures the strategy and the growth patterns of the acquirers and the acquiree as a combined group after the completion of the deal. Consequently, the routes towards value creation have remained largely elusive. As a matter of fact, it is more a general than a China-specific issue in the academia. The process perspective on M&A by emerging economy firms is understudied (Liu & Deng, 2014), despite its importance for understanding the mechanism of value creation (Gomes et al., 2013).

To put it in a nutshell, current research on value creation strategy of emerging economy firms reveals the following gaps:

- Extant literature focuses on the motives of acquisition, whereas the growth patterns after the acquisition are understudied.
- Strategy and process: Theory on Chinese investors' approach is scarce, partly for

lack of public information, as Chinese acquirers are reluctant to disclose information related to post-M&A integration and many acquired German companies are privately owned.

- Longer-term shareholder value: The time horizon of investment effects is usually short-termed due to the nature of event studies. As Chinese investors typically have longer investment horizons, longer-term value creation (>2 years) should receive greater attention.
- Contrast between state-owned enterprises and privately owned companies as acquirers: Despite some existing analysis of how these two types of companies differ in investment motivations, there is insufficient knowledge about whether/how they differ in post-acquisition integration.

## 3 Empirical analysis of value creation strategy of Chinese M&A investors

### 3.1 Introduction

Compared to their Western counterparts, Chinese firms lag behind in internationalization. The early movers among Chinese firms were not entirely successful for lack of experience coupled with unfortunate mismanagement. However, this situation is changing. Huawei, for example, is frequently cheered as a role-model Chinese company that has successfully implemented an internationalization strategy in many parts of the world. Besides the big names, there are also many lesser-known companies playing an active role in the course of globalization. In the export arena, Germany and China are very similar in that small to medium-sized companies are responsible for these two countries' success. About 68 percent of Chinese exports are manufactured by firms with less than 2000 employees and approximately 70 percent of German exports come from *Mittelstand* (medium-sized) companies, providing their economies with a hidden champions export turbo (see *Figure 4*).

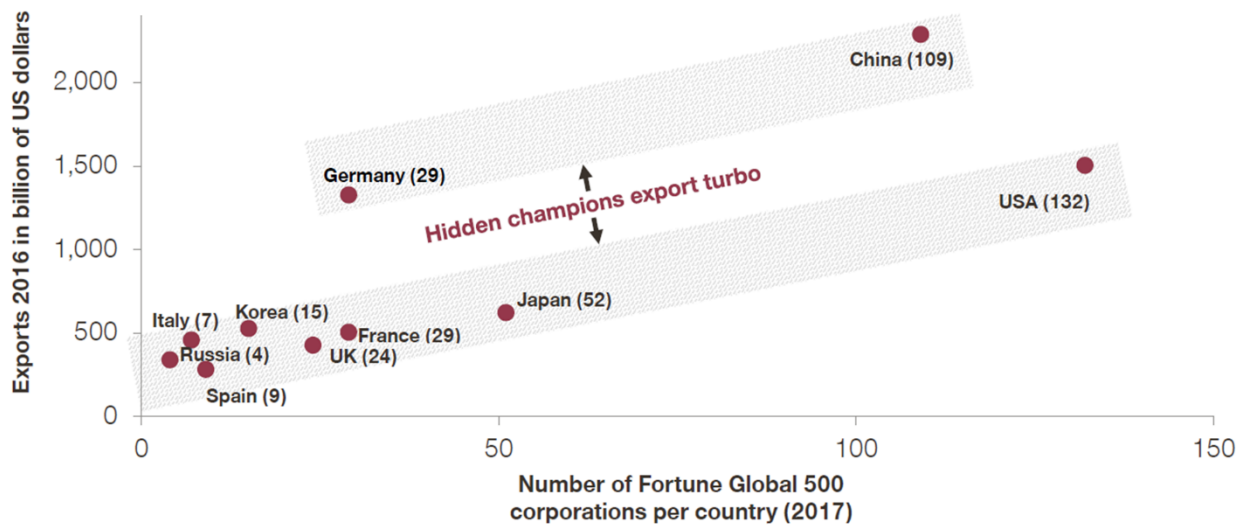


Figure 4: Export performance and number of Fortune Global 500 corporations

Source: <https://www.destatis.de>

With their strong focus on export and extremely high levels of expertise in specific areas, German companies have become attractive targets for Chinese firms looking for growth opportunities outside of their home country.

Cross-border M&A activities by Chinese firms gained steam following the introduction of the “Go Global” policy around the year 2000. However, in the early years, Chinese M&A were still a rarity in Germany. They first gained noticeable momentum around 2010, when both the number and size of M&A deals rose. Chinese firms benefited from the weak financial position of European firms, which sped up their penetration into Europe in the aftermath of the global financial crisis in 2008.

Among all European countries, Germany was the largest recipient of FDI from China in 2016. With 11 billion euros worth of completed deals, Germany accounted for 31 percent of total Chinese direct investment in Europe. The largest transactions

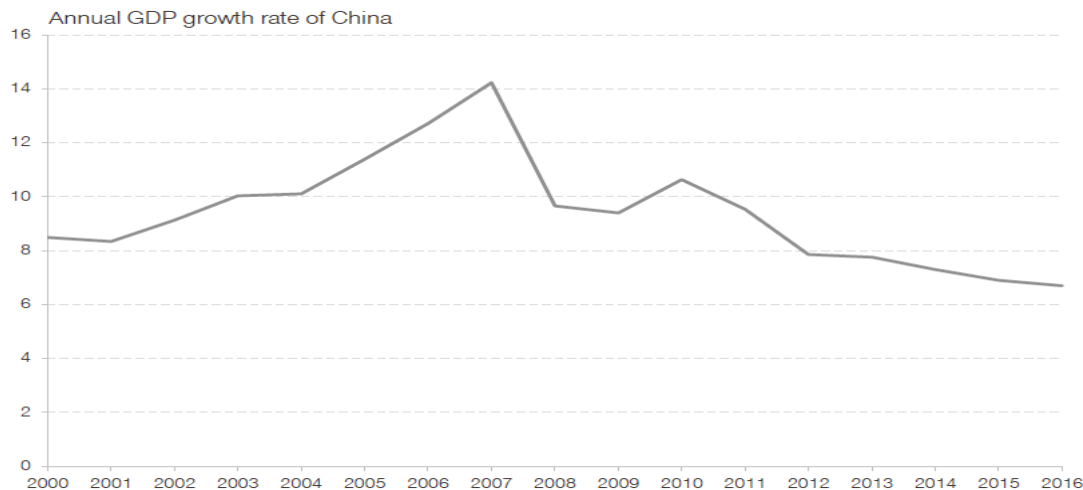
were Midea's acquisition of the robotics maker KUKA (4.5 billion euros); Beijing Enterprises' acquisition of the waste incineration and power generation company EEW Energy (1.4 billion euros); CIC's investment in the German property group BGP (one billion euros); and China National Chemical Corporation's acquisition of the industrial machinery manufacturer KraussMaffei Group (925 million euros). For the first time, annual Chinese FDI flows into Germany were greater than the other way around. This change in two-way FDI dynamics has led to major policy debates in Germany and Europe related to Chinese inbound investment.

The surge of investment in Germany coincided with the introduction of wide-ranging fiscal and monetary policies by Chinese authorities. In an attempt to keep GDP growth high amid the global financial crisis, the State Council of the People's Republic announced a four trillion yuan stimulus package on November 9, 2008. The size of the stimulus equated to 14 percent of China's GDP that year. Back then, China's budget deficit was so low that after the stimulus, China's debt amounted to a mere 20 percent of its GDP. Since then, the People's Bank of China (China's central bank) has embarked on an expansionary monetary policy, whose effect is still to be felt to date. In the first half of 2009 alone, bank credit increased by 7.3 trillion yuan, surpassing the original annual target. The financial market was flooded with liquidity. The cheap credit has been channeled into overseas investment because of diminishing investment opportunities domestically. The relatively high valuation on stock exchanges in mainland China further incentivized growth-eager Chinese firms to add foreign assets onto their balance sheets. Most recently, overseas investment has also been considered an effective hedge against the widely speculated depreciation of the yuan. Outward-looking policies kept China's growth engine running throughout the global financial crisis, while China recorded GDP growth of

10.6 percent as recently as 2010. However, China's economy has since slowed, most notably from 2013 onward (see *Figure 5*). Slower economic growth is becoming the new norm in China.

*Figure 5: Annual GDP growth rate of China (2000–2016)*

Source: World Bank



The International Monetary Fund's estimate for China's long-term growth rate is approximately six percent, as the Chinese economy shifts gradually toward consumption and services. Speculation abounds about the possibility of a hard landing, once the central government decides to withdraw liquidity. Even worse, China is losing its traditional advantage in low-cost manufacturing due to rocketing wage inflation, which has led to domestic production sites being relocated to Southeast Asian countries, such as Vietnam and Bangladesh. The low value-add manufacturing industries in China are in severe jeopardy. On a more positive note, the burgeoning middle class has amassed considerable purchasing power and developed a growing palate for high-quality goods, which are often taken as synonymous with imported products. In this context, cross-border M&A seem to be a sensible choice insofar as the acquired technology and know-how can be transferred back to China to satisfy the changing demand of customers and generate a competitive edge in the high-end market.

Since recent years, the spectrum of investment targets has spread to a wider range of industries, unlike the early years, when the primary focus of Chinese investment in Germany was manufacturing-related businesses (see *Table 7*).

Year	Auto	Bio- tech- nology	eCom- merce	Energy	IT/in- ternet	Con- sumer goods	Ma- chinery	Recy- cling	Hotels	Other
2014	11	0	0	4	0	1	8	4	2	6
2015	7	1	1	1	2	6	10	3	2	13
2016	6	4	1	4	4	2	15	2	0	14

*Table 7: Number of Chinese M&A per industry in Germany (2014–2016)*

*Source: Compilation by the author based on various public information*

Chinese overseas M&A were historically dominated by state-owned enterprises, yet recent years have seen an increasing number of deals led by privately owned companies. This trend is particularly pronounced in the M&A investment of Chinese firms in Germany. Both the number and the value of transactions completed by private-owned enterprises have grown dramatically over the last few years.

The increasing importance of privately owned enterprises in M&A activities in Germany is also underlined by their involvement in certain high-profile deals. Table 8 lists some of the most prominent M&A investments by Chinese firms in Germany. Remarkably, 6 out of 12 of the acquirers listed are privately owned.

Acquiree	Industry	Acquirer	Owner- ship of acqui- rer	Value (millions of euro)
KUKA AG (closed in early 2017)	Manufacturing	Midea Group	Private	4,500
EEW Energy from Waste GmbH	Energy	Beijing Enterprises Group	State-owned	1,411
Kraussmaffei Group GmbH	Manufacturing	SinoChem	State-owned	925
Aixtron SE (called off)	Science and technology	Fujian Grand Chip Investment Fund	State-owned	665
Nordic Yards	Manufacturing	Genting Hong Kong Limited	Private	221



TechniSat Automotive	Manufacturing	Ningbo Joyson Electronic	Private	209
Bilfinger SE Water Tech Unit	Manufacturing	Chengdu Tianxiang Environment	Private	90
Manz AG	Science and technology	Shanghai Electric (Group) Corp.	State-owned	-
Medisana AG	Life sciences	Xiamen Comfort Science and Technology (Group) Co.,	Private	-
Windmw GmbH	Energy	China Three Gorges Corporation	State-owned	-
Schimmel Pianofortefabrik	Consumer goods	Pearl River Piano Group Co., Ltd	State-owned	-
Crelux GmbH	Life sciences	Wuxi AppTec	Private	-

*Table 8: High profile Chinese M&A in Germany (2016)*

*Source: Compilation by the author based on various public information*

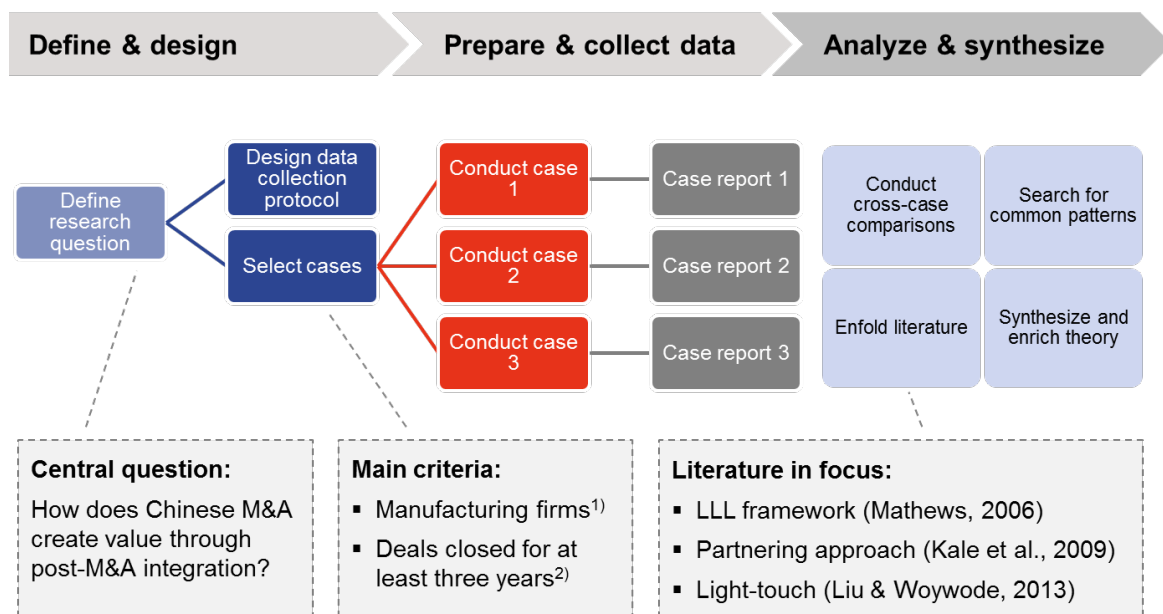
### 3.2 Methodology

I selected the case study approach as the main research method for the empirical analysis for the following reasons: Firstly, the history of Chinese M&A activities in Germany is short. The population is small, therefore the questionnaire survey approach is not feasible. Secondly, the research question dictates that the study be exploratory and non-hypothesis driven. As suggested by Birkinshaw et al. (2011), to understand the complexities of emergent and evolving phenomena, it is often inappropriate to apply large scale, cross-sectional studies or reductive methods in the absence of well-developed theory. Thirdly, a multiple case study approach gives opportunities for replication and comparison (Eisenhardt, 1989; Gao & Liu, 2012; Yin, 2014) and it can provide a much deeper and broader understanding than a large sample quantitative method (Eisenhardt & Graebner, 2007).

While strict generalizability is not possible in the statistical sense, case studies achieve transferability through thick description and the readers can make informed decisions about the applicability of the findings to their own situations (Walford, 2001). As Collinson & Rugman (2010) suggests, scholars and managers gain most

academic insights and best practices on management from a small, unrepresentative group of “exemplar” companies.

I structured the empirical analysis as laid out in Figure 6: **Structure of empirical study** Figure 6. The first two phases “Define & design” and “Prepare & collect data” are topics of this chapter, whereas I elaborate on the last phase “Analyze and synthesize” in the next chapter.



1) The majority of Chinese cross-border M&A occurs in the manufacturing industry (Athreye & Kapur, 2009; Sun et al., 2012); 2) A conventional time period to recognize strategic effects (Bruton et. al, 2003)

**Figure 6: Structure of empirical study**

*Source: Self-compiled by author*

The central research question is: “How does Chinese M&A create value through post-M&A integration?” I posit that there are four possible routes to value creation:

- Traditional post-merger integration: Combining and reorganizing the businesses of both parties in order to enhance efficiency and gain synergy. This usually includes integrating strategies, systems, organizational structures, human resources, and corporate cultures.
- Expansion in the local market: Expanding current business in the local market or

entering new market segments (categorized by product or geography)

- Expansion into overseas markets: Expanding the business to overseas markets by making extensive use of the market experience and local resources of the acquiree/target firm
- Innovation of business model: Changing the existing business model, exploring new business areas, and developing innovative products and pricing models

Multiple cases were studied to develop a better feel for variety as well as for what is general and what is not (Piekkari et al., 2009). However, I did not intend to claim generalizability of the findings for all Chinese M&A in Germany, or in developed economies in a broader sense. More extensive investigation through quantitative studies would be needed for a robust validation of the findings in order to establish their theoretical generalizability. Nevertheless, the multiple-case study approach does help develop a more complete picture (Yin, 2009), and in turn, build the foundation for further studies.

A longitudinal historical approach is needed to capture the ecological view of reality (Birkinshaw et al., 2011). The conventional time period to recognize strategic effects would be about three years according to Bruton et. al (2003). Therefore, I only considered M&A deals that had aged for at least three years for the case studies.

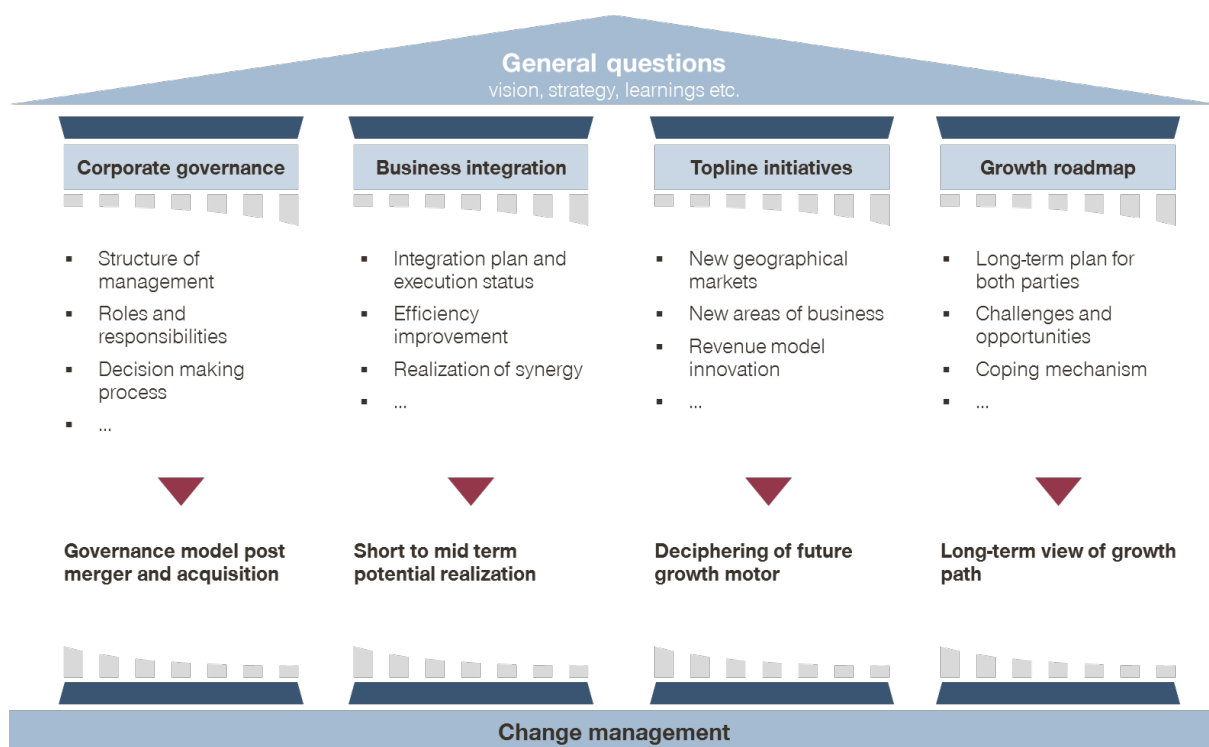
I held a series of interviews with key persons involved to understand the choice of value creation strategies and their subsequent growth patterns by asking them about the following topics:

- Corporate governance and management after integration
- The short to medium-term mode of business integration

▪ Long-term growth roadmaps and growth initiatives

In order to gain a holistic picture of the cases concerned and minimize cognitive biases, I interviewed stakeholders from both the acquirer and the acquiree in diverse functions, which include but are not limited to CEO, board members, managers, coordinators, representatives of the employees and people outside the organization who are familiar with these matters.

The interviews were semi-structured to give respondents the freedom to talk and offer their opinions and understanding of the topic, following the approach by Gao & Liu (2012). The structure of the questionnaire is shown below.



*Figure 7: Overview of case study questionnaire*

*Source: Self-compiled by author*

In line with established qualitative research protocols (e.g. Yin, 2014), I complemented interviews with observations and secondary sources such as public documents, media reports, corporate newsletters, company archives and company

websites. I conducted most interviews face to face or over the phone. Under circumstances, some respondents answered interview questions partly via email by preference. Although email interviews lack the spontaneity of face-to-face or telephone interviews, it offers flexibility to interviewees as they can choose the convenient time for them to send their responses and as a result, such a method can produce equally rich data (Burns, 2010).

Where applicable, I included descriptive data analyses, in addition to qualitative interviews, to investigate the financial and operational performance of the Chinese acquirer and German acquiree over time and to cross-check the findings of the interviews.

### 3.3 Case studies

As Chinese investment in Germany is a relatively new phenomenon, the candidate pool for case studies is small. Following the approach put forward in *Figure 6*, I identified seven potential cases which fulfilled the criteria. Despite repeated attempts, the management of four companies refused to participate in the study as well as to be named on various grounds. As a result, three cases were featured in the case studies. Some essential information about the acquirer and the acquiree is laid out below.

Target firm	Industry	Previous owner	Acquired		Acquirer's ownership <sup>1</sup>	Annual sales in m€	
			in ...	by ...		upon acquisition	FY 2016
	Industrial sewing machine	Schaeffler	2005		SOE	102	182
	Automotive electronics	DBAG	2011		Private	412	1176 <sup>2</sup>
	Fire-fighting equipment	Insolvency	2013		SOE	168	220

1) Majority shareholder at the moment of transaction  
2) Including sales through acquisitions

*Table 9: Overview of three case studies*

*Source: Self-compiled by author*

The three surviving case studies are representative of successful Chinese M&A in Germany in recent years and offer a useful platform to analyze the Chinese model of post-M&A integration, while caution is required when generalizing the results.

1 Case 1 – ShangGong Europe – The odyssey of a state-owned Chinese enterprise to the West

### Executive summary

*“Das gibt’s doch gar nicht” (In English: “That doesn’t even exist”)*

In 1994, a satirical conspiracy theory spread virally on the nascent internet that the city of Bielefeld doesn’t actually exist. This is arguably still the most well-known anecdote among the local Bielefelders. When Zheng Ying left metropolitan Shanghai and found herself in the rustic town in North Rhine-Westphalia more than a decade ago, she probably did not realize that it was just the beginning of a long journey for her and her employer, the SGSB Group, which had acquired Dürkopp Adler (DA) from

Fischers Aktien Gesellschaft (FAG) in 2005.

People familiar with the matter said it had been a bold move for SGSB. In fact, it was the first time that a Chinese firm had ever acquired a German public company and, strikingly, neither company was in particularly good shape. The SGSB Group was a newly minted company established at the end of 2004 out of a merger between two state-owned enterprises (SOE): ShangGong (a pinyin abbreviation for Shanghai Industrial Sewing Machine Company) and SMPIC (Shanghai Movie and Photo Industry Corporation). Zhang Min, who used to be the general manager of SMPIC, was appointed chairman and CEO of the merged company. It was not the kind of job that anyone would envy. Like many companies founded in the era of the planned economy, the SGSB Group was struggling against fierce competition from both ends of the market, i.e. low-cost local players and premium foreign brands. Its back was against the wall. Rumor had it that if the management team could not find a quick solution to turn the state-owned company around, SGSB was set to be downsized materially. The salvage turned out to be the acquisition of a foreign company thousands of miles away. As a matter of a fact, ShangGong had already been in discussion with DA even before SGSB had come into existence.

DA was a German medium-sized company looking back on over 100 years of history. The revered Dürkopp Adler brand had such a solid reputation in the industrial sewing machine sector as comparable to that of BMW or Mercedes in the automotive industry. However, the golden days were long gone by the turn of the twenty-first century, as the downstream market started to tumble. The core European markets were, at best, stagnating. To make things worse, premium brands had begun relocating production to low-cost regions in Asia, particularly China. High-end sewing

machine producers were no longer competitive and their very existence was in danger. Pessimists believed the European sewing machine sector was doomed.

When the acquisition took place, both parties in the transaction were ailing. Zhang, CEO of the SGSB Group, intentionally kept a low profile, referring to the acquisition as a matter of survival. Twelve years later, the SGSB Group has not only survived against all odds, business is thriving. Its market capitalization increased eight-fold from 2005 to 2017, while DA's market value grew by more than 10 times in the same period. The weak-weak situation was turned into a textbook win-win situation. However, it has been a tough turnaround, with plenty of ups and downs down the road, particularly in the aftermath of the 2008 global financial crisis, when DA almost went under – but together, SGSB and DA made it through.

After absorbing DA in 2005 and navigating the difficult waters of the crisis, SGSB resolved to acquire Pfaff and KSL in 2013, and Stoll in 2015, all well-known German companies in the sewing machinery sector. Within twelve years, the SGSB Group had become a global powerhouse in industrial sewing machines. Today, its customer base includes nearly every European luxury brand. It sews 90 percent of all the world's high-end car seats and provides Chinese aircraft manufacturers with 3D-sewing solutions for the composite parts. The company is now actively preparing for the future with the development of sewing robots and smart sewing units in line with the concept of Industry 4.0, among other innovations in its product pipeline.

## **Background**

Despite all the obvious differences between SGSB and DA, the two parties of the Sino-German partnership had at least one thing in common --- they were both the



product of their respective historical growth paths.

The SGSB Group's name originates from its two predecessors, ShangGong (Shanghai Industrial Sewing Machine Company) and SMPIC (Shanghai Movie and Photo Industry Corporation). "SG" stands for ShangGong and "SB" is the acronym of ShenBei, the approximate pronunciation of "SMPIC" in Chinese Pidgin English.

Both companies had had their glory days long before the deal took place. ShangGong was the first sewing machine company to be publicly listed in China. Its stocks started trading on the Shanghai Stocks Exchange in September 1993. Under its previous name, the Shanghai Industrial Sewing Machine Factory, the company laid the foundations of its first factory in October 1965. In August 1997, the company was renamed ShangGong Holding Co., Ltd. From the end of 2000, ShangGong's portfolio also included well-known sewing machine brands for household use, such as Butterfly, Flyman, and Bee.

In 2004, ownership of ShangGong was transferred from the light industry system to the Pudong New Area State-owned Assets Supervision and Administration Commission as part of a large program to restructure state-owned assets. SMPIC's assets were integrated into ShangGong, giving rise to the SGSB Group. Zhang, who used to work for SMPIC, was appointed chairman and CEO of the newly formed company.

SMPIC underwent restructuring and repositioning several times before being merged with ShangGong. The predecessor of SMPIC, Shanghai Copier Factory, made the first copier in China in 1964. The Shanghai Movie and Photo Industry Corporation was officially founded in 1973. Fourteen years later, the company was rebranded as

SMPIC. Today, this brand is mainly used for office equipment, which constitutes the bulk of SMPIC's current business. It was also one of the first SOE to form joint ventures with foreign multinational corporations. In the late 1980s, SMPIC and Xerox established Shanghai Xerox Co., Ltd to manufacture and market copiers. Today, under the umbrella of SGSB, SMPIC is engaged in trading office stationery, and electronic goods and equipment, in addition to manufacturing and marketing its own-brand office equipment.

At the turn of the twenty-first century, after 20 years of liberalization and reform in China, the SGSB Group, like many of its peer SOE, found itself suddenly surrounded by a large number of newcomers. Domestic sewing machine suppliers had sprung up like bamboo shoots after the rain. As these competitors were almost all private companies free from the payroll burden of SOE, they enjoyed a significant cost advantage and won over many price-sensitive customers. In addition, more and more foreign companies were entering China, devouring the higher end of the market. As a result, many SOE were forced to search for new directions and often had to downsize, costing huge numbers of employees their livings. Forced layoffs reached their peak toward the end of the twentieth century. It was a harsh time for many ordinary Chinese households as well as for state-owned businesses, and the SGSB Group was not immune to these adversities. Once the uncontested market leader in the sewing machine industry in China, ShangGong was pushed out of the top 10 in the early 2000s (see *Figure 8* for a brief history of the SGSB Group before it started Cross-border M&A in 2005).

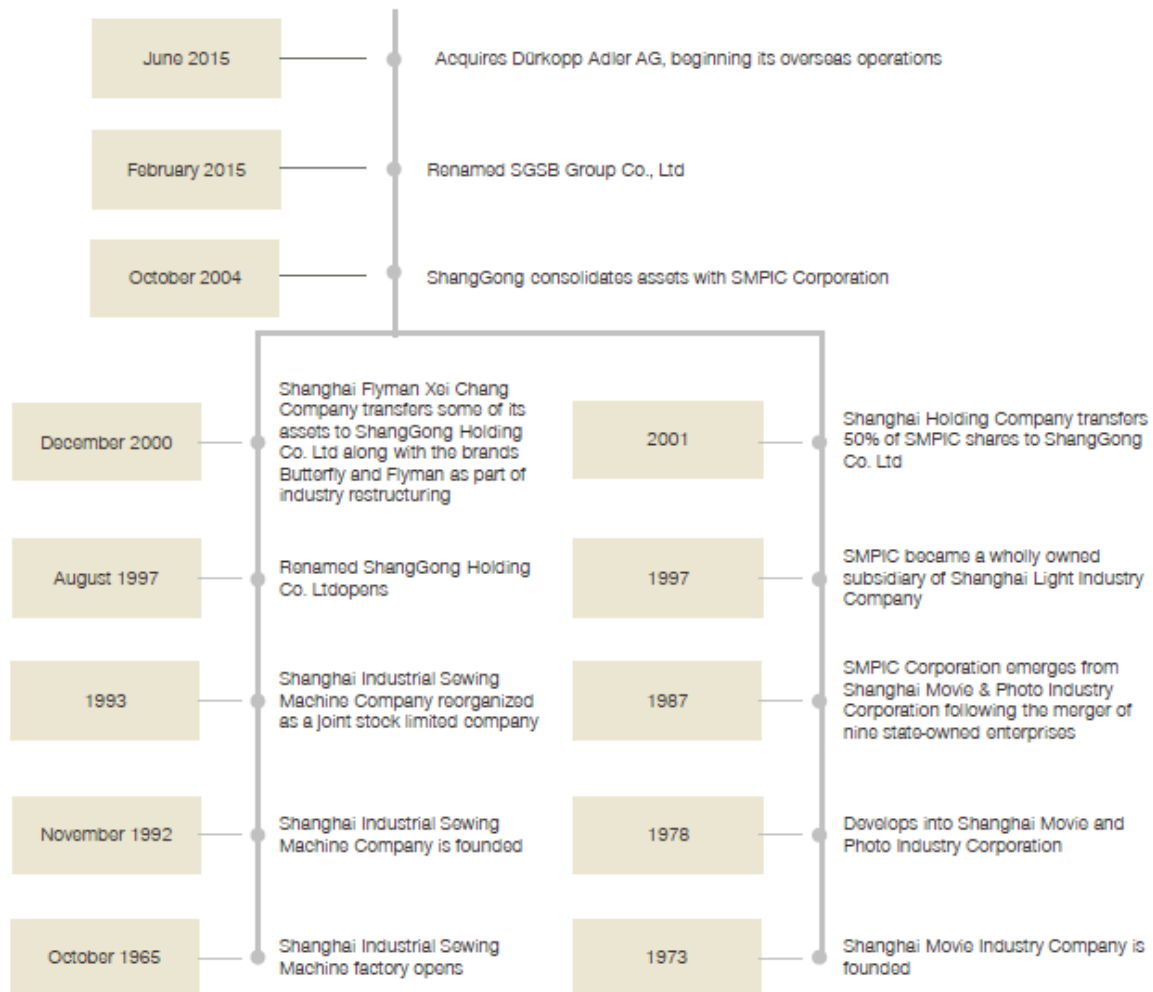


Figure 8: Milestones of the SGSB Group (1965–2005)

Source: SGSB Group

Like SGSB, Dürkopp Adler were originally two independent companies, both of which were founded at about the same time, over a hundred years ago, in the city of Bielefeld in Germany. In the mid-nineteenth century, the German sewing machine market was dominated by imports from the USA, which were not only expensive but also difficult to maintain. Two mechanics, Baer and Koch, realizing this might be a business opportunity, started to produce sewing machines at their factory in Bielefeld in 1860. This was the first sewing machine factory in the city.

In 1865, Koch hired two new mechanics, Dürkopp and Schmidt, when Baer left the company to pursue other business opportunities. Dürkopp had designed his first

sewing machine back in 1861. He and Schmidt founded Dürkopp & Schmidt in 1867, but the two founders also parted ways later on.

In the 1880s, competition from national and international suppliers grew fierce, while Germany's production capacity for sewing machines soared and almost equaled total worldwide demand at the time. The German sewing machine industry was facing a bleak outlook. Dürkopp & Co, as the company was called after Schmidt's departure, diversified into producing bicycles like some of its competitors did in Bielefeld. The bicycle manufacturing business took off. Inspired by the success of the diversification, Dürkopp & Co expanded into manufacturing cars and trucks. This endeavor was not particularly successful and Dürkopp had to cease vehicle production in the aftermath of the global economic crisis of the 1920s. Today, prototypes of Dürkopp bicycles and motor vehicles are on exhibit at DA's premises in Bielefeld.

In 1962, FAG Kugelfischer, an industrial conglomerate, whose core business was manufacturing bearings, acquired the majority of equity shares in Dürkoppwerke AG (formerly Dürkopp & Co). 25 years later, the acquirer also took over the majority of shares in Koch's Adler AG, paving the way for a merger of the long-lasting rivals. From 1990 onward, the two companies were based at the new facilities in the Oldentrup district of Bielefeld under the name Dürkopp Adler AG. Then in 2001, FAG itself was absorbed by INA-Schaeffler in a hostile takeover.

As one of the leading sewing machine manufacturers worldwide, DA had advanced technological know-how and its namesake brand was well recognized and trusted by a demanding clientele. Nevertheless, it missed the ship when the growth engine of the downstream industry shifted from Western countries to Asia. As a

consequence, sales dropped significantly year after year. DA made approximately 150 million euros in revenue with its core sewing machine business in 2001. Four years later, revenue had shrunk to around 100 million euros. DA's production sites were badly coordinated, synergy between its various plants was not tapped, and the company had more employees than work. Management issues and the deteriorating market situation caused DA to make losses for several years in a row.

Once the jewel in the crown, DA had become a headache for its holding company FAG (owned by Schaeffler since the early 2000s) and it was not enthusiastic about increasing investment in the business in order to revive it. After all, sewing machinery had little relevance for the industrial conglomerate's main business. Finding a buyer for DA seemed to be a logical choice for Schaeffler and it would probably benefit DA in the long run, provided that the new owner was willing to invest and develop the DA brand (see Figure 9: **Milestones of DA (1860–2005)** Figure

1860	H. Koch and K. Baer found Bielefeld's first sewing machine factory, later known as Koch & Co.
1867	Dürkopp & Schmidt sewing machine factory founded in Bielefeld
1885	Koch & Co begins manufacturing bicycles, 10 years before Dürkopp & Schmidt starts its own bicycle production
1913	Dürkopp & Schmidt reorganized as Dürkoppwerke AG; Koch & Co. reorganized as Koch's Adler Nähmaschinenwerke AG with Adler as its trademark
1962	FAG Kugelfischer becomes major shareholder of Dürkoppwerke
1971	Koch's Adler reorganized as Koch Adler AG
1986	FAG Kugelfischer becomes the largest shareholder of Koch Adler
1990	Dürkoppwerke merges with Koch Adler to become Dürkopp Adler AG
2001	FAG acquired by INA Schaeffler, which becomes the new owner of Dürkopp Adler AG
2005	Dürkopp Adler AG acquired by the SGSB Group

99 for a brief history of DA).

*Figure 9: Milestones of DA (1860–2005)*

*Source: Dürkopp Adler*

## Motivation and strategy

By the time Zhang joined SGSB from SMPIC, ShangGong had already signed a letter of intent with FAG to acquire DA and the term sheets had been largely determined. However, concerns remained. Would SGSB be able to carry forward the German operations with Chinese managers? Would the German employees be willing to cooperate with the Chinese shareholder? Was it going to be possible for SGSB to absorb the advanced technology and eventually integrate the German brand?

The ShangGong Group had been struggling for years in a row and it was clear that ShangGong did not stand a chance of defeating the horde of private sewing machine companies in a price war due to its unfavorable cost structure. Sales turnover had halved within few years as competition grew increasingly fierce. In the meantime, ShangGong lacked the technology necessary to emulate foreign players, leaving the company in a precarious situation. ShangGong's management was caught in a painful dilemma: either throw in the towel and exit the sewing machine business entirely, which would make massive layoffs unavoidable, or double down and acquire advanced technology and know-how it needed to step up the company's core competencies. The fastest way to realize the latter was through a merger or acquisition. Ni Yonggang, chairman of ShangGong, had no intention of giving up. He was thrilled and more than eager to strike the deal, when he learned about FAG's intention to liquidate all of its investment in DA.

In October 2002, ShangGong submitted an application to the China Securities Regulatory Commission to issue an additional 100 million B shares. The stated purpose of the fund-raising was to acquire DA jointly with another SOE, the Shanghai Tire Rubber Group, and develop special sewing machines based on DA's technology.

It took the regulator over a year to approve the application. Shortly thereafter, ShangGong's intended partner, Shanghai Tire Rubber Group, decided to drop out, leaving ShangGong as the sole buyer.

There were also different opinions from within the group about whether the acquisition of DA would be a blessing or a curse for SGSB. Would it make sense to spend tens of millions of euros on a loss-making company? Why would two ailing companies be better off together? Would not it be wiser to invest the money in some safer choices in China? After thorough research and evaluation of all options, Zhang decided to side with Ni's recommendation based on the belief that demand for clothing, bags, and similar products would not diminish in future. Consequently, there must be growth potential for upstream sewing equipment as it is difficult to replace with other applications. However, SGSB needed to change its *modus vivendi*. Doing nothing would be nothing less than a suspended death sentence. In order to survive and capture the growth potential, the company would have to overhaul its R&D capabilities and refocus on innovation and higher-end customers. However, he knew it would be difficult from the beginning: "It's like fighting a boxing match; there is always a risk, but as long as there is still a chance of winning, I have to go after it." (personal interview by author in Frankfurt on March 10, 2017). Zhang put his career at stake, when he tried to persuade the board and governmental officials to endorse the deal. When he was given the greenlight finally, he found the negotiations with the Germans had come to a standstill. The atmosphere at the negotiation table was tense. He had to step in and play a more active role to bring the talks back on track.

On the May 3, 2004, the efforts came to fruition. Representatives of ShangGong and FAG signed the letter of intent in the presence of German Chancellor Gerhard Schröder and Chinese Prime Minister Wen Jiabao during his state visit to Germany. It

then took several months to complete necessary paperwork. In the middle of 2005, after nearly three years, the deal was finally closed. FAG transferred 94.48 percent of DA shares to SGSB. The initial investment in the acquisition was approximately 37 million euros, of which 950 thousand euros was to acquire DA's shares and nine million euros was to pay back the loans made to DA by FAG's shareholders, with the remaining 27 million euros provided as a shareholder loan to be used as working capital. Unfortunately, the initiator of the groundbreaking acquisition, Ni Yonggang, former chairman of the ShangGong Group, passed away before the deal was closed.

Earlier that year, ShangGong had set up a holding platform in Germany, ShangGong (Europe) Holding Corporation GmbH. At the time, ShangGong Europe was, in essence, a shell company established for the sole purpose of acquiring DA. The arrangement was more secure for the seller FAG from a legal point of view as the actual acquiring entity was incorporated in Germany. For SGSB, this set-up was disadvantageous in terms of profit repatriation and tax optimization due to the added layer between the holding company and DA.

According to sources familiar with the matter, prior to the takeover, there was a vague plan at most about what to do with the combined business. Ni might have had a master plan in his head, but there were no written documents whatsoever. After signing the deal on October 29, 2014, Zhang put forward a business plan based on the market due diligence exercise that aimed to increase enterprise value through layoffs and by relocating production, but fundamentally, there was no strategic planning beyond that.

### **Integration and transformation**



According to Chinese tradition, twelve years constitute a cycle. SGSB spearheaded its overseas operations exactly twelve years ago with the acquisition of DA. When asked about the milestones during the last twelve years, Zhang named three important phases. The first three years were a warm-up phase for both parties to get acquainted with each other and build trust. Integration efforts centered on improving efficiency. At the end of the first phase, DA was confronted with immense top-line challenges amid the financial crisis in 2008. The company was on the verge of bankruptcy as liquidity was almost drained. Nevertheless, DA managed to escape the catastrophe thanks to financial aid from the Chinese holding company. In 2013, SGSB and DA entered a completely new era. Pfaff, a long-time competitor of DA, was bailed out of bankruptcy by ShangGong Europe and the two firms came under the same roof. Following that, SGSB then acquired another two innovative German companies in a very short period of time. Consequently, ShangGong Europe emerged as a holding company with greater operating responsibilities and a high-profile brand portfolio.

### **Phase 1 (2005–2008): The moment of truth – The Chinese came to town**

The transfer of ownership was now official. In the middle of 2005, the SGSB Group took over nearly 95 percent of DA's shares and thus became its majority shareholder. It was a seminal moment. For the first time, a Chinese state-owned enterprise had taken over a publicly traded German company. Expectation was high on both sides, as was the uncertainty about how – by joining together – the two companies would escape the downward spiral, create value for the shareholders, and provide job security to the employees in Bielefeld and elsewhere.

The burden to find an adequate solution fell upon the new owner SGSB. The

excitement about acquiring a well-known foreign company ebbed away quickly after the deal was closed. The SGSB Group now had to articulate its master plan and find its own solutions to the many challenges that were looming as integration progressed. There were practically no precedents to learn from, and no one within the state-owned organization had experience in dealing with, let alone managing, foreign subsidiaries. Although the Shanghai-based company used to work with foreign companies, such as Juki from Japan and Singer from the United States, it used to be limited to operational cooperation and was therefore the experience not particularly helpful in the case of DA.

SGSB's management was convinced from the outset that the potential synergy between SGSB and DA was significant. Nevertheless, tapping that synergy was a daunting task. Probably the most difficult part lay in figuring out how to bring across the expectations and vision of the Chinese shareholder to the German workforce. If they did not consider themselves part of the SGSB Group and failed to realize that their interests were closely tied to those of SGSB, the integration would be doomed to failure. One most dreaded scenario of the local employees was that the Chinese were only interested in DA's technology and brand, and that they would abandon the German operations, as soon as they achieved their goal, slashing jobs down the road. In the previous 10 years, layoffs had become sort of routine at DA under FAG Kugelfischer's ownership. The headquarters in Bielefeld used to employ 2,500 people at its peak. Just before the takeover, only about 450 people were working there and the company had been making losses for several consecutive years. Staff morale was predictably low, as the uncertainty with a new owner from the "Middle Kingdom" was just as large.

Immediately after the acquisition, DA employees were assured that Bielefeld would remain the center for marketing, R&D, and manufacturing of high-end equipment. In order to demystify SGSB's agenda, Zhang went to great lengths to communicate with the German team and reassure them that SGSB was committed to investing in DA and intended to take it to the next level. Not only did SGSB stand to benefit from the acquisition, DA would also have an unprecedented growth opportunity. To make sure that his message was fully understood, he even conducted one-on-one conversations with middle-level management. This was not something the CEO of an acquiring company would typically do following an acquisition. Looking back, Zhang believes that he was right and this approach helped stabilize the mood and instill confidence within the team.

In contrast to the SGSB Group, DA's staff had more experience in working with foreign colleagues. DA had been producing in the Czech Republic and Romania for several years, making the Bielefeld employees relatively open to new things, under circumstances, even a new employer. Zhang recalls that the German staff had a lot of ideas and their professional ethics were impeccable. As the Chinese managers acted with integrity and lived up to their word, it did not take long for the German staff to put aside their concerns about the company's intentions and embrace the common goal of driving both companies back onto a growth path.

However, there was still noticeable skepticism about SGSB's capability to lead the traditional German firm with over 100 years' history. This was justified to a certain extent, as the investor from Shanghai was not in a good shape and had no advantage whatsoever over DA. SGSB was clearly lagging behind, particularly in terms of technological know-how and brand equity. Aware of its own weaknesses,

the SGSB leadership was mindful to not micromanage the newly acquired German subsidiary. The incumbent management team at DA was largely retained, including CEO Werner Heer. The only representative SGSB sent to join the management board in Bielefeld was Ms. Zheng Ying. As chairman of the supervisory board, Zhang would meet Heer, head of the management board, on a regular basis to discuss DA's strategic direction. A lean management model was devised and implemented. At an operational level, Heer focused on the front-end and was in charge of production, R&D, sales and marketing, while his Chinese colleague Zheng was responsible for finance, personnel, and IT. In addition, Zheng served as the liaison officer between the SGSB Group and DA to make sure a smooth and timely exchange of information.

Once the managerial structure had been settled, the new DA management team wasted no time in taking a series of measures to overhaul the distressed company. Commercial policy was among the first to be tackled. Purchase orders with extensive account receivables were deprioritized or turned down at all and inventory was trimmed to free up liquidity. Production planning was streamlined too. In the past, all components had been made in Germany. DA's management reassessed the manufacturing value chain, reshuffling it to better realize economy of scale across factories. Following the changes, the site at Minerva Boskovice in the Czech Republic was primarily tasked with manufacturing medium- to heavy-duty machines, while the second European production site outside Germany, located in Sangeorgiu de Mures, Romania, was tasked with producing Dürkopp Adler-brand components and spare parts for automatic sewing machines, especially mechanical parts requiring labor-intensive work. The headquarters in Bielefeld would continue to focus on DA's overall market strategy, new product development, and the assembly of high-end sewing equipment.

SGSB instructed DA management to cut expenditure on administration, sales and marketing, literally everywhere possible, except for R&D. It was clear to Zhang that in order to revive DA and save SGSB, it was crucial to maintain a competitive edge on technology. Even in the most difficult of times, SGSB stuck unrelentingly to this principle. Dietrich Eickhoff, former spokesperson of the management board at DA and now managing director of ShangGong Europe, credits much of DA's success today to the Chinese owner's determination to continue investing in technology and people.

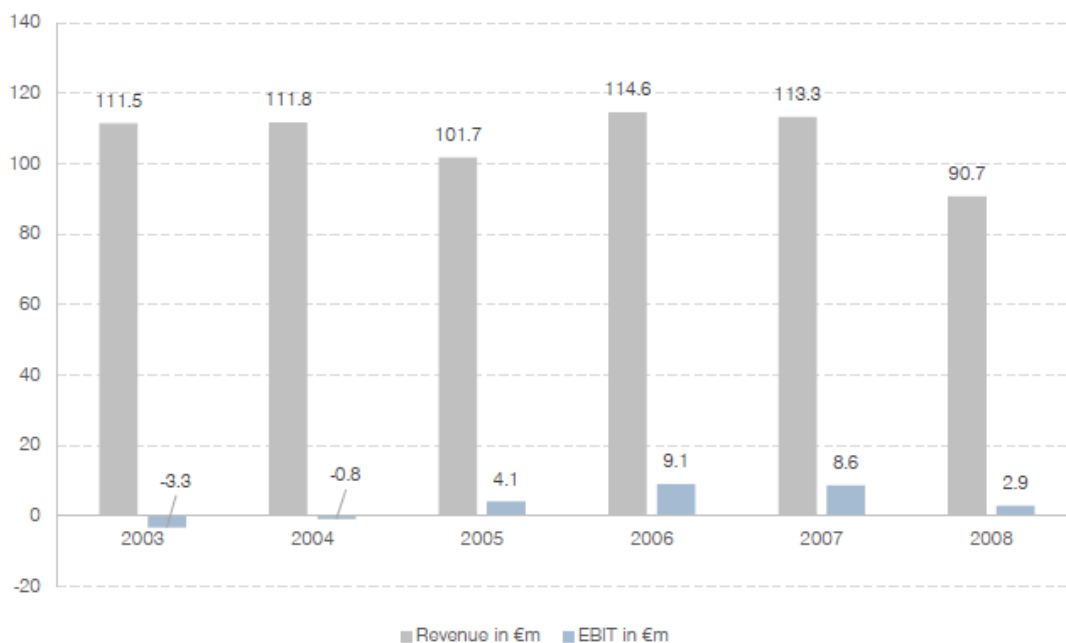
The first year after the acquisition ended just well. Although full-year revenue declined by nine percent in 2005 from the previous year, DA had returned to profitability. As a token of appreciation and celebration of this initial success, the Chinese shareholder distributed a special Christmas bonus of 300 euro for every employee in Germany, which was unheard of in DA's history. In response, the president of the works council sent a letter of thanks on behalf of the workforce.

In 2006, DA succeeded in growing its top-line again, generating 13 percent higher revenue. Also that year, DA started to get a foothold in China. In April, a joint sales company was established between SGSB (60 percent) and DA (40 percent) to market DA brands and serve local customers. In August, a manufacturing company was founded to take over part of the manufacture of DA's standard sewing machines at the Romanian factory.

Despite the successful start, the supervisory board decided to part ways with CEO Werner Heer by the end of the year, citing irreconcilable differences of opinions. He remained on the management board until the end of November 2006, while Alfred Wadle succeeded him as the spokesperson for the management board from

September 1, 2006. Wadle had been with DA in different functions for a long time. Among others, he used to head the Czech subsidiary of DA and belonged to the few persons at DA with rich experience in managing an international company with stakeholders of different cultural backgrounds. He was considered an ideal successor, more importantly, because he identified with the strategic direction of the Chinese shareholder. Soon after Wadle took office, he started to strengthen cooperation with China, including sourcing spare parts partially from China, among others.

Under Wadle's stewardship, DA performed satisfactorily, on par with 2006 in terms of revenue and profitability. However, weakening demand could already be sensed and portended a widespread economic downturn amid the global financial crisis. In the 2008 financial year, DA's revenue plunged by 20 percent, while operating profit dropped by more than 50 percent (see *Figure 10*).



*Figure 10: DA's revenue and EBIT (2003–2008)*

Source: ShangGong Europe

## Phase 2 (2009–2012): Live or die – DA rebounds in the aftermath of the global financial crisis

It was the best and the worst of times. Three years after the acquisition, the Chinese and the German teams had gradually found an effective way to work with each other, as the integration process continued. The company had a healthy product development pipeline and looked to new opportunities in China and other fast-growing countries with the support of the Chinese shareholder. It was at this point when the global financial crisis hit. The future of DA was put on a knife-edge. SGSB played a decisive role in saving the German hidden champion from its demise. Even in the very depths of the crisis, Zhang stressed time and again publicly that SGSB would not give up on Bielefeld.

When the subprime mortgage bubble burst in the United States in 2007, the crisis that followed had a ripple effect across many different parts of the world, leading to a global economic downturn. In the aftermath, continental Europe was caught in the middle of a severe sovereign debt crisis. If the year 2008 was bad for business, 2009 was catastrophic for DA and the entire industry. The main players in the sewing machine industry around the world, including the Japanese powerhouses, Juki and Brother, and the major Chinese sewing machine manufacturers, all suffered as sales fell by more than 40 percent on average.

*“Only when the tide goes out do you discover who's been swimming naked.” – Warren Buffet*

Commenting on that difficult period, Eickhoff noted that DA had missed out on the textile boom in China. With the Chinese investor on board, one would expect

acceleration of strategic deployment in China. Unfortunately, before any efforts could materialize, significant and continuous cost increases in China led to a massive migration of the garment industry to neighboring countries, which, in turn, triggered the closure of tens of thousands of Chinese factories. At DA, sales and marketing were not up to the same high standard as its technology. DA's sales in Southeast Asia, the fastest-growing area for sewing machines, had actually been declining for years.

In 2009, total sewing machines sales for DA fell by 43 percent to 51.8 million euros (or by 55 percent compared to before the crisis) and earnings before interest and tax (EBIT) plummeted to a loss of 18.4 million euros. Weighing the changes in the external environment and the challenges within the organization, Zhang made amends with Heer, the former CEO, who returned as spokesperson of the management board in May 2009. It was clear to Heer that it would take a series of emergency measures and a lot of good luck to get out of the crisis.

Within a short time frame, DA realized a cost reduction of 18.3 million euros, primarily by laying off 515 employees across the company. SGSB waived 12 million euros worth of shareholder loans, thereby narrowing down the capital deficit to 21.2 million euros. It was one of the turning points in DA's history. Although Zhang had gone on record several times to stress his commitment to Bielefeld, it was not until he provided this crucial financial aid that he definitively convinced the German employees of his sincerity. Thanks to SGSB's intervention, the former majority shareholder FAG Kugelfischer also agreed to forego a debt of 5.5 million euros. Unfortunately, all these measures were still not enough to prevent DA from having to sell its profitable subsidiary company Dürkopp Fördertechnik GmbH (a leading



provider of conveyer technology) to Knapp AG, an Austrian company, for 10 million euros.

The management of DA further announced that temporary staffing, which had permeated almost all functions since February 2009 (averaging as much as 40 percent of the workforce) was to continue until the crisis was over. Senior employees were urged to take early retirement. Material costs were further reduced by a wide margin in the second half of the year. In addition, the trouser sewing machine specialist, Beisler GmbH was relocated from Hösbach to Bielefeld. Getting out of crisis took more than cost cutting obviously. In exploring growth avenues, Heer made it clear that DA intended to expand the business in China and would increase investment in sales and marketing activities there.

To everyone's great relief, the situation started to turn for the better in the first quarter of 2010, which saw sales jump nearly 40 percent. Learning from the struggles of the previous couple of years, DA's management realized that the company needed to become more resilient and started to search for new growth drivers. One promising field was the industrial sector, selling machines to the automotive industry and producers of upholstery and technical textiles. DA, endowed with its technological capital, was well positioned to assume a leading spot in this sector.

Meanwhile, DA's parent company, the SGSB Group, was too undergoing a great deal of turmoil. As China was not immune to the global financial crisis, SGSB's sewing machine business there also suffered from a severe sales meltdown. Staff at all levels saw their salaries and benefits trimmed and a series of cost-saving measures was introduced. On March 24, 2010, partially under the influence of its then major shareholder, Pudong New Area State-owned Assets Supervision and

Administration Commission, the SGSB Group entered into a framework agreement on strategic cooperation with Zoje Sewing Machine Co. Ltd, one of the leading privately owned sewing machine companies in China.

Pertaining to the agreement, ShangGong Europe transferred 2.378 million shares, equivalent to 29 percent of its stake in DA, to Zoje Europe GmbH, a wholly owned subsidiary of Zoje, which became DA's second-largest shareholder. In this transaction, the total value of the shares was reckoned at 8.63 million euros, or 3.63 euros per share. Rumor had it that according to the original arrangement, Zoje was supposed to take over a larger share of DA at a later point of time, although SGSB would have remained the absolute major shareholder. In the end, the initial plan was not executed due to changes at both companies. Nevertheless, the paths of these two Chinese sewing machinery heavyweights crossed again several years later, when they competed for the acquisition of another German sewing machine manufacturer.

As the Chinese proverb goes, "a crisis is an opportunity riding the dangerous wind." Amid the financial crisis, demand from the automotive industry in Asia, particularly in China, remained resilient and was forecast to boom for the years to come. Betting that it would be the next blue ocean for industrial sewing, the SGSB Group spared no effort to support DA in its development of machines for automotive clients. The central pillar of DA's development endeavor was improving upon the M-type series, which was used as the basis for medium- to heavy-duty sewing machines, debuting as early as 2002. Since then, the M-type has become synonymous with top-quality industrial sewing equipment. With SGSB's backing, DA was able to continue to advance the M-type series at a time when the sewing machine industry as a whole was going through its most difficult period. Major improvement was made by

drastically reducing the number of parts used, which resulted in a considerable reduction in complexity-related costs. This change allowed customers to further optimize their assembly processes and significantly reduce lead time. The M-type turned out to be instrumental in pulling the company out of the crisis and securing key accounts from the automotive and upholstery industries.

Under Heer's stewardship, DA recovered and posted double-digit revenue growth back-to-back in 2010 and 2011, topping operative earnings before the crisis. Thanks to innovation and cost-saving measures, its EBIT margin improved by almost two percentage points to 9.5 percent in 2011. Despite the successful turnaround, Heer's second honeymoon with SGSB was too short-lived. He credited the recovery largely to the launch of new products, particularly the M-type series, which was very popular across the Atlantic in high-end medium- to heavy-duty segment. When setting the directions for the future, Heer insisted that DA should allocate more resources to this area, and eventually focus solely on this segment going forward. While acknowledging the relevance of the medium- to heavy-duty segment, the Chinese shareholder favored a more balanced approach, citing the untapped potential in the traditional clothing industry in less developed countries in particular. Based out of China, SGSB's leadership noted a clear trend toward automation and optimization of sewing processes in the clothing industry. This trend emerged in the wake of continuous wage increases, as China's demographic dividend was diminishing. SGSB and DA were presented with a precious window of opportunity to crack the Chinese market. As the market demanded higher-value products, DA with its technological know-how should be better poised to profit from the market transition than it was 10 years ago. After rounds of consultation, it was not possible to reconcile the divergent views within the management as to the best growth

strategy for DA. Consequently, Heer stepped down from the management board after two and half years' tenure.

In 2012, Dietrich Eickhoff, a DA veteran and a local Bielefelder, was appointed the new spokesperson of the management board. Eickhoff had started his career in the 1970s as a trainee at Dürkoppwerke, the predecessor of Dürkopp Adler. He had a strong sales and technical background, which was conducive to a customer-oriented growth strategy and further expansion in international markets, especially in China. As he had also been a member of the DA team that had conducted the initial negotiations with ShangGong back in 2004, he was already very familiar with the modus operandi of the SGSB leadership and had a common understanding with them. The continuity within the senior management team meant there was no need for a realignment on the strategic orientation of DA and SGSB. It was agreed that, in Bielefeld, DA would focus on high-end equipment, while SGSB in Shanghai would mainly serve the mass market with economy products.

2012 was a satisfying year, as sales grew by eight percent year on year. Its unique technological advantage enabled DA to continuously increase its profitability, unlike many of its competitors. Its operative profit margin in 2012 exceeded 15 percent for the first time in at least a decade. However, the picture behind this success was mixed: the core markets in Europe, which represented the lion's share of DA's revenue, remained challenging due to stagnant demand, while the emerging economies in Asia grew increasingly important as economic growth there continued. In China specifically, there were strong signs that the market was maturing as the labor costs rocketed and clothing manufacturers, among other industries, were gradually moving their production sites to lower-cost neighboring countries, such as

Vietnam and Bangladesh. Given that automated, higher-end machines were expected to be in demand in China, DA hoped to win new customers that were willing to pay for premium products.

### **Phase 3 (2013 – 2016): New horizons – DA steers toward the world leadership**

From 2013 onwards, SGSB went on the offensive again. In a short period of time, it acquired two firms and obtained a minority interest in a third. All of the firms were from Germany's *Mittelstand* (medium-sized companies) with advanced technology in their respective fields and sound reputations. ShangGong Europe, which for a long time had only consisted of DA as its sole investment, now set out to take on greater operative responsibility in steering its portfolio companies.

#### ***Pfaff Industriesysteme und Maschinen AG***

On March 28, 2013, a long-anticipated strategic move materialized. ShangGong (Europe) Holding Corp. GmbH, acquired 100 percent of Pfaff Industriesysteme und Maschinen AG in Kaiserslautern. Pfaff has had a turbulent history, full of ups and downs for over a century, as was recounted in a documentary film released in 2014. The renowned manufacturer, founded in 1862, used to be Europe's biggest sewing machine company. In the early days, Pfaff produced domestic sewing machines exclusively. It was not until 1908 that Pfaff brought the first industrial sewing machines to the market, making a distinction between domestic and industrial sewing machines for the first time in history. Pfaff Industrial quickly became a highly esteemed quality brand in the sewing trade. In 1960, the company went public on the Frankfurt Stock Exchange. In the 1980s, Pfaff suffered a serious downturn in its major customers from the shoe and clothes-making industries. Adverse market situation

coupled with a number of managerial mistakes heralded decades of turmoil ahead. Pfaff changed hands multiple times and even filed for bankruptcy twice, in 1999 and 2008 respectively. Nevertheless, Pfaff maintained its prominence in various sewing and welding technologies. It was particularly strong in automatic sewing units, medium-heavy duty sewing machines, and welding machines.

At the turn of the twenty-first century, the center of gravity of the global textile industry accelerated, drifting to Asia. Pfaff followed the trend, establishing a joint venture with its Chinese partner Zoje Sewing Machine Co. Ltd. Pfaff subsequently managed to open its own plant in Taicang, near Shanghai, and took over all the shares in the joint venture from Zoje. The 100 percent owned company was a main pillar of production and market strategy for the Pfaff Group and was deemed the future centerpiece of its China activities. In 2008, around 20,000 Pfaff industrial sewing machines and related controls and drives were manufactured at the Taicang plant.

In 2009, following a period of insolvency for Pfaff, Joachim Richter, the owner of a medium-sized German manufacturing company, was successful in his bid to take over the company. Although both the labor unions and local politicians had rooted for Richter, his restructuring plan did not pan out well. The company continued to lose market share and make losses. In August 2012, Richter conceded and handed over his entire stake in Pfaff to a trustee. By the end of 2012, Pfaff's total assets were worth 20 million euros, while the liabilities exceeded 26 million euros. The company was insolvent after making seven-digit losses for several years in a row.

SGSB was determined to acquire Pfaff this time and gained the upper hand over the other bidders, including Zoje. Although there had been a joint venture between

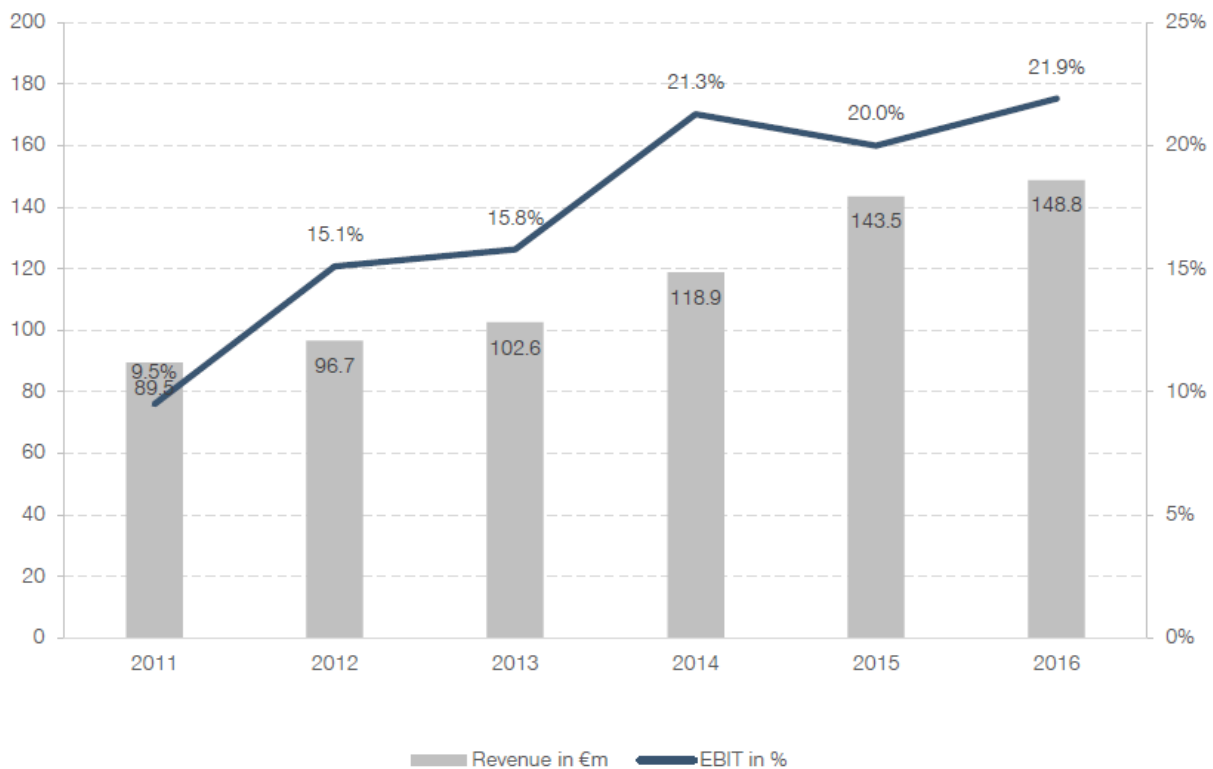
Zoje and Pfaff, and Zoje was even a minority shareholder in DA, it was SGSB's proven track record with DA that convinced all the stakeholders. Zhang, chairman and CEO of SGSB, personally led the deal negotiations, which was considered a key success factor in closing the deal. SGSB took over all equity in Pfaff for a symbolic one euro. In accordance with the acquisition agreement, SGSB injected 24.1 million euros, of which 4.8 million was paid-in capital, 11.5 million was shareholder debt, and 7.8 million was to expand operations in China and Southeast Asia. Following the defeat, Zoje sold the entirety of its shares in DA back to SGSB for 13.9 million euros in late 2014, reaping over 60 percent return on the investment.

Pfaff and DA, two German giants in industrial sewing machines, went back over 150 years in head-to-head competition. Upon completion of the transaction, the two archenemies joined forces under the umbrella of ShangGong Europe. Cornelia Mast, acting spokesperson of the management board at Pfaff remained in office after the acquisition and was responsible for finance, administration, and HR. In addition, SGSB appointed two other board members, Wang Qing, previously deputy general manager of ShangGong Europe, and Friedbert Schulz, a sales and marketing executive who worked for Pfaff from 1972 to 1999 before joining DA.

Through ShangGong Europe, SGSB indirectly set the strategic directions of the two subsidiary companies, although they operated independently. Nevertheless, it was clear to all stakeholders that Pfaff's business activities had to be coordinated with those of DA and SGSB, otherwise it would not be possible to bring Pfaff back to profitability.

The synergy between the two companies became already evident in 2014, only one year after the deal was closed. Pfaff turned a profit again – the first time in

twelve years – and DA continually improved both its top and bottom lines. Sales jumped 15 percent in 2014, while operating margin rose by an impressive five percentage points. This strong growth trend and healthy margin has been maintained to date.



*Figure 11: DA's sales and operating margin (2011–2016)*

*Source: ShangGong Europe*

The success achieved in this short timeframe was the product of a plethora of optimization measures. There was low-hanging fruit, as the long-time competitors could finally stop underbidding each other on tenders. This had a sizable impact on both their top and bottom lines. On the production side, similar to the changes implemented at DA previously, the manufacturing division was optimized and some processes were outsourced to locations abroad, such as in the Czech Republic and China, making use of comparable cost advantages. Further potential was seized in



R&D, procurement, and particularly in sales and marketing activities.

In an interview with IG Metall on June 9, 2016, the deputy chairman of the works council at Pfaff, Wolfgang Biffar, commented on the takeover: “I see it as overwhelmingly positive.” He praised the reliability of the new owner despite all cultural differences: “Commitments have always been respected. For two years, there has been a steady increase in jobs in Kaiserslautern. Now we have 218 employees,” he said.

### *KSL Keilmann Group*

On July 31, 2013, just a few months after acquiring Pfaff, SGSB bought all shares in the family-run business KSL Keilmann Group from its sole owner Robert Keilmann for 18.5 million euros. At the time of the transaction, the KSL Keilmann Group employed about 100 people and had distribution partners around the world. The group consisted of three companies: KSL Keilmann Sondermaschinenbau GmbH (KSL), a producer of special machines for processing all types of technical textiles, including fiber composites; KSA GmbH & Co. KG (KSA), a producer of sewing technology with a focus on mattress manufacturing; and KSE GmbH, which acted solely as a sales organization for KSL, particularly in overseas markets, such as Asia and North America. Werner Keilmann, Robert Keilmann’s father, founded the group in 1964 in Lorsch, 60 kilometers south of Frankfurt am Main.

KSL, the most valuable of all three Keilmann sibling companies, offered a wide range of products, including CNC machines, multi-needle sewing machines, robotic systems, gluing and welding units, and automatic production lines. Its innovative 3D robot sewing units were unparalleled technologically and could be programmed to

perform complex sewing and welding jobs (see *Figure 12* for impression of KSL's robot sewing unit). It found its customer base in new segments with great growth potential, such as aerospace, automotive, and environmental protection industries.



*Figure 12: KSL Basic 3D-Robot Sewing Unit KL 500*

*Source: ShangGong Europe*

In order to better exploit the synergy, KSL was merged into Pfaff in March 2015, while keeping the KSL brand alive. The production sites in Lorsch and Kaiserslautern remained in operation after the merger, while the production of mattress systems was relocated from the site in Altenburg to Kaiserslautern. High-tech equipment and customized machines continued to be developed, designed, and made in Lorsch under the KSL label. The new Pfaff was led by an experienced management board consisting of Cornelia Mast, Robert Keilmann, and Chen Yongwu. Chen used to work for Zoje, Pfaff's former joint venture partner. Thanks to the experience gained from

DA, the integration of Pfaff and KSL went smoothly. By the end of 2016, the financial results of both companies had improved remarkably.

SGSB's shopping spree continued in 2016, when Zhang had been widely recognized as a successful investor in the sewing industry. This time, however, SGSB decided to look beyond sewing machines. In mid-January 2016, after months of negotiation, ShangGong Europe acquired 26 percent equity in H. Stoll AG und Co. KG in Reutlingen for 28.5 million euros, becoming the single largest shareholder. The remainder of the shares were scattered among the 12 members of the founding family.

The family-run company boasted a long history, just like DA and Pfaff. Founded in 1873, it was one of the largest and most innovative manufacturers of automatic flat knitting machines in the world. Under pressure from the ever increasing competition in the global sewing and knitting equipment market, the shareholders began actively looking for potential investors five years ago. SGSB fitted the bill as the perfect investor, as it had been in the textile-related business for a long time, it had the capital much needed for future investment, and more importantly, had a proven track record of working with German hidden champions in a responsible and sustainable way. The acquisition of a minority stake in Stoll brought about a reshuffling within the management structure of SGSB's European operations.

On March 15, 2016, Mast, a former executive at Pfaff, moved to Stoll as the new CFO after fulfilling her mission to integrate the once insolvent Pfaff into ShangGong Europe. Robert Keilmann resigned as spokesperson of Pfaff's management board on August 31, 2016 for personal reasons. He was succeeded by Alfred Wadle, a returnee to Pfaff, who had served as the second CEO of DA after SGSB's takeover. From then

on, the Pfaff management board consisted of Alfred Wadle and Chen Yongwu.

With a series of acquisitions in Germany, SGSB was stronger than ever and well prepared for the next big goal: world leadership of the sewing machine business. At the time of writing, two Japanese firms occupy the top two spots in the industry in terms of revenue, Juki and Brothers. SGSB is not far behind Brothers in revenue and it is already market leader profit-wise.

### Growth initiatives

DA has been transformed from the troubled child of a large conglomerate family to the poster child of SGSB's overseas operations. Under the umbrella of SGSB, DA has not only maintained its innovation capabilities, it also has caught up on production efficiency and the exploitation of new markets. Over the years, DA has grown revenue sustainably while improving its profit margins. Its stock price has risen from 2.3 euros twelve years ago to near 36 euros in 2016, and it has continued its growth momentum in 2017 (see *Figure 13*).



*Figure 13: DA share price development (2005–2017)*

*Source: Dürkopp Adler*

Joined by Pfaff, KSL, and Stoll in the brand portfolio, DA was well prepared to conquer the next frontier. It was also time to part ways with ShangGong Europe. The latter had been established to serve as an investment vehicle for SGSB in Europe. For a long time, DA was the only business administered by ShangGong Europe, both of which were essentially led by the same management team.

Zhang, chairman and CEO of SGSB, envisioned something bigger for ShangGong Europe, namely, that it should become the driving force behind SGSB's sewing machine business worldwide, coordinating and steering brand strategy, marketing, sales, procurement, production, and R&D.

To institutionalize the transformation, Eickhoff was invited to resign as the spokesperson of DA's management board in March 2016 so as to concentrate on ShangGong Europe's future operations. His position at DA was assumed by Michael Kilian, who was previously in charge of quality and developing control technology. To ensure the continuity of DA's strategic orientation, Eickhoff stayed with DA as a member of the supervisory board. In the meantime, Zheng Ying, the long-term chief representative of the major shareholder, kept her dual executive responsibilities at both DA and the holding company.

The management team of the new ShangGong Europe had one clear mandate: profitable growth. ShangGong now aims to become number one in the world for textile manufacturing technologies within the next five years. In addition to striving for growth, it should also achieve better margins than the competition. ShangGong is

already very close to the Japanese firm Brothers, which currently holds the number two spot globally, while the world champion, Juki, has about three times ShangGong's revenue.

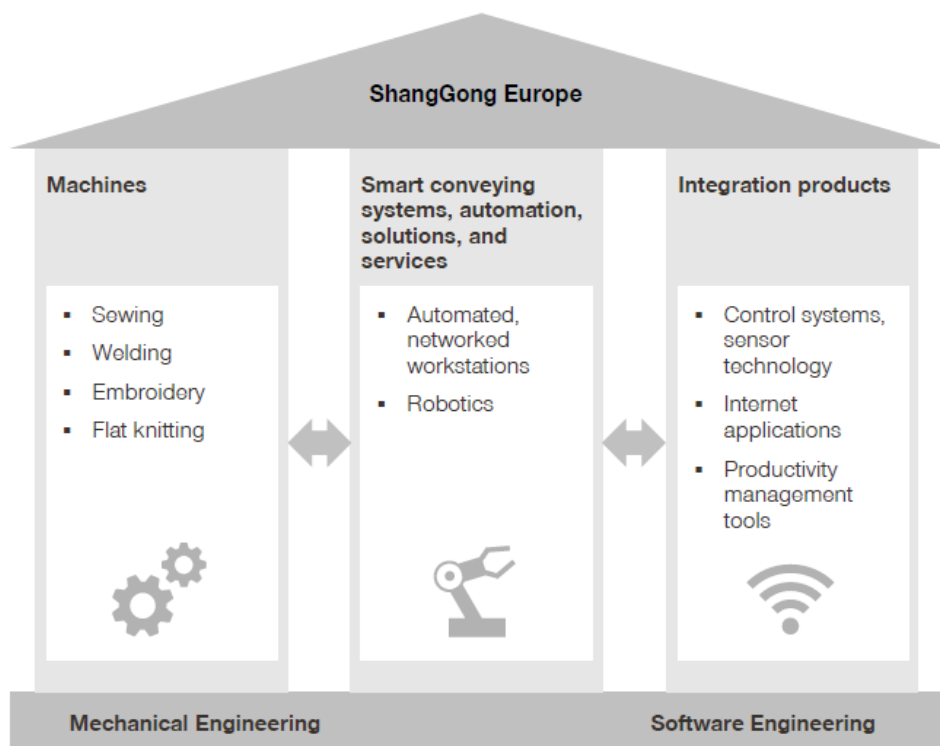
A ShangGong Europe growth strategy for the next five years was articulated in a strategy document created in September 2016. The success of the growth strategy rests on three pillars: continuous innovation; market penetration in Asia, especially in China; and further M&A followed by brand integration and coordination.

### *Continuous innovation*

SGSB leadership had always attached great importance to R&D and supported innovation in words and actions. DA, and latterly Pfaff and KSL, have been able to rely on financial aid from their major shareholder, allowing them to continuously invest in new product development and earning them various awards for innovations as a result. For example, DA was honored with a Texprocess Innovation Award in 2013 for developing a new automatic sleeve setting sewing machine and PFAFF Industrial received the same award for its "Smart Seaming Sewing Control 2.0". Also that year, KSL developed the world's first robotic sewing units for aviation and wind energy applications.

Thanks to its firm grasp of market trends and the strategic directions of the Chinese shareholder, DA had a head start in advancing its product portfolio. When other companies were competing over stand-alone machines, i.e. one machine operated by one person, DA had already begun developing special automated machines pre-programmed with every single step in the production process, improving efficiency and accuracy significantly. In addition to whole products, DA

also actively promoted the development of new electronic control units and pioneered machine-to-machine (M2M) systems, pioneering the application of Industry 4.0 to keep abreast of ever-changing customer needs. With the integration of KSL, SGSB will be able to make progress in cutting-edge technologies, such as robotic cutting, composed connection, and carbon fiber sewing. The future product portfolio at ShangGong Europe will not only focus on mechanical engineering but also increasingly on software engineering with the advancement of Industry 4.0 technology. In short, the innovation efforts at ShangGong Europe will focus on three areas: machines, smart manufacturing/automation, and value-adding services based on big data (see *Figure 14*).

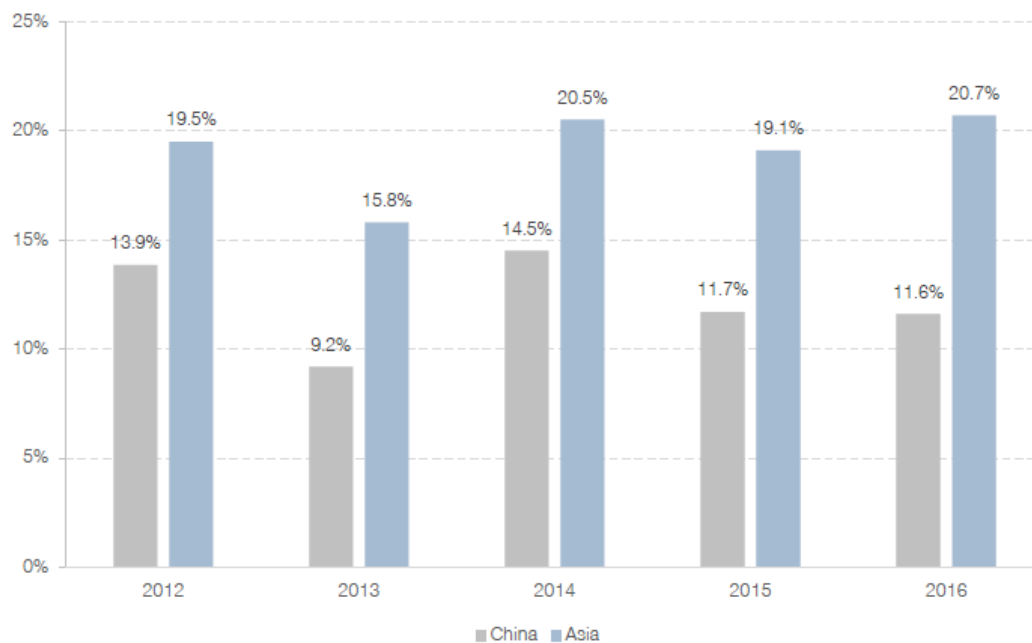


*Figure 14: ShangGong Europe's future product range*

Source: ShangGong Europe

### Market penetration in Asia

The second pillar of the growth strategy is expansion into new Asian markets. Eickhoff reflected on DA's global strategy and the development of the global sewing machine market: "The market trend changed 10 years ago to our detriment. It is now changing again, and this time to our advantage." He was referring to the fact that due to the upgrade of manufacturing in China and elsewhere, there is an increased need for sewing machines with a higher degree of automation, a strong suit of DA. Nevertheless, DA learned a hard lesson that it will not work to simply copy European technology and make stripped-down versions of it. The last few years have not seen a major uplift in orders from China or the rest of Asia (see *Figure 155*).





*Figure 15: DA's revenue share in China and Asia*

*Source: ShangGong Europe*

There are many reasons why a European sewing machine company would fail in China. To start with, customer needs are different in the European and Chinese markets, and European manufacturers often underestimate the magnitude of these differences. In DA's case, it is used to European customers that typically produce high-value items in high volume, and relatively speaking, are less concerned with lead time. In contrast, the large Chinese manufacturers usually are contractors making clothing for multiple brands and need to change style sets frequently, sometimes up to three times a day. They expect a solution from the sewing machine provider to ensure quick turnaround of application engineering. In addition, the raw materials required, such as textiles and threads, can vary widely depending on the specific region, therefore flexible configuration is quintessential for the machines. In order to be successful in the China market, SGSB's German brands have to be more agile and more responsive to market requirements. The localization of R&D and application engineering will be mandatory. For the last few years, China has mainly served as a procurement and production center for ShangGong Europe. Going forward, cooperation on new product development will have to be strengthened in order for the company to be competitive in China. The economy segment is still the largest segment in the country with approximately 1.5 million units sold in 2016, but it is a highly competitive market. Juki, the leading Japanese brand used to have 50 percent of the market back in 2000. Its share has halved since then and Chinese players now dominate. SGSB's local brand SG Gemsy has about a 10 percent market share, while four or five leading Chinese sewing machine companies control about a 60 percent market share collectively. As the German brands are associated with high-end,

expensive products, management is considering exploring market opportunities in the mid-range segment with a new product line with fewer features and more competitive prices. Such products will also be more suitable for the other emerging markets in Asia. Plans include introducing *Pfaff Industrial Traditional*, a sub-brand of Pfaff to cater to this segment. The sub-brand's products will be produced entirely in China.

There are other promising signs on the horizon. The newest subsidiary company, KSL, has already secured small-scale but highly profitable business with its first customers for sewing robots in China through SGSB's local network that includes Hongdu Air, COMAC, Hafei, and Beijing Aerospace Institute, just to name a few.

ShangGong Europe is charged with spearheading growth in international markets. The focus in the years to come is on expanding its sales and marketing reach in Southeast Asia. New sales subsidiaries are planned in India and Bangladesh to be in the vicinity of the rapidly growing opportunities in the region, as the industrial sewing machine market in China is currently in flux with production sites being relocated to lower-cost countries. In these countries, lower-end commodity-type machines prevail, exactly where China was a couple of decades ago. If ShangGong Europe succeeds in scaling up business over there, the SGSB group will be able to better utilize its production capacity in China while maintaining a healthy margin. However, challenges lie in finding the right channel mix, and above all, the right brand mix.

### ***Brand integration and coordination***

Through a series of acquisitions, SGSB has built up a rich brand portfolio (see *Figure 16*). Besides the well-known names Dürkopp Adler, Pfaff Industrial, and KSL, SGSB owns two niche German brands. One is Beisler, specializing in premium sewing automation solutions for men's trousers; the other is Mauser, a traditional brand for sewing machines with a variety of applications. On its home turf in China, SBSG has SG Gemsy, making industrial sewing machines and providing automation solutions for a wide range of applications. As SGSB and ShangGong Europe expand further, the brand portfolio is expected to grow even larger.



*Figure 16: SGSB's major industrial sewing machine brands*

*Source: SGSB Group*

Since the acquisition of Pfaff and KSL, integration has focused on the housekeeping side, i.e. procurement, production, and product development. In order to unlock various brands' potential, the topic of front-end synergy still has to be properly addressed. This means the brands need to act in concert in sales and marketing, with clearly defined segments and value propositions for each brand. Internal discussions about synergies have been conducted between group headquarters and all subsidiary companies. High-level brand segmentation has been documented in the five-year growth strategy plan put forward in 2016. Fundamentally, the objective is to minimize overlap and assign the brands to specific customer

segments where they can sustain relative competitive edges. In the meantime, the brands will be grouped into premium and commodity clusters, each of which will have shared sales and marketing functions. In the next few years, it will remain a challenging task for ShangGong Europe and the SGSB Group to articulate and operationalize the brand strategy, especially when it comes to new products and/or regions. ShangGong Europe will play a pivotal role in integrating the brands. It will be more hands-on with the sales and marketing functions of all brands in addition to production and R&D. ShangGong Europe will also coordinate the go-to-market strategy for new sales regions.

When asked about his personal vision for SGSB, Zhang said that SGSB would concentrate on a number of areas in particular:

- **Sewing technology for new materials, above all carbon fiber:** This material has broad applications due to its strength, rigidity, and light weight.
- **Automated joining or cutting equipment:** In Zhang's view, sewing is basically about joining two materials together. Therefore, knitting, welding, gluing, and fiber placement are all closely related to sewing, while cutting is an area to be explored, being the flip side of joining. Both joining and cutting have great potential, as they can be applied to a broad range of areas for the same type of customers.
- **New and emerging industries, such as aerospace and the defense industry:** In the next decade, the aircraft industry is expected to boom in China, stimulating demand for new downstream applications.

SGSB is keen to gain a foothold in new business areas. However, this goal hides Zhang's greater ambition. "The size of the global industrial sewing machine market is

limited. There is a ceiling for growth in sight for SGSB. We need to look further afield and find a new business area that can take SGSB to the next level.” This attitude gives hints why SGSB has come so far in only twelve years, from a time when the company faced bankruptcy and risked being torn apart.

### **Closing remarks**

Thanks to DA’s stellar performance, SGSB and Zhang have been in the spotlight for a while. SGSB is a trailblazer and a role model in the recent history of Chinese M&A in Germany. What makes SGSB stand out is its commitment to its German subsidiary companies. It has been proven time and again over the last twelve years that the combination of a German company with a Chinese investor works.

*“A serial investor or industrial entrepreneur?”*

Zhang has frequently been championed by the media as a successful serial investor. He himself preferred to identify with an industrial entrepreneur with great vision. Investors inject capital, entrepreneurs instill a common vision. I had the opportunity to ask him personally in a meeting in Shanghai in September 2017 what I feel is the most pertinent question: How was DA able to make such a turnaround with a Chinese owner when the German owner failed?

*“A clear strategy based on astutely judging market trends and building mutual trust with the management”*

According to Zhang, DA was a hidden gem. Its technology was world-class, as ShangGong was lagging at least thirty years behind. DA was very much a technologically driven company, like many German companies still are. However, it

overslept as the global textile industry drifted to the East. SGSB valued DA's technology and developed it further, while also transforming DA into a more market-driven company and implementing efficiency-enhancing measures. Shareholder value increased mainly due to the integration being so carefully managed.

*"Even Mr. Zhang's verbal promises are always kept."*

– Dietrich Eickhoff, managing director of ShangGong Europe (personal interview by author in Frankfurt on May 2017)

Actions speak louder than words. In the beginning, the employees were skeptical about the Chinese. However, over time, the Chinese owner won not only their trust but also their respect, particularly after the 2008–2009 financial crisis. DA used to be a tiny piece of the FAG/Schaeffler industrial conglomerate with shareholders that did not care about its future. It is a completely different story with SGSB. DA is highly valued and plays a vital role in leading the growth of the SGSB Group as a whole.

Being a traditional state-owned enterprise, SGSB has emerged as an internationalized group with 15 out of its 30 subsidiaries located abroad. Half of the 4600-strong workforce are non-Chinese. ShangGong Europe generates about 70 percent of SGSB's sewing machine business today and growing. Soon it should be probably be renamed "ShangGong Overseas", as its operations extend to markets beyond Europe.

At the Texprocess 2017 in Frankfurt, DA again won the prestigious Innovation Award with its newly developed Qondac 4.0 network solution, which enables real-time production optimization, supports individualization, and reduces cost by remotely

maintaining networks of up to 1,500 sewing machines.

2017 heralded the next stage of development for SGSB. At the time of writing, the SGSB Group has completed an initial program of corporate restructuring as part of a reform pilot project initiated by governmental authorities. At the end of the restructuring period, the agency dilemma will be largely dissolved and the leadership will have greater responsibility and will be more able to fuel future growth. Twelve years ago, SGSB headed for the West. Now it is turning back toward the East for its next twelve-year cycle of Odyssey.

### 3.3.2 Case 2 – Joyson Electronics/Preh – Be part of something big

#### **Executive summary**

Like many privately owned companies in the Yangtze River Delta, Joyson Electronics came from humble beginnings just little over a decade ago. It began its adventure overseas in 2011 by acquiring the German firm Preh GmbH, a bold move which was described as “snake swallowing elephant”. In the following years, the additions of QUIN GmbH, IMA automation, TechniSat Digital GmbH’s automotive division and Key Safety Systems Inc. (a U.S.-based firm), enriched Joyson Electronics’ upstream and downstream industrial chains and expanded its business boundaries. Back in 2006, two years after its inception, Joyson Electronics only generated 20 million yuan in revenue. The next ten years saw explosive growth, as its revenue in 2016 had risen to 18.6 billion yuan (or 23.9 billion yuan if the full-year revenues of KSS and TechniSat were consolidated), almost one thousand times higher. Some may attribute all this to good fortune. While luck played its part, what were the other factors that lay behind this success story? How did cross-border M&A help regenerate Joyson Electronics?

In the wake of the Reform and Opening-up Policy of the 1980s, large numbers of family-owned companies came into existence, remarkably concentrated in the provinces such as Zhejiang and Jiangsu on China’s east coast. After the first few years of rapid development, the economic downturn hit these privately-owned enterprises especially hard. Wang Jianfeng, who also goes by Jeff Wang, came from such a family that had founded a company before the downturn. When he took over his family’s business, Ningbo Yongxing Vehicle Accessories, in 1993, it was undergoing grave financial difficulties. To get out of the adverse situation, Wang expanded the business to interior accessories from its origins producing fasteners for cars. In 1999, the company turned around and generated revenue



of several million yuan. In the same year, the US automotive supplier powerhouse TRW Automotive began gearing up its fastener business after five years of exploration on its own in the Chinese market and was looking for an appropriate Chinese partner to set up a joint venture with. Wang sold the majority of shares in his firm to TRW Automotive, which then formed TRW Ningbo Components & Fastening Systems Co., Ltd. Wang became general manager at the new company and later assumed the role of general manager of strategy development at TRW China.

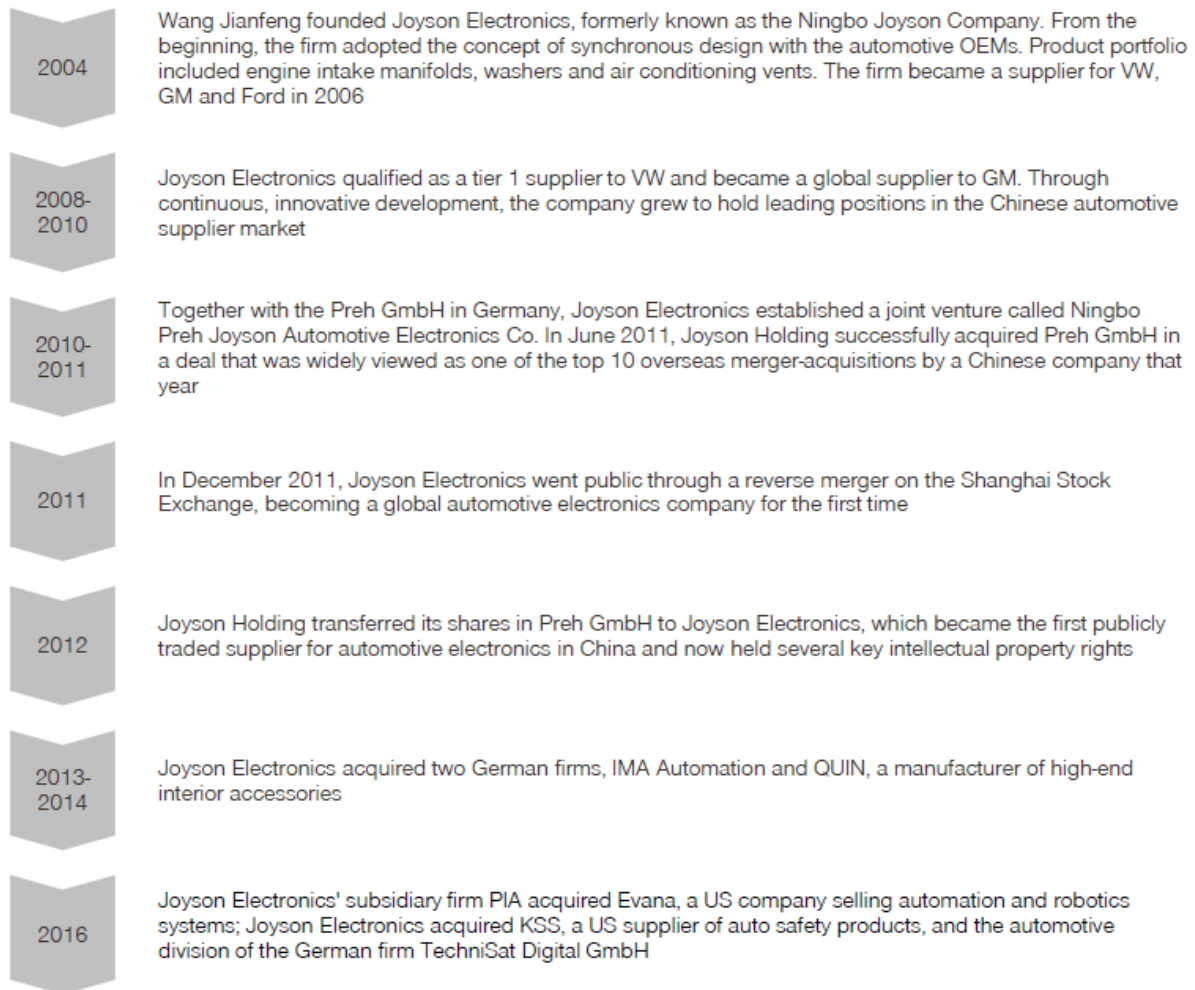
After five years at TRW China, Wang decided to move on and start over with his own venture in 2004. According to the vice president of Joyson Holding, Guo Zhiming, it was the experience at TRW that helped Wang come to realize the potential of the automotive electronics segment. He was a young man in his twenties, when he sold most of the shares in his family business and joined a prestigious automotive supplier as the general manager of its China business. It was quite an experience. Not only did this deepen his understanding of the global auto market, the knowledge he acquired later also assisted his company in its overseas expansion, because Jeff had lived the equity change of his family business himself and understood how to carry out value-adding integration and how to motivate the management of the acquired company and maximize the synergy.

From the very beginning, the firm made understanding customer demands a top priority and then incorporated these insights into its R&D, design processes, and production. "Other firms started out by copying existing products, we began with R&D," said the company's co-founder, President and Vice CEO Fan Jinhong, in interview on March 8, 2017. Such strategy slowed down Joyson Electronics' revenue growth initially, which amounted to 20 million yuan after the first two years. However, the R&D-based strategy paid off in the long run and laid a solid foundation for its future endeavors.

Joyson Electronics first caught public attention in 2010 when it conducted a series of overseas M&A and became active in the capital market:

- **A-Share listing:** In 2010, Joyson Electronics was listed on the stock exchange through a reverse merger of Liaoyuan Deheng Co., Ltd. One year later, Joyson Electronics started restructuring and injected new assets into the public company upon approval from the China Securities Regulatory Commission. The company became an A-share listed company on the Shanghai Stock Exchange, which is great achievement for a private enterprise
- **First M&A abroad:** In 2011, Joyson Electronics acquired 74.9 percent of shares in Preh GmbH, a German automotive electronics supplier with a long history. In December 2012, Joyson Electronics acquired the rest of the shares and became the sole owner of the company. It then injected the assets of Preh GmbH into the listed company and became the first automotive electronics company on the Shanghai stock exchange with an international brand
- **Serial overseas M&A:** In 2013, Joyson Electronics acquired IMA Automation through Preh GmbH, followed by the acquisition of QUIN, a manufacturer of high-end interior accessories and steering wheels, in 2014. In 2016, Joyson Electronics became the 100-percent shareholder of EVANA Automation through Preh IMA (PIA). In the same year, it took over KSS, a leading manufacturer of auto safety systems based in the US, and TechniSat Automotive from Germany, for more than 1.1 billion dollars

Through the actions above, Joyson Electronics, previously a small company with an annual revenue of 20 million yuan, rose rapidly to become a role model for the auto electronics and smart manufacturing industry in China, generating sales revenue of nearly 20 billion yuan in 2016. See the milestones of Joyson Electronics as follows



*Figure 17: Milestones of Joyson Electronics' development (2004–2016)*

*Source: Joyson Electronics*

The array of overseas M&A boosted Joyson Electronics' revenue almost a thousand times in 10 years (see *Figure 18*). Following the successful integration of Preh GmbH, Joyson Electronics continued its expansion for the years to come, acquiring the German firms IMA Automation, QUIN, and TechniSat Automotive, and the US firms KSS and EVANA. Successive M&A have been the primary driver through which Joyson Electronics has internationalized itself, restructured, and upgraded its technology.

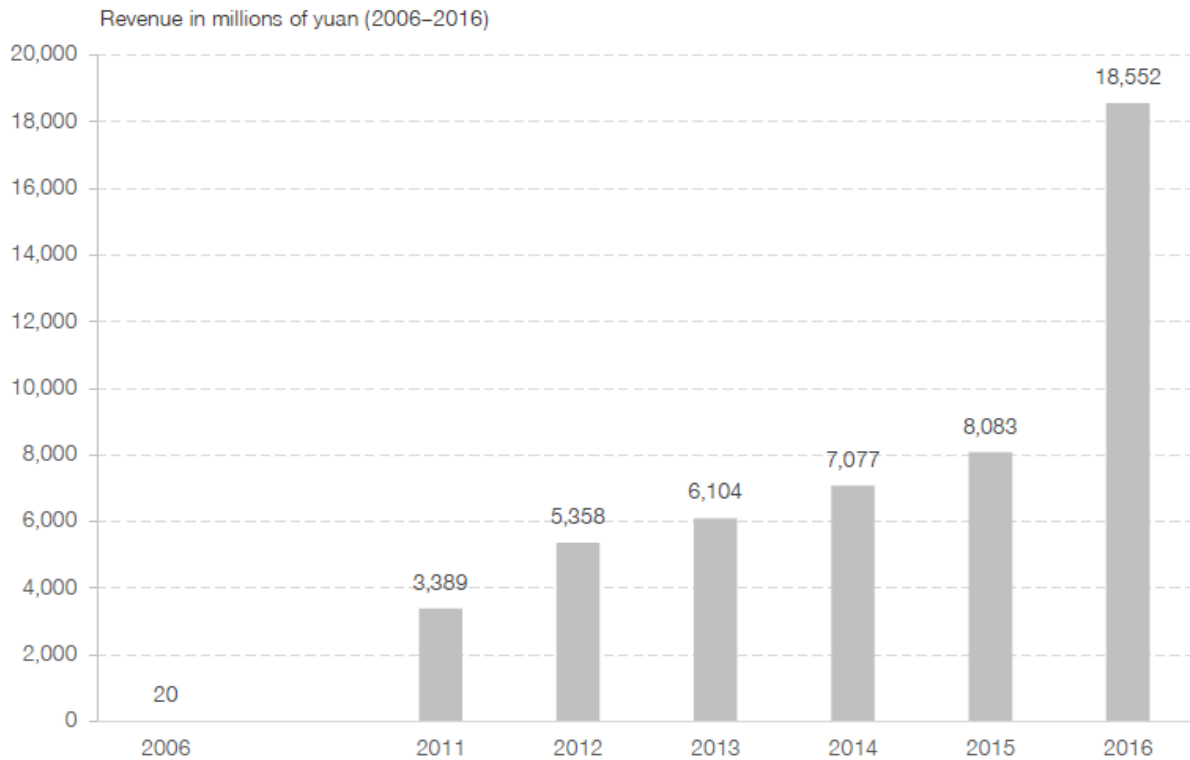


Figure 18: Revenue of Joyson Electronics (2006–2016)

Source: Joyson Electronics

More importantly, with the help of the acquired companies, Joyson Electronics expanded its business portfolio worldwide and enriched its upstream and downstream industrial chains, bringing forward all business lines at the same time (see Figure 19).



*Figure 19: Joyson Electronics' business units (2016)*

*Source: Joyson Electronics*

Starting out as a challenger, Joyson Electronics embarked on the journey to become a heavy-weight automotive supplier with forecast sales of more than 30 billion yuan for 2017. Joyson Electronics is a classic example of a company that has expanded through a combination of organic growth and M&A. The deal between Joyson Electronics and Preh was the catalyst for the accelerated growth. Acquiring Preh was not only a significant transaction in its own right, it was also the first important step in Joyson Electronics' global blueprint.

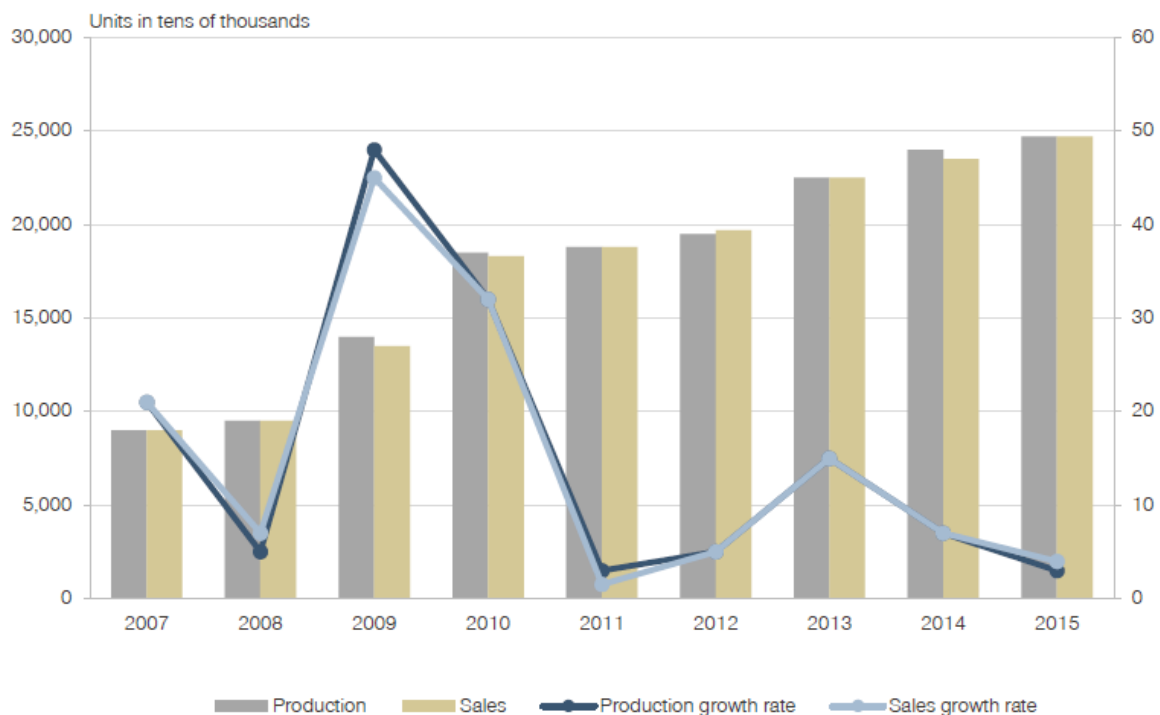
With revenue of just one billion yuan in 2010, Joyson Electronics spent a hefty 1.6 billion yuan on the acquisition of Preh, a firm with annual revenue of just shy of 400 million euros at the time. Four years later, Preh doubled the revenue to 800 million euros, realizing a compound annual growth rate of more than 20 percent. What made this acquisition so successful and how was the synergy effect tapped to the full?

## **Background**

In its early days, Joyson Electronics produced functional parts and peripheral products for automotive OEM's. Early on, the management team declared the ambition to become a first-tier supplier. In 2006, Joyson Electronics set up a production site in Changchun to provide First Automotive Works with auto parts. Later, it managed to supply engine intake manifolds, washers, air conditioning vents etc. to leading car makers such as GM and Ford.

In 2004, when Joyson Holding was founded, there were only 2.4 million vehicles sold yearly in China. But since then, demand had grown rapidly and the Chinese vehicle market had begun to overtake the developed economies, as the purchasing

power of average households rose steadily. Today's global automotive industry is distinctly different from how it was before the 2008 financial crisis. When the Big Three US manufacturers (GM, Ford, and Chrysler) went through bankruptcy and subsequent restructuring, the gravity of the world automotive industry drifted toward China. In 2009, China became number one worldwide in terms of vehicle sales and has kept the leading position ever since (see *Figure 20*).



*Figure 20: Production and sales of motor vehicles in China (2007–2015)*

*Source: China Association of Automobile Manufacturers*

On average, a passenger car consists of around 30 thousand parts. Car makers rely heavily on a variety of suppliers to deliver the majority of the parts required to build a car. The dramatic increase in vehicle sales over the last decade in China has given rise to numerous domestic automotive suppliers. Nevertheless, they are usually very weak in core technologies and innovation competence, compared to the world's leading companies.

In 2011, vehicle sales in China slowed down significantly, triggering a lot of pressure on the car makers as well as the suppliers. There are two reasons for the fall in demand. On the one hand, the authorities withdrew consumer incentives to buy new cars and introduced restrictions on new car purchases in response to rising concerns about traffic congestion and air pollution in major cities. On the other hand, the automotive market entered a phase of consolidation after a decade of fast growth, which peaked in 2009 and 2010, as a significant proportion of pent-up demand had been fulfilled.

Although Joyson Electronics was able to sustain stable growth under these circumstances, it had little pricing power for lack of technological competence. The conundrum of demanding customers and aggressive competitors cut deeper into profit year over year. "Profit margin was as thin as a blade." said Jeff Wang in personal interview by author on May 24, 2017.

In response to customers' growing awareness about safety, comfort, and environmental protection, more and more car makers have chosen to equip their medium to lower-class models with advanced electronic components, which used to be exclusive for the premium models. Consequently, the demand for electronic parts skyrocketed. After considerable research of market and industry trends, Joyson Electronics' management team was convinced that automotive electronics should be the growth engine for the company in the future. It was during the search for a partner for the new venture that Preh came onto Joyson Electronics' radar.

Jakob Preh founded Preh GmbH in Bad Neustadt an der Saale, Germany, on March 11, 1919 to manufacture electronic components. With the advent of wireless radio technology, Jakob Preh invented the famous Preh Funk radio, first of its kind in

Germany. From 1945 to 1988, Preh pioneered wireless radios and television parts and became market leader and standard setter at that time. By 1969, annual sales had hit a record 92 million German marks (or 47 million euros in today's currency). In 1988, the company branched out into automotive electronics with a range of new products, including air-conditioning control systems and potentiometric sensors for throttle valve position control.

In 1993, Rheinmetall Berlin AG acquired Preh GmbH, which achieved revenue of 220 million euros and employed 1,970 people worldwide by the year 2000. The business now turned its focus to smart mechatronic solutions. Following the takeover by the private equity firm DBAG in 2003, Preh started the course of rapid expansion in the United States. The following years saw double-digit growth, as Preh built production sites in Mexico and Romania, among other places in the world.

In 2010, Preh ranked seventh worldwide for automotive electronics patents. With its 98 patents, it outstripped some of the big automotive suppliers, such as Delphi and Continental. Preh also added battery management systems and driver control systems to its portfolio, which it supplied to premium car makers, including BMW, Daimler, and Rolls-Royce. Despite its leading position in automotive electronics, Preh had a negligible operation in China, the largest motor vehicle market worldwide. It had only supplied air-conditioning units to Shanghai Volkswagen at low volume and its presence in China was constrained to a one-man office in Shanghai.

Since the beginning of 2006, the two joint ventures of Volkswagen Group in China, FAW-VW and Shanghai VW, had gradually adjusted their procurement strategies to increase the share of local sourcing in China. Realizing it could be an excellent opportunity to expand business with Volkswagen, Joyson Electronics



reached out to Preh in 2007 to discuss the possibility of setting up a joint venture to produce electronic parts for Volkswagen locally in China. Several senior managers of Joyson Electronics flew to Germany to persuade Preh to form a partnership. The mission failed, as the decision makers at Preh were not interested. However, there was a silver lining. From that, the management at Joyson Electronics and Preh GmbH kept dialogues and visited each other on a regular basis, enhancing mutual understanding and trust.

The global financial crisis in 2008 handed Joyson Electronics a second chance, as DBAG looked to exit Preh GmbH. The European automotive industry was severely battered by the financial crisis, whereas China's automotive industry stayed resilient. Chinese investors soon came to the attention of DBAG. Intending to maintain Preh's existence as a going concern, DBAG defined a set of clear requirements for any potential bidder, namely, it should be a financially sound family-run business that could potentially be floated on the stock market. Being minority shareholders in the company, Preh's existing management also had considerable influence on picking the new owner.

Joyson Electronics invited Preh's management team to visit China. When they arrived, they were surprised to be taken to a piece of undeveloped land where Wang Jianfeng announced the construction of an industrial park on the spot and told them about his grandiose business plan. The Germans reacted reticent. "They must have seen many pretentious Chinese businessmen. I'm sure they must have wondered if I was trying to trick them," shrugged Wang with a smile in interview with author on May 24, 2017.

In 2009, the Preh management team learned that Joyson Electronics had

acquired the automotive supplier Shanghai Huade, stepping up its game and emerging as a serious player in the field. The German managers decided they had to see this with their own eyes in China. Seeing that the green-field industrial park was up and running and the businesses of Huade and Joyson Electronics were now unified, they were impressed by the Joyson Electronics' dedication to the automotive business and the speed at which it had followed through with its plans. This time, Joyson Electronics won the trust of the Preh managers.

As a result of what they had witnessed in China, Preh's management and the shareholders accepted the olive branch and entered into negotiation about a takeover. Although Joyson Electronics had experience working with foreign companies, none of its managers had relevant experience of overseas M&A and this was a first for everyone on the Chinese side. They were not familiar with the M&A transaction procedure and the negotiation overran. Being determined not to miss out on valuable but transient market opportunities in China, Joyson Electronics partnered with Preh GmbH to found a joint venture in 2010 and started testing the waters as a team.

"The first months of the joint venture went by surprisingly well, instilling confidence in both parties to deepen the cooperation." recalled Guo, when I interviewed him in Ningbo on June 6, 2017. At that time, Joyson Electronics was going through a lengthy approval process for public offering on the stock exchange. In order to conclude the acquisition of Preh, the Joyson management team decided that Joyson Holding would acquire Preh to begin with, and then inject Preh's assets into the to-be listed company (Joyson Electronics) by issuing new stock. On April 8, 2011, the shareholders of Joyson Holding and Preh GmbH signed the agreement and on June 27, 2011, the transaction was completed for a price of 1.6 billion yuan. All of Preh GmbH's technology patents were included in this deal.

Although M&A by Chinese firms were nothing unusual by now, Joyson Electronics was the first to inject foreign assets to a listed company through the issuance of new stock. In mid-2011, Joyson Holding acquired approximately 74.9 percent of shares in Preh Holding, which held 94.1% percent of shares in Preh GmbH. In 2012, Joyson Electronics issued new stock to the majority shareholder Joyson Holdings and then it bought out the minority shareholders in Preh Holding, which owned 25.1 percent of the equity. In the meantime, Joyson Electronics also acquired 5.1 percent of shares in Preh GmbH from the other remaining shareholders. At the end of the transactions, Preh went public in China indirectly in effect.



\*Worth 180 million euros. The main reasons for the premium are: 1. its low valuation due to the financial crisis when Joyson Electronics first acquired the company; 2. the price estimation included the advisory and consulting fees; 3. from 2011 to 2012, almost a year and a half's revenue was attributed to the listed company; 4. the currency exchange losses were borne by Joyson Electronics; 5. the contract to acquire the 5.1% of shares included cost of 3% annual interest rate.

Figure 21: Two phases of the Preh GmbH transaction

Source: Joyson Electronics

### Motivation and strategy

“In 2010, group revenue from automotive parts surpassed 1.3 billion yuan. By 2011, this figure had risen to two billion yuan.” said Joyson Holding’s vice president, Guo, when I interviewed him on June 6, 2017. Although Joyson Electronics was a leading supplier of automotive parts and had invested tens of millions in R&D, a relatively large technological gap persisted between it and the leading global players. M&A appeared to be an appealing thought to narrow the gap in a short timeframe.

An acquisition price of 1.6 billion yuan was nothing less than exorbitant for Joyson Electronics back then. With revenue of 1.3 billion yuan (approx. 144 million euros in 2010), Joyson Electronics could barely afford to buy the German firm, which made an annual revenue of 350 million euro at that time. So why dared Joyson make such big commitment to acquire Preh after all?

- **Hunger for better profitability.** Profit margin from functional parts was so low that Joyson Electronics had no choice but to explore alternative opportunities. “Actually, there were so many private companies manufacturing plastic functional parts in China. If we had stuck with this business, we would have gotten lost in the competition and would not have made any profit. Fortune Global 500 companies like Siemens and Visteon dominated the high-end, high-profit business, which was extremely difficult to break into, due to the iron-clad specifications of the OEM’s. We were unable to land any orders there, so it was imperative for us to make a breakthrough in technology. The fastest way to achieve so was to buy foreign companies with the advanced technology we need.” said Wang in personal interview with author on May 24, 2017.
- **Moving up the value chain.** The automotive electronics market is reckoned at many hundreds of billions of yuan. It was expected that Preh would not only

complement Joyson Holding's automotive parts portfolio, but would also help the company migrate up the value chain and expand overseas. Although the Chinese market for motor vehicles and automotive parts is enormous, local companies are weak in technology, particularly electronics, and core technologies remain privy to the foreign companies. "Without the acquisition, we would have needed a significant amount of time to get to where we are now and had we attempted to do everything under my own steam, we would not be in the same league as the world's leading companies now," said Ye Shuping, vice president of Joyson Holding, when interviewed by author on June 6, 2017.

- **Resource complementarity.** Being in business in China for many years, Joyson Electronics had an astute sense of where the market would be headed for in the future, while Preh had exactly the type of the advanced technology Joyson Electronics needed. Moreover, Preh's activities in new markets, including China, were at an early stage, as its focus had been primarily on Europe and North America.
  
- **Access to key customers.** It was not possible for Joyson Electronics to gain access to international accounts on its own. But Preh had already established itself as a key supplier to leading automotive makers such as BMW for its signature iDrive system. Considering that the international car makers had been increasingly embracing a more flexible procurement strategy emphasizing local supplier partnerships in China, the combination of Joyson Electronics and Preh held bright future.
  
- **High intrinsic value.** Preh is a treasure in the automotive electronics sector. It succeeded in defending its standing throughout the European debt crisis and

the subsequent global economic downturn. From 2005 to 2010, it achieved a compounded annual growth rate of 9.8 percent, which climbed again after the acquisition by Joyson Electronics, reaching 17.4 percent.

- **Common understanding.** Intercultural understanding was very important to both management teams. Through its interactions with Preh's management team over years, Joyson Electronics had built a good relationship with the German company as well as its then major shareholder, DBAG.

Regarding its strategy prior to the acquisition, Joyson Electronics' management team explains that the basic aim was for Preh to achieve double-digit growth worldwide, while the Chinese business would achieve revenue of a billion yuan within five years (i.e. by 2016). The German management team had thought it was not realistic at all, while the reality proved otherwise.

The team that executed the acquisition of Preh consisted of three persons, i.e. Wang Jianfeng (Jeff), Guo Zhiming, and Cai Zhengxin. "We were crossing the river by feeling the stones," recalled Guo and Cai, in personal interviews conducted by author respectively in Ningbo on June 6, 2017 and Bad Neustadt an der Saale on May 2, 2017. A growth strategy surfaced during discussions with the Preh management team. The support of Preh's managers was key for the success of the acquisition and the subsequent development of the business.

Michael Roesnick was president and CEO of Preh GmbH from 1999 until he retired in 2016. He was at the company when it was absorbed by DBAG and then by Joyson Electronics. When interviewed by the Chinese media following the transaction, he emphasized the importance of selecting Joyson Electronics as Preh's partner/owner. "The management of Preh GmbH were very supportive of this

transaction. We saw significant opportunities for our new team, particularly in regard to the rapid development of our business in China. With Joyson Electronics' help, we were able to get a foothold in the Chinese market more easily. Preh's financial strength was also fortified. These advantages will help accelerate Preh's development. Cultural differences withstanding, we were open and eager to learn from each other. But the truth is we weren't starting from scratch, as we had known each other for three years already."

According to Rolf Scheffels, then chairman of the supervisory board of Preh and a board member of DBAG, the invitation extended by Joyson Electronics during the negotiation that the both sides should develop the Chinese market together fitted Preh's business planning perfectly and was ideal for taking the manufacturer to the next stage of its development to have a significant presence in all major markets i.e. Asian, Europe, and US. Thanks to the arrangement with Joyson Electronics, Preh could largely retain its organizational structure and was therefore able to benefit from the synergy effect almost immediately after the transaction.

### **Integration and transformation**

As one can imagine, employees at acquired companies would worry about the consequences of the takeover. Customers would be concerned likewise, when the acquired firms in question deliver critical technology to them, as in the case of Preh. For example, its high-profile customers including BMW and Audi were anxious about the possibility that the new shareholder would leak their technology to the competitors. Confronted with challenges from a variety of frontiers including legal regulations, management issues, and cultural differences etc., Joyson Electronics managed to find its own solutions, as there was no ready playbook to follow.

***From “Preh is still Preh” to “Preh is a member of the Joyson Electronics family”***

In 2005, Beijing No. 1 Machine Tool Plant acquired the German firm Coburg, a global leader in heavy machine tools. To address the German employees’ concerns about losing their jobs, Beijing No. 1 adopted an approach to be followed by many other Chinese acquirers in the years to come. Anything but dictating the way forward, Beijing No. 1 decided not to participate in the operations directly, but let the incumbent management team continue to run the business. “Beijing No. 1 was a role model for us at that time”, said Guo Zhiming in interview with author on June 6, 2017, “Back then, both sides agreed that our roles would remain the same. We decided that Preh would still be Preh and the existing management team, which boasted more than a decade of experience on average, should stay in office. The senior managers did a good job bridging the employees the and new shareholder and helping building trust throughout the entire organization. It was also important for staff that there was a smooth transition period following the acquisition, as they weren’t sure what would happen once they were taken over by a Chinese investor.”

Joyson Electronics decided to continue on the course set by the original owner, DBAG, and waited to restructure the management team till the next year. Following the adjustment, the new five-person management team consisted of the old Preh GmbH team members with the addition of Cai Zhengxin, the only representative of Joyson Electronics on the team. Based in the headquarters of Preh in Bad Neustadt an der Saale, Cai was to facilitate communication between Joyson Electronics and Preh, and more importantly help develop the business in China. He later took on the role of chief supply chain officer, responsible for procurement, supply chain, and commercial vehicles. In 2012, Jochen Ehreberg was also promoted to the management team.



As typical of medium-sized German companies, Preh GmbH does not have a board of directors and only has a supervisory board composed of six people. As stipulated by law, there were two employees' representatives on the board, while the other four people members were Chairman of the Board Wang Jianfeng and Guo Zhiming, both from Joyson Electronics; Willibert Schleuter, an expert in automotive parts; and Rolf Scheffels, member of the board of Preh's former major shareholder DBAG.

At the end of 2015, Preh's CEO, Michael Roesnick retired after 16 years of service for the company. Christoph Hummel, previously responsible for sales and marketing, stepped up as CEO, while Roesnick took a seat on the supervisory board as chairman of the board. Ernst-Rudolf, responsible for finance, retired in May 2016. He was replaced by Rui Marques Dias. Cai Zhengxin continued to serve on the management team, while Stavros Mitrakis joined the board from Panasonic Automotive & Industrial Systems Europe and has been responsible for Preh's Car Connect business unit since 2017 (built around TechniSat Automotive, which was acquired in 2016). Preh GmbH has now completed its first managerial restructuring since the acquisition.

Being a leader in several niche markets, the German manufacturer demonstrates one of the most distinct characteristics of hidden champions, namely the continuity of their management teams. The chairman of the original management board was in office for 16 years, and the CFO was in his role for 20 years. The loyalty to the company was not only limited to the boardroom. "Many of our employees are the second or even the third generation in their families to work at our company. At our annual parties, I got to meet employees that has been working at Preh GmbH for 25, 40, or even 50 years," said Guo, amazed by the phenomenon that was a rarity in

China.

As cooperation deepens, the boundaries between Preh GmbH and Joyson Electronics become blurred. Although Preh continues to be a separate entity, the whole company, particularly the management team, have begun to see themselves as part of the Joyson Electronics family.

### ***Employee evaluation and incentives***

As in virtually all M&A, trust is a key factor to tap the potential and maximize the synergy. Before the acquisition, Joyson Holding and Preh established a foundation of mutual trust during their meetings in China and Germany, and after the takeover, mutual trust became a central pillar of successful cooperation, as Joyson Electronics entrusted Preh's incumbent management team with running and developing the business.

While granting Preh quasi full autonomy in its operations, Joyson Electronics took great care in motivating and empowering the management team. Vice President Guo, who had been safeguarding the acquisition and was now in charge of Human Resources for the group, spent several months discussing development plans and key performance indicators (KPI) with the German team. In addition, a dedicated team at Joyson Electronics went to great lengths to identify best practices through different avenues on how to set meaningful KPI for the management of the acquired firm.

In line with the 2011 transaction plan, Joyson Electronics issued stock to buy the 74.9 percent of shares in Preh Holding (which held 94.9 percent of Preh GmbH shares) from Joyson Holding and the remaining 5.1 percent shares held by minority shareholders in Preh GmbH. Joyson Electronics paid the other seven Preh

shareholders in cash for the remaining 25.1 percent of shares in Preh Holding (see *Figure 21*). Consequently, Joyson Electronics had completely absorbed Preh GmbH and the incumbent management team no longer owned any equity in the company. Many analysts following Joyson Electronics red-flagged it as a major risk for the Chinese automotive supplier and questioned how Joyson Electronics would be able to retain the key persons now that they were no longer invested in the company. There was also concern that while Preh might contribute to group revenue for a year or two, it stood the risk of becoming a shell company, if the management team were gone. To address the concerns of the investors, Joyson Electronics announced a so-called Management Participation Program, according to which the management would be rewarded with shares in June 2013. More specifically:

- Joyson Electronics agreed to sell 1.938 percent of shares in Preh worth 4.68 million euros in total to the five board members (Michael Roesnick, Ernst-Rudolf Bauer, Christoph Hummel, Cai Zhengxin, and Jochen Ehrenberg) and to NES MPP GmbH & Co. KG, a company owned by 24 Preh middle-level managers, with terms of limitation fixing the seller and the buyer in the transaction.
- The shares of the five board members account for 66 percent of the shares sold; NES MPP owns the remaining 34 percent.
- Joyson Electronics would buy back the shares at a premium if the performance of the company and the management team meets pre-defined targets.

“In order to incentivize the management team, we sold them some shares in Preh. If performance is good in five years’ time, we will buy the shares back. We believe we are the first Chinese company to do so. The incentives were supposed to reward and enhance overall competence in sales, R&D etc., and not limit the focus to

pure financial targets such as revenue and profit,” commented Wang on the new reward mechanism, when I interviewed him in the headquarters in Ningbo on May 24, 2017.

Following this change, Preh Holding’s revenue rose from 412 million euros in 2011 to 763 million euros in 2015 with a compound annual growth rate of 17 percent. In contrast, the compound annual growth rate of Preh from 2006 to 2010 was six percent before the acquisition by Joyson Electronics. In 2015, Preh reaped net profit of 47.48 million euros.

In 2016, Joyson Electronics and Preh jointly acquired TechniSat GmbH’s automotive division, which specialized in infotainment systems, navigation, connectivity, and telematics. The strategy was to integrate it into Preh’s automotive electronics business unit, leading to transformation of Preh’s organizational structure. As a result, the existing reward mechanism for the Preh managers was no longer appropriate and the management decided to terminate it. By now, Preh’s revenue had increased from under 400 million to 840 million euros, with new orders worth 200 million euros on top. On April 13, 2016, Joyson Electronics bought back the 1.938 percent of shares for almost 20 million euros. In only three years, the management team’s shares were now worth four times as much as when they bought them. The buy-back measure did not end there, however. Joyson Electronics and Preh management have agreed to speak to the key persons and employee representatives in order to design a new reward mechanism that ensures the automotive electronics business continues along its rapid growth trajectory.

### ***Continuous investment in R&D***

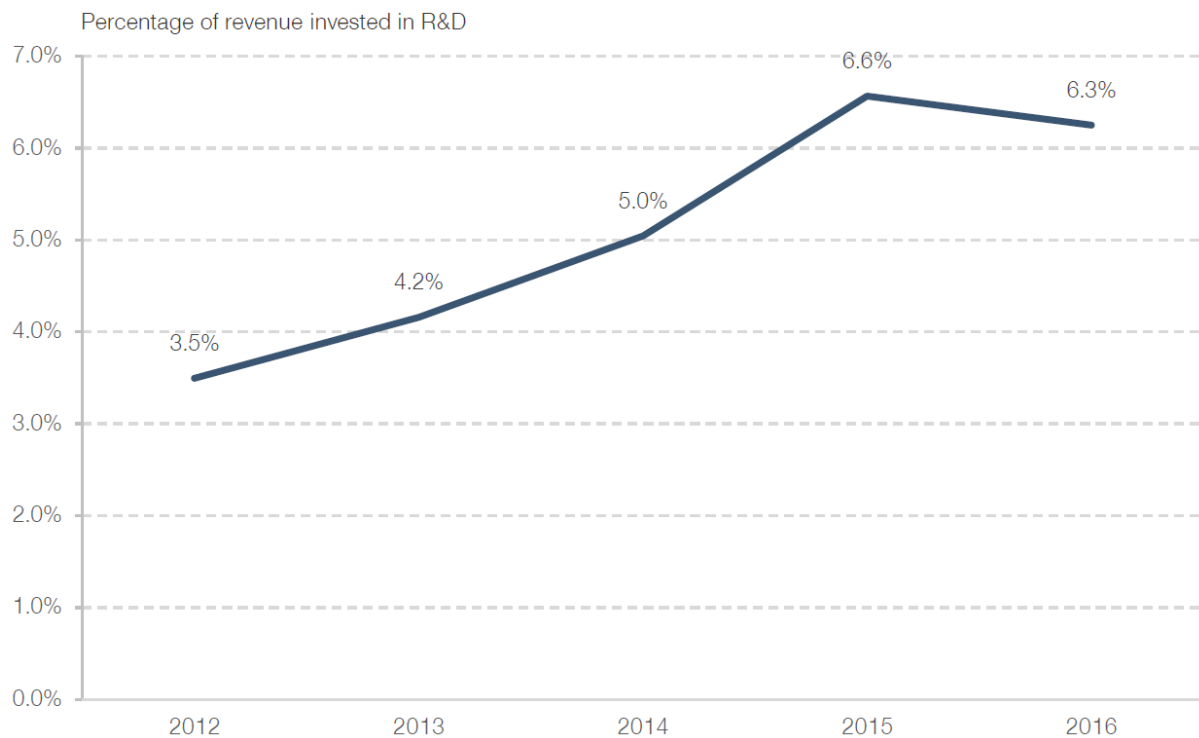
Joyson Electronics acquired Preh to gain access to technology and upgrade its

product offerings. Joyson Electronics and Preh went to great lengths to develop new products in automotive electronics, such as the smart central control system for the Lincoln MKZ series and the iDrive Touch for the BMW 7, which debuted at the Shanghai International Automobile Industry Exhibition in 2013.

In its financial reports throughout the recent years, Joyson Electronics' management emphasized the importance of R&D. Looking back at its 20 years of history, it is apparent that its continuous investment in R&D has been a decisive factor in Joyson Electronics' success. According to the research by Simon (2012), regular companies generally invest around three percent of their revenue in R&D, while companies on the Global 1000 list invest 3.6 percent on average. Hidden champions, in contrast, would invest up to six percent of their turnover. In 2015, Joyson Electronics invested over six percent in R&D activities. From 2012 to 2016, the compound annual growth rate of its investment on R&D was 66 percent. According to Preh's chief supply chain officer, Cai Zhengxin, Preh has always attached great importance to R&D and has invested nine percent annually in recent years, which is even higher than average for the group as a whole.

In 2013, there were more than 1000 employees in Joyson Electronics' R&D team, out of whom 60% are in Germany and the remainder in China. Such a high level of investment in R&D human resources ensures that the company's core competencies are maintained and further developed. In the meantime, Joyson Electronics spared no efforts to attract skilled staff in China and abroad. It formed close partnerships with leading educational institutes including the University of Michigan, the University of Würzburg, Tongji University, and Zhejiang University's College of Mechanical Engineering to foster future talents for the company. As of 2016, Joyson Electronics had established three research centers worldwide, specializing in product design,

software development, and data processing. Over 2000 people are employed in R&D, as Joyson Electronics leadership set their minds on building a leading technology-driven company.



**Figure 22: The percentage of revenue invested in R&D by Joyson Electronics (2012–2016)**

*Source: Joyson Electronics*

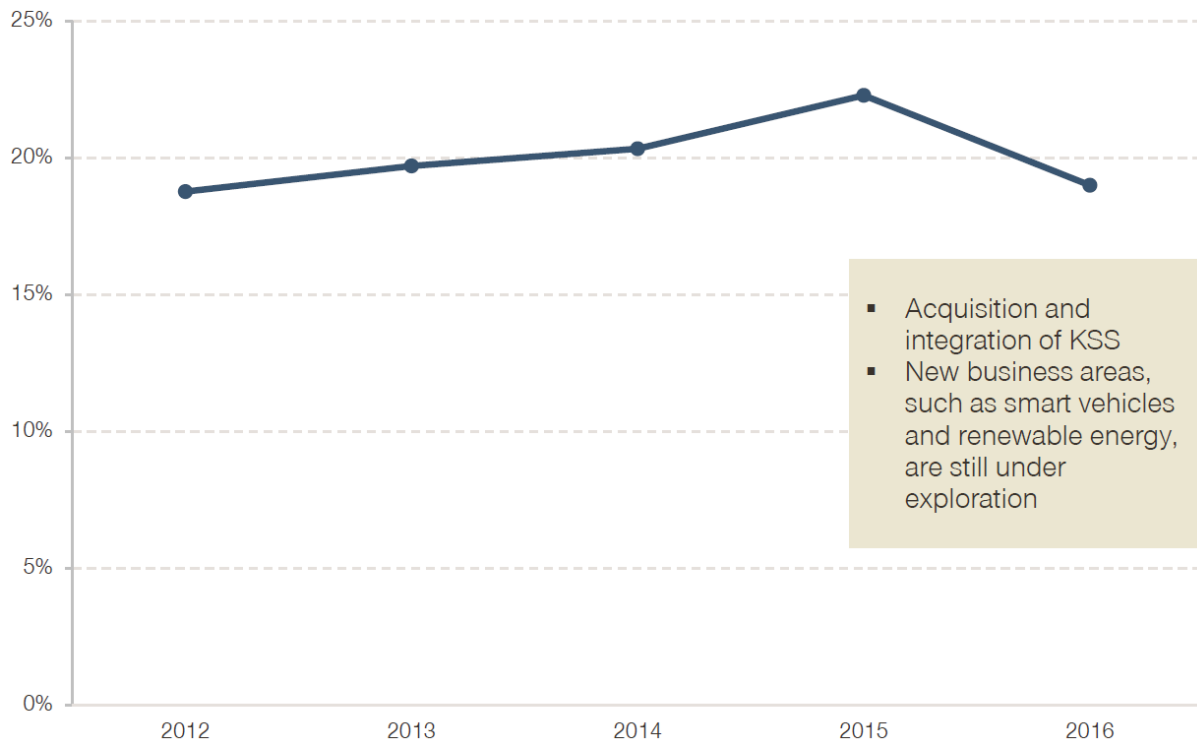
In only half a decade, revenue at Joyson Electronics increased from 3.3 billion in 2011 to 18.6 billion yuan in 2016, with a compound annual growth rate of 40 percent. Both internal growth and external expansion have helped Joyson Electronics rise to a large-scale automotive supplier. According to the company's business plan, Joyson Electronics will build a global R&D center in China in 2017. The R&D center of Preh Car Connect and KSS Active Safety in China will also be expanded to accelerate the penetration of their technology into the Chinese market. In the future, all product lines will be more closely linked and integrated, establishing the company's position as an integrated solution provider for the automotive industry.

### *Exploring the new markets*

After the acquisition of Preh GmbH, Joyson Electronics helped its German daughter company strengthen its foothold in the Asia-Pacific and North America, sharing customers and channels to the benefit of both sides. At first, the company equipped essentially German vehicles but later expanded to US vehicles from manufacturers such as Ford and General Motors. Now the company has a powerful clientele featuring Audi, BMW, Daimler, Ford, General Motors, Porsche, Volkswagen, among others.

Departing from Preh's reliance on the European market, Joyson Electronics ramped up its activities in China, the biggest automobile market, by localizing and re-innovating German technology. A case in point was the cooperation with Tongji University to localize the technology in battery management systems. With the local advantages and the support of Joyson Electronics, the Ningbo Preh-Joyson joint venture has managed to double its revenue year after year.

Since 2012, 70 percent of Joyson Electronics' revenue has been generated internationally, solidifying its position as a global player. By sharing technology, customers, and channels, exploiting markets jointly, and developing new products independently but in a coordinated way, Joyson Electronics and Preh have been able to grow their gross margins.



*Figure 23: Gross margin growth of Joyson Electronics (2012–2016)*

*Source: Joyson Electronics*

At closing of the acquisition, market analysts were not in full agreement about whether the transaction would pay off. After five years, Joyson Electronics proved itself by registering a stellar performance and showcasing a well-devised strategy. Its stock price has consistently beaten the Shanghai composite index over years. Before the acquisition, Joyson Electronics had a market cap of about one billion yuan. Its market value had risen to 30 billion yuan by the end of the first quarter of 2017.





Figure 24: Joyson Electronics share price development (2011–2017)

Source: Sina Finance

### **Integration of culture and management**

Integration hinges on cooperation in many ways. “In the integration phase, we recognized the potential risk of disagreements because of cultural and managerial differences. Therefore, it was important to build trust between us. The best way to solve problems is by understanding one another and communicating continuously. Sometimes, you have to be able to compromise.” As the representative of Joyson Electronics on the Preh management team, Cai Zhengxin has lots to say about the challenges the company tackled during the integration (personal interview by author on May 2, 2017).

Shortly after the acquisition, Joyson Electronics suggested that Preh should shut down the production site in Romania, reasoning that production costs in China would be obviously much lower. However, the Preh management team insisted that one should not only look at the numbers. There were other factors that should be considered. For example, the Romanian plant was logistically easy to reach and close

to the R&D sites in Germany. The communication cost was also much lower, as many Romanian engineers were fluent in German. Moreover, Romania-made products could be labeled with the quality seal “Made in Europe”. These arguments convinced Joyson’s board. Not only did Preh keep the site, the production has since scaled up remarkably, with headcount shooting up from 100 to about 800.

The two sides had conflicting opinions of the right business strategy for China. Preh thought annual double-digit growth in the Chinese market was not realistic and that they should be more cautious with market expansion, which, in turn, had impact on allocation of resources and talent recruitment etc. “We said that we would prove it to them that our market strategy was realistic.” said Guo in personal interview with author on November 7, 2017. “In fact, even our plans were too conservative in hindsight. Preh wanted to hire a set number of employees for China according to the standard business plan, the way that they were used to in Germany. However, China has its own peculiarities. It is a rapid developing market compared to Germany and in large cities, such as Shanghai and Beijing, staff are much more prone to change jobs. We insisted that we needed to hire extra people to factor in the potential churns and even agreed to bear the additional costs to appease Preh in the end. Time tells that we were right.”

The German media and other companies were accusing Chinese investors of only being interested in getting their hands on German technology. Ran Peng, technical director from Joyson Preh Electronics refuted in personal interview with author in Ningbo on June 6, 2017, “In many technological fields, Chinese firms are less advanced than German firms, but the Chinese market has immense and growing potential. Although Germany has advanced technology, its market is at a saturation point. The application of German technology should not be classed as a “transfer of

technology”; we consider it unleashing the due potential of the German technology in the Chinese market.” Following the acquisition, the German and Chinese R&D departments of Preh and Joyson Electronics have been working closely with and learning from each other and strengthening cooperation.

To support product development, particularly for electric vehicles, Joyson Electronics has provided Preh with strategic directives and financial aid but respects it as an independent business in the meantime. Joyson stressed to its new daughter company that as China was developing rapidly, it was important to invest in marketing, R&D, and customer relations. “Joyson Electronics’ key strengths are the ability to make right judgment calls on market developments and having deep understanding of the biggest vehicle market in the world, while Preh excels at planning and executing strategy. We have made the best use of our strengths and made up for our weaknesses. This is the principle of our and any successful cooperation,” emphasized Cai in personal interview with author on May 2, 2017.

“The Germans and the Chinese have become one team. German used to be the business language at Preh, but now both companies have adopted English as the official company speak,” said Guo in interview with author on June 6, 2017. Today, around 20 Chinese employees work on projects on average at one time in Germany and more than 10 experienced engineers with over 10 years work experience are based out of Ningbo, 200 km away from metropolitan Shanghai. The best of the two world are joined together: The skills in innovation and quality control from Germany and the financial means and market savvy from China.

Apparently, there were also differences in modus operandi. “Germans are bound to make and stick to a detailed plan about just everything, whereas Chinese are used

to moving plans around situations,” noted Huang Yonghao, deputy general manager of Joyson Preh IMA, in personal interview with author in Ningbo on June 6, 2017, “For example, the Germans will discuss the time and the agenda of the next meeting during the current meeting, which was unheard of for us. Over time, we learn to appreciate the approach and found it actually a good way to improve efficiency and adopted the same at Joyson Electronics. Another habit our Ningbo staff picked up from Preh is to plan meetings for the coming year with the topics and participant list far in advance.”

The best practices passed on from the Germans have honed Joyson Electronics’ competencies in managing international businesses, which was a major step forward for the company. Proposal processes and calculation tools have been optimized and SAP has been introduced as the company’s management system. Furthermore, Joyson Electronics has learned how to calculate budgets and process data more accurately.

***From “crossing the river by feeling the stone” to “leveraging the know-how”***

There is consensus both internally and externally that the acquisition of Preh GmbH was a game changer for Joyson Electronics, which has led to remarkable accumulation and assimilation of knowledge and accelerated growth in international markets, with R&D, production, and sales spread over Europe, the United States, and Asia. Since 2013, Joyson Electronics has conducted a series of successful overseas acquisitions building on the success of Preh, including Innoventis, a software company; IMA, a manufacturer of automated machinery; QUIN, a supplier of high-end steering wheels and interior and exterior decoration; KSS, an American vehicle safety company, TechniSat Automotive, an information system supplier; and EVANA, an

industrial robots and automation manufacturer.

In the cases of Innoventis (2013), IMA (2014) and EVANA (2016), the core members of the acquisition team came from Preh GmbH, which also acted as a conduit for the transaction. In the case of TechniSat Automotive, Preh cooperated with Joyson Electronics early on in the acquisition, and in the due diligence and integration phase, Preh played an even more prominent role, contributing valuable advice and insights to complete the transaction.

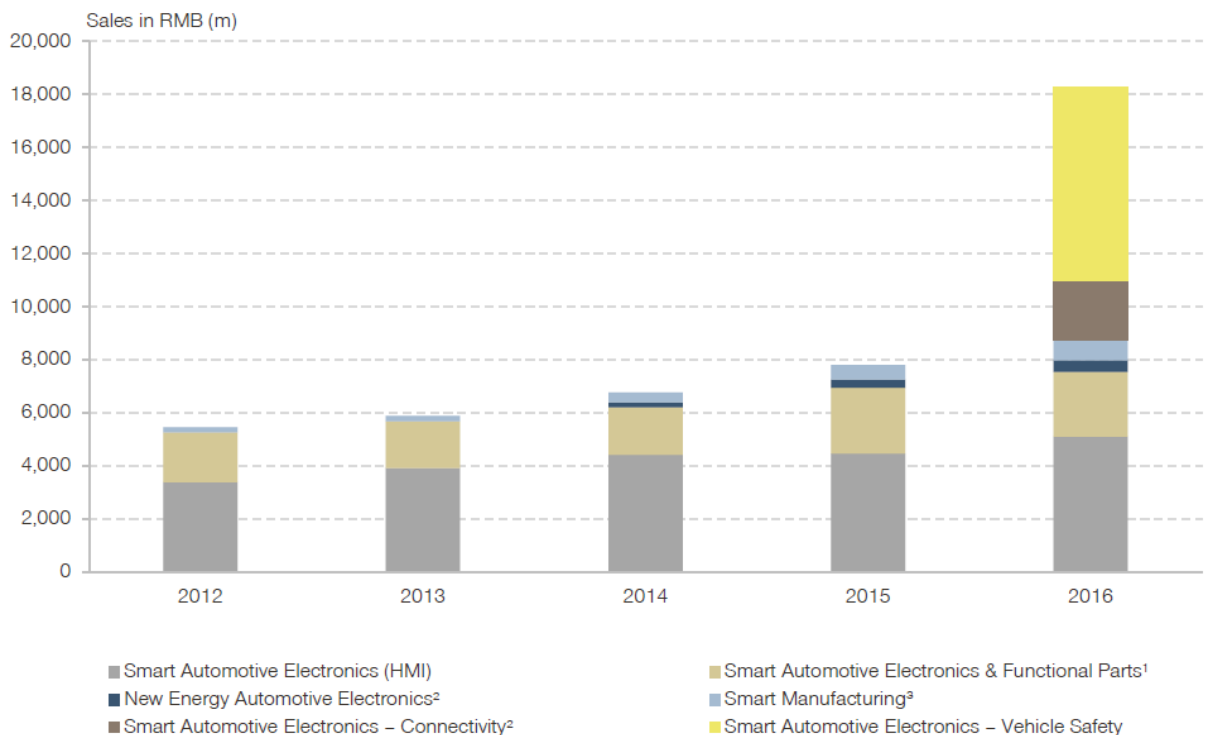
“Joyson Electronics’ team in Germany is undoubtedly the team with the most experience in the field of Sino-German M&A,” said Liu Yuan, vice president of Joyson Electronics, in personal interview with author in Ningbo on September 1, 2017. “Our team are often solicited by venture capitalists and Chinese firms wanting to invest in Germany, which showcases that our achievements in the past years are well recognized by the market.”

When it first engaged with Preh GmbH in 2011, Joyson Electronics was crossing the river by feeling the stones, relying on its hunch of the big picture of future trends. Today, after living through so many overseas acquisitions with trial and error, Joyson Electronics has sharpened its global growth strategy and begun to leverage its acquired know-how.

### ***Growth Initiatives***

In 2012, just after the acquisition of Preh, Joyson Electronics’ business was built on four pillars, i.e. auto electronics, interior and exterior accessories, functional parts, and industrial automation equipment. In 2014, the interior and exterior accessories and functional parts were merged and battery management systems (BMS) was officially added to the business portfolio. In addition to serving BMW, the

BMS department also worked with prestigious industry players, such as Tesla and China South Locomotive & Rolling Stock Corporation Limited.



<sup>1</sup> Interior and Exterior Design units were consolidated in 2014; unit renamed Smart Functional Parts in 2016

<sup>2</sup> Unit renamed New Energy Control Systems

<sup>3</sup> Unit renamed Industrial Manufacturing of Automatic Equipment in 2012; renamed PIA in 2013; renamed Industrial Automation and Robot Systems 2014–2015

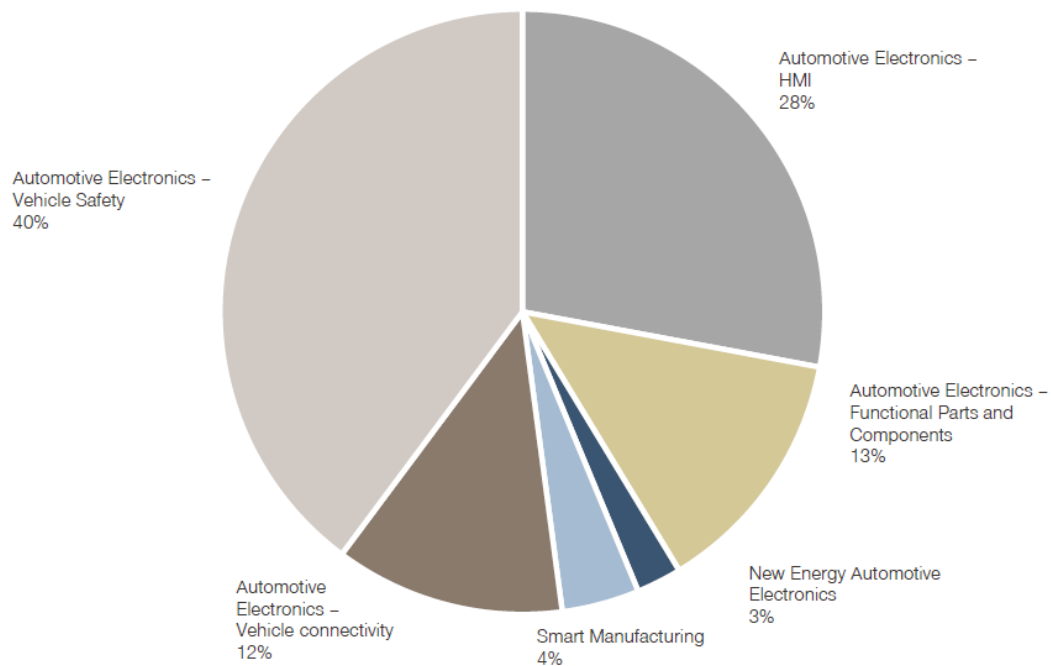
*Figure 25: Joyson Electronics product lines and their revenue (2012–2016)*

*Source: Joyson Electronics*

In addition to robust organic growth, Joyson Electronics continued its shopping spree in 2016. It acquired KSS and TS Automotive, adding two more automotive electronics business units to its portfolio: auto safety through KSS; and auto connectivity through its division Preh Car Connect, which TS Automotive was incorporated into.

The year 2016 was a period of transition for Joyson Electronics. Old product lines were upgraded through two acquisitions and the company geared up for transforming itself into a comprehensive technology provider. From the product

perspective, Joyson Electronics has covered the four important aspects of driving, namely, human-machine interface, vehicle safety (both active and passive), infotainment, and connectivity, and even assumes leading positions in these areas worldwide, making the company a rising global champion.



*Figure 26: Joyson Electronics' business units (2016)*

*Source: Joyson Electronics*

### **Vehicle safety**

On June 8, 2016 Joyson Electronics completed the acquisition of KSS for 920 million dollars, corresponding to a P/E ratio of 56. According to people familiar with the matter, Joyson Electronics also planned to inject another 100 million dollars into KSS to improve its finances and fund new businesses. KSS specializes in active and passive vehicle safety and has established itself as a premium supplier since the 1950s. Its offerings include airbags, seat belts, seat belt pre-tensioners, steering wheels, and inflators, etc.

Following the acquisition, the company went on to optimize the active vehicles

safety and smart driving systems business. Three R&D centers were built – in the United States, China, and Korea respectively – which work closely together on specific product lines. For its relatively new active safety products, KSS has received new orders worth more than 120 million dollars and in addition to its existing global customers, the company has also won new customers in China, such as Geely, Aichiwei, NextEV, and Changfeng Motor. Cooperation projects are currently under way with Shanghai Volkswagen, Changan, and Beijing Automotive.

### **Vehicle connectivity**

On March 4, 2016 Joyson Electronics took over TS Automotive for 180 million euros, representing a P/E ratio of 18. TS Automotive was part of TS Daun and focused on vehicle information systems, more specifically data interaction and liquid-crystal display (LCD) technology. Its main products include infotainment systems, navigation, assisted driving, and vehicle connectivity systems. It provides a variety of comprehensive solutions to car manufacturers and is a key supplier to the Volkswagen Group.

TS Automotive was integrated into Preh, following which a new business unit Preh Car Connect (PCC) emerged. PCC complements Preh's existing human-machine interface (HMI) business with state-of-the-art automotive electronics such as vehicle-to-everything (V2X) technology. Joyson Electronics' innovative products based on augmented reality (AR) technology, e.g. head-up displays (HUD), are also on the verge of commercialization. They will be integrated in the central console and as such an important addition to HMI. In the future, Joyson Electronics will be able to provide more centralized control platforms along with PCC's solutions.

In total, the connectivity business generated revenue of 2.25 billion yuan. Its



gross margin was 11.9 percent, increasing considerably from 8.3 percent in the first half of 2016. As the integration process proceeds, profitability is expected to improve further.

### **Human-machine interface**

The HMI informs drivers of speed, mileage, maintenance, road conditions, etc. in real time and enables them to control the navigation system, air conditioning, Bluetooth, and stereo configurations all from one place. The most commonly seen HMI systems include BMW's iDrive, Mercedes-Benz's COMAND, Audi's MMI, Volvo's Sensus, and Toyota's Remote Touch, etc.. HMI is Preh GmbH's flagship division and it drives Joyson Electronics' business in this area.

Preh now focuses on a number of market segments, including central controls, steering wheel switches, and center stacks, and multi-touch has become one of the company's core technologies. In addition, Joyson Electronics acquired and integrated QUIN, a specialist in interiors and high-end products, such as steering wheel solutions in 2014, in the hope to tap synergy with Preh's existing HMI technology. The subsequent acquisition of TS Automotive in 2016 expanded Preh's HMI business into connectivity and complementing Preh's HMI offerings.

Nowadays, Joyson Electronics' HMI business offers three main product lines: driving control systems, air-conditioning control systems, and steering wheel controllers. Joyson Electronics achieved revenue of 5.1 billion yuan from HMI in 2016, or an increase of 14.1 percent year on year, while its gross margin increased to 24.6 percent.

### **Interior and exterior accessories**

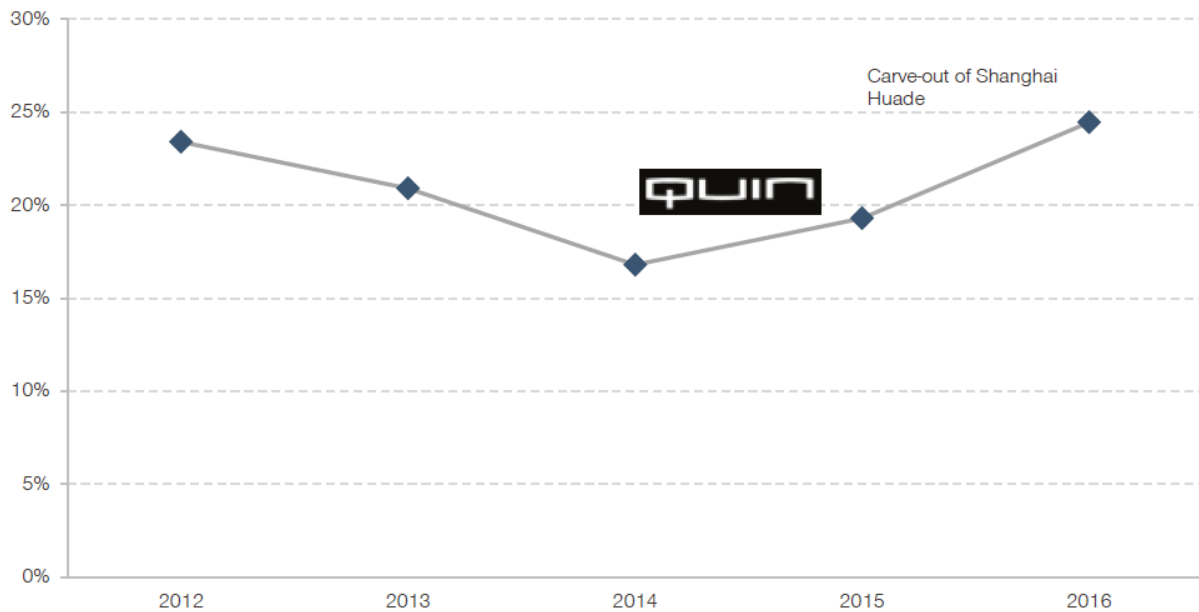
Originally, Joyson Electronics made and marketed automotive interiors and

exteriors, with core products being windshield wipers, air conditioning vents, and engine intake manifolds for German car makers such as FAW-VW and Shanghai VW as well as automotive suppliers like Yanfeng Visteon Automotive and Faurecia. As the growth of the automotive industry slows down, competition is becoming fiercer and price pressure is rising, which caused gross margin to shrink between 2012 and 2014.

In an effort to improve the profitability of its interior and exterior accessories business, Joyson Electronics has revamped its product lineup and leaned towards developing new higher-end functional parts. In 2014, Joyson Electronics acquired QUIN, a company specializing in luxury interiors, and started its global strategy to upgrade its interior and exterior product portfolio. The following year, in order to re-focus resources to advanced technology, the company carved out its shares in Dehua and carved out commodity-like products from its portfolio.

Soon after, Joyson decided to expand its functional parts division aimed at the Asian and North American markets. In the US, General Motors awarded it a project to produce air conditioning vents, while the other two big players Ford and Chrysler initiated cooperation with Joyson Electronics. In Europe, production was inaugurated in Romania to supply parts to customers located in Europe, while in China, the company won the “Excellent Supplier” award from heavyweights like FAW-Volkswagen and Beijing Mercedes-Benz.

In 2016, Joyson’s functional parts division achieved revenue of 2.45 billion yuan, down by 1.7 percent compared to last year due to carve-out of Shanghai Huade, while gross margin improved by five percentage points (see *Figure 27*).



*Figure 27: Gross margin of Joyson Electronics' functional parts business (2012–2016)*

*Source: Joyson Electronics*

### **Battery management systems for new-energy vehicles**

Battery management systems act as important interfaces between electric cars and their batteries. Some of the main functions are monitoring the battery's status in real-time, conducting online diagnoses and generating maintenance forecasts, assessing the state of charge, and controlling balance and heat management. Being a core technology of new-energy vehicles (NEV's), the BMS ensures batteries remain within their safe operating parameters and keep the NEV's running properly.

BMS used to be a subsidiary of Preh's sensor business, however, with the rapid development of NEV's, Joyson Electronics came to realize the vast potential of this sector. After a lengthy period of convincing and negotiating, the management decided to spin off BMS from Preh as a separate strategic unit and a special R&D center was also established.

Preh is BMW's sole supplier of battery management systems worldwide.

Mercedes-Benz (48V system project), Porsche (electric vehicle project), and Tesla are also its customers. In the China market, Joyson Electronics BMS's customers include Chery, Geely, and Shanghai VW. In 2016, Joyson also won the order from Geely to develop new-generation of hybrid car platform. Great Wall Motors, Changan Automobile, and Beijing Automobile Works complement the list of promising prospects in China.

In 2016, Preh and Qualcomm entered into a contract to jointly develop and market Halo wireless electric vehicle charging technology (WEVC) for use in hybrid and electric cars. In the same year, BMS achieved revenue of 443 million yuan, an increase of 48.6 percent over the previous year. Gross margin was 17.42 percent, slightly higher than in 2015.

### **Smart manufacturing**

In 2015, 248,000 industrial robots were sold globally, out of which 66,000 were in China, making China the biggest market for robots worldwide. However, there were less than 30 robots per 10 thousand people in China, i.e. less than half the global average, implying great growth potential. Digitalizing, networking, and smart manufacturing based on new technologies and optimized production processes will become a megatrend in the next five to 10 years in China.

Launched in 1982, Preh's innovative automated production lines can manufacture, assemble, and test products according to customers' individual demands. In addition to internal use, Preh also supplied to leading automotive suppliers like Bosch, Siemens, TRW Automotive, Lear Corporation, and ZF Friedrichshafen, etc. In 2014, Joyson Electronics acquired another German machinery company, IMA, to strengthen its robotics business. Immediately after,

Preh's automation business was spun off and integrated with IMA to form Preh IMA Automation GmbH (PIA). In 2015, Joyson Electronics and Preh formed Ningbo Joyson Preh Industrial Automation & Robot Co. Ltd (JPIA) with equal ownership. The aim of JPIA was to explore the Chinese market and serve the clients from the vicinity. In May 2016, PIA acquired the US firm EVANA, which specialized in industrial robots and automation, automotive solutions, and technical consulting. Its customers are from the automotive, manufacturing, health care, and medical industries.

In 2016, Joyson Electronics completed the acquisition of KSS and TS Automotive, strengthening its automotive electronics business. However, this had a side effect on its smart manufacturing activities. The major customers in this business line, such as Bosch, Continental, and ZF-Friedrichshafen expressed concerns about the potential conflict of interest with Preh. According to the company's financial figures, smart manufacturing only generated revenue of 757 million yuan in 2016. Not including EVANA's revenue of 157 million, this only equates to an increase of 47 million yuan over last year, while net profit dropped in the same time period.

To preempt a negative long-term impact on the group as a whole, Joyson Electronics made a sudden but understandable announcement in April 2017 to carve out the smart manufacturing business and transfer 50 percent of its shares in JPIA to Preh IMA Automation GmbH. At the same time, all shares in Preh IMA Automation were being transferred to PIA Automation Holding GmbH registered in Frankfurt, whose main shareholder is Joyson Holding's subsidiary, Ningbo Preh Automation Ltd.

### **Autonomous vehicles**

Joyson Electronics' 2016 financial statement foresaw autonomous vehicles to

be the future of the automotive industry worldwide. For this reason, driverless technology, new energy systems, and connectivity will be the primary focus of R&D for the company in the next five to 10 years.

According to a 2015 report by Goldman Sachs on the commercialization of self-driving cars, autonomous vehicles would change the automotive landscape, bringing a myriad of challenges and opportunities in the coming years. In 2015, the market volume of Advanced Driver Assistance Systems (ADAS) was approximately three billion dollars. By 2025, the market volume of ADAS/AV is expected to increase to 96 billion dollars and by 2030, this figure will be almost 200 billion dollars.

Based on over a decade of market experience in China and navigating international markets, Joyson Electronics has developed three business areas that will be key in the future: autonomous vehicles, safety and the connectivity.

Phase of automation	Automatic driving	Vehicle safety	Entertainment
Market potential (2021)	€39.6bn	€49.3bn	€13.4bn
Compound annual growth rate	33%	27%	18%
Development trends	<ul style="list-style-type: none"> <li>The fastest-growing area for the Connectivity business unit</li> <li>Many technologies are developing faster than expected</li> <li>High demand in the Chinese market</li> </ul>	<p>Global demand will increase due to the growth of the Chinese market</p> <p>Regulations making eCall rapid assistance systems a legal requirement will encourage investment</p>	<ul style="list-style-type: none"> <li>Customer preferences are changing, particularly in Asia; entertainment is increasingly important</li> <li>Integrated with smart phones and individual wearable devices</li> <li>Digitalization will promote inter-industrial coordination and integration</li> </ul>
Main products	<ul style="list-style-type: none"> <li>Automatic parking; low-speed navigation in traffic jams (in operation)</li> <li>Automatic, long-distance, and high-speed navigation (expected 2020–2025)</li> </ul>	<ul style="list-style-type: none"> <li>Automatic alarm system for accidents.</li> <li>Danger warning system for hazardous situations; barrier/blind-spot evasion devices</li> <li>Safety systems for collisions: automatic acceleration or steering wheel to prevent accidents</li> </ul>	<ul style="list-style-type: none"> <li>Personalized entertainment, such as social media, music and film libraries, restaurant guides, etc.</li> <li>Wi-Fi hotspot technology allowing the vehicle to function as an office and provide connectivity during meetings, etc.</li> </ul>
Challenges	<ul style="list-style-type: none"> <li>Regulations unclear</li> <li>Legal compliance issues</li> </ul>	<ul style="list-style-type: none"> <li>The commercialization of these products is limited after standardization.</li> </ul>	<ul style="list-style-type: none"> <li>No standard process</li> <li>Competition for controlling point</li> <li>Automobile manufactures have to adapt quickly to the electronics industry</li> </ul>

Table 10: Key future business areas for Joyson Electronics

Source: US's National Highway Traffic Safety Administration

### Closing remarks

Joyson Electronics has come a long way since its foundation in 2004, achieving revenue of almost 20 billion yuan in just twelve years. During this time, Joyson overcame many challenges to become an international group with a clear vision for the future. Its model of “internal growth and external expansion” has made good use of the capital market and helped Joyson Electronics develop its core competencies.

Although based in China, Joyson Electronics has fostered a global perspective

early on. The acquisition and integration of Preh was Joyson Electronics' first major attempt in expanding its footprint worldwide. This marked the beginning of a journey of internationalizing its resources and positioning itself as a major global supplier of automotive electronics, which in turn helped Joyson Electronics improve its management competencies and generate remarkable return for its shareholders.

Looking back over the 12 years of development, Joyson Electronics' management team identifies three important factors that ensured the success of its business:

- Investing in technology and R&D over the long-term, including internal investment and the optimization and expansion of global resources
- Clearly delineating “cash cow” and “star” businesses and adequately allocating resources between the two to optimize future benefit
- Developing the Chinese market: Joyson Electronics' acceptance of new technology and the speed at which it integrates it has given the group a significant advantage

M&A are an effective way of expanding globally, but proper integration of new business entities is critical to long-term success. For Joyson Electronics, 2017 is a time for integration. An R&D center for KSS safety and Preh cars is being developed in China to accelerate the integration of the technology and further strengthen its position in the Chinese market. Joyson Electronics' own global R&D center will also be developed in China to integrate its various product lines and make the company a solution provider.

In 2017, mature business units, such as the HMI and car safety division, will be integrated and further developed, in order to capture a larger share of the global



market. In its new business areas, the current scale of investment will be maintained and cooperation will be deepened with up- and down-stream partners. For the self-driving and Internet of Vehicles sector, new technologies are set to be commercialized and new customers will be found, opening the way for new innovative projects. Resource allocation is also set to be optimized, laying a solid foundation for long-term development.

Another focus for 2017 is the safety sector. The leading Japanese airbag supplier Takata is currently being dismantled after filing for bankruptcy, changing the global car safety landscape enormously. In order to make the most of this opportunity, Joyson Electronics will invest in its own production capabilities and grow its customer base. At the time of writing, Joyson has announced that it will take over Takata for 1.588 billion dollars without its toxic assets relating to its massive recall of airbags. Meanwhile, Joyson Holding is also starting to expand its automation portfolio. One of its subsidiaries, PIA, has recently acquired the Austrian automation company M&R.

Joyson Electronics is still a relatively young company. It has built a global group within a short time period. Chinese firms which intend to invest abroad often benchmark Joyson Electronics. When asked what will be the next big thing for Joyson Electronics, a manager said in interview with author in Ningbo on September 1, 2017, "We have a great blueprint in place. Now it is time to execute and optimize. It will be a big thing, if we can pull it off."

### 3.3.3 Case 3 – CIMC-Ziegler – Sailing to New Shores

#### Executive summary

As the ancient Chinese saying goes, watched flowers never bloom, while unattended willows grow. A case in point for these wise words is CIMC's acquisition of the Albert Ziegler Group in Germany. When the deal became public in 2013, it was considered a good bargain, although at that stage there was no unanimous opinion within the CIMC group about the future role of Ziegler. However, it soon became clear that Ziegler would be a salient piece of CIMC's global growth blueprint.

Concerned by its dependence on a single business area, i.e. container manufacturing, CIMC's leadership decided to follow a diversification strategy in the early 2000s. Over the subsequent years, CIMC completed numerous M&A, and continued scouting for new business opportunities around the world. The strategy proved to work. CIMC has emerged as an industrial behemoth with annual revenue of over 60 billion Chinese yuan, 60 percent of which is generated overseas. In stark contrast to its focus on container products several decades ago, today's business portfolio is much more diversified, including engineering services, logistics services, airport facilities, finance, fire trucks and rescue equipment, among others. CIMC's journey toward a global conglomerate continues, encountering new shores along the way. This study focuses on one of its newest business areas, the fire truck and rescue equipment business, the backbone of which is formed by the Albert Ziegler Group.

Prior to becoming part of CIMC, Ziegler had a negligible presence in China. The Middle Kingdom never came across as a key market for Ziegler, which sold merely a few dozen fire trucks to China over many decades through various agents based out

of Hong Kong or elsewhere. After all, China was too remote a market and Ziegler barely had the resources or infrastructure to provide proper service to local Chinese customers. Nevertheless, in early 2015, little more than a year after the acquisition, Ziegler delivered 17 large multi-functional urban fire trucks to the Guangxi Nanning fire department. This was the first time that Ziegler had exported to the Chinese market in batches. As a matter of fact, 2015 turned out to be a groundbreaking year for Ziegler, as order entry from China surpassed 100 fire trucks. In the same year, CIMC acquired 30 percent ownership of China Fire Safety Enterprise (CFE) through an equity swap between Ziegler and CFE, the first Chinese firefighting company listed on the Hong Kong stock exchange. Its reduced stake in Ziegler aside, prospects for CIMC's fire truck and rescue equipment business improved greatly in light of the potential synergy between Ziegler and CFE.

Under the umbrella of CIMC, Ziegler also managed to resume its growth course on its home turf in Germany. A collusion scandal had left the former German market leader with only a 20 percent share of the market in 2013. A turnaround strategy was put to action immediately after CIMC took over. Two years later, Ziegler had regained market leadership, boosting its domestic market share to 35 percent.

Apparently, CIMC has even bigger ambitions for Ziegler and the firefighting business in general. At the time of writing, plans were being made for further expansion in China and Europe, as well as other key markets around the world.

## **Background**

CIMC and Ziegler have taken very distinct paths since they were founded. The former came into being in the wake of China's Reform and Opening-Up Policy in the

1980s; the latter had a rich history as a family-run business spanning over 125 years in the southwest of Germany. In what follows, I give a brief account of the histories of both companies before their paths crossed.

Unlike many other large-scale state-owned corporations that carry “China” in their name, China International Marine Containers (Group) Ltd., or CIMC, was born out of a pioneering initiative to attract foreign investment as the Chinese government introduced the Reform and Opening-Up Policy in 1979. CIMC was established in 1980 as a Sino-foreign joint venture between the China Merchants' Steam Navigation Company and the East Asiatic Company from Denmark. Its main products at that time were standard 20-foot containers based on the technology provided by the Danish partner. The first general manager of the company was Mr. Moesgaard, a Danish national, who was joined by a few compatriots on the board of directors. He held the office until 1986, one year before the China Ocean Shipping (Group) Company, commonly known as COSCO, acquired a minority equity stake in CIMC. At the first board meeting after COSCO's investment, an all-Chinese board of directors was elected and the direction of future growth was set: “Specialize in container manufacturing, and diversify into other businesses.”

Starting out as a humble low-cost container manufacturer, CIMC grew rapidly and eventually overtook once uncontested market leaders Hyundai and Jindo, both from Korea, in 1996. Ever since, CIMC has been the well-recognized leader in the container-manufacturing industry worldwide. Presently, half of all containers manufactured globally are made by CIMC. Moreover, CIMC is the only container manufacturer in the world that can deliver the complete range of container products. Building on its success in this sector, CIMC gradually expanded its business scope to

road transportation vehicles, heavy trucks, and then to adjacent industries, such as energy, chemical and liquid food equipment, airport facilities, marine engineering, and logistics services. Latterly, the company has also set foot in real estate development and financial services.

Throughout its history, CIMC has often entered new markets by acquiring companies with strategic assets to leapfrog over established players. The group was a serial investor in overseas assets with long-track records (see *Table 11* for a selection of CIMC's Cross-border M&A).

Time	Target company	Relevance
1998	Acquisition of Lumprex Suriname N.V.	Completed the first overseas acquisition.
2003	Acquisition of Vanguard (USA)	Entered the semi-trailer markets of North America.
2007	Acquisition of Marshall Lethlean (Australia)	Established a production base for semi-trailers in Australia.
2007	Acquisition of Burg Industries (LAG; Hovrieka) (Netherlands)	Entered the semi-trailer and beer and beverage equipment industries.
2008	Acquisition of TGE (Germany)	Gained EPC capabilities for LNG receiving stations and petrochemical industries.
2011	Acquisition of Bassoe Technology (Sweden)	Completed the conceptual design and basic design for offshore products.
2012	Acquisition of Verbus (UK)	Entered the overseas modular building market.
2012	Acquisition of Ziemann (Germany)	Gained capabilities for turnkey brewery solutions and saccharification equipment.
2013	Acquisition of Air Marrel (France)	Gained technology for airport lift platform trucks and vehicles.
2013	Acquisition of Ziegler (Germany)	Entered the high-end firefighting and rescue vehicle industry.
2014	Acquisition of listed company Pteris (Singapore)	Expanded into airport baggage handling systems, air cargo handling system, and other business areas.

*Table 11: CIMC's cross-border M&A projects (not exhaustive)*

Source: CIMC

Container manufacturing was CIMC's sole business area at its inception in 1980. As the diversification strategy unfolded, container manufacturing accounted for little over half of its total revenue by 2012, declining to about one third by 2016. Through continuous acquisitions and organic growth, CIMC has grown into a global

conglomerate with over 300 subsidiaries and more than 60,000 employees worldwide. Its R&D centers, manufacturing bases, sales, and service centers are scattered across twenty countries and regions. An impressive 60 percent of CIMC's revenue is generated outside of China (see *Figure 28* for the milestones of CIMC).



*Figure 28: Milestones of CIMC (1980–2016)*

Source: CIMC

CIMC's airport facilities business unit is a leading global supplier of airport equipment and its sales volume of boarding bridges ranks number one in the world. The company made the world's first boarding bridge for the Airbus A380 and had the

highest sales of airport shuttle buses in China. Despite being one of the smallest business units by revenue, airport facilities business shows greatest growth potential. Compared to CIMC, Ziegler looks back on a much longer history. The company was founded by its namesake Albert Ziegler in 1891 in Giengen an der Brenz in the Swabian Alb area of Germany. In the very early days, the company was primarily engaged in producing and selling hoses manufactured at its five hose-weaving mills with eight employees in production and two others taking care of commercial affairs. In the 1910s, a second product line, portable fire pumps, was added to the portfolio with the second generation of the founder's family at the helm. The first Ziegler fire truck was not produced until June 1953 – a KLF 6 model built on an Opel-Blitz chassis (see *Figure 299*), the prototype of which is still on exhibit in the corporate museum at Ziegler's facilities in Giengen an der Brenz.



*Figure 29: KLF6, the first Ziegler fire truck*

*Source: Ziegler Group*

Thanks to continuous innovation and marketing efforts, Ziegler rose to a recognized and trusted brand in the firefighting business, building a sales network across several European markets. In addition to the production site in Giengen,

Ziegler had production sites in Rendsburg and Mühlau in Germany, Winschoten in the Netherlands, Zagreb in Croatia, Bolzano in Italy, Seville in Spain, and Jakarta in Indonesia. Its current product portfolio consists of remodeled vehicles, such as standard and special fire vehicles; airport firefighting and rescue vehicles; traditional products, such as pumps and hoses; and accessories, including equipment, clothing, and spare parts.

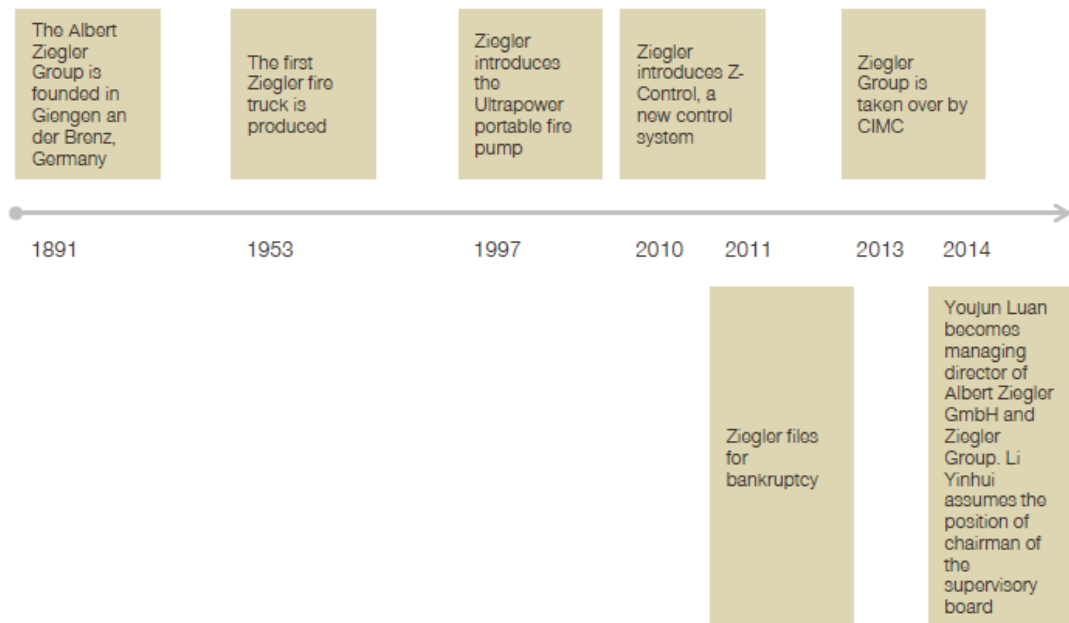
Prior to its insolvency, Ziegler belonged to the top five manufacturers of firefighting vehicles worldwide, and the biggest supplier in Germany by sales volume. The other main players in Germany were Iveco Magirus Brandschutztechnik, Rosenbauer, and Schlingmann. Together, the Big Four accounted for about 90 percent of the German market.

At the beginning of 2011, German antitrust authorities imposed fines totaling 28 million euros on the four companies mentioned above for cartel practices as result of a two-year investigation. It was determined that for several years, the four cartel members had been granting one another specific shares of sales, known as “target quotas”, and had used a Switzerland-based accountant to transfer the profits. The accountant was believed to have been keeping logs to monitor adherence to the quotas agreed at the cartel’s regular meetings at Zurich Airport. In addition to the Zurich meetings, sales managers at the four companies held regular meetings to allocate orders for firefighting vehicles from German municipalities among the cartel members. The four companies were also found to have concerted on price increases.

Ziegler was fined eight million euros for its part in the cartel scandal. To make matters worse, many loyal customers suspended or canceled orders, when the scandal was exposed. After struggling with draining liquidity and a damaged



reputation for more than two years, Ziegler's then CEO, who belonged to the fourth generation of the founding family, made the decision to file for insolvency in August 2011. The move caught many off guard and caused upheavals in the small town of Giengen, as Ziegler was the town's second largest employer with about 700 local employees. The Ziegler employees, in fear of losing their jobs, took to the streets to demonstrate against the insolvency application. Numerous townspeople and firefighters from surrounding neighborhoods also joined the demonstration to show support for the angry protesters, who believed that their company could still be saved. Despite all these efforts, Ziegler went into insolvency later that year. It was a sad moment for the family-run business with its proud heritage and dealt a serious blow to many of the staff, including Jochen Brachert, the head of the works council. Downsizing became inevitable and the entire workforce was threatened with losing their jobs. In the end, 150 employees were let go. The fine was just the last straw that broke the camel's back and by no means the only reason for the company's demise. Signs of mismanagement were apparent long before the cartel scandal. The fourth generation of the founding family had been reluctant to invest in the business – buildings were very old; equipment was out of date. In retrospect, it was good for everyone to find a new owner that was willing to invest in the brand and in the people (see *Figure 30*) for milestones of Albert Ziegler Group).



*Figure 30: Milestones of Albert Ziegler Group (1891–2014)*

*Source: Ziegler Group*

### **Motivation and strategy**

In 2011, the insolvency administrators, Messrs. Kübler, and Sorg took over management of Ziegler, making introduction of proper legal compliance measures their top priority. The search for potential buyers began immediately and external consultants were soon brought in as interim managers in order to get the business up and running again, while the restructuring program was ongoing. Finding a decent investor was not easy, as it was not certain that Ziegler could ever recover from its damaged reputation. Moreover, in the interest of the local employees, the insolvency administrators were reluctant to sell Ziegler to private equity firms, who would be prone to make a profitable exit in as short a timeframe as possible, jeopardizing Ziegler's future viability.

2012 went by without finding a passable investor, although numerous potential candidates had been screened and interviewed. According to Mr. Kübler's own

account, more than 150 companies considered buying Ziegler, but without a result. Prior to CIMC, another Chinese company, Shandong Heavy Industry, had also shown interest but did not follow through with the deal for reasons unknown.

It was not until March 2013 that CIMC learned about the sale of the insolvent Ziegler Group. It seemed like a sensible investment for CIMC, as Ziegler would complement the product portfolio of CIMC's airport facilities business. Thanks to the ongoing restructuring program, Ziegler was in much better a shape than at the beginning of the insolvency procedure. Its production facilities had been upgraded with new equipment and investments had been made in bringing out innovative products, such as the "Merkur", a new type of tunnelrescue vehicle with double cabins, and the "Fire Ant", a special tank fire truck designed for narrow passages. Most importantly, entry orders were picking up again after several large contracts were secured with key accounts, including the State of Hessen and the German Armed Forces. In the third quarter of 2013, Ziegler was even able to regain its position as market leader in Germany, achieving order numbers that it had not seen in a decade.

After the initial discussion, CIMC commissioned due diligence in August 2013 and made it through to the final round of bidding with only another potential buyer, Swiss equipment manufacturer Aebi Schmidt. Ultimately, CIMC outbid its opponent and became the new owner of the Ziegler Group. It turned to be a great result for many stakeholders involved, particularly the employees, as CIMC guaranteed that all employment contracts in Giengen would be kept. As CIMC had an existing business that was complimentary with that of Ziegler, the local communities felt reassured that CIMC meant to develop the Ziegler brand and potentially position it as a global

name, building on its decades of experience in international acquisitions and broad customer network in related businesses.

The big day finally arrived on November 7, 2013, when CIMC inked the agreement to acquire Ziegler for 55 million euros, or 1.3 times its net asset value per the end of 2012. The blackout period lasted for one month following the signing of the agreement. Li Yinhui, head of CIMC's airport facilities business, took on the post of CEO for the newly-acquired German subsidiary company. It was rather unconventional for a high-ranking executive like Li to assume such a role. Knowing that he would not be managing the Ziegler group on a daily basis, Li asked his deputy Youjun Luan, to supervise Ziegler as acting CEO (or "prokurist" in German) on his behalf. Soon after, Luan was officially appointed CEO to succeed Li, who moved to the supervisory board to serve as chairman.

Ziegler was able to stage a remarkable turnaround within three years of the CIMC takeover and was in the black again in 2016. When asked whether there was a master plan for the acquisition, Luan frankly acknowledged that there had been no such a plan at the outset. That said, the purchase formed a clear part of its strategy – CIMC had already been pursuing a diversification strategy and had been looking for attractive investment opportunities around the world for some time. In this regard, the acquisition of Ziegler made perfect sense. According to CIMC's strategy, the airport facilities business unit was going to be one of the main growth drivers for the Chinese conglomerate. Ziegler's airport rescue and firefighting vehicles would enrich the existing product portfolio. Moreover, CIMC's leadership became aware that by building on Ziegler's experience, it could enter the firefighting industry – a completely new market with great growth potential – for the first time.

Europe, the United States, and China are the three biggest markets for firefighting and rescue equipment. Unlike the two Western markets, the Chinese market is highly fragmented. The country's fire truck industry began at the start of twentieth century when all firefighting vehicles were imported from Western countries. In the 1930s, Chinese manufacturers started producing firefighting vehicles locally. Most of them were small to medium-sized companies with outdated technology and weak R&D capabilities. The 1940s and 1950s saw the reshuffle and consolidation of the industry, however, to date, no national player really exists.

There were estimated to be around thirty thousand firefighting vehicles in service in China in 2014. Annual sales totaled approximately four thousand, the majority of which were in the price-sensitive segment served by local players. Compared to developed economies, China was lagging far behind in deploying high-end firefighting and rescue vehicles for special purposes. With the advance of urbanization, the number of high-rise buildings and the complexity of firefighting operations are both expected to rise. Consequently, demand for premium equipment is also on a growth trajectory. CIMC could have a unique competitive advantage with Ziegler under its umbrella, as German brands typically enjoy a good reputation in China and could help CIMC break into new markets.

### **Integration and transformation**

By the time of the acquisition, Ziegler had recovered considerably under the management of the insolvency administrators. Nevertheless, challenges loomed when CIMC acquired Ziegler at the end of 2013.

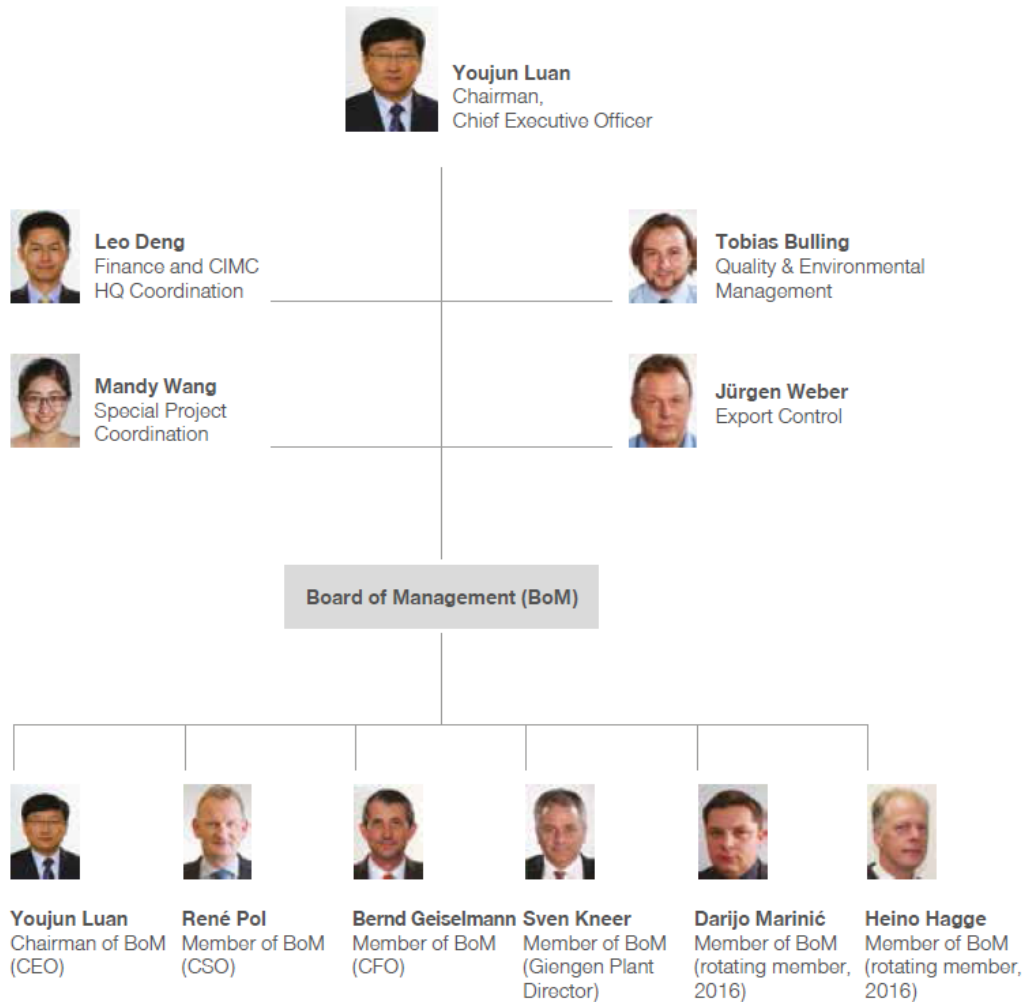
From the experience it had gained during the previous decades, CIMC's

leadership knew that there was no panacea for integrating and transforming new subsidiaries. Instead, its success was to be founded on three key pillars: people, organization, and culture. In the case of Ziegler, corporate governance was deficient by any standard. During the insolvency procedure, external consultants with short tenures held most managerial positions. Consequently, CIMC had to rebuild the management team from the ground up after the takeover. Control systems were weak within the company that had been family-run for over a century. Business units in different locations used different formats to write reports and data quality varied widely. Steering the company remotely from China was clearly not an option.

Li, head of Airport Facilities, was accountable for the Ziegler Group, as Ziegler belonged to his business unit. In a break with convention, Li actually became the first CEO of the revitalized Ziegler Group – a move that signaled Ziegler’s importance to CIMC. His long-time deputy, Luan, came on board in November 2013. After a short Christmas and New Year break, he returned to Giengen, accompanied by Leo Deng, a CIMC manager with a background in finance and management systems. They had the mission to revive the ailing German brand on behalf of the Chinese investor.

To the best of my knowledge, this was the first time in recent years that a Chinese investor had appointed a Chinese national as a general manager for a newly-acquired entity in Germany. As a matter of fact, Ziegler was a unique case in that there was essentially no incumbent management. Although Luan kept a low profile at Ziegler, it must have been a daunting task for a Chinese manager to run a German company, which previously had little connection to Chinese business practices or culture. The setup was something quite out of the ordinary for a traditional company rooted in Swabia.

The burning issue that Luan had to resolve first was Ziegler's management team, as the company had been run by lawyers and consultants in the transition period before the takeover. He had to put together a competent team as quickly as possible to bring the business back on its feet. Luan took immediate actions to replace the interim managers with external hires. Nevertheless, the management reshuffle could only take place gradually, as it was practically impossible to find the right people all at once, not to mention that Giengen's location was far from attractive. Even some of the newly hired executives admitted that the company's location was a real concern for them prior to joining Ziegler, although Giengen houses, in fact, at least two other world-famous brands, Bosch and Steiff (the teddy-bear maker). It took some time to make these adjustments, but the reshuffle is now complete. Before the insolvency, there was practically no board of management as the Ziegler family effectively made all decisions. Soon after CIMC's ownership began, a brand-new board of management was appointed, headed by Luan (see *Figure 31*). It was a highly international and diversified team, consisting of six people from four countries, China, Germany, the Netherlands, and Croatia. Luan was the only Chinese national on the board. However, the real innovative part was the rotation mechanism. Two of the six seats on the board are up for re-selection by the standing members of the board every two years. The board member candidates are experienced managers within the Ziegler Group that have demonstrated exemplary performances. This mechanism was introduced as a way to reward and incentivize top performers. In addition to the board of management, a supervisory board was formed to steer the strategic direction of the company.



*Figure 31: Ziegler board of management*

*Source: Ziegler Group*

In its entire history, the Ziegler Group had been a highly decentralized organization. Its satellite factories were highly independent, somewhat resembling franchises. Decision-making procedures were not formalized and synergy potential was largely untapped, while there was an abundance of overlapping organizational functions between the headquarters and the subsidiaries. After taking over leadership, Luan initiated the centralization of group functions. For example, payroll administration, the appointment of personnel, procurement, marketing, and sales at all Ziegler's subsidiaries were unified. Group-wide rules were developed and



implemented across Ziegler to reinforce the headquarters' central role in functional management. The integration of HR, IT, finance, procurement, and R&D is now completed and group directors for these functions have taken up their positions. The management optimization process is set to continue at a subsidiary level in the coming years according to Luan's plan.

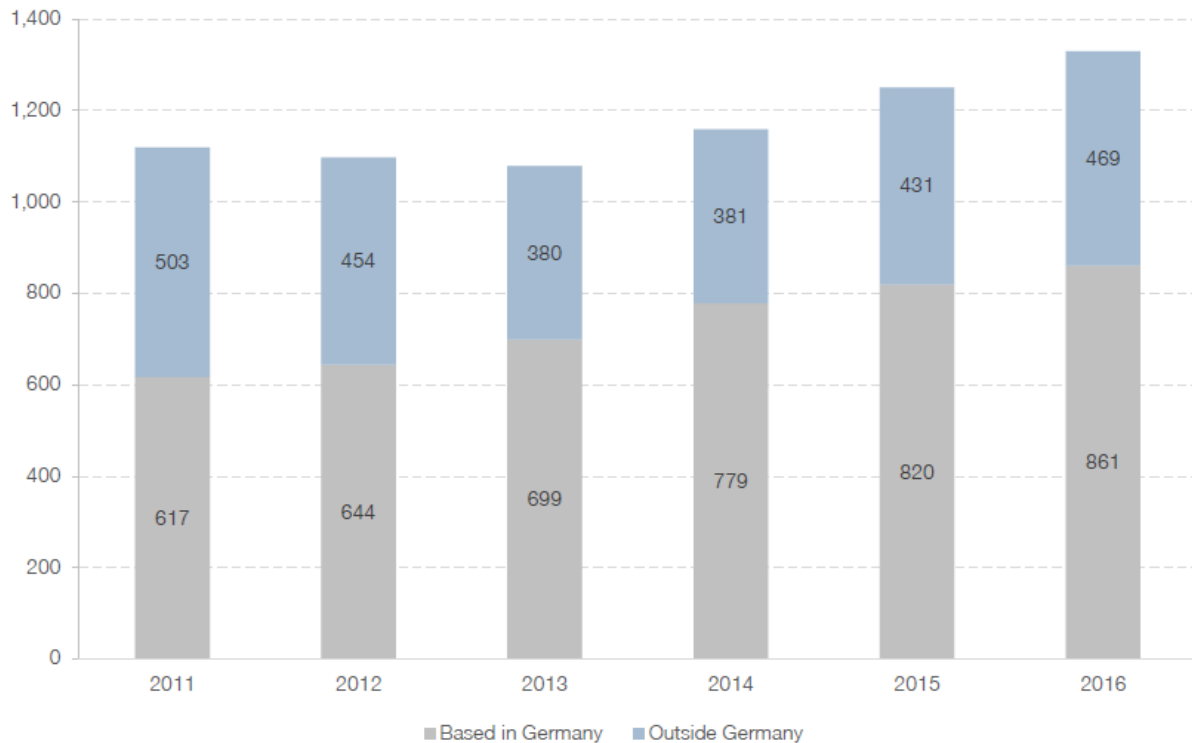
In the meantime, the new management took on the internal auditing and management control systems of the subsidiaries. According to CIMC's policy, a complete compliance package should comprise financial reports, corporate governance, business administration, duty incompatibility, and related-party transactions, etc. The old Ziegler group was plagued by a multitude of compliance issues and although legal compliance improved considerably during the insolvency period, it still was below international standards. Specifically, the scope of non-legal compliance at Ziegler was narrow, only taking into account sales and marketing, procurement, and employee ethics. The starting situation at Ziegler was far from satisfactory. For example, the financial reports from different subsidiaries were neither standardized nor compliant with German accounting standards (Generally Accepted Accounting Standards). It is easy to imagine how difficult it was for the managers to run the business. A comprehensive analysis was conducted and improvement plans were devised. After a couple of years, the majority of the issues with management control systems had been resolved, and reporting had been unified to a large extent. Every factory was required to submit financial reports to the headquarters on a monthly basis. The gap to CIMC's own standards of risk management and control systems had narrowed significantly.

At a traditional Swabian company, like Ziegler, employees play an important role

and can exert considerable influence on managerial decisions. Most employees were members of IG Metall (Industrial Union of Metalworkers), the largest and the most influential workers' union in Europe. Its name does not do it justice as it represents the interests of not only employees in the mining of minerals but also those in many other different industries. If relations with the employees were not handled appropriately, it could have had severe repercussions for CIMC and any future M&A it wished to undertake in Europe. For this reason, immediately assuming office, Luan began collaborating closely with the works council and tried to have open discussions with the employees. CIMC leadership sent a very clear message to all staff at the first employee communication meeting, reaffirming CIMC's promise to keep every job at Giengen and further develop the Ziegler brand.

This was a big promise but CIMC kept its word. Not only were the existing jobs secured, many new jobs were also created, at the headquarters in Giengen and other locations inside and outside Germany (see

*Figure 1* *Figure 32*). The number of employees in Germany rose from 699 in 2013 to 861 in 2016, while the total workforce grew from 1,079 to 1,330 in the same period, representing a 23 percent increase. Recruiting and developing new talent has become a top priority at Ziegler. New employees are teamed with experienced staff to learn from their experience and best practices. Under the new human resources structure, newly hired personnel have to attend mandatory training sessions with newly developed curricula. With the planned expansion of production sites, even more staff are expected to be hired in the coming years.



*Figure 32: Number of employees at Ziegler (2011–2016)*

*Source: Ziegler Group*

Collaboration with the works council went smoothly. The head of the works council, Jochen Brachert, who also recently became a member of the supervisory board, recalls that he did not have any preconceived notions about the Chinese investors prior to the takeover (personal interview by author in Giengen an der Brenz on October 10, 2016). After all, it could only be better than the insolvency. Looking back at the last three years, he is pleased with the progress that has been made. He and the works council have had meetings with Luan every two weeks to address the workers' concerns. In addition, he and Luan go to the shop floor on a regular basis to talk to the workers directly. The staff appreciated the respect they were shown and that they were attentively listened to – something that cannot be taken for granted in large organizations in Germany. Brachert valued Luan's openness and sincerity in handling staff-related issues. Moreover, from his conversations with his colleagues

at IG Metall, he learned that Chinese investors at other German companies had exercised similar care to keep jobs and treat employees fairly.

Luan and Deng decided that their role should be to act as bridges, giving guidance and facilitating communication between Ziegler and the holding company, rather than merely supervising. In any case, the prerequisite for their role was mutual understanding. The Chinese managers could not speak German and their German counterparts could not speak Chinese. They had to resort to English as the *lingua franca*. Although Ziegler had an international customer base and subsidiaries in remote countries, the local German staff were not fluent in English. It took several years for the organization to adapt to its new company speak. Now all management meetings are held and documented in English. Nevertheless, German remains as the dominant language on the shop floor among technicians and assembly workers. To accommodate Brachert, the workers' representative on the supervisory board, a German-speaking Chinese colleague would interpret for him during important meetings. It had been a difficult change for everyone, but Luan firmly and fully implemented the new language requirement. During my interviews with the members of the board in October 2016 and February 2017, they joked that, thanks to Luan's policy, they all speak better English by now. The management team also adopted WeChat, a popular instant communication app from China, as a communication tool among themselves. René Pol, Group CSO at Ziegler, even could show off by using a hidden feature imbedded in the app that translates chats instantly.

Gaining the trust of the workforce and the management team was an important achievement for the Chinese investor in the post-M&A integration phase. The next crucial task was to win over the customer base and grow the business. The cartel

scandal and the ensuing insolvency had left a mark on Ziegler's reputation. Although this recovered to a certain extent during the insolvency period, customers' trust in Ziegler remained vulnerable. Having a Chinese investor with a strong governmental connection did not do much to help, especially considering many of Ziegler's key accounts had ties to the German government or military. While Li was still CEO at Ziegler, reassuring the company's main customers was top of his agenda. He traveled around Germany, visiting the most important customers, in an effort to dispel concerns over CIMC's connection with the Chinese state. His approach worked, as Ziegler was able to maintain the German Armed Forces as one of its customers and win new orders in the subsequent years.

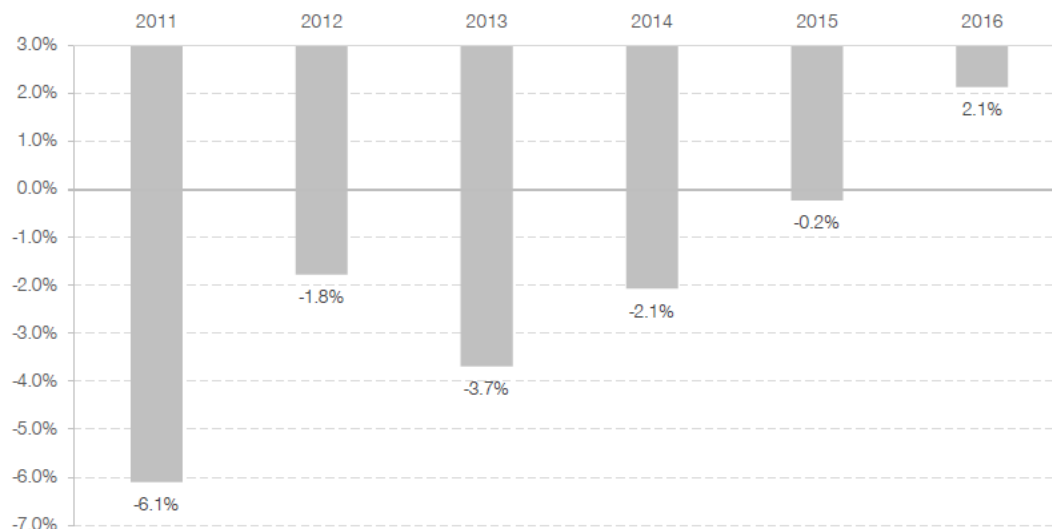
Under Luan's stewardship, Ziegler was able to achieve steady revenue growth year after year. 2016 stood out in particular, with revenue soaring to 220 million euros, representing a 26 percent year-on-year growth (see *Figure 33*). In contrast, the industry's average growth rate has been declining for years and was estimated to be just 1.6 percent in the same time period.



*Figure 33: Revenue of Ziegler Group (2011–2016)*

Source: Ziegler Group

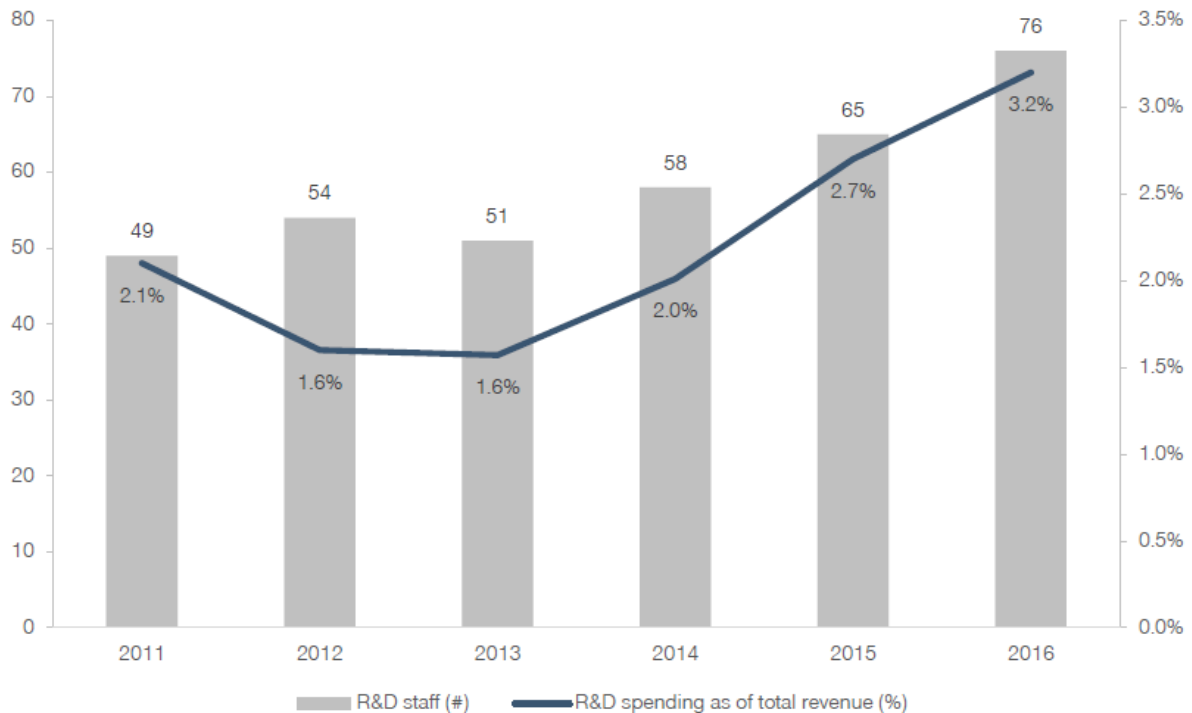
In 2016, Ziegler finally returned to the profit zone, booking a positive EBIT of nearly five million euros, or 2.1 percent in relative terms (see *Figure 34*). It was the first time in at least five years that the Ziegler Group as a whole was profitable again.



*Figure 34: EBIT margin of Ziegler Group (2011–2016)*

Source: Ziegler Group

This success was the result of improvements on multiple fronts, in addition to those previously mentioned regarding compliance and management control systems. To start with, CIMC attached great importance to R&D. After taking over Ziegler, it continuously expanded the R&D team in Germany and increased spending on new product development. Since CIMC's acquisition, the size of the R&D team at Ziegler has grown by 50 percent. In the same period, expenditure as a percentage of revenue has doubled to 3.2 percent (see *Figure 35*). On average, hidden champions spend six percent of their revenue on R&D (Simon, 2012). According to this benchmark, Ziegler still has room for improvement.



*Figure 35: R&D staff and spending at Ziegler (2011–2016)*

*Source: Ziegler Group*

That being said, the investment Ziegler has made so far has already borne fruit. Ziegler managed to file 19 patents in 2016 alone, an improvement of nearly 100 percent compared to before the insolvency (see *Figure 36*). Product innovations have been well received, such as the Alpas (Aluminum-Panel-System) III; the next-generation airport rescue vehicle Z-Class 2020; the spacious truck cabin Z-Cab NG XL; and an upgrade of the control unit Z-Control 2.0. Some of these projects have already delivered finished products that have been sold to customers, while others are still under development but are on schedule.

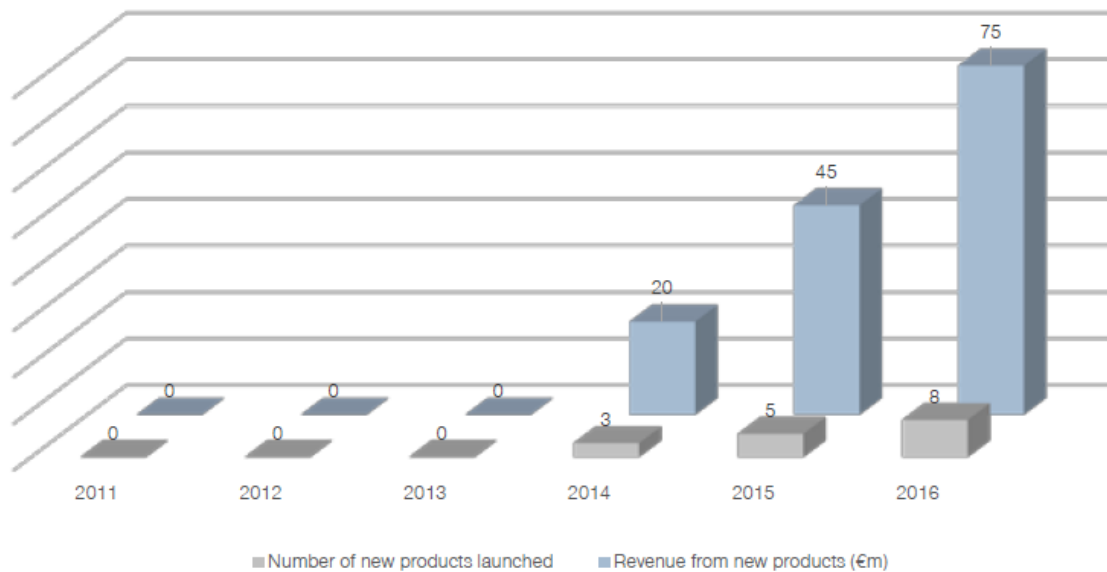


*Figure 36: Patents filed by Ziegler (2011–2016)*

*Source: Ziegler Group*

From 2014 onward, the revenue contribution of new products rose dramatically, from zero prior to 2014 to 75 million euros in 2016, i.e. more than 55 percent of annual revenue. Innovation became Ziegler’s growth engine, laying a good foundation for sustainable top-line growth.





*Figure 37: New products and their revenue contribution (2011–2016)*

*Source: Ziegler Group*

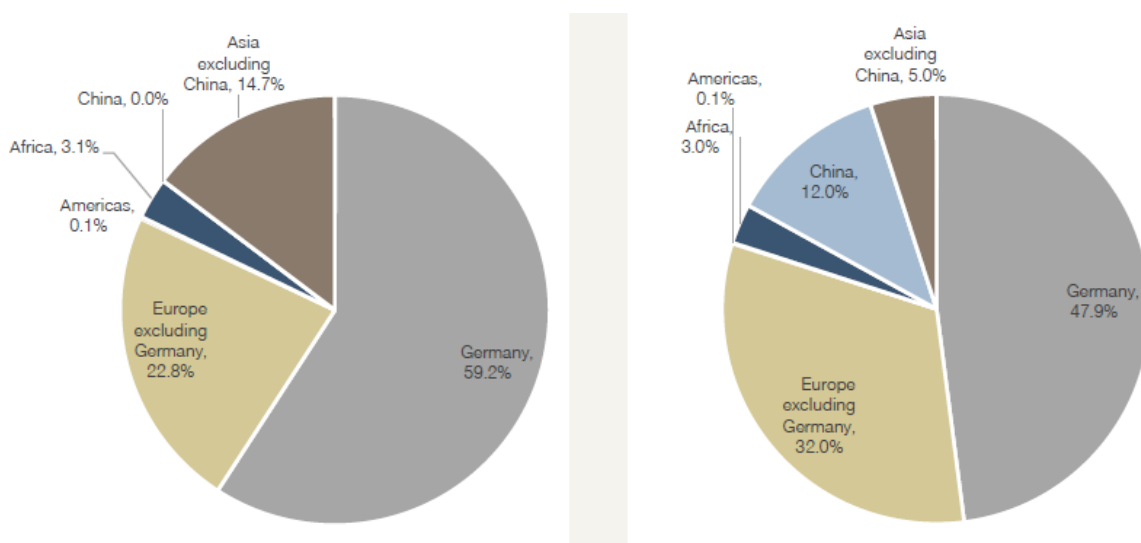
Innovation did not only apply to the products but also the production facilities. Contrary to its image as a technology-driven company, the Giengen plant had been reliant on outdated manufacturing processes and had more in common with manual workshops. The layout of the shop floor was suboptimal, causing inefficiency in production. In an effort to modernize the plant, the new Ziegler management team drew up a strategy for production and logistics, focusing on optimizing floor layout and assembly procedures. Ziegler had the chance to carry out the optimization of its production processes in parallel to completing a large order for a key account. After the upgrade, Ziegler was able to drastically increase efficiency and reduce lead time. In order to ensure the success of the optimization project, progress was assessed on set days each week so that potential problems could be dealt with before they became serious issues.

René Pol, a Dutch national, was appointed Group CSO after Ziegler became part

of CIMC. He is a veteran at Ziegler Group, having worked for the company on and off since the early 1990s. He noted that Ziegler had been overwhelmingly focused on continental Europe as its target market. International markets were basically ignored, as the owners did not aspire to make the company a global player. The organizational structure had not been conducive to overseas business as there was no dedicated team to take care of pre-sales consultation or aftersales service for international customers, not to mention that hardly anyone at the headquarters could communicate properly in English. The internationalization of the business has gained momentum under CIMC's ownership. The sales and customer service infrastructure has been revamped, and a dedicated team of sales and support staff has been built to assist international customers. A sales-driven subsidiary of Ziegler, wholly owned by CIMC, was founded in Beijing to be close to local customers and provide more agile services. As of 2016, there were about a dozen sales and service staff working out of the Beijing subsidiary. CIMC was also instrumental in generating new business opportunities for Ziegler from its broad network of local Chinese customers. A case in point was the order from Guangxi Nanning fire department, which ordered 17 large multi-functional urban fire trucks from Ziegler as early as 2014. It was the first time in Ziegler's history that it delivered fire trucks to a Chinese customer in such a big volume.

CIMC's lead-generation capability stretches beyond China as it has operations in many parts of the world. Ziegler benefitted from the airport facilities business unit in particular as their customers overlapped. Pol mentioned that a few leads had been referred to Ziegler by colleagues in the airport facilities division (personal interview with author on February 8, 2017).

The market-oriented growth strategy paid off evidently. In the past, the company generated over three quarters of its revenue in Germany, according to Pol. While the share of revenue generated in Germany had hovered around 60 percent in 2013, this proportion dropped to below 50 percent three years later, with China contributing significantly to revenue growth outside Germany (see *Figure 38* and *Figure 39*). Revenue contribution from China rose from almost none in 2013 to 12 percent in 2016, accounting for 70 percent of revenue from Asia.



*Figure 38: Revenue by region (2013) + Figure 39: Revenue by region (2016)*

*Source: Ziegler Group*

A more open, market-oriented Ziegler has taken shape since being acquired by CIMC. Not only has domestic business stabilized and growth picked up, Ziegler has also initiated a course of internationalization. Continuous efforts to innovate and streamline corporate governance laid a solid foundation for the next stage of development under CIMC's leadership.

## Growth initiatives

The revived Albert Ziegler Group broke even three years after becoming part of CIMC and was well positioned for future growth. Within the company, a new corporate-governance set-up had been introduced, providing transparency and efficiency, and a well-functioning, competent management team was now up and running. Externally, the negative impact of the cartel incident and the subsequent insolvency had gradually diminished. Ziegler restored its reputation as a leading manufacturer of quality firefighting and rescue equipment. Prospects looked good for Ziegler, as it began to emerge as a rising global player with comprehensive support from the holding company.

As to where the journey was headed, CIMC/Ziegler had a clear answer. A special task force consisting of members from both CIMC and Ziegler spent more than six months together devising “Strategy 2020”, a five-year plan outlining the way forward. The core of the strategy aimed for CIMC to become the world’s leading provider of firefighting and rescue solutions. Ziegler, as a premium brand and technological powerhouse, would play a central role in achieving that goal.

Luan explained that by 2020, CIMC’s firefighting and rescue business unit would be comprised of a fleet of affiliated companies, among which Ziegler would serve as the flagship, promoting new technologies and sharing critical expertise and best practices with the other members of the unit. By 2020, CIMC/Ziegler aims to have established a prominent presence in all major markets, i.e. Europe, China, and the Americas (personal interview with author on October 10, 2017).

The overall sales plan forecasts an 18 percent compounded annual growth rate over a five-year timeframe. Organic growth at Ziegler should average around 10 percent over the same period. In view of the average industry growth rate, which was

in the low single digits, the plan was extremely ambitious. German employees soon voiced their concerns over the challenging target. One of the matters they raised was that quality could suffer as a consequence. To substantiate the growth plan and address the employees' concerns, the task force defined 57 specific projects, spanning a broad range of areas, such as operations, sales, finances, services, supply chain, and IT.

Operative efficiency had improved remarkably at the Giengen plant owing to its proximity to the group's headquarters. Yet progress at other plants varied by a wide margin, as they had been historically managed in isolated silos, meaning there was still room for improvement in general.

Looking ahead, the company's management structure and processes will be further optimized to reduce costs and increase efficiency. Some small or unprofitable entities will be closed if they no longer make economic sense. The roles of each plant within the group will be more clearly defined to tap synergies to the fullest. For example, Giengen, as the headquarters of the Ziegler Group, will be responsible for developing and manufacturing standard vehicles such as the HLF series and Z series. Production capacity in Giengen will expand with the addition of a new service center located six kilometers from the headquarters. Capacity in Mühlau will be fully utilized to manufacture different types of standard vehicles, such as the MLF and TSF, while Rendsburg will become an important service hub in addition to producing model series, including the TSF and KLF.

A large proportion of the increased operational efficiency should result from the "Configurator Project", which was launched in 2016. The aim of the project is to streamline the information flow between sales and production teams, and increase

the accuracy of costing by using standardized bills of materials. Furthermore, the Configurator should speed up processes, from costing and production preparation to manufacturing standard-specification products, supported by modularized bills of materials and price lists. Upon completion of the project, standard components stored at all production sites will be harmonized, leading to reduced costs and faster production ramp-up through improved availability of spare parts.

In regard to future growth drivers, Luan names two important levers. The first is investing continuously in R&D to secure Ziegler's competitive edge and a premium position within the industry. The second lever is pushing forward the internationalization of the Ziegler Group (personal interview with author on February 8, 2017). The company considers the last 10 years a lost decade. Its biggest competitor, Rosenbauer, used to be about the same size as Ziegler. While Ziegler was content to sit back and reap the benefits of the four-party cartel agreement, Rosenbauer, also a member of the cartel, kept on investing and successfully expanded in the US market. As of now, Rosenbauer's annual revenue is approaching 900 million euros – four times that of Ziegler.

As part of CIMC, Ziegler has the chance to resume its growth path worldwide and narrow the gap to Rosenbauer, especially in China, where CIMC/Ziegler has built a good foundation over the last couple of years. The subsidiary in Beijing will be able to provide consultation and aftersales services at a speed that would have been impossible a few years ago. Ziegler's sister company, CFE has a very strong presence in Sichuan thanks to Sichuan Chuanxiao's sales network and production base. Chuanxiao was founded in 1963 under the name Sichuan Firefighting Equipment General Works, a state-owned enterprise. Since 1995, it has been a 100

percent subsidiary company of CFE. It is a valuable asset as, the central government no longer issues licenses for manufacturing firefighting vehicles in China. Although there has been little cooperation between Ziegler and Chuanxiao so far, the potential synergy is significant in a variety of areas, such as purchasing, R&D, and more importantly, sales and marketing activities. As a first step, Ziegler recently made plans to seek and develop strategic suppliers in China through its entity in Beijing. In the medium to long term, CIMC aims to be the first national player to gain at least a 30 percent market share in China.

Although the prospects in China are bright, it will not be an easy win, says Pol, CSO of the Ziegler Group. According to his estimates, the annual market volume for firefighting and rescue vehicles is around 4,000 in total, and the addressable market (i.e. high-end, imported vehicles) is only one-tenth of the total market, reducing the market potential for Ziegler to 400. Ziegler delivered about 100 fire trucks to China in 2015. The room for significant growth could be limited unless the overall market size increases or demand shifts toward more high-end products. Another practical hurdle for foreign companies in general is the so-called 3C inspection imposed on all fire vehicles before they can be handed over to end users. Such inspections can only be carried out in China, resulting in additional costs and extended delivery time for foreign manufacturers. It is common practice across the world.

To counter these entry barriers, CIMC/Ziegler is evaluating alternative business models. One option would be to adopt a model similar to the one employed by Apple. This would mean products would be designed by Ziegler in Germany, while the necessary local modifications and assembly would take place at production sites close to where the orders are made, be they in China, South Africa, or anywhere else.

This solution would also alleviate the capacity bottleneck at Ziegler's European plants, which has already forced Ziegler to turn down valuable orders and pay penalties for delayed deliveries.

In 2016, the first year under "Strategy 2020", Ziegler achieved 220 million euros in revenue, beating its target by six percent. Various improvement projects are currently underway, paving the way for it to become a world leader in firefighting and rescue solutions.

### **Closing remarks**

The contrast in the Ziegler case was intriguing as the acquiring company, CIMC, was a heavyweight industrial conglomerate with a strong governmental background and an international outlook, while the acquired company, Ziegler, was a small family-run business rooted in the Swabian Alb area, a region usually known for its conservatism. How did they come together? How did they get along with each other? What challenges did they face? Where will their journey lead?

The situation is quite unlike the typical acquisition one would expect from a Chinese investor. In recent years, Chinese investors have tended to apply the "partnering approach" to the post-M&A integration phase. The core belief underpinning the strategy is that the incumbent management possesses market knowledge and relationships that are key to the success of the acquired company. As such, the senior managers should be retained after the acquisition. The Chinese investor has more to gain by partnering with them and interfering as little as possible. Obviously, CIMC did not have the privilege of a competent incumbent management team when it closed the deal. Luan, CEO of the Ziegler Group, almost single-handedly



built a new management team and reinstated corporate governance at the formerly family-run business. His approach succeeded – business turned around in just three years and Ziegler expects to stay profitable for years to come. Although he modestly describes his role as acting as a bridge between Ziegler and CIMC, there was clearly more to this success story. Overcoming cultural differences was only the tip of the iceberg – there were a plethora of challenges. This case study has probably discussed only a small number of these.

As the title of the case study suggests, the firefighting and rescue sector is a new area of business for CIMC. Entry into this sector was mostly down to good fortune, as there was initially no plan to develop firefighting and rescue equipment as a core business. Ziegler came to CIMC's attention because it was thought that it would complement its airport facilities business. The potential of Ziegler's own business area was only realized later. It is worth noting how quickly CIMC adapted its strategy toward Ziegler, navigating uncharted waters with a series of special measures.

Probably the most interesting aspect of the CIMC/Ziegler case is whether the company will indeed succeed in becoming a prominent global player in the firefighting and rescue equipment business. CIMC achieved this feat once before with its container business many years ago. Now, it is better positioned and has many more resources at its disposal. Does this mean that its odds of succeeding have improved?

In any case, CIMC will not limit itself to organic growth but continue to engage in M&A of firefighting-related companies in the coming years, filling the gaps in its geographic and product portfolios. As a matter of fact, at the time of writing,

CIMC/Ziegler had just acquired a minority stake in CELA S. r. L., a private Italian company and a hidden champion, specializing in industrial working platforms, firefighting platforms, and water towers. In 2016, the company's revenue was 18 million euros. Through equity participation, Ziegler was able to gain strategic access to a key firefighting-related technology, allowing it to provide better custom-made solutions for customers in need of elevated work platforms and water towers.

The voyage of the revived Ziegler Group under the umbrella of CIMC has just started. New shores await ahead.

## 4 Value creation through M&A – A process perspective

### 4.1 The Chinese approach to post-M&A integration in Germany

The previous chapter featured three case studies with three Chinese acquiring companies: the SGSB Group, previously known as ShangGong, the CIMC Group, and Joyson Electronics. The first two are state-owned enterprises and the latter is a privately owned company. In what follows, I highlight the commonalities and differences between their approaches to post-M&A integration, which offers a lens through which to understand Chinese investors' value creation strategy in Germany.

#### Motive and strategy

The three Chinese firms were looking for growth opportunities and viewed the acquired German firms as growth partners rather than cash cows. The senior managers of the Chinese acquirers are reluctant to refer to themselves as "investors", a term that is often associated with short-sightedness or self-centralism in China. Instead, they prefer to identify themselves as "integrators" or even "value creators". None of the Chinese acquirers presented in the cases plan to sell their German

subsidiaries any time soon. The long-term investment horizon sets the Chinese apart from the rest of the investor crowd. Such mindset is commonplace among Chinese firms that have acquired firms overseas in recent years, implying that the Chinese do not rely on financial engineering, as is typical of PE funds with finite exit windows.

Although the integration process was at different stages at the three firms, a pattern was observable across the cases. The companies successfully set the basics right early on and soon started exploiting top-line potential. After all, no world-class company succeeds by cost cutting only.

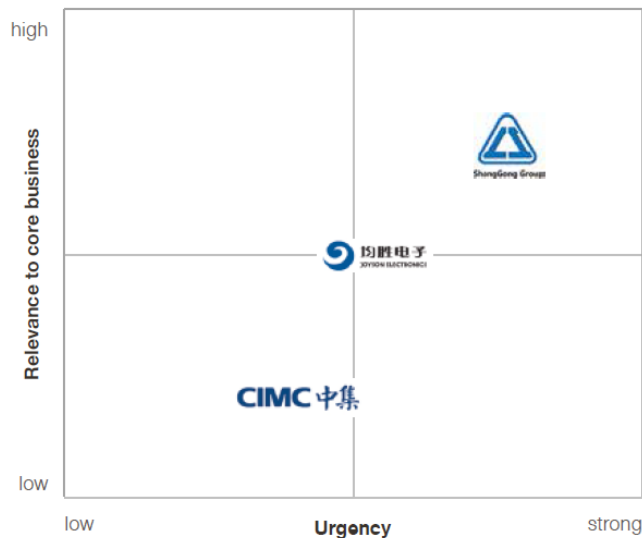
Despite the common goal of pursuing of strategic assets, there are nuances to the motivations behind each of the acquisitions. SGSB was grappling with great uncertainty over its own fate, when it started negotiations to acquire the sewing machine manufacturer Dürkopp Adler, which had also been struggling to make a profit for a long time. SGSB was in urgent need of reforming itself and looked to acquisition of a foreign company as one last resort. It had been a bumpy journey since the acquisition, but Dürkopp Adler made it, surviving the economic downturn in 2009 and keeping its technological edge, thanks to the unwavering support it received from its Chinese mother company. Now Dürkopp Adler is well-poised to strive for worldwide market leadership. A weak-weak situation was turned around to a win-win situation for SGSB and Dürkopp Adler.

CIMC was actually one of the first Sino-foreign joint ventures in China to be co-founded and managed by foreigners, although it does have strong ties to the government. CIMC became interested in Ziegler, the bankrupt firefighting and rescue equipment manufacturer, because Ziegler's airport rescue-truck product was thought to complement CIMC's airport facilities portfolio. While this was indeed the case, it

became clear fairly quickly that the firefighting business could be a lucrative business with excellent growth prospects in its own right.

Joyson Electronics, the only privately owned company featured in the cases, is a very young company founded in 2004. Just seven years later, it acquired Preh GmbH, a leading automotive supplier of electronic components, from the private equity house Deutsche Beteiligungs AG. Joyson Electronics was in urgent need of Preh's expertise regarding electronic parts as well as direct access to the leading OEM to build its automotive electronics business and, more importantly, climb up the value chain for better margins and sustainable growth.

In a nutshell, the motivations of the Chinese acquirers can be characterized along two dimensions: the urgency to acquire new entities; and their relevance to the company's existing core business. The Chinese firms featured here can be roughly plotted on the matrix below (see *Figure 40*). The diagram presents a snapshot shortly before or at the moment of the takeover. However, motive is not static and shifts over time, as seen in the case of CIMC, where Ziegler's relevance to its parent company's core business increased, when the potential the firefighting and rescue business for the group as a whole surfaced.



*Figure 40: Motivation of Chinese acquirers*

*Source: Self-compiled by author*

Coincidentally, none of the Chinese acquiring companies had a clearly defined strategy for value creation prior to the acquisitions. ShangGong Europe's first comprehensive growth strategy was officially introduced almost twelve years after the acquisition; CIMC originally wanted to integrate Ziegler into its airport facilities business; and while Joyson Electronics was clear about entering the electronic parts sector from the beginning, it did not have an official value creation strategy before the acquisition either. The Chinese acquirers trusted their gut-feelings, focusing on the direction of the strategy rather than the details. They are also pragmatic and play by ear, honing their strategy skills as integration deepens. The good news for the acquired firms is that the Chinese acquirers treat them as equal partners, who co-evolve over time through mutual learning and leveraging.

### Corporate governance

The incumbent management teams, works councils, and staff of the acquired firms have concerns about incoming Chinese owners, mainly stemming from their limited experience with the far-off Asian country. Indeed, Chinese firms have a much

shorter track record with M&A than many of their Western counterparts and they lacked the experience in dealing with the large number of stakeholders that they encountered, when they first expanded overseas. It has been a sharp learning curve for both sides.

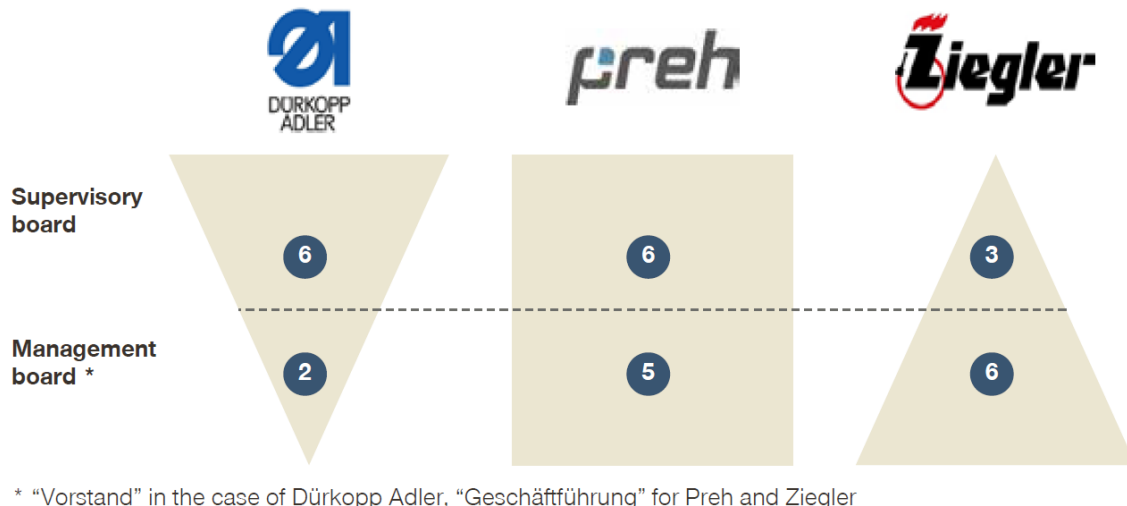
Being sensible about their shortcomings, Chinese acquirers tend to leave the target companies' management teams intact, as they are more familiar with the local market and stakeholders, such as customers, suppliers, employees, and lenders. The continuity of the business is in the interest of every party involved.

The three acquired companies featured in these case studies have different legal forms. Dürkopp Adler, a publicly traded company, is an "Aktiengesellschaft" (stock corporation) by default. Both Preh and Ziegler are "Gesellschaften mit beschränkter Haftung" or "GmbH" for short (private limited companies).

The two-tier board system which emerged in the 1870s, consists of the "Vorstand" (management board) and the "Aufsichtsrat" (supervisory board). In stock corporations and large limited liability companies, the two tiers of board have to be separate. The management board consists only of internal directors and is charged with managing the company. The supervisory board, comprising of at least three members, appoints and supervises the management board. For firms with over 500 employees, at least one third of the board members should be staff representatives. The members of the management board and the supervisory board must not overlap.

The size and constellation of the management teams vary widely, as demonstrated by the three cases in focus. Dürkopp Adler has a six-member supervisory board with two members on its management board. Preh's two boards have roughly equal numbers on each. Ziegler's board structure is the opposite of

Dürkopp Adler as its management board is larger than its supervisory board (see *Figure 41*).



\* "Vorstand" in the case of Dürkopp Adler, "Geschäftführung" for Preh and Ziegler

*Figure 41: Board structure of the German firms after acquisition*

*Source: Self-compiled by author*

Dürkopp Adler's supervisory board has three Chinese faces: Zhang Min, chairman of DA's supervisory board and CEO of parent company SGSB Group; Fang Haixiang, deputy chairman of DA's supervisory board and deputy CEO of SGSB Group; and Xiaolun Heijenga, a tax consultant based in Germany. The management board consists of Zheng Ying and Michael Kilian.

In the case of Preh, Joyson's founder and CEO, Jeff Wang, and vice president, Jimmy Guo, sat on the supervisory board after the acquisition of Preh. Jimmy left the board a couple years later, while Jeff stays. After the takeover, the incumbent chairman of the supervisory board Scheffels retained his position. He is also a board member at DBAG, the previous owner of Preh. In 2016, Michael Roesnick resigned as spokesman of the management board and replaced Rolf Scheffels as chairman of the supervisory board, which Scheffels continues to serve on. On Preh's five-person management board, Charlie Cai is the only Chinese national sent by Joyson

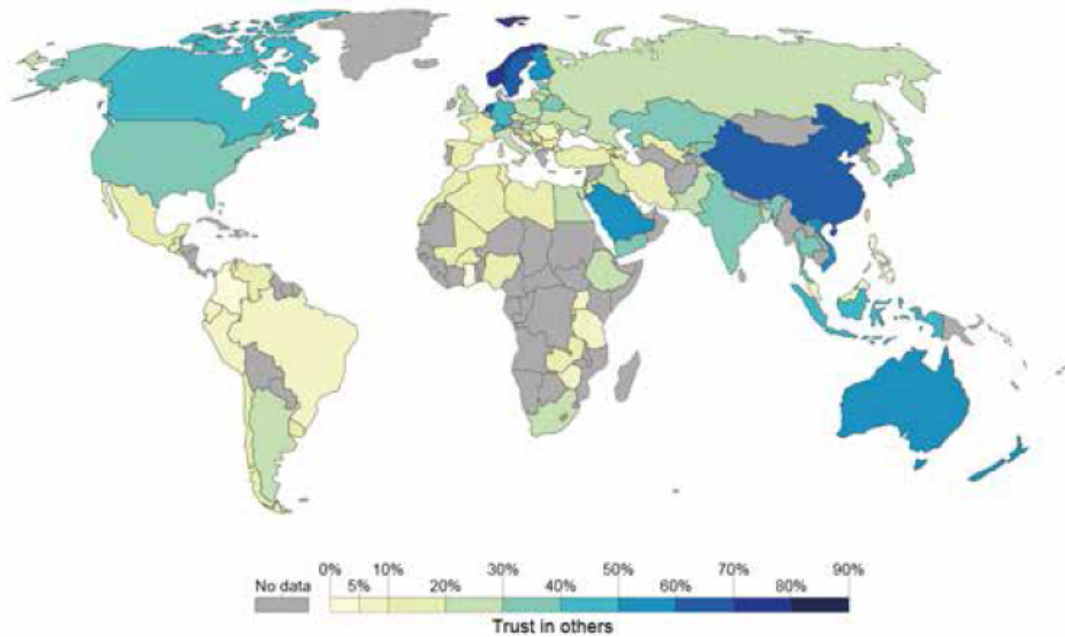
Electronics, who is responsible for supply chain management and the commercial vehicle business.

Ziegler is the unique case among the three, as both the supervisory board and the management board are headed by Chinese nationals. Li Yinhui, head of CIMC's airport facilities business unit, is chairman of the supervisory board, while Luan Youjun assumes overall responsibility for operations, supported by a diverse European management team.

In all three cases, the Chinese mother company refrained from parachuting managers to the German subsidiaries on the ground of not wanting to interfere with daily operations. Chinese managers know from their own experience that management should be driven by outcome, not by formality. At many Sino-foreign joint ventures founded after the introduction of the Reform and Opening-up Policy, it used to be common practice to appoint one Chinese manager and one foreign manager in each department within the company. In hindsight, the dual-management structure was not such a good idea, as management efficacy and efficiency suffered from red tape.

The Chinese acquirers learned from this lesson and granted the local management team considerable latitude of managerial discretion. The total number of representatives from the Chinese investor is always limited, no matter what roles they play within the company. One could argue that the Chinese had no option but let the incumbent team run the business in the absence of skilled Chinese managers. An alternative but tempting theory is that the Chinese are simply more trusting, as a world value survey on trust attitudes of different nationalities shows.





*Figure 42: Trust Index – World Value Survey (share of people who agree with the statement “most people can be trusted”)*

*Source: Trust – World Value Survey*

### Integration and transformation

With the light-touch approach, Chinese investors tread carefully when integrating and transforming their newly acquired German subsidiaries. Meanwhile, the incumbent management team is charged with a central role in the integration process. All three cases have shown that the Chinese acquirers deliberately follow a laissez-faire strategy, which worked out well. SGSB and Joyson Electronics outperformed their industry peers by far in shareholder value creation; and CIMC succeeded in restoring the profitability of a bankrupt firm in just three years.

Post-M&A integration typically unfolds in three phases (see *Figure 43*). Experience shows that top-line growth is particularly important to long-term value creation. Cost-cutting is essential but has limited upside potential. Generally speaking, strategic transformation usually starts in the third year after the acquisition,

focusing on change management and top-line growth initiatives, typically through smart innovations. The timeline represents a rule of thumb. Some acquirers do manage to tap on top-line initiatives early on; others wish that they had tackled the revenue management issues earlier.

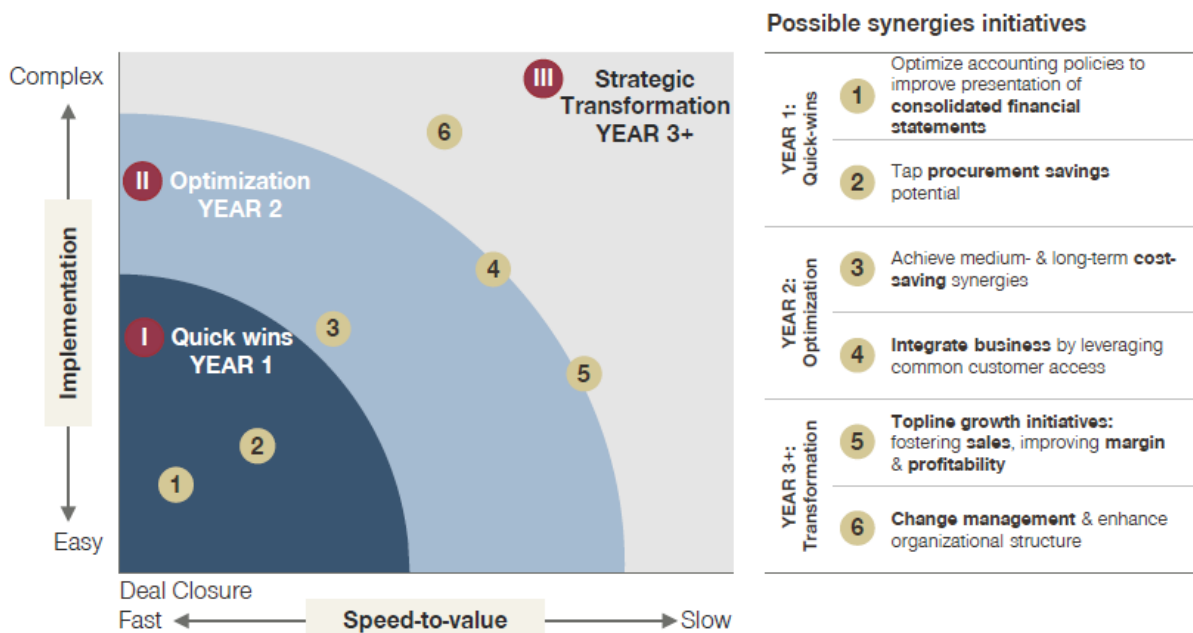


Figure 43: Post-M&A integration roadmap

Source: self-compiled by author

The Chinese acquirers featured in the case studies have more or less accomplished phase one, “quick-wins”, and phase two, “optimization”, and now are walking through phase three, “strategic transformation”. Together with their Chinese shareholders, the German firms are pursuing business opportunities by engaging new products and/or new customer segments. In the meantime, organizational optimization is underway to facilitate the transformation.

The M-Type series epitomizes Dürkopp Adler’s continuous efforts to innovate. If it were not for SGSB’s support, new product development could have ceased in the aftermath of the 2008 financial crisis. The commitment to innovation has allowed

Dürkopp Adler to defend its technology leadership worldwide. In response to megatrends like Industry 4.0 and Internet of Things, Dürkopp Adler has developed a state-of-the-art network solution dubbed Qondac 4.0. It is the first solution of its kind in the sewing machine industry and won the prestigious Texprocess Innovation Award in 2017. The beauty of Qondac 4.0 lies in its compatibility, i.e. the application works on every brand of sewing machine with a connectivity function and is not restricted to captive brands. With help of Qondac 4.0, Dürkopp Adler is exploring uncharted territory and producing groundbreaking solutions for the industry.

In terms of organizational structure, Dürkopp Adler was, for a long time, largely synonymous with ShangGong Europe. ShangGong Europe was originally set up in 2004 as an investment vehicle for the SGSB Group in Europe and until 2013, Dürkopp Adler was the sole investment in its portfolio. With the acquisition of additional brands, such as Pfaff and KSL, ShangGong Europe took on greater and broader responsibilities, driving the SGSB Group's sewing machine business forward across the globe.

Preh's primary focus used to be the European markets, however, penetration into Chinese automotive OEM accelerated considerably with Joyson Electronics becoming the new owner. At the time of the acquisition, the Chinese investor projected a double-digit annual growth rate for its business in China. The German managers were shocked and thought it was some kind of joke. Such a high growth rate was unheard of in Europe. However, the following years proved otherwise. The China business developed in line with the Chinese parent company's ambitious plan.

Battery Management Systems (BMS) used to be a subordinate business unit of Preh. Premium automotive brands, such as BMW and Daimler, turn to Preh for

battery management solutions for their electric cars. In anticipation of surging demand for electric vehicles, Joyson Electronics' management persuaded Preh to separate out BMS as a strategic business unit and allocate more resources to further develop BMS for the Chinese market.

Joyson Electronics retained the incumbent German management team, which later played an instrumental role in the subsequent acquisitions of Innoventis, IMA, and Evena. It is hard to imagine that this would have been possible, had the acquiring company been a well-established firm from a developed economy.

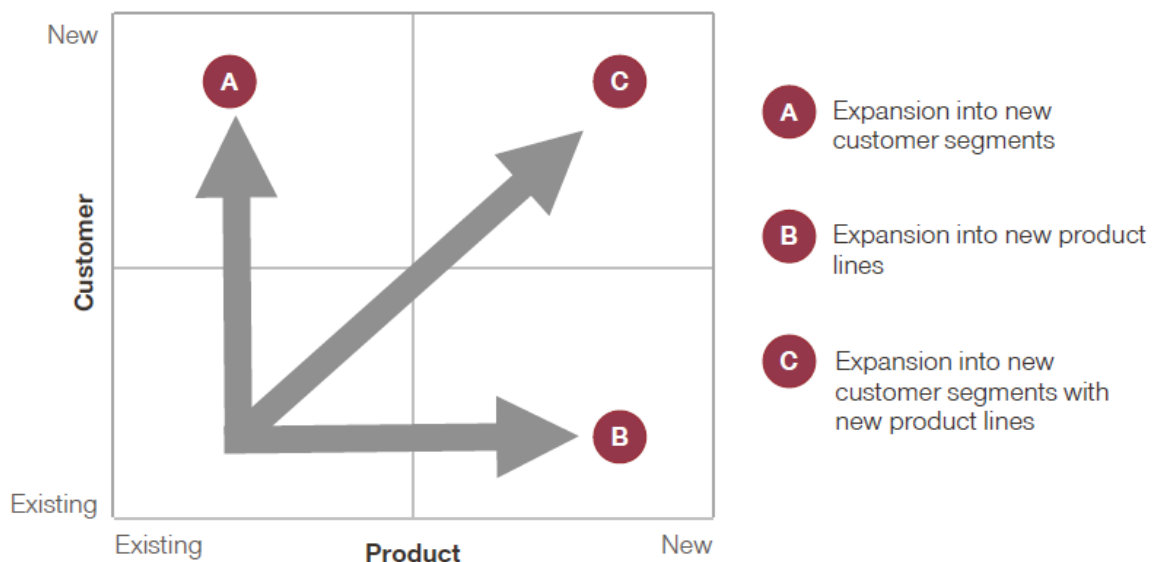
Ziegler lost no time in embarking on top-line initiatives with the support of its parent company, CIMC. The Chinese group boasts a broad customer network, both domestically and overseas, providing Ziegler with access to prospective customers outside its core European markets. Among all, China presents a particularly remarkable growth opportunity, considering that Ziegler barely had any business there before. Cooperation with its sister firm Sichuan Chuanxiao is still at a fledgling stage, but looks promising. Thanks to CIMC's network, Ziegler has already closed several big deals with overseas customers and is set to win more contracts in the near future.

Top-line or revenue growth can take three different paths after a company is acquired (see *Figure 444*). Starting from the status quo, the acquired firm can build on its existing product portfolio and reach out to new clientele (Path A). A case in point is Ziegler. Making use of CIMC's local network, it succeeded in selling existing products to customers in China, who had been difficult to reach.

Under Path B, growth is achieved by offering new products to existing customers. Acquisition costs for this are the lowest of all the paths, as entry barriers

have already been overcome. Joyson Electronics had already been supplying functional parts to Shanghai Volkswagen. After acquiring Preh, it was able to extend its offering by adding higher-value electronic parts.

Path C is the most challenging one, as the firm moves completely out of its comfort zone, tackling new customers and new products at the same time. The latest innovation by Dürkopp Adler, Qondac 4.0, exemplifies such a path. At the time of writing, the new solution was being prepared for commercialization.



*Figure 44: Paths for top-line growth*

*Source: Self-compiled by author*

Concerning the roadblocks they encountered during the integration process, the managers involved in the three cases were unequivocal that culture and language barriers do exist but are by no means deal-breakers. As long as the visions are aligned, Chinese and Germans can work together just fine. To achieve that, it is important to have an open mindset, a prerequisite for mutual trust. Over time, both sides come to understand each other better. The Germans have realized that the Chinese are flexible because they believe in the mantra that the customers always

come in the first place, whilst the Chinese have come to appreciate the Germans' rigor in business dealings. Some German business routines have even found their way to the headquarters of the Chinese mother companies, such as budget review processes and meeting schedules, as seen in the case of Joyson Electronics/Preh.

That said, there are still differences that need to be reconciled. For example, speed to market varies significantly between Chinese and German firms. Chinese firms practice the philosophy of "minimum viable product" and try to speed up new product development and production ramp-up, wherever possible. On the other hand, German companies traditionally are inclined to perform more checks and balances to be on the safe side, which may or may not lead to over-engineering. Furthermore, employees in Germany are entitled to more holidays and longer annual leaves and attach greater importance to work-life-balance. In China, employees are generally more ready to sacrifice personal life for work in exchange for the option of a sizable reward in future.

Often observed in recent acquisitions in Germany, the majority of Chinese acquirers have had reservations about integrating management teams. They are reluctant to second Chinese managers to the German subsidiaries. My discussions with the Chinese manager community in Germany reveal that the management of the Chinese acquirers do not foresee this to change in the near future. In their view, the business should be run by the best possible people. Chinese managers overwhelmingly take on positions as some sort of coordinators, who do not directly participate in operations. Sanyi, a heavy-weight in construction equipment from China, even created a position of chief liaison officer based in Germany, after it acquired Putzmeister, a leading manufacturer of concrete pumps. Meanwhile, it is also quite rare for German managers to be transferred to group headquarters in China.

In contrast, technological exchange is very much encouraged. Chinese and German engineers often work as a team on joint development projects, both in Germany and in China. In addition, at many firms, Chinese technicians regularly travel to Germany to attend different kinds of trainings. The German managers I interviewed shrugged off the accusation that Chinese investors are only after advanced technology when they conduct M&A and that they are likely to walk away, as soon as they have assimilated the knowledge they were looking for. Their personal experience suggests that in today's dynamic world, technology can turn obsolete sooner than anyone imagines. In addition to opening up additional revenue channels for the acquired firm, knowledge sharing helps loop in feedback from a broad clientele for improvement. In the end, the Germans are better off through sharing and co-developing new technology with their Chinese colleagues.

To the best of my knowledge, Chinese acquirers have, without exception, kept the brands of the German firms they have acquired. This is not particularly surprising as "Made in China" products are associated with low cost as well as low quality, whereas German brands signal high quality. With this being the case, Chinese acquirers often maintain two product lines, a premium line with the acquired German brand, and a commodity line with their original Chinese brand.

But this situation may well change over time, considering the label "Made in Germany" was not born with glory either – it was meant to have a negative connotation. The phrase traces its origins to when the UK passed the Merchandise Marks Act in 1887, which required the label to be placed on all German produce imported into the country. However, customers soon regarded it as a seal of quality and it acted as a free endorsement of German products.

## Growth initiatives

Only globalized firms will thrive in the future (Simon, 2012). Based on his observations of firms based in Germany mainly, Simon found that worldwide leaders in their niche markets, also known as hidden champions, always envision extremely ambitious goals, which stress overseas growth and market leadership. Coincidentally, Chinese acquirers in Germany also demonstrate such lofty ambitions, in that they stretch but not fit the growth trajectory of their German subsidiaries.

No matter what plan they had before the M&A, Chinese acquirers would set demanding growth objectives for their acquired German entities. As mentioned above, Joyson Electronics management aimed for double-digit growth for Preh's China business after the acquisition, which meant reaching the one billion yuan revenue mark within five years. This was an extremely bold target in German managers' view, but it was achieved. Ziegler laid out its five-year strategy plan in 2016, which also aims for double-digit growth for five consecutive years, while the industry has low single digit growth. In 2016, ShangGong Europe, the backbone of which was Dürkopp Adler, crafted its first official growth strategy plan. In five years' time, it should overtake Juki as the world leader in industrial sewing machines. To put this into perspective, Juki's industrial machinery business unit is currently about three times the size of ShangGong's business in terms of revenue.

One shared feature of these ambitious plans is the clear focus on top-line growth, be it through new products, new customer segments, or a combination of both. Growth potential is not confined to Germany and China. SGSB and Dürkopp Adler are penetrating Southeast Asia as a joint force, developing and marketing new products for the burgeoning region; Joyson Electronics and Preh serve customers



together in all major markets; last not but least, Ziegler wins projects all over the world thanks to CIMC's extensive client network of airports.

Apparently, there is no fix-all solution – every firm has to find its own growth path in the post-M&A phase. However, there exist some commonalities between recent cases. To begin with, the Chinese stand out from other investors due to their long-term perspective. They have the will and the patience to grow with the acquired firms. They prefer to keep management teams local, as they are more familiar with the market, customers, and other stakeholders, and they think big in terms of growth and market leadership. In line with their long-term focus, the last thing they want to do is to rush integration. Instead, they attach great importance to putting the right people in the right places. As Chinese managers generally lack the experience needed to take overall responsibility for a foreign entity, the Chinese acquirers send staff abroad to take roles in finance and management control more often than not. Recently, many Chinese-owned firms in Germany are hiring an increasing number of Chinese graduates from German universities, as the interaction with China grows in importance. Over time, the young talent educated in Germany will expect to contribute massively to the integration and transformation of German firms as well as their Chinese parent companies.

Close cooperation between technical teams from China and Germany is already underway. They work together on joint product-development projects. Moreover, Chinese investors are more than willing to invest in German brands that they expect to achieve higher price premiums with in emerging markets, particularly China. Contrary to popular belief, the German firms acquired by Chinese acquirers do not really worry about their new parent companies stealing technology from Germany. Instead, sharing or co-developing new technology is seen as benefiting the group as

a whole. Many instances support the tenet, where R&D and manufacture of high-end products have remained in Germany after acquisitions, while localization and mass production take place in China or other locations that offer a comparative advantage.

#### 4.2 Accelerated internationalization of emerging economy firms

By 2025, emerging economy firms will likely comprise more than 45% of the Fortune Global 500 index (McKinsey & Company, 2013). Although the term emerging market firms implies a uniform category of firms, recent research shows that emerging economies vary greatly from one another with respect to their overall progress in economic development (Hoskisson et al., 2013). Emerging economy firms are latecomers to the global marketplace. In order to gain competitive advantage, they must not only upgrade existing capabilities through continuous learning, but also develop new competencies (Keen & Wu, 2011). Yet, little is known about how emerging economy firms tackle this challenge (Malik & Kotabe, 2011).

Hamel & Prahalad (1993) created a sensation in strategy research with their proposition that firms with ambitions to move to the lead in an industry, or to catch up with existing leaders and displace them, typically employ stretch goals rather than being content with “fit” – and put these stretch goals into effect through resource leverage. Chinese firms among other emerging economy firms brace for such strategy. They are not content with modest growth rate but are keen to leapfrog over established players by all means.

Among all, Chinese firms engage in cross-border M&A to build core competence and accelerate growth, because M&A facilitate the redeployment of assets and competency transfer to generate economies of scope (Haleblian et al., 2009), thereby leading to significant resource realignment between acquirers and target firms (Capron et al., 1998) and overcoming the liability of emergingness

(Kotabe & Kothari, 2016). More importantly, cross-border M&A confer privileged access to information and opportunities for future investments (Miller & Folta, 2002). In particular, Cross-border M&A provide a vehicle for rapid expansion beyond national boundaries (Shimizu et al., 2004; Nadolska & Barkema, 2007).

There has been little research on the process by which some Chinese firms are beginning to build integrated global strategies (Zhu et al., 2011). A latecomer may struggle to obtain the benefits of an integrated global strategy and may face greater difficulties than the existing players, particularly in learning to adjust to the company's new strategic direction. However, latecomers master learning processes faster than their well-established rivals, facilitated by advances in technology and by a better understanding of the globalization process. Given that the context upon which these theories are based has changed, it is imperative to look at new empirical evidence, especially from developing companies from such markets. Buckley (2002) suggested that the entry of China as a major player in the global economy now may give a new impetus to international research.

Haleblian et al. (2006) finds that firms gain proficiency through experience, and such experience increases the likelihood that the firm will repeat learned behavior in the future. This research suggests that firms involved in M&A activity improve their organizational learning capability (e.g., Finkelstein & Haleblian, 2002; Hayward, 2002). Organizational learning scholars (e.g., Levitt & March, 1988) characterize firms as routine-based, history-dependent systems that encode inferences from experience into routines or knowledge. Such routines guide firms' behavior and choice.

Chinese acquirers typically foster long-term orientation and intend to grow with the acquired firms abroad as longstanding partners. As such, a sound understanding

of post-M&A integration or the process toward the rise of a more powerful player a combined group is quintessential for understanding how cross-border M&A enhance enterprise value (Cui et al., 2014; Phene et al., 2012).

As depicted earlier in this dissertation, Chinese firms are found in recent times to differ in their approach to post-M&A integration that the western investors conventionally apply. From an organizational point of view, Chinese firms go to lengths to preserve the incumbent management team with the belief that the local managers know better about the business than the Chinese. The implication is an important one – during due diligence prior to the transaction, the Chinese acquirers look closer at not only the tangible assets but also the competence and the fit of the existing management, who is going to run the show after the acquisition. In contrast, the western investors would tend to absorb the operations of the acquired firms so that replacement of management team is common.

In terms of integration of business activities, Chinese firms deliberately take small steps, reaping the low-hanging fruit first. They are careful about inducing drastic changes, especially when it involves laying off local staff. It is no isolated case, in which Chinese investors committed to retaining local headcounts in a certain grace period after acquisition of German firms, even when they would have done so out of pure business reasons. They also integrate business activities selectively, typically starting with back office functions and then move on to sales and marketing, production etc. R&D is such a sensitive topic that Chinese acquirers often keep the R&D activities in the host region, while putting Chinese and German engineers to work together on a project base, to facilitate knowledge transfer on one hand, and to increase efficiency on another. Chinese CEO take successful integration of the acquired subsidiaries seriously and spares no efforts to communicate to the German

staff personally, as they know clarity and consistency are important for building trust, which, in turn, is essential for true teamwork (Stahl & Voigt, 2008). The direct involvement of Chinese CEO helps foster greater perceived cultural similarity, reducing dysfunctional ‘we-they’ stereotypes and providing greater predictability and control (Schneider & Barsoux 2003). Greater cultural sensitivity, at the firm level, is likely to increase the effectiveness of managers in cross-cultural interactions (Black & Mendenhall, 1990)

*Table 12* summarizes the differences between the approaches deployed by Chinese firms (the partnering approach) and acquirers from developed economies (the traditional approach) to post-M&A integration.

Aspects	Traditional	Partnering
<b>Organizational structure</b>	Absorb	Preserve
<b>Business activity integration</b>	Full	Selective, gradual
<b>Top management</b>	Replace	Retain
<b>Operational autonomy</b>	Low	High
<b>Communication of vision and values</b>	Low priority, hesitant	High priority, immediate

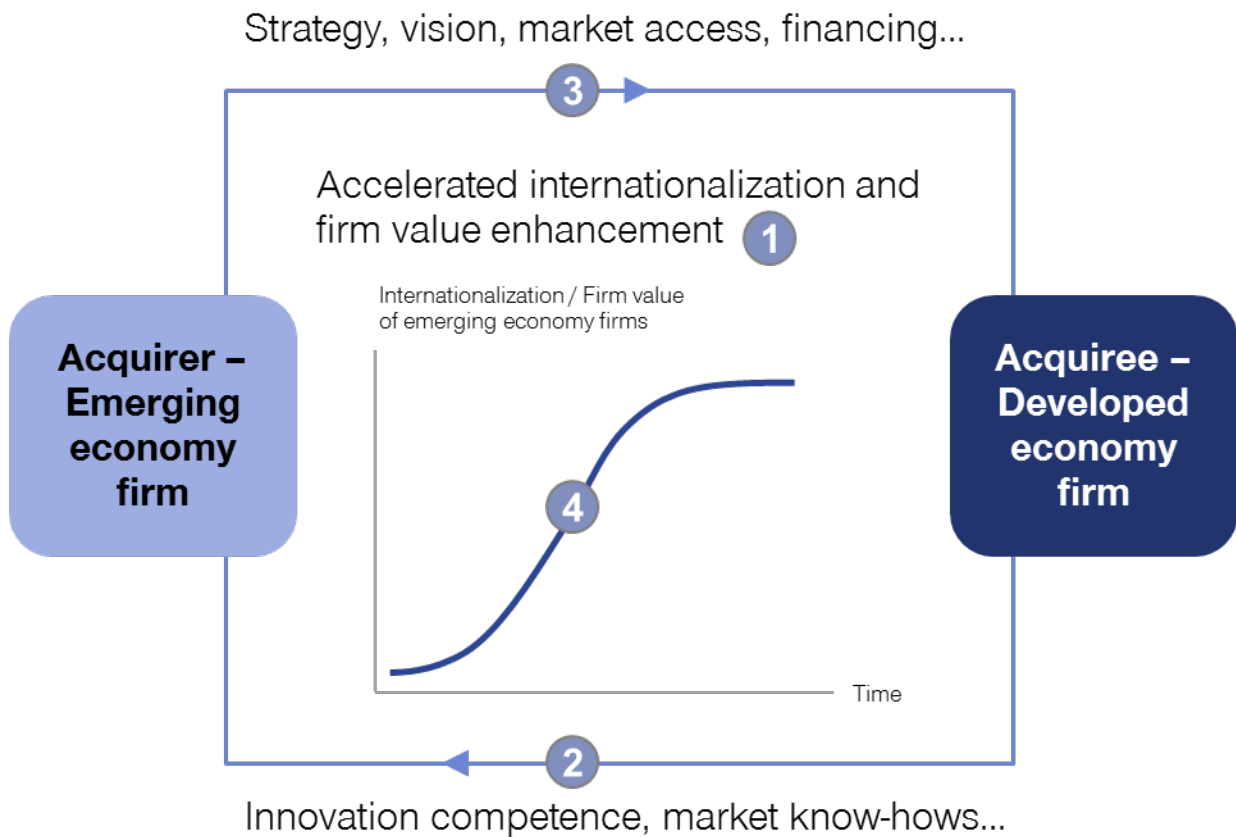
*Table 12: Contrast of traditional and partnering post-M&A integration approach – Adapted from Kale et al. (2009)*

*Source: Self-compiled by author*

Accelerated internationalization is an important phenomenon in international business (IB), where it has been linked mainly with studies of born-globals and patterns of internationalization utilized by small and medium-sized enterprises.

Building on recent research around the concept of speed of internationalization, I seek to extend the domain of accelerated internationalization by taking into account the unique features of Chinese firms in their cross-border M&A activities.

Bonaglia et al. (2007) demonstrates that accelerated international is both an outcome and an enabler for latecomer companies to build their competitive advantage in both home and international markets. Therefore, the typical born-global cases tend to characterize these firms as minimal structures based only on core competences; they are nimble, small players. But this does not necessarily fit the profile of latecomer Chinese firms that attempt to incorporate as many operations along or adjacent to their value chain as they can. They look like a grand version of “born-global” firms, with all the nimbleness displayed by smaller varieties but the strength and mass production power of the larger. The uniqueness of the Chinese firms in their endeavor to grow through cross-border M&A warrants a distinct research framework, which is proposed below.



*Figure 45: Value creation model for the merged group through exchange and absorption of strategic assets*

*Source: Self-compiled by author*

The model takes the viewpoint of emerging economy firms represented by those from China and reveals the paths that lead to value creation through exchange and absorption of strategic assets. In a nutshell, I put forward the most salient these as follows:

1. Chinese firms among other emerging economy firms boost enterprise value through accelerated internationalization by means of M&A in developed economies.
2. The acquirer absorbs strategic assets such as innovation competence and market know-hows from the acquiree.
3. The Chinese acquirer injects strategy and vision into the acquiree and

**enables faster growth through finance aid.**

- 4. Through bilateral exchange and absorption of strategic assets, the combined group realizes leapfrog in firm value.**

#### 4.2.1 Accelerated internationalization by means of M&A in developed economies

Ever-changing environment and fast-paced globalization have forced emerging economy firms to “re-orient” and “learn the game fast” (Kumaraswamy et al., 2012). They tend to consider the world market their home market from the outset and internationalize rapidly through resource leverage (Mathews, 2006). Many of them do so through cross-border M&A in developed economies. The very presence in “credible” mature markets creates a halo effect, signaling high quality and credibility to important resource providers, such as home country governments, investors, and customers etc. (Stuart et al., 1999).

Value creation through cross-border M&A is no easy task, while acquirers from emerging economies often have to deal with high uncertainty and insufficient international knowledge (Hadjikhani et al., 2014). The success of the M&A hinges, to a large degree, on a bundle of intangible, knowledge-based resources (Junni et al., 2013). Firms can only enhance enterprise value, if they master the process of knowledge transfer and learning (Zou & Ghauri, 2008).

The process can be lengthy and exhausting, as post-M&A integration unfolds. It is like a “grey box”, as Zander & Zander (2010) put it. It is basically impossible to know everything about a targeted cross-border acquisition beforehand, because some things are not knowable ex ante and only reveal themselves later through interactions over a longer period of time, which again compounds uncertainty. Chinese firms, compared to other emerging economy firms, are found to develop



long-term strategy (Schüler-Zhou & Schüler, 2013), which allows them to be able to adapt innovatively to the ever-changing market environment (Mathews, 2006). The long-term orientation helps emerging economy firms build their global strategy in an experiential, trial-and-error process and develop managerial skills and experience needed in global markets and future M&A (Yip et al. 2000).

#### 4.2.2 Absorption of strategic assets from acquirees

To beat established players, emerging economy firms need to stay abreast of the technological frontier by absorbing and applying cutting-edge strategic assets from their acquired subsidiaries in developed economies (Luo & Tung, 2007). Usually, the Chinese firms would favor strategic assets that are in the similar domain as and complement in attributes to their existing firm-specific assets (Zheng et al., 2016). The rationale is that the greater the similarity between the acquirer and the acquiree, the lower the integration costs, the higher the efficiency gains through the exploitation of potential synergies, and the better the strategic and technological fit (De Beule & Sels, 2016).

Due to the tacit, specific and complex nature of strategic assets (Deng, 2010), acquirers must develop capability to absorb and learn, a process which is not automatic and the associated with substantial cost. It is particularly true, when learning involves tacit knowledge (Zheng et al., 2016), which is grounded in personal experience and significantly affects organizational performance (Sternberg & Horvath, 1999).

As suggested by the partnering approach, Chinese firms tend to leave acquired R&D facilities in Germany untouched, while encouraging collaborative projects involving engineers from both sides. Thereby, acquired firms can retain their R&D capabilities and receive, in many cases including those presented in last chapter,

additional funding from Chinese mother companies to push forward the technological edge (Meyer & Estrin, 2001; Morck et al., 2008).

Over time, the Chinese acquirers develop their own innovation capabilities through extensive collaboration with acquired foreign entities as well as formal and informal trainings, which is crucial to long-term success (Fletcher & Harris, 2012; Kafouros & Forsans, 2012). The long-term strategy will pay off eventually. For example, Anderson et al. (2015) shows that the patents of Chinese acquirers rise significantly following cross-border M&A.

#### 4.2.3 Transfer of strategic assets to acquirees

Resource-dependence theory predicts that the party of an M&A deal that develops or has access to resources will be the more influential party. As such, possession of strategic assets would put the acquired subsidiary in a powerful bargaining position versus its owner from emerging economies (Luo, 2003). This could partially explain why Chinese firms would apply a soft “partnering” approach to post-M&A integration.

However, an often overlooked fact is that the transfer of strategic assets is a two-way avenue in the case of Chinese cross-border M&A. Aureli (2015) finds that distressed firms in developed economies receive additional funding from their new owners from emerging economies, which keep the acquired as a going concern. As the case studies in last chapter show, Chinese firms also inject new visions and strategies to the acquired German firms, taking them to the new horizons which were not possible if they were on their own. Not only do the Chinese acquirers provide market access to promising Chinese customers but also export strategic assets such as managerial know-hows to the acquired firms, as the CIMC/Ziegler clearly

shows.

#### 4.2.4 Leapfrog as a combined group

Research on the impact of cross-border M&A by emerging economy firms on the performance of the acquirer and the acquiree as a whole remains scarce (Anderson et al., 2015). Extant literature on post-M&A performance singles out either of the parties involved, hence lacking a holistic view of the both as a combined group (Buckley et al., 2014; Ning et al., 2014).

Chinese investors are knowingly keen to absorb strategic assets from acquired German firms. Nevertheless, they tend to maintain the independence of the acquired firm, including retaining its original management team as well as its brands. Fostering a long-term orientation, successful Chinese acquirers in Germany show strong tendency to co-evolve with their foreign subsidiaries. In all three cases featured in this dissertation, the Chinese mother companies built formal alliance such as joint ventures with the acquired German firms to explicitly signal and strengthen intra-group cooperation for the benefit of all, when exploring new business opportunities.

Cross-border M&A, especially those in developed economies, are still somewhat new for Chinese firms. It has been a steep learning curve, and numerous pioneering Chinese firms have failed. But those that succeed, have a lot in common with the so-called hidden champions. They are very focused and good at what they do in their niche markets. Despite limited resources, they have extremely ambitious growth targets (Simon, 2012) to become true global champions, while they take steps that are not necessarily incremental or linear (Vissak & Francioni, 2013).

The catalyst for accelerated growth and eventually leapfrog over established

players is often the acquisition of a developed economy firm (Kotabe & Kothari, 2016). What sets Chinese acquirers apart is the long-term perspective to co-evolve with the acquired firms as a combined group. A case in point is Joyson Electronics' globalization strategy. Following the acquisition of Preh GmbH, the management team at Preh has played an instrumental role helping the mother company close milestone acquisitions of further foreign companies in and outside Germany. Although the jury is still out there, whether the strategy is replicable, Chinese firms do offer an alternative approach to value creation through M&A, which is worth further observation and analysis.

## 5 Summary

### 5.1 Contribution and limitation

Is China taking over Germany? Many German media have been saying so repetitively in recent time. But the reality is the opposite. China's share of total foreign direct investment stock in Germany accounts for less than one percent as of the end of 2016. More importantly, Chinese acquirers play a different game than western investors, in that they value and preserve the independence of the acquired firms to a large extent. This means that the German firms are not only contributing to the combined group by providing the Chinese mother companies with their know-hows, but also would gain access to strategic assets provided by the Chinese acquirers. These include financial support and market access to China as well as strategy, vision and even managerial know-hows, under circumstances.

Through M&A in Germany, Chinese firms not only acquire strategy assets. But more importantly, they form partnership with the acquired firms and co-evolve towards market leadership in an accelerated fashion.

To date, both academics and managers know little about what strategies Chinese firms, among other emerging economy firms, adopt to create value through M&A abroad (Lahiri, 2011; Peng et al., 2008). In this dissertation, I have tried to break the ice by conducting an empirical analysis of three recent Chinese M&A cases and making the following contribution:

1. shed light on mid- to long-term shareholder value creation of Chinese multinationals through cross-border M&A,
2. uncover most recent development of growth patterns and underlying strategies in the post-M&A integration phase, providing support for theories developed previously, such as the “light-touch” integration approach (Liu & Woywode, 2013), also known as the “partnering approach” (Kale & Singh, 2009, and Kale et al., 2009),
3. introduce a novel research framework on value creation through cross-border M&A that accounts for the uniqueness of the Chinese firms in their endeavor to become global champions.

The main challenge of this research project lies in the relatively small sample population available and the difficult access to the key stakeholders of the featured companies for first-hand information and limited availability of firm-level data for validation and cross-referencing. Out of confidentiality reasons, all participating firms in the case studies are not willing to share the entirety of data requested. The research is likely subject to self-selection bias, as firms that are willing to take part in the case studies tend to be the winners, and confirmation bias to a certain extent, as interview partners tend to find evidence to confirm their statements.

## 5.2 Future research agenda

To the best of my knowledge, this research paper is one of the first to investigate the value creation strategy of Chinese firms through M&A in Germany. As Liu & Deng (2014) suggest, the process perspective on M&A by emerging economy firms is generally understudied. As Chinese cross-border M&A are still at an early stage, the unique features of internationalization of Chinese firms create an interesting laboratory for extending existing understanding of value creation strategy in the context of globalization.

I propose future research agenda in two aspects related to content and methodology respectively.

### 5.2.1 Content

Content-wise, future research can expand on both geographical and temporal dimensions. Geographically, scholars should investigate how the acquired firms in different locations of the world co-evolve and complement each other in the combined group led by the Chinese mother company, and how integration approaches may differ in other host regions.

In this dissertation, Joyson Electronics which has a broad range of investments in Europe, Japan and the United States serves as such an example, but finer granularity would be needed in future research. Stated-owned Weichai Power Co., Ltd. is another good case in point, which has built a global business empire through acquisitions in various parts of the world such as Kion (Germany), Linde Hydraulics (Germany), Moteurs Baudouin (France), and Ferretti (Italy), as well as Power Solutions International or PSI (USA), a manufacturer of clean engines and power systems, and Dematic, a supply chain automation specialist based in the United

States. The company has accumulated rich knowledge about post-M&A value creation and adapted its approach over time.

Nevertheless, we have so far very limited knowledge about to what extent Chinese firms, in general, differentiate their approach in integrating and managing the overseas subsidiaries, depending on where they are, and to what extent the determinants for the possible differences relate to the acquirers or to the acquirees.

With regard to the temporal aspect of future research, I posited earlier in this dissertation that Chinese investors adopt a long-term oriented approach to value creation through cross-border M&A. To a certain degree, the post-M&A integration route is “reality in flight”, as Pettigrew et al. (2001) put it. Consequently, scholars need to focus on the development over an extended period of time (Chen et al., 2016). Questions remain whether Chinese firms will deviate from the “light-touch” approach and tighten control over overseas subsidiaries and thus converge with multinationals from developed economies, when they grow more experienced and confident with cross-border M&A and more ready to exploit their competitive advantages; and whether Chinese firms will adopt new value creation strategies that have not been accounted for under current theories. The elapse of time would also provide more evidence on the possible differences in value creation strategy between Chinese SOE and privately owned companies, when more data becomes available, which leads to the second aspect of the future research agenda.

### 5.2.2 Methodology

The academic research on internationalization of Chinese firms is still at an early stage. As available sample poses the biggest constraint to research, scholars should focus on identifying and collecting first-hand information on Chinese cross-

border M&A cases to allow for deeper theory testing in the future.

While case studies expect to play an important role in research on Chinese cross-border M&A in foreseeable future, statistical analysis should become possible with an increasing number of Chinese public companies engaging in cross-border M&A. Consequently, hypothesis testing and attempt to generalize the Chinese model of internationalization and value creation would become theoretically more feasible. A mix of case study method and statistical analysis will collectively advance the research on internationalization of Chinese firms and deepen our knowledge about the value creation approach of aspiring Chinese firms in the context of globalization, and in contrast with that of established western multinationals.



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## Statement of oath

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**Affirmation – Statutory Declaration**  
**According to § 12 part 1 no. 6 of the Doctoral Program Regulations**  
**(dated May 25, 2016)**

I hereby declare, that the

**Dissertation**

submitted to Wissenschaftliche Hochschule für Unternehmensführung (WHU)-Otto-Beisheim -Hochschule- was produced independently and without the aid of sources other than those which have been indicated. All ideas and thoughts coming both directly and indirectly from outside sources have been noted as such.

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The following persons helped me gratuitous / non-gratuitous in the indicated way in selecting and evaluating the used materials:

Last Name	First Name	Kind of Support	gratuitous / non-gratuitous
Weigand	Juergen	Feedback on the development, research and improvement of the thesis	gratuitous
Reimann	Felix		

Further persons have not been involved in the preparation of the presented dissertation as regards contents or in substance. In particular, I have not drawn on the non-gratuitous help of placement or advisory services (doctoral counsels / PhD advisors or other persons). Nobody has received direct or indirect monetary benefits for services that are in connection with the contents of the presented dissertation.

The dissertation does not contain texts or (parts of) chapters that are subject of current or completed dissertation projects.

Place and date of issue: Shanghai, 18<sup>th</sup> Nov, 2018

Signature