CHINESE JOBS IN GERMANY: DO CHINESE MERGERS AND ACQUISITIONS CREATE JOBS IN GERMANY?

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1. Introduction

Chinese companies have to determine their best mode of growth to position themselves in the global market. For many companies, acquisitions seem to be a good alternative, but often, it is very difficult to predict the likelihood of job losses after acquisitions. In recent years interesting developments could be reported through our research. In January 2012, the construction-equipment maker Sany Group purchased the German concrete pump maker Putzmeister, Aichtal/Stuttgart. On August 31, Weichai Power, which belongs to the Shandong Heavy Industry Group, invested 738 million euros ($967 million) in Kion Group/Wiesbaden. This takeover was the biggest Sino-German transaction ever.

2. Chinese overseas mergers and acquisitions

China's economic growth in recent years had enabled Chinese companies to actively seek opportunities abroad through mergers and acquisitions (M&A), joint ventures and partnerships. Among the many signs of China's increasing economic power, there has been a surge in the number of Chinese companies seeking to buy assets overseas. In 2009, while developed economies remained stuck in the aftermath of the global financial crisis Chinese companies made 298 cross-border acquisitions[1]. "Invest in Europe" is all the rage at the moment. As bad news on the euro debt crisis keeps flowing in, many Chinese entrepreneurs and business experts believe Europe's getting cheap. However, worries and suspicions are also increasing over the extent and purpose of China's foreign investment projects, and Europe is wary of the quality of Chinese investors. According to China's official statistics, outward direct investment in 2010 reached $68.8 billion (56.1 billion euros), foreseeing a further rise in 2012[2].

Most of the internationally oriented German companies recovered from the crisis and reached record high revenues and profits. In the fiscal year 2011/12, Trumpf GmbH & Co.KG, one of the world's leading companies in production and medical technology, had 9500 employees and achieved sales of 2.3 billion euros[3] and had a growth rate of more than 15% in the last fiscal year. In the same period, similar companies reached comparable growth rates. Some of the companies, those taken over by Chinese companies, grew even faster. Already in July 2012, Putzmeister Holding expanded through the take-over of Intermix in Heimertingen and hired hundreds of new employees. The mechanical engineer Waldrich GmbH from Coburg doubled its number of employees since the Beijing No. 1 Machine Tool Plant acquisition in 2005.

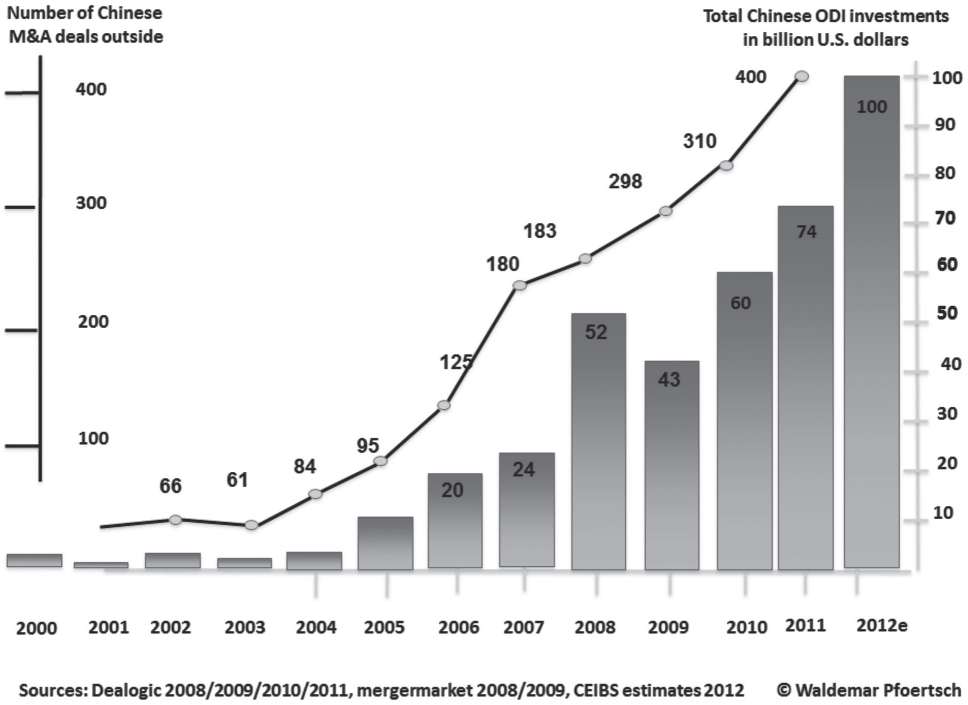
For the cash-rich Chinese companies, their journey into overseas markets is driven by their desire to strengthen their competitive position. Mining, telecommunications, utilities and financial services are the preferred sectors for acquisitions. In Germany they focus on machinery and high tech companies. The majority have been relatively small transactions, often obtaining only a minority stake. However, there have been several cases involving billions of U.S. dollars. Among them, a subsidiary of Sinopec Group – China's Sinopec International Petroleum Exploration and Development Co., Ltd. (SIPC) – spent 7.7 billion U.S. dollars last year to buy Canada's Addax Petroleum (Addax), and Geely Automotive and its 1.8 billion dollar acquisition of Ford's Volvo brand. With the growth in demand for raw materials, energy and technology, China will continue to look for opportunities for mergers and acquisitions.

1 Lee, C. (2010): A brave new world – The Climate for Chinese M&A Abroad. Economist Intelligence Unit, London.

2 China Daily 08/03/2012, p. 10.

3 Trumpf GmbH & CoKG: Annual Report 2011/2012, October 2012.

Figure 1: Chinese overseas mergers and acquisitions 2000 – 2012



Although China's investment has been welcomed by many cash-strapped Western companies, its buying spree has raised a number of concerns, particularly when it involves state-owned enterprises (SOEs) and when it creates fears about job loses within the acquired company. Are these fears based on real facts or are they just part of the overall fear of the up-raising of China itself? In recent years, highly publicised cases like General Motors' Opel brought the public opinion to rage and the worry may be that Chinese acquirers could cause a similar reaction.

Chinese companies find foreign markets difficult to enter; regulations and intangible trade barriers make market entry difficult. Most products from China are imported by Western companies, which use Chinese manufacturing facilities to produce to their specification with highly protected trademarks and brands. Chinese companies do not have that yet and need to find other ways to enter the high margin European countries; M&A is one of them. Chinese companies lack this experience and greater risk means the likelihood of success lies at only 55 percent[4].

4 Straub, T. (2007): Reasons for Frequent Failure in Mergers and Acquisitions – A Comprehensive Analysis, Deutscher Universitätsverlag, Wiesbaden.

Figure 2: Categories of M&A deals 2000 – 2010 in the German machinery industry

	Benefits and issues for the German companies	Benefits and issues for the Chinese companies
Ming Xing 明星 Super Star deal	Sales increase of more than Double since the take over and Expansion of labor force and Continuous investments in R&D, etc.	Continuous technology transfer, Increased market offering in China through German branded products, securing global market position
Mama Huhu 马马虎虎 So-so / OK deal	Sales revenue reduction up to 50%, almost no investments, labor force cuts, limited returns	Technology transfer of existing products, market presence in Europe, continuous investments
Zhao Gao 糟糕 Disaster deal	Massive sales revenue reduction , reduction of labor force, negative returns over many years, finally bankruptcy	Almost no technology transfer, but additional investments after purchase, legal and labor union issues, image damages and losing face

Sources: CEIBS research 2010 © Waldemar Pfoertsch

3. Success rate of Chinese foreign M&A

By analyzing the acquisitions of Chinese companies buying majority stakes in German machinery companies between 2000 and 2010,[5] we found that in 2010 35% of the companies had been dissolved and another 35% could only be described as barely successfull with a reduced capacity or product range and labor force. Chinese managers call them **Mama Huhu** (马马虎虎) or "so-so" deals; they may have brought some benefits, but did not meet the intended goals.

For acquisitions in the high-tech area, the goal of Chinese investors was to gain access to advanced technology, their product, and knowledge in order to transfer it to the mother company to serve the Chinese home market. In addition, they were trying to get access to foreign market channels or to gain other benefits from the transaction. In the difficult or so-called "disaster deal" (**Zao Gao** 糟糕), none of these objectives could be achieved. Almost no technology transfer could be gained and additional investments were necessary after purchase. In many cases, legal and labor union issues created trouble for the Chinese management. In some cases damage to the company image occurred resulting in "loss of face" to shareholders or government officials. At least mainland Chinese M&A have not aggravated the German public opinion like Taiwan's BenQ Corp. acquisition of Siemens Mobile phone business unit did, resulting in its unexpected closure in January 2007.[6]

5 Pfoertsch, W. and Liu, Y. (2010): China's Emerging Giants: A Comparison of Chinese and German Overseas M&As in the Machinery Sector, BusinessForum China, Shanghai, November.

6 See also Xin, K.; Yeung, A.; Pfoertsch, W., and Liu, S. (2011): The Globalization of Chinese Companies: Strategies for Conquering International Markets. Wiley; Singapore.

In successful or "super star" (**Ming Xing 明星**) M&A deal cases, the German companies and their employees benefited greatly from Chinese investments. Besides capital infusion, many jobs were created (sometimes more than 100 percent), and huge tax benefits for the location were reaped. Revenue increased dramatically, particularly in China and its neighboring countries, and the new Chinese owners continued to invest in the expansion of R&D and related services. Unfortunately, only one third of the analyzed cases belong in this Ming Xing category. In many instances, Zao Gao and Mama Huhu acquisitions have affected the local community and the employees negatively.

4. Benefits of Chinese and German M&A Deals

In 2012, the inflow of capital to China was projected to be more 60 billion U.S. dollars. Not only large multinationals, but also many medium and small companies are rushing into China.[7] Many of them want to capitalize on the country's construction and infrastructure boom initiated through the Chinese government's current 5 year plan. Additionally, the rapidly increasing consumer spending is also attracting foreign investments.

Most of the German companies in the machinery sector have already invested or are in the process of investing into Chinese markets. Beside joint ventures and green field investments, M&A was and is a viable alternative. The electrical machinery giant Siemens has acquired or joint ventured with more than 300 companies already, and many medium-sized companies are following in their footsteps with well-established procedure end valuation methods. The logic behind these acquisitions follows a worldwide pattern for winning in the world emerging markets.[8]

Initially, German industrial machinery investors tried to acquire production units in China to supply parts and components for their own manufacturing or for their customers at home or in China on a low-cost level. As a second step, they accessed the local market with local marketing and sales activities and acquired Chinese suppliers. There was a high sense of urgency in integrating the acquired business into their existing business and in adjusting all necessary functions to the business model in use. Many of them had a fast integration plan (100 days), which often required radical changes in the acquired organization, allow short term financial and process benefits to be accomplished. In most of the cases the existing brands were made extinct or were integrated. As a result, the success rate was very high. With this method the competitive advantage was increased, low-cost production assured and the entry to the Chinese market was prepared smoothly; many German jobs were lost during this procedure.

The priorities of Chinese companies acquiring German companies were very different. In the time period between 2000 and 2005, the priority was to "buy cheap". Many of the early investments were bankrupt companies, and the failure rate during this period was very high, such as the PC manufacturer Schneider Electric or Dornier aircrafts. In addition, they had a weak or narrow due diligence, which could not catch the hidden problems of the take-over target. To make the situation worse, most of the Chinese management was not internationally experienced and could not manage these acquisitions.

After acquisition, integration did not follow a structured approach; sometimes it substituted and overruled national management. The communication with the new mother company was often strangled by strong hierarchical structures and unclear priorities in the Chinese ownership. When financial difficulties occurred, the last option was the transfer of machineries to China and divesting instead of investing.

7 Lucks, K. u.a. (2006): M&A in China, Frankfurter Allgemeine Books, Frankfurt.

8 Khanna, T.; Palepu, K.G. (2010): Winning in Emerging Markets: A Road Map for Strategy and Execution, Harvard Business School Press, Boston.

Fortunately, in recent years, the Zao Gao deals have decreased and the underlining rationality of Chinese investment has become more obvious. Besides acquiring patents and technologies, Chinese companies now have a long-term view of accessing the local foreign market. The analysis of deals showed that great patience was practiced. In all cases, the Chinese acquirer kept the existing business model and only integrated certain functions such as HR and finance with the mother organization. In a few instances, IT functions were integrated due to big differences in existing ERP systems. Further integration in the host company structure could only be seen as a long-term intention. At the recent acquisition of Putzmeister no other person than **Liang Wengen**, Chairman of Sany Heavy Industry showed up for a visit and let the company be run by the old management. In addition, Putzmeister CEO **Norbert Scheuch** was nominated to the Board of Directors at Sany Heavy Industry.

The management of the brands became part of the acquisition strategy. In all cases, the existing German brand was maintained and in Ming Xing cases, they even expanded. The "Made in Germany" tag enhanced the brand perception of the Chinese brand and in some cases the corporate color of the German brand was transferred to the Chinese brand. In all cases in China, a dual brand strategy was created with the German premium brand added to the existing brand. As a long-term perspective the acquiring company opened up the opportunity of introducing a low-end Chinese brand to the international markets.

Figure 3: Rationality behind German and Chinese M&A Deals

	German companies buying Chinese companies	Chinese companies buying German companies
Strategic direction	Acquiring low cost production, and want to gain access short Term local market	Intent to acquire patents and technologies and long-term access to local market
Operational direction	Integrate acquired company in existing business model	Keep business models Separate, do not integrate and only integrate selected areas (HR, internal operations)
Time frame	Speedy integration with radical changes and seek short term profitability	No immediate integration, only small changes, seek long-term benefit
Brand management	Integrate into existing brand architecture and management	Maintain the existing brands and use German brands in China

Sources: CEIBS research 2010

5. Reduction of manpower through M&A?

Most of the analyzed Chinese companies had a strong need to increase their performance rate on M&A deals. Seasoned companies like China Minmetals Co. Ltd. or Sany have mastered their procedures in the last five years through learning-by-doing. These kinds of companies often did not rush to do the deal and understood the patience needed for the integration process. Before looking at overseas markets, they first accumulated M&A knowledge in the domestic market and enhanced their processes and confidence.

As Chinese companies continued to accelerate the pace of overseas expansion, their managers quickly learned the importance of maintaining good relationships with the work force, labor unions and local politicians. After the acquisition of German machinery companies through Chinese acquirer only in a few companies' jobs had to be reduced, in most of the cases only when the company had to go into bankruptcy. In more than 50% of the analyzed acquisitions, labor force was expanded due to increased sales to China. In our sample it was 2.4 times. This meant that in the last five years, more than 2000 jobs were created by Chinese investors in the machinery industry in Germany. In summary, most of the Chinese companies acquiring German ones had positive results and the following conclusions could be drawn:

1. Chinese companies learned quickly to improve the success of their M&A deals in Germany.
2. From 2007, no Zhao Gao deals could be found.
3. Analyzed Ming Xing deals increased labor force manifold by the end of 2012.

According to **Alexander Tirpitz**, founder of the German Center for Market Entry, "Chinese investors still have a lousy image. There is often the misconception that after a takeover they dismantle the production machinery and ship it to China; however, such a case is not known"[9]. According to our study, the Chinese are mainly interested in technology and use the acquired company to offer high-end products in their home country and abroad. They also favor the label "Made in Germany"; this signals high quality and allows for higher prices in Asia. Therefore they currently do everything to maintain the acquired facilities, keep the production and management in place and do not want to create negative press and an unfavorable atmosphere caused by a reduction of personnel or company shut-downs. The goals of German and Chinese companies in M&A may be different, but increased professionalism in M&A processes and procedures can be more enlarged with the success rate of future takeovers and secure many more jobs in Germany.

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9 Neue Züricher Zeitung am Sonntag, Pressebericht, 15.05.2011.