Integration problems in Chinese overseas M&As: a case study approach

Authors

Attilio Mucelli – Associate Professor
Università Politecnica delle Marche
P.le Martelli, 8 Ancona – Italy
a.mucelli@univpm.it

Francesca Spigarelli – Assistant Professor
University of Macerata
Department on Legal and Economic studies
Via Angeloni, 3 Jesi – Italy
spigarelli@unimc.it
1. Introduction: the purpose of the study

One of the most interesting phenomena that have recently emerged in the international economic and financial scenario is the leading role played by emerging economies as global investors (Unctad, 2006). New multinational enterprises (MNEs), primarily from the “BRIC” area (Brazil, Russia, India and China), have embarked upon rapid globalization processes targeting industrialized economies, particularly Europe and the USA (Wilson & Purushothaman, 2003; Sauvant, 2005, 2006).

In the context of the new MNEs from emerging countries, China represents one of the cases most analyzed and discussed by scholars and experts (Zwig, 2002; Alon & McIntyre, 2008). Recent studies emphasize the peculiar nature of an internationalization process strongly promoted by the government (through the Go Global strategy), but also provide evidence of critical issues and weaknesses associated with this process. There have been numerous cases of bankruptcy or severe difficulties encountered on international markets (Accenture, 2005).

A critical issue is the effective ability of Chinese enterprises operating abroad to absorb new technology, to use new brands, to invest in marketing and in intangible asset, and, above all, to get used to Western standards in terms of management practice and corporate governance rules. Those problems become huge in case of merger and acquisitions (M&A), where cultural problems may arise, especially if not accompanied by an adequate training process for the managerial and professional class (Tan, 2005). By the end of 2008, 70% of Chinese enterprises overseas mergers and acquisitions (M&A) failed (People’s Daily, 2009), while the deal volume increased nearly 20-fold between 2000 and 2005 (Boateng, 2008). Even the financial crisis has not appeased the appetite for foreign targets (APFC, CCPIT, 2009). In 2009, the number of M&A deals has reduced by 65% worldwide (value by 34%) (Unctad, 2010, p. 10). The drop was particularly severe for industrialized countries (-44%) but also for MNE from emerging markets (-26%). In this scenario, China is an exception: M&A grew by 41% (Unctad, 2010, tables 12 and 17) in 2009. About 300 new deals were concluded in 2009 (EIU, 2010, p. 4) and a surge in Chinese acquisitions is reported in the first semester 2010 (Yuanyuan, 2010).

The Government is aware of the fact that one of the most important weaknesses of Chinese companies investing abroad is human resource management and management practices. As Vice prime minister Wang Qishan’s said in March 2009: “Do you have a handle on your own management capabilities? Have you analyzed the cultural differences of the two sides? Do you understand the relationship between unionized labor and management in that place? If the other side’s engineers resign, are you really going to send people from Changsha overseas, and make the whole company speak Hunanese? If you don’t know yourself and know your opponent, then this kind of confidence scares me”.

The purpose of the paper is to analyze the difficulties and critical aspects of the affirmation of Chinese MNEs in the global arena - in Italy, in particular - with specific reference to human resource integration, cross cultural differences, changes in management practice and approach to business. This is the first output of a long term research project studying the cultural and management M&A related problems, using mostly a case study approach to understand the phenomenon that is still in its initial stages, especially in Italy. Italy is feeling the effects of the Go Global policy to a progressively increasing extent. The country can provide Chinese companies a rapid access to western markets (and strategic logistic services), as well as to a wide range of distinctive skills/intangible assets, such as brands, know how and technology, in manufacturing industries. The number of M&A deals is rising sharply and there are interesting cases to be studied deeply (Spigarelli, 2010).

The paper is organized as follows. A literature review on MNEs from emerging countries, on the Go Global policy and on Chinese M&As is provided. A framework to analyze the M&A cultural

---

1 Cf. Simon Rabinovitch, “Unscripted reply shows China's foreign M&A caution”, Reuter, 13 marzo 2009. Citation form the intervention of Mr. at the National Assembly, March 2009.
and management related problems is than proposed. In the second part, the focus is on a case study of a Chinese M&A in Italy, in the motorbike sector. We focus on strategic motivation of the acquisition, as well as on problems and critical aspects of the integration between the Chinese investor and the Italian acquired firm.

2. Literature review

The new MNEs from emerging countries and the Go Global effect

Following the appearance in the global scenario of new multinationals from emerging economies (Bartlett & Ghoshal, 2000), a new body of literature has developed (Meyer, 1998; Mathews, 2002, 2006; Bonaglia, et al., 2007; Ramamurti, 2008; Rabelotti & Sanfilippo, 2008; Sauvant, 2008). In the early ‘90s a growing number of enterprises from Chile, China, Egypt, Malaysia, Mexico, Russia, South Africa, Thailand, and Turkey (Aykut & Goldstein, 2006, p. 8) began to enter the world scene (Aykut & Goldstein, 2006, pp. 11-12; Unctad, 2006, pp. 18-36).

These enterprises, driven by the search for competitive advantages, follow atypical patterns of development: they internationalize in order to grow and make ample use of alliances and acquisitions in order to acquire distinctive resources such as brands, technology, and knowledge (Gammeltoft, 2008). These resources are functional to the rapid creation of an international competitive advantage capable of expanding and diversifying their basic competencies.

In this context, China - with the so called Go Global strategy - represents one of the most interesting cases, discussed by scholars and experts (Zwig, 2002; Alon & McIntyre, 2008).

Leveraging the government’s support - providing fiscal and financial aid, operating services and assistance - many enterprises, and not only large, publicly controlled companies, have globalized (Bellabona & Spigarelli, 2007) through greenfield initiatives, and especially through acquisitions (Hess, 2006; Rui & Yip, 2008). Chinese companies are increasingly moving beyond the initial search for sources of energy and raw materials (Lawrence, 2002): recent empirical analyses (Zhang, 2005; Battat, 2006; Jiang, 2006) have shown that enterprises frequently internationalize in order to conquer new markets (Cross & Voss, 2008; Liu & Tian, 2008) due to the strong competition and saturation of their domestic markets (Taylor, 2002; Zhang, 2003; Deng, 2004; Buckley, et al., 2008 b; Morck, et al., 2008). The new multinationals seek to reduce production costs and overcome commercial barriers. By acquiring Western companies, they secure advanced technologies and strategic competencies, including managerial skills (Cross & Voss, 2008), as well as internationally recognized brands, in order to avoid long market acceptance times (Morck, et al., 2008; Rui & Yip, 2008).

Despite the significant impact that Go Global is having at the international level, there are also signs of weakness and fragility inherent in an “induced” internationalization process.

Firstly, a problematic issue associated with the Go Global policy is that government support for the internationalization of Chinese enterprises is an integral part of an economic diplomacy program, the strategic and economic objectives of which are frequently confused (Yeung & Liu, 2008). During the most recent phases of expansion, primarily focused on intangible assets, government intervention has been viewed with suspicion, slowing or preventing agreements, alliances and acquisitions, as had previously occurred elsewhere in Asia (Goldstein, 2008). The strong bonds between government and enterprises are having deleterious effects on both managerial culture, as mentioned above, and the perception of the risk of foreign investments (Yeung & Liu, 2008).

Secondly, the organizational structure of conglomerated enterprises is limiting the efficacy of their actions in the global context and their advantages of scale frequently prove a matter of mere appearance. For historical and governance-related reasons, subsidiaries tend to operate as quasi-independent entities, often pursuing goals that conflict with the strategies outlined by the government or on behalf of the government by holding companies (Nolan, 2001; Nolan & Zhang,
There have been numerous cases of bankruptcy or severe difficulties encountered on international markets (Accenture, 2005).

Another critical issue, which has been the subject of extensive debate in both academic circles and among the Chinese management, is the effective ability of Chinese enterprises operating abroad to absorb technology, especially where not accompanied by an adequate training process for the managerial and professional class (Tan, 2005).

A recent analysis of the International Institute for Management Development (IMD)\(^2\) shows that China is at the bottom of the ranking (57 countries are analyzed) in terms of managerial skills in the international arena. This is creating huge operational problems for multinationals and locally-owned companies. China has a weak position in Management practices as well (ranking 51\(^{st}\)): Chinese managers need to acquire more leadership qualifications and develop soft skills (Rossele, 2009).

A focus on Chinese M&As

Literature on M&As from emerging countries and from China in particular is rather recent and only few research papers are available (Deng, 2007 and 2009; Rui & Yip, 2008; Boateng et al., 2009).

As for theoretical contributions, a specific issue raised by researchers on Chinese internationalization is related to the extent to which the pattern of firm’s outward strategy is “institutionally embedded rather than reflecting a strategic choice by the leaders of firms” (Child & Rodrigues, 2005).

In the institutional perspective, the acquisition of strategic resources by Chinese firms is influenced, at the individual, firm, and inter-firm levels, by the institutional context (Oliver, 1997; Deng, 2009). M&As are, in this case, a response to the unique institutional characteristics of China. See Exhibit 1.

Exhibit 1: The institutional perspective for M&As

On the other hand, other theoretical research papers proposes a strategic intent perspective (SIP) to explain Chinese firms’ foreign acquisitions. In this approach, “Chinese firms strategically use cross-border M&A to achieve specific goals, such as acquiring strategic capabilities to offset their competitive weaknesses and leveraging their unique ownership advantages, while making use of institutional incentives and minimizing institutional constraints” (Rui & Yip, 2008). See Exhibit 2.

Apart from the theoretical contributions, there are several empirical studies shedding light on some key aspects of Chinese M&A phenomenon. First of all, as a latecomer, Chinese MNEs use acquisition to have rapid access to strategic assets to face global competitors (Deng, 2007).\(^3\) This is

---

\(^2\) The IMD annually releases the World Competitiveness Yearbook. The competitiveness of many countries is measured, focusing on four major factors: Economic performance, Government efficiency, Business efficiency and Infrastructure.

\(^3\) For an update literature review on motivation behind cross border M&A see Boateng et al., 2009.
why M&As is becoming the dominant vehicle for Chinese enterprises’ outward operations (OECD, 2008, p. 66): more than 80% of the value of Chinese outward FDI is via M&A (OECD, 2008).

Chinese firms look for market development, faster entry into new markets, diversification, and try to obtain foreign advanced technology and other resources, including technology, R&D competencies, management know-how (Boateng et al., 2009; OECD, 2008). The acquirers are mainly large enterprise groups, with competitive advantages at international level (Chen & Li, 2006; Morgan Stanley, 2005). Usually, the acquired firms are based in developed countries and face financial or strategic difficulties (Morgan Stanley, 2005). Deals are concentrated in some key industries such as resource and energy, telecommunications, electronics, machinery, home appliances, and automobiles. Those sectors are characterized by a fierce competition between local firms and global rivals (Rui & Yip, 2008).

Mapping the strategic motivation of Chinese M&As, Rui and Yip (2008) classify Chinese acquiring firms into the following categories:

- transnational oriented firms, focused on global competitive positions even if market shares in the domestic market are still important. Those firms set up headquarters, regional headquarters, and many R&D centers all over the world;
- firms that have no certain orientation, but try to offset their competitive weaknesses and transform themselves acquiring assets and capabilities abroad;
- domestically oriented firms, trying to compete with multinationals companies in the Chinese markets by using acquired strategic assets;
- trade-oriented firms that intend to expand trade in the short term but potentially want to become production firms in the long run;
- niche market players.
Another interesting aspect being studied recently by researchers is the impact of the acquisition in terms of wealth creation. A recent field study finds that cross-border M&As create value for Chinese acquiring firms and gains for their shareholders (Boateng et al., 2008).

Focusing on problems that Chinese companies face in managing overseas M&As, Hirt & Orr (2006) identify some critical aspects such as running relationships with skeptical regulators, unions, and other stakeholders before, during, and after the deal. Those problems sum up with those related to globalize the brand, the supply chain, and the sales network. Chinese firms face unfamiliar environments where business practices, models and routines, as well as administrative, fiscal and civil rules completely differ from those prevalent in the Motherland. Anyway, the most relevant/critical factor in managing overseas acquisition seems to be the need to integrate people and to bridge cultural gaps between the Chinese investor and the acquired company.

Usually, three stages characterize the post acquisition phase, in terms of human resources and perception of need/urgency to integrate them.

The first phase is characterized by “enthusiasm”. The acquirer believes that its approach to business and management will be successful in the Western markets too. Euphoria about the completed deal prevails. Human resources of the two companies get to know each other, in a friendly manner.

In the second phase there is a “growing discomfort”. Problems related to running the new business in the Western markets arise. Economic performances can be unsatisfactory and behind expectations. Communication among people turns out to be frustrating, with growing difficulties, due to cultural and geographical barriers.

In the third phase, the “need to change” emerge. Strong and specific directions from the motherhouse become necessary. The acquirer replaces some managers (also expatriates) and launches programs to bridge cultural gaps and solve communication problems.

3. Assessing Chinese M&As critical aspects: a possible framework for analysis

To evaluate Chinese M&As critical aspects, a framework of analysis is proposed, based on the identification of mechanisms that should be put in place by the acquirer to leverage the integration process. The framework will be used as a guideline in the case study analysis.

The success of an acquisition is strictly related to the management of the phases that follow the transaction (Haspeslagh & Jemison, 1991). Key choices concern both the level of integration between the two parties (making the acquired losing its identity or maintain its independence) and the possibility/need to replace managerial resources of the acquired firm (Zollo & Singh, 2004). Research papers show that, in most cases, the acquirer follows a structural integration approach by fully integrating the acquired firm. The acquired loses its identity and its senior executives are replaced. Anyway, recent studies show that this approach is frequently not followed in case of M&As from emerging countries (Kale & Singh, 2008): acquirers tend to leave the target firm structurally separate. By keeping the acquired’s identity and retaining its senior employees, the acquirer aims at preserving routines, expertise and knowledge. In this case, the acquisition is somehow more similar to a strategic alliance. To push synergies and leverage interdependence, the acquirers need to follow a “partnering approach to acquisitions” (Prashant & Singh, 2009). Specific mechanisms must be activated to coordinate human resources and to develop trust and relational capital (Exhibit 3).

As for the need to coordinate human resources, three specific mechanisms can serve this purpose (Galbraith, 1977). The first is related to “planning and control” and involves setting specific tools to identify strategic and operative roles of each firm, responsibilities in the production/distribution process, timetable for implementing strategic and operational goals. The second mechanism involves hierarchy and the definition of formal structures, with clear statement of authority/responsibility of human resources and decision-making power. The third mechanism is feedback and concerns the information sharing instruments and information flow process used to “link” the two firms.
As for the need to develop trust and relational capital, it is related to behavioral attitude: people in both firms need to share and integrate their knowledge, in the interest of “the group” as a unique body. Trust-building mechanisms involve the creation of both personal bonds, inducing people understanding and accepting their different styles/attitude/behavior (Schreiner et al., 2009) and interfirm trust, which depends on institutional factors including the location and national culture of the firms (Dyer & Chu, 2003; McEvily, Perrone, & Zaheer, 2003).

Exhibit 3: Coordination process in the partnering approach to acquisitions: key mechanisms

<table>
<thead>
<tr>
<th>Use of coordination mechanism</th>
<th>Development of trust and relational capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning and control</td>
<td>Individual level</td>
</tr>
<tr>
<td>Hierarchy</td>
<td>Interfirm level</td>
</tr>
<tr>
<td>Feedback</td>
<td></td>
</tr>
</tbody>
</table>

4. The case study: Benelli and QJ group

To understand deeply the critical aspects related to Chinese M&As, a case study analysis is proposed (Yin, 1989), following the framework describe in the first part of this paper. The “players” of the case are the Chinese Qianjiang (QJ) group (the acquirer) and the Italian Benelli company (acquired). The acquisition took place in September 2005 when QJ reached a deal to buy the Benelli company from an Italian industrial group, beating the offer made by a Russian sports car manufacturer.

The companies involved in the deal

QJ is a state-owned group situated in southeast China in the Zhejiang Province. It’s one of the largest Chinese company producing and selling motorcycles, with an annual output of more than 1,000,000 units. Its primary business is R&D, as well as manufacturing and marketing of motorcycles (ranging from 50cc to 250cc) and engine parts. The company’s motorcycle products constitute about 7% of market share in China and 40% of product are exported in more than 110 countries. Production is also related to machinery and electrical products, race cars, mini motorcycles, ATV, gas scooters, generators, high pressure water cleaners, garden tools, power pumps, vacuum pumps, lawn mowers, and so forth (Spigarelli, Wei, 2009).

The Benelli Company is a small Italian company, projecting and producing motorcycle (in the heavy segment of the market, i.e. motorbikes with a displacement of more than 650 cc) and scooters. It was established as a family firm in Pesaro, Italy, in 1911.

---

4 With specific reference to differences in cultures between American and Chinese people Thomas & Hawes (2008) underline that “Any business relationship works best when both sides understand what the other expects. For U.S. companies working with Chinese business partners, that understanding can be particularly difficult. The problem is that each side comes to the partnership with very different cultural and economic perspectives. Americans tend to view a business relationship as a win/win proposition -- a contract between two corporate entities designed for their mutual benefit in long-term profitability and growth. In China, personal relationships among business partners are far more important, and the benefits foreseen in entering a partnership often are broader and focused more on the near term -- and not necessarily evenly balanced”. The key to success is paying close attention to the relationship, both on a personal level and by implementing procedures to monitor the progress of the venture.

5 The case study was developed using different sources: corporate materials, balance sheets, internet sources, as well as direct open-ended repeated non structured interviews with executives, top and middle managers, shop floor workers. Some informal follow-ups with e-mails and phone calls were made. Field visits and interviews have been carried out in 2008-2010. Interviews were not taped and anonymity was promised.
Initially specializing in automobile and motorcycle repairs, as well as the manufacturing of spare parts, over the years the firm also began manufacturing motorcycles that were successful in various sports competitions, winning numerous national and international titles.

Toward the end of the 1960s, growing competition with the Japanese led to the first difficulties of Benelli. The company experienced many changes in the property of equity. The need for sizable investments, coupled with enormous financial difficulties, eventually brought a halt to production in 2005 and sent the company into liquidation.

The strategic motivation of the M&A

The industry where QJ is focusing through Benelli is the motorcycle one. Benelli has products in both the scooter sector and in the heavy segment of the industry, in the naked, sport, and touring segments, while QJ, with a wide range of scooters and standard products in a variety of models, is focused on the low price segment of the market.

Through the acquisition, QJ could have access to know how and high projecting skills of Benelli’s people. Such a distinctive knowledge was considered a strategic resource to offer new high-quality products and penetrate new segments of the market (improving QJ portfolio range), as well as to increase the quality of QJ traditional products (typically scooters). Another strategic motivation of the acquisition was the historical brand of Benelli: a brand well recognized for quality and sporting tradition (Spigarelli, Wei, 2009).

Increased market visibility and a wide range of quality products should help QJ compete with the leading Japanese companies that can combine innovative designs, engine performance and low prices.

Main changes and critical aspects of the M&A

As for Benelli, all administration, production, and R&D activities were left in Italy. Production operations were restructured to increase both efficiency and the capacity of the Italian site. The goal was to reduce production costs and sales prices that had exploded in the past, leading to huge losses. To serve this purpose, QJ developed an industrial plan that has resulted in an increase in the workforce (from 45 people in 2005 to 100 in 2007) as well as in the products offered to the market (from 3 models of motorbikes in 2005 to 9 in 2007).

As for human resources, few people from China have been expatriated to Pesaro: the sales director and the parts quality manager, as well as the managing director.

Despite the positive consequences and changes related to the acquisition, some problems have emerged in recent times in the integration process, due mostly to the cultural differences between Chinese and Italian people in terms of behaviour (in general) and business approach (in particular).

The Italian Technical Director, that was appointed as vice managing director by the Chinese investors, left the company in 2010, after repeated collisions with the Chinese managing director. He was the “historical hearth” of the company.

Moreover, sales performances as well as economic/financial results are still unsatisfactory compared to QJ’s plans and to Benelli’s potentials. Exhibit 7, 8, 9 show same data on the number of Benelli’s products registered/sold in the Italian market. In particular, Exhibit 7 compares registrations to those performed by direct Italian competitors: Morini, MV, and Triumph.

Exhibit 10 reports the main economic and financial information on Benelli’s before and after the acquisition.

---

<table>
<thead>
<tr>
<th>Producers</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benelli</td>
<td>262</td>
<td>401</td>
<td>484</td>
<td>163</td>
</tr>
</tbody>
</table>

* Morini is a direct competitor, in terms of both proposed models and annual sales. Although it is in the same market segment, MV produces more exclusive/luxury motorbikes, with higher prices and better performance. Benelli is Triumph’s only competitor because, aside from Benelli, Triumph is the only 3 cylinder Italian manufacturer.
Exhibit 8: Benelli’s registration of motorbikes and scooters (displacements of more than 50 cc) per year in Italy

<table>
<thead>
<tr>
<th>Products Motorbike and Scooter (&gt;50 cc)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adiva 125</td>
<td>-</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>Adiva 150</td>
<td>7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>K2 100</td>
<td>5</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Velvet 125</td>
<td>3</td>
<td>-</td>
<td>71</td>
</tr>
<tr>
<td>Velvet 150</td>
<td>2</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Velvet 250</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Velvet 400</td>
<td>42</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total Scooter</strong></td>
<td>60</td>
<td>6</td>
<td>77</td>
</tr>
<tr>
<td>Tnt 1130</td>
<td>145</td>
<td>64</td>
<td>152</td>
</tr>
<tr>
<td>Tornado Naked Tre 899</td>
<td>-</td>
<td>-</td>
<td>115</td>
</tr>
<tr>
<td>Naked Sport</td>
<td>3</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td><strong>Total Naked</strong></td>
<td>148</td>
<td>66</td>
<td>267</td>
</tr>
<tr>
<td>Tornado 1130</td>
<td>4</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Tornado Rs</td>
<td>4</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td>Tornado Tre 900</td>
<td>20</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Tornado Tre 900 Rs</td>
<td>21</td>
<td>4</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total Sport</strong></td>
<td>49</td>
<td>11</td>
<td>48</td>
</tr>
<tr>
<td>Tre 1130 K</td>
<td>-</td>
<td>58</td>
<td>61</td>
</tr>
<tr>
<td>Tre 1130 K Amazonas</td>
<td>-</td>
<td>-</td>
<td>23</td>
</tr>
<tr>
<td><strong>Total Touring</strong></td>
<td>-</td>
<td>58</td>
<td>84</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total Benelli</strong></td>
<td>262</td>
<td>143</td>
<td>484</td>
</tr>
<tr>
<td><strong>Total Italy</strong></td>
<td>446.767</td>
<td>435.473</td>
<td>408.249</td>
</tr>
</tbody>
</table>


Exhibit 9: Benelli’s registration of scooters (displacement of less than 49 cc) per year, in Italy

<table>
<thead>
<tr>
<th>Product (All 49 Cc Displacement)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>491 Racing Kat</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>491 Rr</td>
<td>6</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>491 St</td>
<td>2</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Naked</td>
<td>4</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Pepe Base</td>
<td>-</td>
<td>267</td>
<td>437</td>
</tr>
<tr>
<td>Pepe Kat</td>
<td>-</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Pepe Lx</td>
<td>-</td>
<td>567</td>
<td>612</td>
</tr>
<tr>
<td>Quattronovex</td>
<td>-</td>
<td>-</td>
<td>86</td>
</tr>
<tr>
<td>Specimen Renault</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Campus 50</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Benelli</strong></td>
<td>13</td>
<td>851</td>
<td>1.150</td>
</tr>
<tr>
<td><strong>Total Italy</strong></td>
<td>48.809</td>
<td>134.845</td>
<td>123.110</td>
</tr>
</tbody>
</table>


Exhibit 10: Benelli’s financial and economic data (in thousand €)

<table>
<thead>
<tr>
<th></th>
<th>Before acquisition</th>
<th>Benelli QJ</th>
<th>After acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of production</td>
<td>17,808</td>
<td>17,210</td>
<td>23,943</td>
</tr>
</tbody>
</table>
Draft paper – do not cite without authors’ permission

Referring to the framework described in the first part of the paper, problems QJ and Benelli are experiencing could be related to the development of relational capital as well as to the coordination of human resources.

As for development of relational capital, after the first “enthusiastic” phase, human relations became somehow complicated. Different mentalities, habits and cultural background emerged in daily routines due also to differing working environments in China and Italy.

At individual level, communication is a key problem. An example is related to the technical area. The Chinese and the Italian Technical Departments should work together in harmony: designs and prototypes are made in Italy, then transferred to the QJ Technical Department, where the Chinese, in cooperation with the Italian technicians, take care of the industrial development of the project. Once the industrial plan is completed, production begins in Italy. Language barriers as well as different working practices/habits (priorities, timetables, etc...) are delaying the development of new products.

At intra-firm level a critical aspect is related to different “institutional” context in terms of laws, civil and fiscal rules. This creates several problems and misunderstanding in the administrative area: some decisions/actions of the Italian employees seems irrational to Chinese employees and vice versa. Sometimes, administrative actions are perceived as nonsense or related to personal habits or wishes, while they are due to specific Italian/Chinese fiscal or civil rules.

As for coordination of human resources, a lack of managerial competencies in an international and “group” perspective is emerging. QJ has not developed sufficient mechanisms for managing and coordinating human resources. Information produced for planning and control are monodirectional. No feedback is provided on data sent to QJ by Benelli’s people: they are “kept” by the Mother house and used for internal purposes. Benelli’s managers do not have access to the information system of QJ nor receive a formal and periodical feedback on their results/performances.

Usually, strategic objectives of Benelli are not formalized in a strategic plan. Only in critical times or if the company must face serious problems, information on strategic goals and on medium/long term development plans of the group are passed. That information is never released in a written form.

A budget system, as well as a simplified system of industrial accounting, are in place. Budget is just related to sales performance and production costs, while industrial information are focused on number of motorbikes and spare parts produced, motorbikes and scooter sold, working hours of the plant. Data are sent every 3 months to QJ by electronic mail in a digital format. The informative systems of the two companies are not integrated. Anyway, QJ can have a direct access to the Benelli’s informative system and get information on items produced and sold. In the past, with the previous owners, more data were available, especially at industrial level. Information flows to QJ are also related to the financial statement. To allow QJ draw up its periodical financial statement, every 3 months Benelli’s administrative people prepare a complete financial statement, as well as a stock flow inventory report, a credit and debit analysis report and a cash flow statement.

* Economic and financial data for 2005 refer only to a 3 month period.

Source: Benelli’s financial statements and balance sheets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>53.550</td>
<td>47.964</td>
<td>42.560</td>
<td>32.176</td>
<td>9.594</td>
<td>22.178</td>
<td>26.902</td>
<td>27.009</td>
<td>20.829</td>
</tr>
<tr>
<td>Debts</td>
<td>53.729</td>
<td>51.244</td>
<td>45.402</td>
<td>41.519</td>
<td>10.876</td>
<td>23.294</td>
<td>23.507</td>
<td>24.623</td>
<td>19.844</td>
</tr>
<tr>
<td>Investments in R&amp;D</td>
<td>3.478</td>
<td>1.892</td>
<td>881</td>
<td>516</td>
<td>n.a.</td>
<td>n.a.</td>
<td>1.836</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Employees</td>
<td>104</td>
<td>73</td>
<td>71</td>
<td>74</td>
<td>48</td>
<td>89</td>
<td>97</td>
<td>100</td>
<td>n.a.</td>
</tr>
<tr>
<td>Sales abroad</td>
<td>64%</td>
<td>70%</td>
<td>58%</td>
<td>50%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>70%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Note: No particular changes were made in the evaluation criteria used by Benelli to draw up its financial statement, as well as in the structure/basic information provided to QJ.
Even mechanisms related to hierarchy are lacking. Apart from the highest position in the company, authorities and levels of responsibility of human resources are not formalized. No incentive mechanisms are used, while decision making power is highly concentrated in the hands of managing director.

6. Concluding remarks

The case study analysis confirms the typical difficulties that Chinese companies investing in the Western Market through acquisition are experiencing. Two main critical areas emerge in the management of the post acquisition phase: coordination of human resources and development of relational capital.

As for coordination of human resources, there is a lack of managerial competencies in an international and “group” perspective. QJ has not developed efficient mechanisms for managing and coordinating human resources.

Tools to identify strategic and operative roles of each firm, responsibility in the production/distribution process, timetable for implementing strategic and operational goals are lacking. Coordination is also difficult due to a limited definition of authority/responsibility of human resources. Decision-making power is highly concentrated. Anyway, the most serious problem is related to feedback: information is not shared and the information flow process is monodirectional. Benelli’s people do not receive a feedback on their results/performances and on data provided periodically to QJ.

As for trust and relational capital, there is the need to improve cross-cultural understanding between the two companies and melt Italian and Chinese culture. Different mentalities, habits and cultural background are emerging in daily routines due also to differing working environments in China and Italy. At individual level, communication is a key problem. At intra-firm level, a critical aspect is related to different “institutional” context in terms of laws, civil and fiscal rules.

In sum:
- difficulties in the integration process arise in the mid term. After the phase of “enthusiasm”, a “growing discomfort” arises. Communication and interaction among people turn out to be frustrating;
- the lack of coordination mechanisms (P&C, feedback, hierarchy) is crucial in explaining such difficulties;
- Chinese acquirer has low competencies in managing international businesses. There is a low sensitivity to/knowledge of managerial and organizational tools to face integration process. At the same time, there is a reduced propensity to invest in projects that have a med/long term return and are not related to industrial plans or have a direct impact on efficiency and cost reduction.

The QJ-Benelli case provide an empirically based “analytical generalization” (Yin, 1989) to be verified in similar M&A operations. Further field studies are needed to assess Chinese difficulties and weaknesses in Going Global, also to support the drawing of theoretical conclusions.

References

Accenture (2005), China spreads its wings – Chinese companies Go Global.


OECD (2008), China encouraging responsible business conduct, av. at http://www.oecd.org/document/40/0,3343,en_2649_34893_41735656_1_1_1_1,00.html


People's Daily (2009), “Chinese firms' outbound investment to face simplified procedures”, Sep 18

