

Analysis on the Strategies of Responding to Multinational Corporation Merger and Acquisition in China

SUN Jing^{[a], *}

^[a] Associate Professor, Business Management School, Shenyang University, China.

*Corresponding author.

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Abstract

As Chinese economic of quickly development, multinational in China of mergers and acquisitions activities is growing, and direction development towards scale, and systematic and control, this will brings negative effective on China national economy development, including State economic strategy status lost, and State assets loss, and monopoly behavior, multinational investment although conducive to China economic growth, but its fundamental purpose of mergers and acquisitions in China is for needs of strategy and profit, Its investment objectives and operation mode have factors that do not meet the requirements of China economic development, therefore, multinational merger and acquisition investment in China will inevitably cause some negative effects. This article from the perspective of multinational merger and acquisition in China, analysis of the negative effect of its merger and acquisition to China's economic development, and to propose appropriate countermeasures.

Key words: Transnational corporations; Mergers and acquisitions; Owned assets; Monopoly

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1. TYPES AND MODALITIES OF MULTINATIONAL MERGER AND ACQUISITION IN CHINA

1.1 Multinational Mergers and Acquisitions Non-Listed Companies in China

Multinational merger and acquisition of non-listed enterprises have the following options: first, overall purchase. Transnational corporations as a whole buyout of all assets of the State-owned enterprises, collective enterprises and private enterprises to form wholly foreign-owned enterprises, thus enabling the enterprise to become its wholly-owned subsidiaries. For example, in February 2001, Huawei group signed a merger agreement with Emerson Electric, its electrical business sectors--Shengan electrical limited company equivalent overall sold 750 million dollars to the United States of Emerson Electric company. Second, part of the acquisition. One is that multinational companies through participation restructuring of the national original of enterprise, acquisitions over 50% of equity, to achieve control of enterprise management purposes. For example, in March 2001, the Chinese tire industry leading enterprise--tire and rubber company with the world's largest tire manufacturer of Michelin joint venture, Michelin control 70% stocks, then joint-venture companies spend \$320 million reverse takeover of core businesses and assets of tire rubber company. Another is on the basis of China-foreign joint ventures, by transnational corporations through increase capital and expansion share or acquisitions, diluted the Chinese stake in share holdings, thus from shares to holding. For example, Germany Henkel company through the internal acquisition of shares, succeeded in controlling the two joint ventures - Shanghai Henkel chemicals Ltd and Tianjin - Henkel detergents co., Ltd..

1.2 Multinational Merger and Acquisition of Chinese Listed Companies

In recent years, more and more listed companies of China were concerned by multinational companies, multinational companies have been taken mergers and acquisitions listed company as a springboard to enter the Chinese market. This type mergers and acquisitions started in 1992, a total of 71 listed companies has a foreign legal person shares in June 2001, its involvement in directly listing and merger, former is principal, but in recent years, there are more cases by means of mergers and acquisitions involved in listed companies. In future, multinational companies also carry out offer acquisitions, debt acquisitions, management level buyouts and other new ways to get listed companies. Offer acquisitions, is the form issued by public offer, respectively acquired shares of the State unit, the legal unit at different prices, achieve to a certain ratio of share. Agreement acquisitions and offer acquisitions can be comprehensive applicable. Debt acquisition, that is, to participate in a debt-for-equity of State-owned assets into listed companies. In the process of State-owned assets of debt-for-equity, for allowing foreign investment in industry, foreign investors can buy and take on creditor's rights into listed companies, and by a creditor-led restructuring of listed companies.

2. OBJECT CHOICE OF MULTINATIONAL MERGER AND ACQUISITION IN CHINA

Targets of foreign capital merger and acquisition are mainly concentrated in the following enterprises: all the leading enterprises in the various industry of China and large and medium-sized enterprises which has the better benefits, with core resources or the core competitiveness. Such as, United States airlines LDC holdings of Hainan Airlines. Going forward, Sichuan Changhong, Tsingtao Beer, and Shanghai pharmaceuticals, Eastern Airlines, Dongfeng motor, and other large and medium-sized enterprises could easily become the object of multinational merger and acquisition. Although transnational corporations holding these leading enterprises is not easy, but they may be taken to form a strategic alliance, after shares, then seek the relative majority, even shares absolutely ways to realize their investment strategies. On the other hand, those enterprises which has been establishing joint ventures or strategic partnerships with foreign companies more vulnerable to become the objective of multinational acquisitions. Because of the Chinese market has characteristic of specificity and complexity, when multinationals entry into the Chinese market, it will first select those who have established joint ventures or those listed companies with their good strategic cooperative relations as acquisition targets.

3. THE NEGATIVE IMPACT OF MULTINATIONAL MERGER AND ACQUISITION IN CHINA

3.1 Merger and Acquisition Targets Deviation Led to Macro-Control Imbalance

There is a bias of strategic objectives of multinational merger and acquisition in China and China's national economic development long-term goals. Many multinational corporations pay attention to China's industrial policies, willingness to cooperate with Chinese government, coordinate their investment goals in China. However, transnational corporations is a large enterprise groups to pursuit of economic interests maximize, their merger and acquisition targets in China first responds to the global strategic objectives. So, of course they must look for areas and programs of a certain core capabilities and high return on investment. For example, multinational mergers and acquisitions are mainly concentrated in the eastern area of China, investment projects in Central and Western needed to import capital, technology and management is very few. On investment in industry, major investments in new industries and high-profit industry market in China, such as investing in mobile communication device market. Knowledge-intensive industry investment projects are little. From this perspective, transnational mergers and acquisitions and China's industry orientation and region orientation and the long-term development goals of the national economy will happen to deviate.

3.2 Multinational Mergers and Acquisitions May Result in Loss of State-Owned Assets

Because China is irregular property transactions now, there is a serious problem of the loss of state-owned assets of multinational companies in the the process of merger and acquisition of Chinese enterprises. Mainly for:

3.2.1 State-Owned Assets Were Leaked and Undervalued

In the process of Multinational companies merger and acquisition, many of the Chinese enterprises assets has not been standardized and approved assessment; though after assessment of the relevant institutions, but because of the appraisal system is not perfect, evaluation method is not science, state-owned assets were seriously underestimated, and transnational corporations assets value is often overestimated, resulting in loss of State-owned assets.

3.2.2 Loss of Intangible Assets

In the the process of transnational corporations merger and acquisition State-owned enterprises, Chinese brands were foreign wantonly "encroachment", thus causing loss of intangible assets. Due to its stability and strong added value of intangible assets, IT has a great role in promoting enterprise development, due to a lack of brand awareness,

after many years of accumulation and formation of Chinese brand was finally submerged by foreign brand.

3.3 Multinational Mergers and Acquisitions May Lead to Industrial Monopolies and Threaten National Economic Security

From the motives of transnational corporation mergers and acquisitions, multinational mergers and acquisitions of State-owned enterprises in China are more mergers and acquisitions on the enterprise which has advantages, aims to achieve the combination of advantages between the two sides, or the target enterprises with base of transnational corporations taking its advantage. Currently in merger cases in China has initially indicated that targets mostly are enterprises in the industry which has advantages or large State-owned enterprises which poor management but has a larger market share and quality brands. On the one hand, it can increase its monopoly power in the market for China, on the other hand, can achieve the goal of elimination competitors. In order to expand market share, excluding competitors, transnational corporations often use dumping means implementation of predatory pricing. For example, the largest 13 companies in the national pharmaceutical industry, there are 7 of foreign-controlled 50%, 5 of holding of 50%, only 1 of Chinese control. Economic security as an important element of national security, is a strategic issue that cannot be ignored by any country. Economy is the basis of society, there could be no real national security without economic security. Allow multinational merger and acquisition State-owned enterprises in China, although can resolve some problems existing in State-owned enterprises, but the resulting control fully is likely to pose a threat to the country's economic security. For example, the Lucky Company is the supplier of military films, it would endanger national security if a national brand will be controlled by the transnational corporations.

4. THINKING AND STRATEGY OF POSITIVE RESPONDING MULTINATIONAL MERGER AND ACQUISITION IN CHINA

4.1 Dynamic Grasp the Multinational Merger and Acquisition in China Behaviour from the Perspective of Globalization

European Union, the North American Free Trade Area, APEC, ASEAN and other regional economic integration organizations, to promote the process of economic globalization. Economic globalization is associated with transnational corporations continued to adjust its business strategy and allocation resources in the world, multinational corporations make the world economy from the national and regional levels to within the

company. Transnational mergers and acquisitions is an important way that transnational corporations under the global economic environment for realignment and strategic adjustment on their own systems, structures and functions and scale in a timely. With changing of the global economy structure, transnational corporations to achieve their ultimate goal of the economic benefits maximize has not changed, but its operation mode and concept has undergone great changes. Transnational corporations with a view to the long-term development, continuous improvement of relations with the host country, to reduce hostile mergers and acquisitions to the host country, more carried out transnational merger and acquisition activities from the perspective of cooperation and strategies. If China only emphasized the problem of transnational corporation mergers and acquisitions in China, so as to limit it, will lose the golden opportunity to participate in global competition. Therefore, we should adopt a new idea, standing on the height of globalization, with positive thinking and dynamic view of transnational mergers and acquisitions, go with the development trend of international direct investment.

4.2 Active Participation Global Competition of Transnational Mergers and Acquisitions

Multinationals mergers and acquisitions way both cash way, also has for swaps stakes way, but stock swap has became large multinationals increasingly like of financing way; industry of transnational mergers and acquisitions both secondary, also has tertiary industry, but tertiary industry is fast rose trend; area of transnational mergers and acquisitions although still to Europe national as mainly, but developed on developing countries and the between developing countries of mergers and acquisitions number sharp rose. China government should formulate relevant policies according characteristics of global transnational mergers and acquisitions. Current, apart from should retained those fruitful offers measures in introduced foreign, also should for transnational mergers and acquisitions of development features, speed up state assets property reform process, perfect property trading market; appropriate expand securities market of opening degree; exploration new innovation way and innovation tools; expanded access conditions of tertiary industry especially knowledge-intensive services industry, such as financial, and insurance, and Telecom; training and introduced intermediary institutions which has international investment experience, provides service for multinational mergers and acquisitions in China. These are important measures to attract transnational corporations to mergers and acquisitions in China.

4.3 Carry out Active Defense Strategy to Prevent Multinational Corporations Hostile Takeover

Although no foreign company in China's A-share market now, but foreign companies through the transfer of

ownership, or strategic investors by absolutely held shares to corporate with enterprises, such as the United States Ford and GM, Jiangling motor and Ford motor, Eastern communications and Motorola, Datang Telecom and Lucent. According to the international leading trends of transnational mergers and acquisitions investment and development characteristic of Chinese securities market, it is expected in the future, China's A-share market will become an important place of merger and acquisition by foreign capital. Despite its positive significance of foreign investment merging domestic listed companies, but at the same time, may create a lot of problems, such as hostile takeovers and market monopoly, drain of State-owned assets during mergers and acquisitions, risk issues of sudden withdrawal of foreign capital and Lead to crisis, and so on. On the one hand, Chinese government should build perfect rules and regulations, should include the development of acquisition and merger law, antitrust law, perfecting "anti-unfair competition law", regulate and strengthen regulation of securities markets, establish and perfect before the acquisition of State-owned enterprise property assessment system; on the other hand, domestic enterprises should learn and use foreign enterprises merger and acquisition of defense strategy to prevent hostile takeovers. In abroad, enterprise of mergers and acquisitions defense policy including two large class, one is mergers and acquisitions defense policy before mergers and acquisitions offers, specific has director rotation system, and absolute most terms, and double capital restructuring, and "HIV pills" plans; another is mergers and acquisitions defense policy after mergers and acquisitions offers, including specific target of stock repurchase, and resorted to legal, and assets acquisition and split, and invited "White Knight", and so on.

4.4 Guiding and Regulating Transnational Corporations Merger and Acquisition Activities in China

Multinationals direct investment in China, initially just to take advantage of cheap labor of China, or to transfer the sunset industries with technology behind to China, but from the late 90, along with the changes in the global economic environment, competitive environment for multinational corporations in China had also changed. By the end of 2001, the nearly 400 of world's 500 largest transnational corporations had invest thousands of projects in China. Transnational corporation to consolidate its investment projects in China, strength the competition with Chinese companies and other multinational corporations, implementation of local strategies. Include talents development of local strategies, operation and management of local strategies, research and development of local strategies, such as Motorola, General Motors, Henkel, IBM, Panasonic, Samsung, Ericsson, Siemens and so on famous multinational corporations has invested in research and development projects in China. In currently,

There are more than 200 research and Development Centre of multinational corporations in China.

In order to facilitate the integrated management on the business activities in China, multinational corporations to set up regional headquarters in China, which would enable the multinational corporation's investment in China rose to higher levels. According to the statistical data shows that there are 11 multinational regional headquarters in Beijing, including IBM, Compaq, Lucent, Samsung, and other famous multinational companies. In Shanghai, there are 25 multinational regional headquarters in Pudong new area. Therefore, the Chinese Government should be based on the behavior of multinational companies in different stages, capitalize on the trend. Research and Development Center as for example, compared with the total number of multinationals investing in China, little number of research and Development Center, still in the adaptability and essentially development phase, has not entered the stage of innovation development. Chinese Government should take preferential measures to actively encourage and guide multinational corporations to set up research and development centers in China, which is a major content to raise the level and quality of China's absorption of foreign capital. Moreover, also need to guide the orientation of foreign investment industries, make transnational corporations merger and acquisition conform to the needs of industrial structure adjustment in China.

4.5 Development of Large Enterprise Groups, Active Participation in Multinational Cooperation and Competition

Speeding up the development of China's large enterprise groups are important ways to actively participate in international cooperation and competition, is also the inevitable trend and an important symbol of Chinese enterprises development mature. From the experience of developed countries economic development, accompanied by the growth of the country's economic strength, formation and development of a number of large enterprise with international competitive power. These large enterprises, in turn, actively promote the rapid development of the national economy. order to form and develop large group which has international competitiveness, China government should from following: formed and grow large enterprise group by industry mergers and acquisitions integration and strategy Union; strengthening State large enterprise reform, makes administrative monopoly Enterprise speed up market process, participation international competition, constantly improve international competitiveness; for more of Chinese enterprise, including non-state enterprise provides good of service, created better of external environment, development large multinational in competition and cooperation.

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