From cross-border M&A to post-M&A ‘co-creation’

primož konda
Aalborg University
IKE Research Group, Department of Business and Management
pk@business.aau.dk

Raphael Mateus Martins
Aalborg University
Department of Business and Management
rmm@business.aau.dk

Dmitrij Slepniov
Aalborg University
Department of Business and Management
ds@business.aau.dk

Abstract

With rapid development, many emerging-market multinational enterprises (EMNEs) undertaken cross-border mergers & acquisitions (M&A). Along with granting access to the Western markets, they often intent on absorbing technical manufacturing capabilities and advanced knowledge. Achieving this depends on the EMNEs ability to identify the right targets with relevant knowledge, and mostly to incorporate it with their own. The later seems to be the crucial factor, as only a few EMNEs manage to mobilize acquired knowledge resources to benefit them. One of the positive outcomes can be co-creation, where both parties invest resources to create new knowledge or products.

The majority of academic articles study cross-border M&A with quantitative methods, focusing on financial indicators, patents and acquisition data, however this lack a deeper understanding of the processes between the actors. Thus, we applied an in-depth longitudinally case study of cross-border acquisition between Geely & Volvo. Seven years after Geely acquired Volvo, a new automobile brand Lynk& Co was launched, and in 2019 became the fastest-growing automotive brand in the world. In the series of interviews (2014-present) we interviewed managers from Geely, Volvo, and Lynk&Co, allowing us to follow the co-creation process from the early stages. We link innovation and cross-border M&A literature to address the post-M&A’s ?co-creation’ phenomenon.

The preliminary results show that a high level of freedom allows the targeted firm a smoother transition and ability to at early stage preserve the innovation capacity, and later incorporate it with the acquirer. In the fast-developing industries, it is not enough to acquire knowledge, which soon became obsolete, but to learn innovation processes. This study’s main contribution is to provide a definition of post-M&A ?co-creation’, and a demonstration of how EMNE’s overcome cultural barriers for knowledge integration.
From transaction to co-creation

Geely Acquisition of Volvo Cars

Primož Konda*, Raphael Mateus Martins*, and Dmitrij Slepniov

*Aalborg University, Department of Business and Management, Denmark
†University of Chinese Academy of Sciences, China
‡Sino-Danish Center for Education and Research (SDC)

Abstract: Emerging challengers are developing fast and gaining resources that they are eager to put in use. As a result, the recent decade witnessed a number of cross-border M&As undertaken by emerging-market multinational enterprises (EMNEs). Along with granting access to the Western markets, they often intent on absorbing technical manufacturing capabilities and advanced knowledge. Achieving these goals depends on the EMNEs’ ability to identify the right targets with relevant knowledge and integrate it with their own. The later seems to be the crucial factor, as only a few EMNEs manage to mobilize acquired knowledge resources, to enhance them and to benefit from them. One of the ultimate sought outcomes can be co-creation, where both parties invest resources to create new knowledge leading to new creation, delivery and capture. The majority of academic articles study cross-border M&A with quantitative methods, focusing on financial indicators, patents and acquisition data. However, this approach lacks a deeper understanding of the processes between the actors. Thus, we applied an in-depth longitudinal case study of the cross-border acquisition of Volvo cars by Geely. Seven years after the transaction, a new automobile brand Lynk&Co was launched, and in 2019 became the fastest-growing automotive brand in the world. In our investigation, stretching from 2014 to the present days, we interviewed managers from Geely, Volvo, and Lynk&Co. The collected data allowed us to follow the process from the early stages of transaction and knowledge transfer to the more recent phase of integration and co-creation. We link innovation and cross-border M&A literature to address the post-M&A’s ‘co-creation’ phenomenon. The preliminary results show that a high level of freedom allows the acquired firm a smoother transition and ability at an early stage to preserve the innovation capacity, and later to integrate it with the acquirer. In the fast-developing industries, it is not enough to acquire knowledge, which soon becomes obsolete; what instead becomes essential is to learn innovation processes. This study’s main contribution is to provide a definition of post-M&A ‘co-creation’, and to demonstrate how an EMNE can successfully overcome cultural and organisational barriers for knowledge integration.

Keywords: cross-border M&A, co-creation, Geely, Volvo, Lynk&Co

*Corresponding author: pk@business.aau.dk
1 Introduction

Emerging challengers are developing fast and gaining resources that they are eager to put in use. As a result, the recent decade witnessed a number of cross-border M&As undertaken by emerging-market multinational enterprises (EMNEs). Along with granting access to the Western markets, they often intent on absorbing technical manufacturing capabilities and advanced knowledge. Achieving these goals depends on the EMNEs ability to identify the right targets with relevant knowledge and integrate it with their own. The later seems to be the crucial factor, as only a few EMNEs manage to mobilize acquired knowledge resources, to enhance them and to benefit from them. One of the ultimate sought outcomes can be co-creation, where both parties invest resources to create new knowledge leading to new creation, delivery and capture. The majority of academic articles study cross-border M&A with quantitative methods, focusing on financial indicators, patents and acquisition data. However, this approach lacks a deeper understanding of the processes between the actors. Thus, we applied an in-depth longitudinal case study of the cross-border acquisition of Volvo cars by Geely. Seven years after the transaction, a new automobile brand Lynk&Co was launched, and in 2019 became the fastest-growing automotive brand in the world. In our investigation, stretching from 2014 to the present days, we interviewed managers from Geely, Volvo, and Lynk&Co. The collected data allowed us to follow the process from the early stages of transaction and knowledge transfer to the more recent phase of integration and co-creation. We link innovation and cross-border M&A literature to address the post-M&A’s ‘co-creation’ phenomenon.

The preliminary results show that a high level of freedom allows the acquired firm a smoother transition and ability at an early stage to preserve the innovation capacity, and later to integrate it with the acquirer. In the fast-developing industries, it is not enough to acquire knowledge, which soon becomes obsolete; what instead becomes essential is to learn innovation processes. This study’s main contribution is to provide a definition of post-M&A ‘co-creation’, and to demonstrate how an EMNE can
successfully overcome cultural and organisational barriers for knowledge integration.

2 Theoretical and conceptual considerations

The literature on Mergers and Acquisitions appears to be vast and overlaps with diverse other Literature backgrounds. Most times, studies follow under one of two categories: “corporate, management studies and approaches” and “Economic studies and approaches” (Tardivo et al., 2012). The latter focuses on the overall impact of M&As on the economy and the economic system, ranging from purely financial based studies on M&A transactions and shareholders to “industrial organization” studies exploring the impact of firm structure on behavior and performance (REF!) The former, in turn, dives deeper into the organizations involved in M&A deals. Notably, focusing on “strategic management” or “organizational behavior” questions (cf. (Cartwright and Schoenberg, 2006; Tsoukas and Knudsen, 2002) . In the scope of this study, we undertake a more corporate management approach to the literature and focus specifically on corporate strategies that may have an impact on individual merger and acquisition performance in a specific case. To do so, we take under consideration other Literature backgrounds and discuss relevant Theoretical lenses to approach the topic.

More specifically, we discuss literature on Cross-Border M&As from Emerging Markets and Cultural impacts, as well as Post-merger integration and restructuring literature.

Cross-border M&As have interested scholars and practitioners for several decades. However, it is only recently that this practice has become particularly popular in emerging markets. Indeed, emerging markets acquirer’s have been using it as a tool to avoid institutional constraints, gain access to new markets and upgrade their existing knowledge base (REF!) (Luo and Tung, 2007; Mathews, 2006). The reasons for the new wave of Cross-Border M&As comes after an increase competitive at the local level with the rise of the information and communication technology (ICT) industry where maintaining a competitive edge (Hitt et al., 1998; Hitt, 2000; Useem, 2009) and quickly responding to the fast paced global economic environment (Andersen, 1997; Kogut and
Singh, 1988) has become crucial. However, cross-border deals are more complex and present difficulties for the acquirer to benefit from the deal. Several researchers have identified a lack of familiarity with economically advanced markets, which increases uncertainty among prospective advanced markets target stakeholders (Rui and Yip, 2008; Tingley et al., 2015), resulting in lower performance deals (Aybar and Ficici, 2009) or integration levels which prevent knowledge transfer (Rao-Nicholson et al., 2016) (e.g. de Beule et al., 2014; Rao-Nicholson et al., 2016b) and even more extreme cases resulting in deal abandonment (Zhang et al., 2011). A review of literature in 2015 identified three main research areas common among top articles on Cross-border M&As: “Factors affecting M&A decision”, ”Organizational and cultural integration”, and ”Assessment and performance indicators” (Caiazza and Volpe, 2015). Recent research argues for a closer look into EMNEs M&As in advanced markets due to the presence of information asymmetries which affect cross border M&A success (Heinrichs and Dikova, 2019). In this paper we take a look into the Organizational and cultural integration within a successful M&A case between a Chinese EMNE and an advanced market acquired firm.

The increase in internationalization of Chinese firms has attracted attention among scholars and practitioners (Deng, 2012) who attempt to understand the rationale and strategies behind the increase in internationalization (e.g. to put references). Chinese Foreign Direct Investment (FDI) has increased over the past decade (UNCTAD, to check). Researchers identified Cross-Border M&A to be the main internationalization mode for Chinese firms (Alon and McIntyre, 2008; Deng, 2012). Liu, Y. and Deng, P. 2014 have conducted an in-depth analysis to identify future Research areas in Cross-Border M&As. On the institutional level, the authors have identified a Government push to “Go Global” with a policy two decades ago (Ström and Nakamura, 2014; Wang et al., 2012). A line of research focuses on the efforts the Chinese Government in promoting outward FDI. Another stream of Literature focuses on understanding the institutional differences between foreign targets in advanced markets (e.g. North America and Europe) and other less-developed African economies. According to the
market the strategies and motivations to engage in a cross-border M&A vary. On the organizational level, research focuses on timing and strategies of internationalization to leverage firm-specific disadvantages. In this aspect, resource based view and institutions are among the most adopted theoretical frameworks. Within the same topic, organizational learning is present in the literature, linked to the notion of absorptive capacity (cf. Cohen and Levinthal, to check). The ability to absorb knowledge is crucial to assimilate and integrate newly acquired knowledge and adopt into commercialization. Organizational learning tend to become more complex the closer the Chinese EMNE targets the advanced economies (Zahra et al., 2011). The last literature branch regards organizational behavior. This constitutes one of the most under-studied topics within Mergers and Acquisitions (Liu and Deng, 2014). We base our study within Organizational learning and behavior through the literature on post-merger integration and restructuring as well as Culture.

3 Method and data collection

As explained in the Theory section, culture differences highly determinate the future success of the cross border M&As (Datta and Puia, 1995). In nomothetic research with bigger number of cases, cultural differences are measured using Hofstede cultural distance Chakrabarti et al. (2009); Erramilli (1991); Kogut and Singh (1988), later expanded by House et al. (2004) to Globe model. Both models have inconsistencies (McCrae et al., 2008; Venaik and Brewer, 2008), and generalisation culture millions of individuals to the country’s score is not useful in decision making on a firm level. The majority of articles about M&As are based on nomothetic research; however “case study contributions can be relatively greater by exploiting underutilized idiographic research benefits.” (Bengtsson and Larsson, 2012, p. 150)

Our research is designed as a longitudinal single case study with the post-acquisition process as the unit of the analysis. Following Pettigrew’s (1990) Contextualism, the target of change is studied on the firm level of Volvo & Geely, and also on the higher level—automobile sector—, as the differences between Chinese and Western markets in-
fluence the decision making process. Newly established automobile brand Lynk&Co—the outcome of the co-creation process—was not planned (interview source) at the transaction but rather a result of 'organic' development. Therefore, each interview was analyzed as "temporal interconnectedness," i.e., not how it explains the outcome, but each as its own reality.

Authors see the process of capturing that led to co-creation as a combination of different processes in Geely and Volvo. Thus Van De Ven and Poole’s (2005) "Process Study of Organizing" approach was adopted. Consequently, the focus in interviews was on the past, current, and future processes within an entity, and how they are interconnected with the partner’s operations.

3.1 Data Collection

The primary data of this research consists of four in-depth semi-structured interviews conducted in the period from 2014 and 2019, see Figure 1. The first interview took place at Geely Group in Hangzhou with Vice president of Zhejiang Geely Holding Group and with Senior Manager. The first part focused on Geely’s transformation from a family business to the modern corporation, followed by the acquisition process and the relationship between both entities after. Later the questions targeted the processes within each firm and how they interconnect.

The second interview was conducted in 2016 with XYZ from Geely Group. The narratives were concentrated on the interconnected processes, culture, and market difference that influence that processes, and on capturing knowledge, learning and market values. The third interview was held in China with Volvo’s XYZ in 2017. At first, Volvo’s view on the ownership transition from Ford to Geely was explained, with a focus on the period after the transaction. Later the emphasis was on differences in how Volvo is operating on Western compared to Chinese markets, what is the role of Geely in the daily processes and how new trends in the automobile market will change their business. Finally, the interview with Lynk&Co’ XYZ, held in Sweden in 2019 provides an explanation, why the new brand was established and how the past
processes led to it. Aside from collected interviews, different secondary data was used for pre-interview preparation and chronologically summarisation of the crucial events.

Figure 1: Interviews’ Timeline

3.2 Data Analysis

Primary data were analysed inductively by using Burnard’s (1991) 14 stage method of analysing interview transcripts. We used data analysis software NVivo. Thus some steps were modified accordingly. The interviews collected between 2014-17 were first coded until the stage 12, before the writing began. The outcome was used for the interview guide’s preparation for the final interview. (TO BE ADDED LATER) In the first three stages, we went through the interviews’ notes, interviews and conduct 'open coding.' Next, the categories from the previous step were collapsed to higher-order headings, and sub-headings rearranged to create the final version, used for coding in the eighth stage. The sixth and seventh step was integrated into the previous steps, as the software allowed us to work together. Similarly, software simplified the stages 9-12. However, produced visualisations had to be analysed in the same way.

3.3 Case study

4 Analysis and Results

4.1 Case Description

The studied acquisition of Western automotive brand by emerging country multinational was not the traditional financial or basic synergy looking transaction—economies
of scale and market price-earnings ratio—but rather a strategic M&A (Zhou and Zhang, 2011). Geely entered the automotive industry in 1997, and in the first decade, mostly all the cars were a result of reverse engineering. After 2006, a few foreign companies were acquired—London Taxi, DSI, Volvo—, and Geely started its catching-up process in the Chinese automotive industry (Balcet et al., 2012). Opposite to Geely, Volvo had a long tradition in automotive industry since 1927 and played an essential role in the industry’s development. In 1999, Ford acquired Volvo and had to sell it due to the financial crises in 2008. The acquisition gave Geely eight assets from Volvo (Geely 1, personal interview, 2014):

- The brand ownership and the right to use in global scale
- Ten sustainable production platforms and upgrade strategies, including all the cars, commercial vehicle and SUVs
- A brand new Scalable Product Architecture platform for massive production
- Four factories producing complete vehicles
- The manufacturing plants for engine, parts, and transmissions.
- R&D system with 83 years old tradition (3800 engineers at the transaction)
- 2325 sales and service systems in more than 100 countries
- 10,933 IPRs involving engines, vehicle platform, safety, and electronic technology; worth 1.6 billion dollars as intangible assets on the balance sheet of Ford

Despite at first glance the synergies between two automotive producers seem obvious, the aforementioned differences made this a big challenge. For example, it took three years after the transaction that negative coverage in Swedish media switched to positive. The turning point was the job increase in locally, boost in sales, and the ability to retain the 'spirit of innovation' (Fang and Chimenson, 2017). Notwithstanding the challenges, in February 2013, Geely announced the establishment of the China Euro Vehicle Technology (CEVT) R&D center in Gothenburg, integrating resources of Volvo and Geely. The aim was to create a new state-of-the-art modular vehicle platform called Compact Modular Architecture (CMA) (Yakob et al., 2018). In 2016, the
new brand Lynk&Co was announced and a year later, the first car model was offered across China (Lynk&Co, 2016).

4.2 From transaction to co-creation

5 Discussion and Avenues for Future Research

6 Conclusion
References


