TRANSLATION FROM GERMAN

Looking back on a takeover in China – lessons from practical experience

Where cross-border Mergers and Acquisitions (M&A) transactions are concerned it becomes particularly clear that interdisciplinary competence is an absolute MUST. In an addition to a sound knowledge of the process and the various fiscal and legal differences, it is the interpersonal component that, above all, plays an important role in integrating key people and considering cultural differences.

BY **DR KUANG-HUA LIN**

Most M&A projects involving the participation of family businesses run without the public learning of any details. The parties concerned consider discretion to be very important. In 2012, Asia-Pacific Management Consulting conducted an M&A transaction in China for an industrial group listed in Switzerland. As a result of mandatory announcements and annual reports, critical information about the deal has already been made public, enabling us now to report on this successful M&A project.

Easy to find, difficult to convince

When it came to identifying a target, the initial search and selection process was simple: in China there was only one large manufacturer of seals for car brakes. For this type of product, it is vital for customers – first-tier suppliers such as Bosch, Continental and TRW – to have flawless products, in order to meet safety requirements. However, problems began to emerge after the identification of the only possible target in China:

- The owners of the company – a Chinese-Korean joint venture – were, at first, not interested in selling. It transpired that the Chinese party was ready to talk, as for them it was merely a question of price. The Korean shareholders, however, refused any discussion about a possible sale, despite several visits from the Swiss company.
- The Chinese owner of the target company, an old-school patriarch, had the reputation of being an unpleasant business partner, and even something of a fraud, in the German automotive industry.

He previously was part of a joint venture with a renowned German first-tier supplier. It was known that he had poached all the employees of this joint venture, thus forcing it into bankruptcy. In view of these difficulties, the Swiss company – which, by any measure, is highly experienced in M&A projects, concluding several acquisitions per year worldwide – decided to seek external assistance.

The Chinese seller in a new light

During the background research it turned out that the Chinese owner was in fact a highly respected entrepreneur in the region. Despite his advanced age of 70, he was regarded as a hard-working, disciplined business leader, and was also one of the 10 most generous charity donors in China. He had funded the creation of numerous schools in China, but chose to live a frugal and modest lifestyle himself. This did not quite seem to chime with the image of the "greedy fraudster" propagated by the former German joint-venture partner. It therefore seemed appropriate to look into the exact circumstances of the failed joint venture. It turned out that the Chinese owner had made an unannounced visit but was denied access to his joint venture by the German managing director. As a result, there was a scene at the factory gate whereupon the German managing director permanently banned him from entering the premises. The Chinese patriarch was so indignant that he pulled out all of the company's employees from the joint venture and let it go bankrupt. This cast the incident in a new light: the underlying reason for his behaviour was not financial gain but rather a loss of face and personal offence. Enquiries led to the conclusion that he is, by all accounts, an altogether trustworthy seller, provided that he is treated with respect.

The Korean shareholder agrees

The next step was to convince the Korean shareholder of the target company to sell his shares. Initially, he had repeatedly refused to discuss the subject, despite several visits from the Swiss company. In the end, though, he was convinced during a single meeting to sell the target company in China. The reason for his initial refusal was simple: his factory in Korea was dependent on the supply of parts from China. If he sold his joint venture in China, the Korean factory would thus lose its livelihood. However, he did not adopt this position out of pride. Here, it became apparent that business negotiations do not just take place in conference rooms: with a lot of empathy and intuition, and a sociable get-together, we finally succeeded in eliciting the truth from him: in the end, what convinced him was an offer to also buy his factory in Korea, thus eliminating the last remaining obstacle. Once both joint-venture partners had agreed to sell, the actual negotiations were concluded very quickly. Including the due diligence process, it took just five months to get to the signature stage, and a further two months to close the deal. This might seem unusually short – and indeed, such a speedy deal is only possible if the entire project, including the negotiations, is managed from a single source.

Decisive factors for success

This acquisition has proved to be a sustainable success. The annual results since the transaction was concluded have consistently outperformed forecasts. What is, ultimately, the secret of this success?

- Even before the takeover, around 140 key employees – not only managers, but also technical employees – were identified in the HR due diligence process, and employee-retention programmes were defined in order to keep this group in the company following the acquisition. The phantom share programme for senior management proved to be a particular problem – and a specific feature of the Chinese seller. This was replaced by a comparable programme that was both competitive and affordable for the buyer. Other employees were retained thanks to an occupational pension scheme. Four years on, over 90% of all these key employees are still with the company.

• The payment of the purchase price was spread over three years via an earn-out mechanism so that the seller had an incentive to ensure the company continued to do well after the transaction.

• Unlike most buyers, who typically roll out their internal company structure and system in China immediately after the takeover, the Swiss company chose to monitor and analyse existing practices for a year. Only after this period did they begin selecting and implementing the best aspects from the different systems and methods employed in China and Switzerland.

CONCLUSION

Ultimately, the sustainable success of the Swiss buyer is based on the fundamental respect for people of different origins and cultures. The approach of first of all seeking to understand the motives of the business partners and their employees and then react flexibly to them was decisive in this regard.

Personal details

Dr Kuang-Hua Lin is managing director of the consulting company Asia-Pacific Management Consulting GmbH (APMC). Today, APMC ranks among the leading consulting companies in Germany specialised in the Asian markets. Since its founding in 1997, the company has assisted and supported more than 550 German and European companies in their activities in Asia, and in China in particular.

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Published in: M&A China/Deutschland 4/2016 (Unternehmeredition)