

A Strategic Guide to Cross-Border Acquisitions by Multinational Companies: An Analysis Based on Success and Failure Cases

Yuchen Chen^{1,a,*}

¹*University of New South Wales, Sydney, Australia*

a. z5466414@zmail.unsw.edu.au

**corresponding author*

Abstract: This article analyzes the factors for success and failure in cross-border acquisitions (CBAs) through the cases of Geely's acquisition of Volvo in Sweden and TCL's acquisition of Thomson in France. After Geely acquired Volvo achieved short-term profitability, market share growth, and long-term knowledge and technology integration. Its success includes reducing acquisition risks, the importance of top management's decision-making, innovation and development and strategic transformation after the acquisition, and precise market grasp. However, after TCL acquired Thomson, its performance was poor, facing issues such as reduced net profit and market losses. The reasons for failure include ineffective integration and innovation of resources, differences in the social regulatory environment between the two countries leading to management difficulties, and insufficient assessment of project rationality and risks. Finally, suggestions are provided for multinational companies conducting CBAs, emphasizing the importance of pre-acquisition assessment, teams and valuation during the acquisition, resource integration after the acquisition, and the crucial role of the decision-making process, which needs to be analyzed specifically in different situations.

Keywords: cross-border, acquisitions, decision-making, strategic.

1. Introduction

1.1. Research Objectives and Methods

This report needs to analyze the important factors affecting CBAs through the cases of successful and unsuccessful Cross-border Acquisitions so in this report. It will first explain the definition of Cross-border Acquisitions (CBAs) and, secondly state the use of CBAs programs by multinational enterprises (MNEs).

The first section will explain the definition of Cross-border Acquisitions (CBAs), then present the use of CBAs by multinational enterprises (MNEs) and the circumstances in which MNEs will propose CBAs. In the third part, I will analyze a successful CBAs case through the acquisition of Swedish Volvo by Chinese GEELY, firstly, I will analyze why it is a successful case draw key factors about the success of CBAs, and review some details about the success of the case and make some reasonable conclusions through these details; secondly, through the acquisition of French electrical giant by TCL Technology Ltd. to analyze the reasons for the failure of the acquisition of the French electrical giant

Thomson, and it will also analyze why this is a failure and summarize it to conclude. And in the last part of the report. It will make some suggestions on how MNEs can successfully and reasonably conduct CBAs.

1.2. Overview of Cross-Border Acquisitions (CBAs)

Nowadays, the world economy is increasingly integrated and the market is freer and freer. The globalized economy has led to more and more multinational enterprises gaining more open markets and environments, and with the reduction of international trade barriers and investment restrictions, enterprises can choose the most favorable regions as their business areas, expand their product markets to other countries, and gain higher profits through lower costs and capital investment. Therefore, some multinational companies make full use of the convenience provided by economic globalization to carry out Cross-border Mergers and Acquisitions (Cross-border M&A) with enterprises in other countries, divided Cross-border Mergers and Cross-border Acquisitions, to expand the scale of enterprises and thus improve Today, I am going to analyze the situation of Cross-border Acquisitions in my report.

Cross-border Acquisitions (CBAs) are defined as the act of an enterprise purchasing a certain share of the assets or equity of an enterprise in another country through certain channels, thereby achieving effective control of the company's enterprise. It means taking over (or receiving) the management or ownership of a business. Involves enterprises and markets in two or more countries. The fundamental reason for multinational companies to make acquisitions is the need for business growth. One thing is for sure is that M&A can help firms to gain new market opportunities quickly.

It is difficult for a company to reach a critical size in its home country without increasing the production capacity of the industry, and it is difficult to expand the market through some channels. So by taking over a foreign company through M&A, it can immediately tap into a ready-made network of local suppliers and customers and take over the corresponding market share. Therefore, CBAs need to consider all factors of market entry to maximize the fit between the two markets and maximize profits. For example, Byte-Dance bought musical.ly for \$1 billion to grow the rights to its music library, laying a solid foundation for the now-iconic social software Tiktok. Another example is Lenovo's acquisition of Motorola Mobility from Google for \$2.9 billion, all of which are cases of multinational CBAs.

2. Analysis of Successful cases - Geely's acquisition of Volvo

2.1. Background and process of Volvo acquisition

The first case going to be analyzed in the report is the acquisition of Volvo of Sweden by GEELY from China as a successful CBAs case to be analyzed.

GEELY was founded in 1986 and entered the automotive industry in 1997, and is a leading Chinese auto manufacturer and the first Chinese multinational auto company. The company is a global group that covers travel services, online technology innovation, financial services, education, sports, etc. On March 28, 2010, GEELY acquired 100% of the shares and related assets (including intellectual property) of Volvo in Sweden, and the closing was completed on August 2 of the same year.

Volvo is a famous Swedish luxury car brand, which was founded in 1927 in Gothenburg, Sweden. The Volvo Group owns Volvo Trucks, Volvo Buses, Volvo Construction Equipment, and other related brands. And GEELY is acquiring Volvo's car brands.

2.2. Successful performance

In my opinion, it was a very successful acquisition plan, first for the short term, I found the following data: "Volvo had lost \$2.6 billion in the two years before it was acquired by Geely, creating a huge loss and becoming an operational shortfall for the company, and in the year and a half after it was acquired by Geely, Volvo has become the sales growth the fastest growing automaker in terms of sales, achieving a 20 percent increase in sales and satisfying 84 percent of Volvo customers. This has never been achieved in the last five years. And more than 5,000 jobs have been created in Belgium and Sweden at a time when other European companies are cutting jobs [1]. The integration was done in a short period with a high degree of fit and created a huge profit. For Geely: In the first year after the acquisition, strong sales growth was also achieved, with Geely sales up 27% compared to 2009. Revenue grew 43 percent from 2009 to 2010 [1]. This was a tremendous amount of profitability in a short period after the financial crisis in 2008, which was very valuable, and a dynamic growth with the integration of resources in a short period. Also not only did they achieve market share gains in their home countries, but they also managed to increase their market share significantly globally, as I said above, the fundamental reason for multinational CBAs is to gain more market share, so in a short period, the most fundamental goal was achieved and developed and expanded. And in the long run, the two achieve a high level of integration of knowledge and technology [2]. This will be of great help for future development and innovation. So in my opinion, this is a successful acquisition program.

2.3. Reason for Successful

2.3.1. Reduce acquisition risks

First of all, it was to reduce the risk of the acquisition. At the time of Geely's acquisition of Volvo, the global automotive industry market was heavily invested in R&D and highly saturated, and Geely, which was not competitive in the market, wanted to penetrate the market and chose to acquire Volvo, which had no relevant acquisition experience due to its huge size and the huge differences in country and corporate culture between the two. Undoubtedly increased the risk of the acquisition, and Volvo, in the face of the huge risk, enabled the following strategic objectives: To operate the two separately and to develop the following strategies: 1. Reduce production costs. 2. Increase Volvo's sales share in China. 3. Internationalization of Geely operations [3]. Assembly through assembly plants in China to reduce production costs and labor costs, as well as reduce the cost of transportation for export sales to Southeast Asia. Thus reducing the risk. The second is the internationalization of operations, access to higher standard car production lines, and access to higher quality cars, thus laying the foundation for sales to Europe. This all reduces the risk of Geely's acquisition of Volvo.

2.3.2. Importance of high-level decision-making

The second point is the importance of top management's decision-making. The chairman Li Shufu is one of the decision-makers, and as early as 2002, when Geely had just gotten the car production license, Li Shufu already proposed to acquire Volvo, in 2007 Li Shufu proposed the Ningbo Declaration, Geely began to transform and make sufficient preparations for the acquisition of Volvo, from which we can also see that Geely management is interested in It is also clear that Geely management has been making sufficient preparations for the Volvo acquisition plan for several years. In this case, the management's decision is very important. The quality of senior management is of great importance in the globalization of business operations. There is also a need to learn from the experience of peers [4]. This is one of the key reasons for the success of Geely's CBAs. It allows Geely to integrate resources more clearly and give the most reasonable resource planning in the shortest possible time to get the best profit results.

2.3.3. Innovative development and strategic transformation

The third point, which is also extremely important, is the innovative development and strategic transformation of the company after the acquisition. After Geely's acquisition of Volvo, cross-shareholding, and technology sharing have greatly helped Geely's strategic transformation. After the acquisition, Geely used Volvo's models and technology to change Geely's previous positioning in the domestic low-end market, increased investment in R&D and actively used overseas resources to accelerate its technological catch-up with developed countries. It is also a big reason for Geely's success." Both corporate R&D intensity and cross-border M&A experience have a significant positive impact on the wealth effect [5]. So it is also important to actively use the resources after the acquisition for transformation.

2.3.4. Accurately grasp the market

The last point is the precise grasp of the market and other factors. China's local car development has always been a shortcoming, and Geely is using Volvo to promote local car development and get more help from the government. Gaining more influence in the market. Geely develops the Chinese market, while Volvo develops the overseas market, complementing each other and forming a complement. Provide broader operation space and operation mode. And further, narrow the cultural gap between the two companies. This is why Geely can gain great market share growth in a short period.

3. Failure Case Analysis - TCL's acquisition of Thomson

3.1. Acquisition background and process

Next, I will introduce a case of failed CBAs, TCL Technology Group Corporation (TCL) from Guangdong, China, which acquired THOMSON from France in 2003.

Founded in 1982, TCL's main business is engaged in the research, development, production, and sales of semiconductors, electronic products, communication equipment, new optoelectronics, liquid crystal display devices, formed a king color TV as the representative of the four major product series of home appliances, communications, information, electrical, TCL is one of the strongest manufacturers in the Asian color TV market. In 2004, it funded the acquisition of 66.7% of THOMSON's shares and reorganized into TCL-THOMSON Electronics (TTE) in the same year.

THOMSON was founded in 1893 in Paris, France, with a long history of more than 120 years The world's electronics and electrical technology conglomerate, one of the world's four largest manufacturers of consumer electronics and electrical products, the world's leading the field of television, audio and video, IT, connected products, home appliances, health care, and other products.

3.2. Failure Performance

We can see from TTE's operation afterward that it was a failed CBAs. 2004, TCL's net profit was reduced by half, with a net profit loss of 692 million yuan, and the stock plummeted. 2005, the company found that there were no sales of color TVs in Europe at all, and the LCD technology developed by Korean companies gave Thomson's traditional color TVs no advantage, while the high operating costs in Europe and labor costs The high operating costs and labor costs in Europe also brought huge losses. The European market alone brought a loss of HK\$2.4 billion to TTE in 2005, which led to a tight economic operation and brought the company to the verge of bankruptcy. Compared to the expected profit expectations, it showed negative growth, so it was a failed CBAs. And Some experts argues that multinational companies from China that have restructured after acquisition are unable to achieve superior performance in overseas markets and are not competitive

in international markets, and just expect to have gained an advantage to make profits [6]. TTE expects to leverage the old capital of traditional color TV advantages, then it is doomed to failure. So in terms of overall operations and projected targets, this was a complete failure of an acquisition.

3.3. Reason for Unsuccessful

3.3.1. Insufficient resource integration and innovation

First of all, the resources acquired by the acquisition were not properly integrated and utilized for sustainable development and innovation. This is the main reason for failure. Before the acquisition, TCL and THOMSON held great market share in both countries, which gave the reorganized TTE blind confidence and did not pass more innovation and integration, still superstitiously producing traditional color TVs, but suffered under the blow of LCD technology and lost all competitive advantages. One case shows, which includes TCL as one of the research subjects, it is argued that TCL failed to use the R&D resources integrated by the acquisition to innovate and develop, although TCL has a notable R&D strength, thus leading to huge losses [7]. One of the reasons for the failure is the lack of innovation and development.

3.3.2. Differences in the social regulatory environment

Secondly, when the social regulatory environment of the two countries is completely different, the acquisition will have huge difficulties, which is one of the reasons for the failure of TTE. The employees in Europe and the United States completely separate their lives and work, and the management philosophy is different from that of the Chinese managers, which also leads to a decrease in efficiency. In early 2006, the highest layoff rate of TTE headquarters had reached 58%, the average layoff rate of the TTE China business center reached 30%, and the number of layoffs exceeded 500 people. And layoffs in France will need to give a certain amount of subsidies, which makes the Chinese managers not know what to do. Caught in a management crisis. It was difficult to start work. Some studies show that: when multinational companies make cross-border mergers and acquisitions, there is a huge gap in the legal and regulatory environment between the two countries, M&A success rates are even lower than those of their counterparts from emerging markets [8]. It can also be seen from the case of TTE that this can greatly increase the difficulty for managers, which is one of the reasons for failure. During the same period, Lenovo and IBM's personal computers (PC) made very different cultural transmissions. Cultural integration was done first, and each cultural integration component was refined to remove the barriers of cultural differences [9]. This is what the division needs to learn.

3.3.3. Unreasonable Project Evaluation

The last point is that the analysis and assessment of the reasonableness and risk of the project were not reasonably conducted. Executives from TCL took only 4 months to complete the analysis negotiation to delivery, which did not allow TCL to get the relevant data and risks in a reasonable analysis. Blindly believing in the policy, "going out" AND "internationalization", which caused huge losses. Some Chinese companies overly believe in policy encouragement and do not reasonably analyze the rules of the international market [10]. TCL also suffered a big loss because of this reason. These incentives are also a new trend affecting all Chinese MNCs, especially some state-owned enterprises. It is argued that in a policy-driven environment, companies need to be aware of the differences in the culture, institutional environment, and level of economic development of the economies. Rationalizing M&A [11].

4. Conclusions and Suggestions

4.1. Recommendations for cross-border acquisitions of multinational corporations

First of all, here is some advice for multinational companies that conduct CBAs. Before the acquisition, they need to reasonably assess the feasibility and risks of the acquisition, have a certain target for the expected revenue, and have some foresight on the market direction and future development. During the acquisition process: have a dedicated negotiation and analysis team; have a correct valuation of the acquisition project and complete the acquisition at the lowest cost. After the acquisition: integration of resources, learning from cultural differences and conflicts to eliminate obstacles, innovation and development of the acquired resources and technologies, the transformation of the company at a certain time, and the most appropriate management system.

4.2. Importance of the decision-making process

The second is that I think the decision-making process in an acquisition is very important and a highly skilled decision-making team is very necessary. Every detail of the acquisition is not overlooked. There is an extremely high degree of foresight about where the acquisition process is going. At the same time, multinational companies of different natures in different countries at different times need to be analyzed separately and cannot be generalized.

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