Cross-cultural management challenges for Chinese companies in Europe

Prof. Dr. Haiyan Zhang
Antwerp Management School/Artesis University College
Outline

- Recent development of China’s OFDI
  - Management challenge of Chinese companies in Europe
    - M&A management and capabilities for post-acquisition integration
  - Learning for growing
China’s OFDI

- US$502 billion by the end of 2012
  - 71% of total Chinese inward FDI stock
- 18,000 overseas subsidiaries, of which
  - Total assets reached US$2 trillion (close to 1/3 of China’s GDP)
  - 1.22 million employees
- Annual growth rate: 45% between 2002-2011
- 1/3 consists of M&As
- Private companies have become more and more important
- Europe is the most rapidly growing destination
China inward and outward FDI flows (million US$) (1982-2011)

Inward FDI stock: 712 billion US$
Outward FDI stock: 424 billion US$
China’s outward M&As by SOEs and POEs: volume and value (US$ billion)
Evolution of China’s outward FDI stock per region (2003-2011) (2003=100)
China’s OFDI in Europe

- Total stock: US$20 billion
  - 1/3 of EU FDI stock in China
  - 1,600 companies created 50,000 jobs

- Amadeus database: 7,400 companies

- In 2010 China became net investor in Europe
- EU is the most important host region for Chinese M&As after Asia
EU-China cross-border FDI flows (billion US$), 2003-2011

EU FDI stock in China: US$76 billion
China’s FDI stock in the EU: US$20 billion

EU FDI flows to China
Chinese FDI flows to EU
Chinese Outbound M&A by Region (2005-2012 YTD)

Source: ThomsonOne and Deloitte Analysis
Happy shopper?
World-class competitor?
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Challenges in cross-border M&As

- **Strategy**
  - 60% of Chinese companies lack knowledge on foreign market

- **Target screening**
  - 54% of Chinese companies lack capability to deal with the complexity of foreign market

- **Transaction execution**

- **Integration**
  - 52% of Chinese companies have cross-cultural barriers

*Source: Accenture, 2013*
Difficulties in post-acquisition integration

- 70% did not meet the planned target of M&As
- 70% of failures in M&As are due to cultural integration

- Chinese companies lack of capabilities for cross-cultural integration after M&As
  - Blind integration – TCL
  - Postponed integration – Geely
  - Reverse integration - Lenovo
Reasons for delay in post-acquisition integration (%)

- Difficulties to create a common corporate culture/value with their acquired companies: 52%
- Chinese and local employees have different management style and ethics: 46%
- Chinese expat can not speak local language: 45%
- Difficulties to create an environment to respect cultural differences: 45%
Walking into a glass door

- 48% Chinese enterprises reporting difficulties in the EU at pre-establishment stage
- 78% Chinese enterprises reporting operating difficulties in the EU at post-establishment stage

Source: ECCC Report on China’s OFDI in Europe, 2013
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Leadership training (%)

- Carrying out global leadership training programs: 52%
- Assessing the leadership capabilities for global management: 46%
- Regularly organizing global video conference or other modern means of communication: 42%
- Cultural awareness training: 37%
- Establishing global organization to promote staff exchange: 35%
- Providing comprehensive information for global leadership: 25%
- Providing international job opportunities / developing global rotation plan: 18%

*Source: Accenture, 2013*
Dealing with cultural barriers (%)

- Training management staff of overseas subsidiaries at HQ: 64%
- Recruiting managers with cross-cultural experience: 61%
- Language and communication skill training: 36%
- Transferring cultural value to overseas subsidiaries: 33%
- Cross-cultural sensitivity and awareness training: 27%
- Using a common communication language: 24%

Source: Accenture, 2013
Education programs organized by the Euro-China Centre

- Master degree program
  - China-Europe Business Studies
- Executive programs
  - Understanding China (co-financed by the EU)
  - Mastering global business: China
  - Be Successful in Europe

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Thanks for your time

Contact
Prof. Dr. Haiyan Zhang
Academic director / Euro-China Centre
Antwerp Management School
Sint-Jacobsmarkt 9-13
B-2000 Antwerp
Tel: +32 3 265 46 97
Email: haiyan.zhang@ams.ac.be
www.antwerpmanagementschool.be