

# Research on the Cross-border M&A --Chinese Enterprises merge with French Enterprises

Guanyu Chen<sup>1,\*</sup>

<sup>1</sup>European Language and Culture Institute, Beijing Foreign Studies University, Beijing, 100000, China

\*Corresponding author. Email: guanghua.ren@gecademy.cn

## ABSTRACT

Nowadays, the world economy deteriorates due to the epidemic, but this crisis can be an opportunity for some cross-border mergers and acquisitions. To promote the success rate of Chinese enterprises' M&A with French enterprises and provide a reference for Chinese enterprises, this paper first analyzes the current M&A environment in France by introducing the opportunities and challenges. After that, it briefly introduces two cases of Chinese enterprises merging with French enterprises and surveys the success and failure cases of Chinese enterprises merging with French enterprises. Then, it contrasts the reasons for success and failure from specific aspects and draws relevant revelations. Finally, the paper brings forward proposals on cross-border mergers and acquisitions in the aspects of M&A timing, capital, cultural integration, and personnel integration.

**Keywords:** Macro environment, Acquisitions, and mergers, Resource integration, M&A opportunity.

## 1. INTRODUCTION

In recent years, China's positive economic development has spawned many powerful enterprises. Some Chinese enterprises expand the international market through cross-border M&A due to the continuous saturation of the Chinese market, and some companies conduct cross-border M&A to master core technologies and develop brands. The quantity and scale of cross-border mergers and acquisitions of Chinese enterprises are vast. Some countries have overt political intervention in cross-border mergers and acquisitions of Chinese enterprises, and more and more Chinese enterprises have turned the acquisition targets of cross-border mergers and acquisitions to French companies. Previous scholars mainly concentrated on specific cases to analyze risks of cross-border M&A. Cross-border M&A faces many risks. External risks include political risks, legal risks, and interest rate and exchange rate risks. Internal risks include financing risks, decision-making risks, integration risks and Moral hazards. However, the existing data rarely analyzes and summarizes the unique characteristics of regional cross-border mergers and acquisitions. In different countries, policies, economy, culture, population, etc. will affect cross-border M&A accordingly. Based on the unique environment of China and France, This paper analyzes the outstanding and failed cases of Chinese enterprises merging with French enterprises, points out the

particularity of Sino-French cross-border M&A and presents an effective reference for Chinese businesses.

To deal with the main risk factors faced by Chinese enterprises in the process of cross-border M&A, Xiang designs the corresponding risk early warning index system and adopts reasonable risk control links, which provides a feasible risk early warning idea for Chinese enterprises in cross-border M&A [1]. Li and Liu analyzed the cost of M&A and the strategic benefits of M&A from the perspective of strategic development of enterprises. Then, according to the needs of enterprise strategic development, they put forward measures to reduce the cost of enterprise merger and acquisition [2]. Zhong reveals the motivation of cross-border M&A of Chinese enterprises, analyzes the risks of cross-border M&A, and finally puts forward the risk control and prevention methods suitable for enterprises [3].

By analyzing the case of TCL's merger and acquisition of Thomson, Mr. Wu discussed the motives and risks of TCL's cross-border merger and acquisition, and strategically put forward that the focus of cultural integration after the merger is to resolve cultural conflicts and build a new corporate culture. The key to the integration of human resources is to send and retain personnel; The content of business integration is to optimize resources, reduce costs, and so on. [4]. Li analyzed the international M&A environment,

comparative advantages, risks and M&A modes of Chinese enterprises, and put forward the strategic choice of cross-border M&A of Chinese enterprises [5]. Aiming at the risk of brand integration in cross-border M&A, Shi analyzes the causes of brand integration risk, and establishes a model to quantify the risk of brand integration [6].

Based on Li's research on the integration level and mode selection of M&A, through the case study of Blue Star's M&A of Adisseo, this paper verifies the relevant theories of the integration level and mode of human resources in M&A and provides suggestions for the integration level and mode selection of human resources in the cross-border weak M&A practice of Chinese enterprises [7]. Based on the main conditions of Chinese private enterprises in cross-border M&A, Song analyzes the macroeconomic and microeconomic environment and finally concludes that the cross-border M&A environment of Chinese private enterprises is good [8].

From the economic and cultural dimensions, Zhang analyzed the state and enterprises respectively and put forward the "economic-cultural" comprehensive analysis model of cross-border mergers and acquisitions of enterprises. It was found that Chinese enterprises' mergers and acquisitions of enterprises in western developed countries are in the specific situation of "economic homeopathy" and "cultural contrarian". This asymmetry of economy and culture easily causes western enterprises to have a psychological confrontation with the integration of Chinese corporate culture and puts forward some suggestions [9]. Yuan takes 766 overseas M&A events from 2008 to 2015 as research samples, makes an in-depth analysis of them, and discusses the main characteristics of overseas M&A of Chinese enterprises in the post-crisis period. Based on a SWOT analysis of the overseas M&A situation of Chinese enterprises, this paper puts forward some corresponding countermeasures and suggestions on how Chinese enterprises make the right strategic choices in overseas M&A [10].

By analyzing the macro and microenvironment between China and Europe, as well as several cross-border M&A cases between China and Europe, this paper investigates and summarizes the primary points of cross-border M&A between China and Europe, and provides an exclusive reference value for cross-border M&A between China and France.

## 2. ANALYSIS OF THE PRESENT M&A ENVIRONMENT OF FRANCE

### 2.1. Opportunity

#### 2.1.1. Acquisition cost

The cost of cross-border M&A mainly includes the planning cost, implementation cost and integration cost of cross-border M&A[1]. When the economy is prevailing, the acquisition cost is relatively high. However, when the economy is in crisis, many enterprises are in trouble and the acquisition cost is greatly reduced. Given the stagnant market, the acquisition cost of Chinese enterprises acquiring French enterprises is relatively low and the acquisition resistance is comparatively minor. The COVID-19 epidemic has reached all over the world, and the stock prices of many enterprises have fallen. Some French companies viewed as strategic industries have been blasted. France has always attracted Chinese companies seeking investment and acquisition with its brand and technological advantages, and the lower acquisition price will bring opportunities to Chinese companies. At present, France has reduced the guidance of cross-border mergers and acquisitions, undermining the resistance of Chinese enterprises to acquire French enterprises.

In addition, to stimulate the economy, the European Union has implemented a quantitative easing policy, and the exchange rate of the euro against the RMB has dropped, and the amount of RMB required by Chinese enterprises to acquire French enterprises is decreased.

#### 2.1.2. Tax relief

Tax affects the profitability of enterprises, and a low tax rate is conducive to creating a good business environment for enterprises. France's fiscal bill in 2021 introduced plans to reduce the production tax and the corporate tax rate next year. The French government plans to reduce the corporate tax rate to 25% by 2022. Small and medium-sized enterprises will maintain the reduced tax rate of 15%. French enterprises will have an excellent business environment in the next few years, and Chinese enterprises need to seize this opportunity.

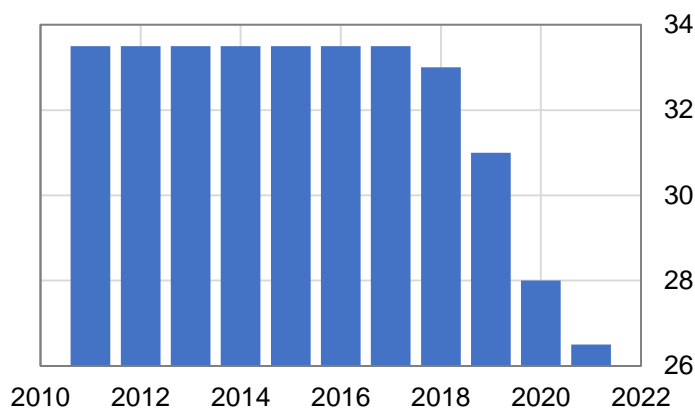


Figure 1 France Corporate Tax Rate[11]

## 2.2. Challenge

### 2.2.1. Political intervention

Due to the economic recession, European Union countries showed signs of protectionism. After the COVID-19 outbreak, EU governments have been taking up the repatriation of the supply chain. And in the past few years, the French government has strengthened supervision to stop the transactions of vital industries. For instance, France stopped a Canadian company's acquisition of Carrefour, a grocery chain, on the grounds of food sovereignty and the need to ensure the safety of the supply chain during the COVID-19 outbreak. And on the grounds of strategic interests, it rejected Teledyne Technologies Inc's acquisition of Photonis, a company that produces night vision equipment in the army. It can be seen that the merger and acquisition of French enterprises still face the resistance of the French government.

### 2.2.2. Labor protection law

France's labor protection system is strict. French trade unions in France have the right to discuss with the management on behalf of the employees the

development strategy, employee compensation, and other matters. After the completion of the transfer, the new shareholders are not allowed to change the original employment conditions or lay off employees collectively.

### 2.2.3. Cultural differences

Cultural integration is an issue that can not be avoided in cross-border mergers and acquisitions. It can be seen from the chart that individualism and uncertainty avoidance are the major cultural differences between China and France. The French emphasize personal gains, the salary level in France is remarkably high, and French workers strongly resist working overtime during holidays. And once French workers consider that their interests have been impaired, they will strike, thus affecting the regular business activities of businesses and even causing traffic paralysis. However, working overtime is very common in China. In addition, the French like certainty and want to ensure that their positions are safe. Influenced by this culture, the cost of layoffs in France is quite high. For Chinese-funded enterprises investing in France, it is necessary to deal with personnel risks caused by cultural differences.

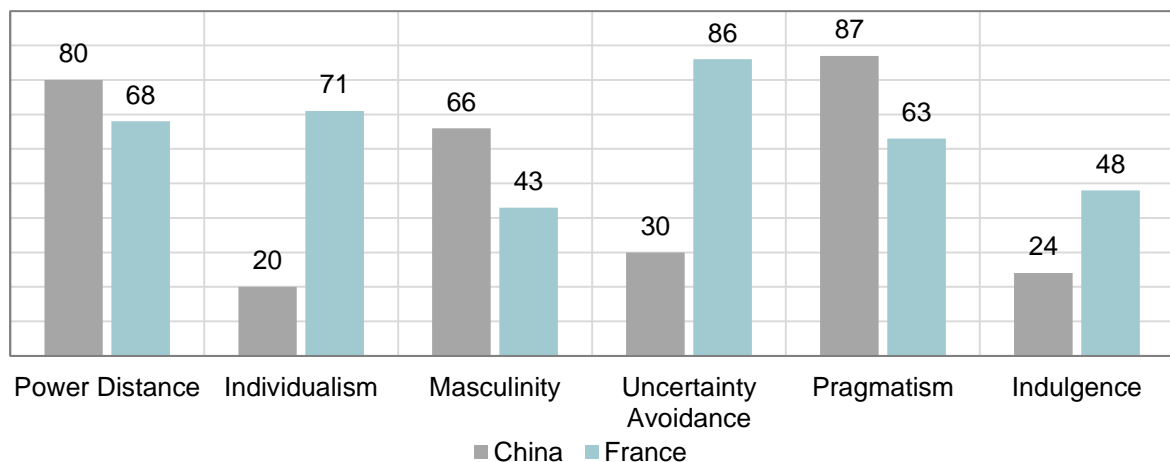


Figure 2 Hofstede's Cultural Dimension France Vs China[12]

### 3. CASES COMPARISON

#### 3.1. Failure case introduction: TCL acquired Thomson of France.

TCL is a Chinese intelligent product manufacturing group, founded in 1981. Products include telephones, televisions, washing machines, etc. Thomson is a famous French electronics and electrical technology enterprise group with a long history of one hundred years. It is one of the four largest manufacturers of consumer electronics and electrical products in the world.

International trade of Chinese enterprises is subject to many restrictions, such as high tariffs, technical restrictions, green barriers and trade quota restrictions. Chinese enterprises can effectively avoid trade restrictions through cross-border mergers and acquisitions[8]. So cross-border M&A was a preference for TCL at that time. When TCL was eager to seek overseas breakthroughs, Thomson's brand, technology, and sales channels were very attractive to it. The final plan is that TCL and Thomson of France jointly contribute 470 million euros, of which Thomson contributes 155.1 million euros to hold 33% of the shares, and TCL contributes 314.9 million euros to hold 67% of the shares. However, due to improper integration measures, technological innovation changes and improper timing of merger and acquisition, TCL's merger and acquisition of Thomson failed to exert its due scale effect, and the result after merger and acquisition was a failure [6].

#### 3.2. Successful case introduction: Bluestar of China Chemical Industry acquired Adisseo of France

Bluestar, as the largest subsidiary of China Chemical, is mainly engaged in chemical materials. France Andisu Company is one of the three major nutritional additive manufacturers in the world, specializing in the manufacture of methionine, vitamins. From 2004 to 2005, avian influenza was uncontrollable, and the global poultry and animal feed market was seriously impacted. CVC considered selling Adisseo. In early 2005, Bluestar started the negotiation of acquiring Adisseo. Bluestar expressed its professional chemical background and various plans to support Adisseo's long-term development. On October 19th, 2005, Bluestar acquired 100% equity.

#### 3.3. Comparison of cross-border M&A cases between TCL and Bluestar

##### 3.3.1. M&A timing (macro environment)

TCL wasn't aware of the LCD flat-panel TV revolution in advance. Technological changes have caused the traditional TV industry into recession. The CRT technology mastered by Thomson had fallen behind the times. The sales of traditional color TVs in Europe plummeted, and flat-panel TVs occupied the market. When TCL's flat-panel TVs began to be introduced into the market on a large scale, other competitors began to cut prices, which led to TCL's loss of market share.

In 2004, bird flu caused Adisseo to be in trouble. China's Bluestar enterprises seized the opportunity and offered a reasonable purchase price. The timing of this merger not only reduced the purchase price but also

reduced the purchase resistance. Adapted to global trade, Bluestar Company had a large market share in China. Therefore, the acquirer needs to consider the macro-environment, the acquired enterprise and the acquirer firm, and seize the acquisition opportunity in time.

### 3.3.2. Strategic integration

TCL is performance-oriented, each of its departments is independent. It pursues the update speed of products. Thomson is a company with a high degree of internationalization. It maintains an integrated centralized development strategy and emphasizes the perfection of product details, instead of focusing on the acceleration of product renewal. In the later stage, this strategic difference greatly restricted the synergy between the two companies.

Bluestar and Adisseo jointly developed the strategic objectives, including expanding the market share in Europe, reducing the overall cost, and increasing profits. Clear strategic positioning and shared development goals had improved the cohesion of employees in China and France and made the two firms with the integration of different systems. China's chemical industry sales network and Adisseo's technical support complement each other. Strategic integration needs the trust and cooperation of enterprises of both sides. Strategic integration also needs to refer to the mission and strength of the enterprises of both sides. When companies aim at maximizing profits, they shouldn't unilaterally deny the strategy of each other [5].

### 3.3.3. Resource integration

TCL didn't acquire all the shares of Thomson, which brought hidden trouble to the later resource integration, and Thomson had greater autonomy. According to the agreement, the most valuable overseas sales network was not controlled by TCL, the sales quantity and labor cost became great challenges, and the high-end technology was still controlled by Thomson. Besides, there were brand differences between TCL and Thomson. The merger of Thomson and TCL had caused customers to question Thomson's brand since TCL focuses on price. The brand value of M&A companies and consumers' understanding is not consistent, thus reducing the brand image and further affecting the market share [2]. It's troublesome for both companies to exert synergy.

Bluestar acquired 100% equity of Adisseo at a consideration of 400 million euros and had absolute control. Bluestar helped Adisseo develop the market in China, and Adisseo also helped Bluestar to innovate technology. For the realization of common goals and self-development, Adisseo used human and technical resources to build factories in China, thus forming a win-win situation. The acquisition of 100% shares is

conducive to reducing the risk of resource integration and internal contradictions.

### 3.3.4. Personnel integration

To restructure Thomson's business in Europe, TCL laid off numerous employees, but according to the French labor law, TCL had to pay tens of millions of euros to compensate the laid-off employees. Thomson's executives left after the enterprise merger, but TCL failed to promote international talents in time, so the company's performance declined severely [3].

Bluestar adopted a series of human resources integration measures to retain Adisseo's talents. Bluestar retained the original executives through salary incentives, given Andy Su's management full rights, and promised not to lay off employees, thus winning the trust of the French management and employees. And Adisseo maintained its independence and competitive advantage in daily operation and management. At the same stage, Bluestar introduced talents with working experience in multinational companies to improve the level of international management. Compared with other developed countries, Chinese companies have few transnational management talents, and their operational capacity is relatively immature. These factors will adversely affect the resource integration of cross-border M&A [9].

### 3.3.5. Cultural integration

Due to the differences in business management culture, TCL and Thomson have difficulty in cultural integration. The TCL focused on cost-saving and lead to poor synergy. In France, TCL's advantage of low-cost manufacturing disappears. After the merger, TCL President demanded to convene a meeting of French officers at the weekend, but could not contact any French employees. In Chinese entrepreneurial culture, employees always need to obey the boss's orders, while in French corporate culture, work can't interfere with personal life. This reveals TCL's serious neglect of cultural differences.

Bluestar attaches importance to cultural integration. The general manager of Bluestar chose famous French paintings to hang in the headquarters office. The coffee shop of the company headquarters also mixes French coffee to meet the needs of the French. When the two companies differed on safety issues, French companies paid significant attention to safety. Although the cost is high, the Bluestar team still respects Adisseo's team, adheres to high safety standards, and promoted these views to other businesses. The respect and recognition of the Chinese chemical industry to Adisseo's corporate culture promoted the cultural integration of both teams. In cultural integration, Chinese firms not only need to

incorporate Chinese thinking but also need to consider corporate culture innovation so that employees of both sides can identify with the new corporate culture[7].

## 4. M&A REVELATION

### 4.1. M&A timing

M&A timing affects M&A cost and success rate. Some companies have to sell valuable assets at low prices because of poor management. And some enterprises sometimes sell the non-core business at a low price to adapt to market changes [10]. These are the opportunities for mergers and acquisitions of Chinese enterprises. Besides, the macro environment is frequently the basis of successful cross-border M&A. Economic, political, policy, cultural, social, scientific and technological factors affect the process of cross-border M&A, as well as the resource integration after M&A. In recent years, M&A of Chinese enterprises have regularly been rejected due to strict political supervision in Europe and America, and occasionally they were even compelled to deprive the assets they formerly acquired after the transaction is completed, which increases the uncertainty factors in overseas M&A activities of Chinese businesses. But the crisis may bring opportunities. For example, at present, under the influence of the COVID-19 epidemic, many countries relaxed the guidance of foreign investors, therefore reducing the political obstacles and costs of M&A and improving the success rate of M&A activities.

### 4.2. Capital

Cross-border M&A is risky and takes immense investment from the acquirer. Enterprises can draw the support of other private equity funds and venture capital to reduce risk and improve the possibility of success. By taking advantage of the capital and talent advantages of the private equity fund and venture capital, and with the help of accounting firms, investment banks, and law firms, the acquirer can obtain clear M&A environment analysis, industry research reports and acquisition suggestions, thereby greatly promoting the success rate of cross-border mergers and acquisitions.

### 4.3. Cultural integration

Cultural integration profoundly affects the survival of enterprises after mergers and acquisitions. Corporate culture integration is to realize cultural identity and form a new corporate culture based on respecting corporate culture differences. Corporate culture integration needs to identify corporate cultural conflicts and adjust the corporate cultures of both teams according to the degree of differences. Cross-cultural training and executives' mutual visits can be adopted to boost communication and understanding between

employees of both companies and reduce cultural conflicts and misunderstandings, thus enhancing the synergy between enterprises of both sides.

### 4.4. Personnel integration

The senior talents of the company are the key factors for success because they have a clear understanding of the local environment, industry situation, and the development of the enterprise. In cross-border M&A, retaining the original talents of enterprises can improve the company's performance after the acquisition. Therefore, companies can promote the sense of identity of management and employees through promotion, equity incentives, and no layoffs. And appropriate decentralization ensures the stability of the management and secures its competitive advantage in daily operation and management. In addition, the cultivation and introduction of international talents are still rather important, which is conducive to coordinating the international talent pool and improving the internal international management.

## 5. CONCLUSION

Through the analysis of the French macro-environment, this paper outlines the opportunities and challenges of Chinese enterprises merging with French firms, compares the cases of Chinese enterprises merging with French enterprises, and summarizes the main factors that affect cross-border mergers and acquisitions, including the timing of mergers and acquisitions, technological integration, cultural integration, and human resources integration. And finally, the paper puts forward corresponding suggestions and revelations. Macro-environment before cross-border M&A, selection of M&A objects, timing, financial support, and legal compliance, resource integration, cultural integration, and human resources after the completion of cross-border M&A is extremely important. Enterprises need to consider this information in advance to reduce the resistance and cost of M&A and expand the synergy effect.

## REFERENCES

- [1] Xiang, T. (2012). Early Warning and Control of Risks in Transnational Merger and Acquisition by Chinese Enterprises. *Value Engineering*.
- [2] Xuefeng, L. & Xiaorong, L. (2012). Strategic benefit analysis of M&A cost. *Finance and Finance* (1), 3.
- [3] Zhong, Y. (2018). Exploration of Transnational Merger and Acquisition Decision Based on Risk Control. *Journal of Advances in Economics and Finance*, 3(3).

- [4] Wu, Y. (2005). Motivation, risk, and integration of TCL's acquisition of Thomson. *Management modernization* (4), 4.
- [5] Jun, L. Research on cross-border M&A strategy of Chinese private enterprises. (Doctoral dissertation, Lanzhou University of Technology).
- [6] Shi, X. (2009). Study on Risk Identification and Measurement of Brand Integrating Pattern in Transnational Merger and Acquisition. *Ecological Economy*.
- [7] Xing, L. (2015). Research on the level and mode of human resources integration in cross-border weak mergers and acquisitions of Chinese enterprises--Take the acquisition of Adisseo by Bluestar as an example. *Modernization of shopping malls* (3), 2.
- [8] Song, X. (2018). Study on the Conditions of Transnational Merger and Acquisition of Chinese Private Enterprises. *DEStech Transactions on Social Science, Education, and Human Science*.
- [9] Danzhu, Z. (2014). Research on cultural integration model of cross-border mergers and acquisitions of Chinese enterprises. Nankai University.
- [10] Yuan, X. (2016). On Strategic Choice of Transnational Merger for Chinese Enterprises in Post-Crisis Period. *Journal of the Chongqing University of Technology*.
- [11] Wronski, Pollyanna & Klann, Roberto. (2020). Accounting Conservatism and National Culture. *Brazilian Business Review*. 17. 344-361. 10.15728/bbr.2020.17.3.6.
- [12] Trading economics. (n.d.). France Corporate Tax Rate. Retrieved December 23, 2021, from <https://tradingeconomics.com/france/corporate-tax-rate#:~:text=Corporate%20Tax%20Rate%20in%20France%20averaged%2037.45%20percent%20from%201981,of%2026.50%20pe>