

Research on Technological Collaborative Innovation of Geely's Acquisition of Volvo

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Abstract—Economic globalization makes the global economy developing rapidly. More and more enterprises begin to focus on cross-border mergers and acquisitions. Mergers and acquisitions have gradually become a research hot spot. However, Chinese enterprises lack experience in cross-border M&A and have few successful cases. Therefore, the purpose of this paper is to study transnational mergers and acquisitions, especially technological synergy innovation, and to provide an example for Chinese enterprises to carry out cross-border M&A and their follow-up innovation. This paper novelty uses the method of single case study and the theory of collaborative innovation to study the Technology Synergy Innovation of Geely's acquisition of Volvo. The conclusion is that Geely's Technology Synergy Innovation after its acquisition of Volvo has been very successful, providing experience and lessons for Chinese entrepreneurs.

Keywords—cross border mergers and acquisitions; Geely; Volvo; technology synergy innovation

I. INTRODUCTION

With the development of global economic integration, many enterprises begin to carry out cross-border mergers and acquisitions, and mergers and acquisitions have gradually become a research hot spot. However, at present, the international competitiveness of Chinese enterprises is still at a disadvantage, and Chinese enterprises lack experience in overseas M&A. Compared with domestic mergers and acquisitions, overseas mergers and acquisitions have more failures and fewer successful cases. Moreover, the situation of overseas mergers and acquisitions is more complex, and the level of research needs to be more in-depth and instructive. Therefore, the study of transnational mergers and acquisitions of enterprises, especially the study of innovation issues in the later stage, has a strong practical significance. The case of Geely's acquisition of Volvo and its innovation can provide a successful sample of cross-border mergers and acquisitions for Chinese enterprises and even global enterprises, and provide a reference for Chinese entrepreneurs.

II. LITERATURE REVIEW

A. Related Concepts

1) The Concept of Cross-border Mergers and Acquisitions

Cross-border M&A refers to the acquisition of the entire assets of another enterprise or the shares that are sufficient to exercise control of the operation of the enterprise of another

country for a certain purpose, through certain forms and payment means. From the inter-relationship of cross-border M&A, it can be divided into horizontal mergers (There are mergers between companies producing or selling the same or similar products in two or more countries), vertical mergers (there are more than two countries producing the same or similar products. But mergers and acquisitions is between companies at different stages of production) and mixed mergers and acquisitions (mixed cross-border mergers and acquisitions refers to M&A between enterprises in different industries in two or more countries).

2) The Concept of Collaborative Innovation

Peter Gloor of MIT Sloan's Center for Collective Intelligence was the first one who put forward the concept of collaborative innovation [1]. He believed that collaborative innovation is "a collective vision formed by a network group of self-motivated people, and they use the network to exchange ideas, information and work conditions to achieve common goals." This definition is more inclined to collaborative innovation within the team. Chen Guang (2005) defines collaborative innovation as "It is a process oriented by the development strategy of the enterprise, with the core of improving synergy, achieving synergy through technology, market, strategy, culture, system, organization, management and resources, finally achieved the overall synergy of the enterprise." He defined collaborative innovation from a technical and internal perspective [2]. Li Xinghua (2011) believes that "collaborative innovation is an innovative behavior that focuses on the goal of innovation, multi-agent and multi-factors to assist, complement each other, and cooperate with each other [3]". Chen Jin (2013) believes that the definition of collaborative innovation is "Collaborative innovation refers to promoting the ability of enterprises, universities and research institutions to exert their respective capabilities and integrate complementary resources through the guidance and mechanism arrangement of the national will, to achieve the complementary advantages, and accelerate the application and industrialization of technology, and collaborate on industrial technology." This definition is more inclined to collaborative innovation outside the enterprise [4].

It can be seen from the above that collaborative innovation can be divided into two kinds according to its approach, namely, internal and external collaborative innovation. In this paper, the analysis of collaborative innovation is more inclined to the combination of internal and external. By changing and

optimizing the elements, enterprises can achieve innovation in ways or methods of synergy and achieve innovative results.

B. Generation and Realization of Technological Synergy Innovation

After mergers and acquisitions, enterprises become larger and have stronger financing ability, technical ability and sales ability. At the same time, enterprises also have a stronger ability to establish their own special research and development laboratories, which can form economies of scale in R&D, promote technological innovation, produce synergistic effect in R&D, and realize technological synergistic innovation [5].

Technological synergy is manifested in two aspects. Firstly, through mergers and acquisitions, technology is spread from one enterprise to another, so that advanced technology can be applied to a wider range, and to a certain extent, social welfare can be increased through the wide application of technology. Secondly, technological synergy effect is also reflected in the improvement of technological level. After mergers and acquisitions, the inefficient assets of target enterprises become efficient assets, which can improve the overall competitiveness and efficiency of enterprises, and improve business performance. This is not only the improvement of technological level of the whole enterprise, but also the improvement of technological innovation ability by learning from each other.

III. CASE DESCRIPTION

A. Background

Geely's acquisition of Volvo lasted for a long time. As early as 2002, Li Shufu said at a meeting of middle-level cadres of the company, "We are going to buy Volvo. We should be ready now!" It shocked everyone at that time.

In order to acquire Volvo, Geely has made a series of preparations including internal, external, strategic, layout and other aspects since 2002. In July 2002, Shanghai Geely International Corporation Co., Ltd., the only import and export window for Geely Automobile, was established to carry out overseas distribution. In 2006, Geely formally acquired MBH (Manganese Bronze Holdings) to make an internationalization attempt. In May 2007; Li Shufu issued the Ningbo Declaration to carry out strategic transformation. Just at that time, a worldwide financial crisis broke out, and China, as the largest foreign exchange reserve country in the world, was highly expected in this crisis. A series of measures, such as expanding domestic demand, adjusting industrial structure and enhancing the ability of independent innovation, have been taken since then. Domestic enterprises such as Geely have also had a good opportunity to go abroad [6].

The turbulent financial crisis has also put the world's automobile industry in a difficult position. The three major auto companies in the United States - Ford, GM (General Motors Corporation) and Chrysler Corporation - are in deep trouble. Alan Mullaly, the CEO of Ford, put forward the "One Ford" strategy in 2007, drastically reducing non-core brands. The financial crisis and the proposal of "one Ford" strategy made Li Shufu see the light.

B. The Process of Merger and Acquisition

In 2007, after seeing the hope of acquiring Volvo, Li Shufu quickly launched an action to prepare for the establishment of the V Project (Volvo Project) team. Geely tried to contact Ford many times at that time, but the final result was negative.

Until October 10, 2008, Ford formally announced the replacement of CFO. This was undoubtedly a crucial turning point for Li Shufu and his team. In January 2009, during the Detroit Auto Show, Li Shufu arrived at the headquarters of Ford to meet Bill Ford and Alan Mulally, and told about his long-term plan of Volvo. Finally, he got the chance to acquire Volvo.

Ford had a turnaround, and Geely was approved by the NDRC. In July 2009, with the submission of Geely's second round of tenders to Ford, negotiations on mergers and acquisitions began. But the negotiations were very difficult. Even Geely and Ford suspended negotiations for a month over Volvo's offer. Follow-up negotiations were still intense, with Geely's internal meetings lasting 12 hours even before dawn. Finally, on December 23, Geely and Ford announced an agreement on the acquisition of Volvo's main commercial terms.

However, things were not finished until this step! At that time, Geely is faced with the problem of overseas acquisitions - trade unions. Li Shufu visited the representatives of the Swedish government, the Swedish IG Metall and suppliers, and went to Volvo's factory in Ghent, Belgium. During the conversation with union members, someone suddenly asked, "Many people are interested in Volvo. Can you use three words to describe Geely's advantages?"

Li Shufu was taken by surprise by the question. Faced with dozens of eyes, he had a sudden inspiration, and used three English words that he could speak, "I LOVE YOU". He captured the hearts of many trade union members in an instant. The president of the trade union immediately put on Volvo's factory emblem for him. The visit had a remarkable effect and achieved a much-told story of three words. It also facilitated the collaborative innovation in the later period.

Finally, at 10 a.m. on August 2, 2010, the delivery ceremony was officially completed, and Geely successfully acquired Volvo.

C. Technology Synergy Innovation

After Geely acquired Volvo, there were still many problems to be solved. At the beginning of 2012, lack of investment in follow-up products was one of the major problems facing Volvo at that time. While for the auto industry; insufficient investment is the worst thing. Therefore, during that period, the board of directors began to discuss issues concerning CMA platform investment, but the whole process encountered many difficulties and doubts. "We have to start from scratch and make it work. Many people said at the time that it would not succeed." At that time, in addition to their own investment in research and development, the only possibility was to cooperate with companies in the industry. However, after many attempts, only one result had been obtained: this road was blocked. The manufacturers in question,

though friendly, expressed no interest in the cooperation as soon as they heard of it. In their view, it was a question of whether Volvo could continue. In addition, from another point of view, cooperation did not meet the reality and needs of Volvo, and was contrary to Geely's future development plan for Volvo.

After a period of unsuccessful search, Li Shufu said, "Let's stop looking. It's a waste of time. We'll get nothing in the end. We might as well combine Geely and Volvo to develop together and continue to exploit the previous architecture. Although Li Shufu's proposal of "Geely and Volvo jointly develop independent technology, produce medium-sized cars at low cost in the future, meet our needs and improve the competitiveness of products through independent research and development of car body architecture" was very attractive. But Stefan Jacoby, the CEO, strongly opposed it. He did not believe that it could be developed successfully. In his view, there was too much work to do with new tasks and it was almost impossible for Geely to complete the task of developing a car body architecture that meets all the requirements, but also to make it reach a high quality level. Faced with such doubts, the board of directors was also under pressure.

Geely and Volvo's turnaround in technological synergy innovation came at the end of October 2012, when Stefan Jacoby stepped down and Hakan Samuelsson became the new CEO. At the same time, Geely agreed to invest in the construction of CMA platform. The board of directors finally passed the decision, and Geely and Volvo's technology synergy innovation officially opened the prelude.

On the eve of Christmas on December 22, 2012, Li Shufu came to Goteborg and met Fang Haohan who received the research and development task of CMA platform. "What I want to do is combine Volvo's high quality with Geely's low cost. I hope to see results in three years." Li Shufu went on to say, "We do the same thing as Lego. One is for Volvo and the other is for Geely. Fang Haohan also clearly remembered that Li Shufu described a platform similar to MQB of Volkswagen at that time. It was just like Lego. The basic structure was the same, but different colors were used and different Lego was rolled out. Three years was very challenging. "I am confident and I will do my best." Fang Haohan said.

In February 2013, China Euro Vehicle Technology (CEVT), headed by Fang Haohan, was established. On June 7, 2013, including Fang Haohan, there were seven employees in CEVT. Three years later, on June 10, 2016, CEVT became a wholly-owned subsidiary of Geely. The number of employees increased from 7 to nearly 2,000, including some R&D personnel and some contract workers from China.

In this technological synergy innovation, Geely and Volvo cooperated with each other to independently research and develop car body architecture platform for technological innovation. They jointly developed basic technologies and shared their achievements. Not only could it be flexibly applied to the research and development of new products of both sides in the later stage to reduce costs and improve competitiveness, but also there was an unexpected gain in this technological synergy innovation - a new brand of LYNK&CO. Li Shufu admitted that Geely and Volvo had their own technology, and

based on Geely and Volvo's common extensible platform (CMA), they also had their own technology. "This technology is a synergy innovation between Geely and Volvo." And on the basis of this technology, a new brand has been formed. Li Shufu did not shy away from the relationship between the new brand, Geely and Volvo, but also clearly showed the difference between the three: "The product positioning is different, the technical standards are different." Hanken Samuelson, CEO of Volvo, also said that the establishment of the new brand was a win-win model for Geely and Volvo.

When it comes to the birth of new brands, the problem of brand dilution has to be raised. Geely's acquisition of Volvo, it can be said that Geely is the winner, mergers and acquisitions also bring a certain degree of positive influence. However, due to the wrong reports from Geely dealers and the media, Volvo's brand had been damaged to a certain extent. But there was no way to quantify the impact and damage. Whether the two offset results are positive or negative could not be immediately revealed, but it takes time to verify. On the other hand, at that time, sales of some Volvo vehicles had been affected after the acquisition, but overall, Volvo's total sales had increased. Now, Volvo and LYNK&CO are produced on the same CMA platform. Although their product positioning and technical standards are different, their bones and hearts are the same. In this case, whether consumers pay for the product or not still needs to be tested.

However, LYNK&CO is the combination of both sides, the result of Geely and Volvo's technological innovation, the crystallization of six years of Geely's acquisition of Volvo, and it also means success to some extent.

IV. ANALYSIS OF TECHNOLOGICAL SYNERGY INNOVATION

A. *Difficulties in Technological Synergy Innovation after Geely's Acquisition of Volvo*

- 1) Volvo lacked investment in follow-up products.
- 2) There was no way for Volvo to cooperate with the car body structure companies that had been formed in the industry.
- 3) Working with the formed car body architecture company did not meet Volvo's reality and needs, and was contrary to Geely's plan for Volvo's future development.
- 4) Stephen Jacob, the CEO at that time, strongly opposed their technological synergy innovation. He believed that Geely was not good and held a negative attitude on the technological synergy innovation between Geely and Volvo.

B. *Opportunities for Technological Synergy Innovation after Geely's acquisition of Volvo*

- 1) At the end of October 2012, Stephen Jacob stepped down and Hakan Samuelson became the new CEO, reversing the management's attitude towards the synergy between Geely and Volvo.
- 2) Geely agreed to invest in the construction of CMA platform.

C. Achievements of Their Technological Synergy Innovation

The new brand- LYNK&CO. Geely and Volvo cooperated with each other to independently research and develop car body architecture platform for technological innovation. They jointly developed basic technologies and shared their achievements. Not only could it be flexibly applied to the research and development of new products of both sides in the later stage to reduce costs and improve competitiveness, but also there was an unexpected gain in this technological synergy innovation - a new brand of LYNK&CO. LYNK&CO is the combination of both sides, the result of Geely and Volvo's technological innovation, the crystallization of six years of Geely's acquisition of Volvo, and it also means success to some extent.

V. CONCLUSION

This paper uses a single case study method, but the specific measures taken by enterprises in cross-border M&A will be affected by the nature, scale and region of enterprises, so this paper has some limitations. Therefore, this paper proposes some measures and concepts related to the inevitable key points in the process of merger and acquisition, so as to reduce its limitations and provide universal reference for other enterprises and entrepreneurs. Geely's technological collaborative innovation process after its acquisition of Volvo has strong particularity, diversity and dynamics, so it needs specific analysis of specific issues. Some common points are that after M&A, both sides need to learn the strengths and

weaknesses from each other as much as possible. Then they will develop together. And finally achieve innovation successfully. The case of Geely's acquisition of Volvo can provide some reference for other enterprises and entrepreneurs.

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