

# Jinsheng's Approach to Globalisation

**H**ow effective are mergers and acquisitions in helping Chinese companies quickly expand abroad?

Jinsheng Group Co-President & Executive President Jesse Guan (EMBA 2008) drew on his company's successful experiences abroad to provide answers when he spoke at the CEIBS Alumni Forum on January 9. Some of that expertise comes from the theoretical support that resulted from Jinsheng Group's collaboration with CEIBS as founding sponsors of the school's Centre for Globalisation of Chinese Companies. Read on for excerpts from Guan's speech.





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## Why do M&As?

The wave of Chinese companies' overseas investment dates back to 2007 or 2008, and Jinsheng Group is one of the players in the wave.

As one of the founding sponsors of CEIBS Centre for Globalisation of Chinese Companies, we have the good fortune of theoretical support from professors. From them, we learned that there are significant theoretical differences between the globalisation of Chinese companies and their Western peers. Western companies will only go beyond the borders of their own countries if they are really good in certain aspects and have products and brands that are already well-known globally. At the same time, there has to be no more possibility of expansion in their local market. The way they go global is also very simple: they copy-paste successful products, brands and management approaches.

Chinese companies are different.

Though we were once a manufacturer of textile machinery, our technology is still at mid-range in China; and it plays no role on the world stage because we don't have overwhelming competitive advantages. We do M&As all over the world and our main aim is to gain

resources and brand technology, which we can apply to the domestic market or towards our expansion in other markets. Jinsheng Group owes its development to China's economic surge of the past 30 years. In China, such a vast market, as long as they do not do too badly every company will definitely make money. We are no exception. In the past 20 years, Jinsheng has accumulated resources and capital in the Chinese market, which is of great help to our global M&A efforts. But there are still two bottlenecks to be conquered before China's machinery manufacturers can rise to become a truly global leader. The first is the deficiency in our innovative abilities due to our educational system's failure to develop students' manual dexterity. The second is the lack of long-term vision. Germans can make weighty investments of money and time in ground-breaking endeavours, but this something that Chinese enterprises find very hard to do.

Based on external and internal factors, we decided that Jinsheng must go out. Meanwhile we also saw other opportunities: developing a high-end equipment manufacturing industry is the only route leading to China's industrial upgrade and we would have a major role to play; we also had strong financial support from the government, and China Development Bank was our strategic partner.



*“Before attempting a cross-border M&A, you need to be clear about your strategy.”*



## **I**ngredients for a successful M&A

Before attempting a cross-border M&A, you need to be clear about your strategy. What is the reason for the merger or acquisition of a company? Are you doing it to access resources or capabilities? After successfully acquiring the company, what can you do with it? This is actually a crucial point, which needs to be thought through beforehand.

Second, value assessment and negotiations are very complicated in M&As, which makes these deals susceptible to losses. Thus it is best to rely on a team of discreet experts. The third issue is risk control in cross-border M&As. This is most relevant to Chinese companies, whose capabilities are not very strong, and who need time to gain brand recognition during their M&As. There are many risks during this period and one needs to know how to control them.

## **P**ost-M&A development

Based on research by CEIBS Centre for Globalisation of Chinese Companies, and my own views, there are four general ways in which Chinese companies can obtain international resources:

1. Purchase brands, technology and resources, and apply them to the Chinese market. This is a very traditional approach. As China is a huge market, success in China means success everywhere. This is a model that is easy to conceive.
2. Brands, technology and resources simultaneously applied to both the domestic and foreign markets, and there's also simultaneity in market

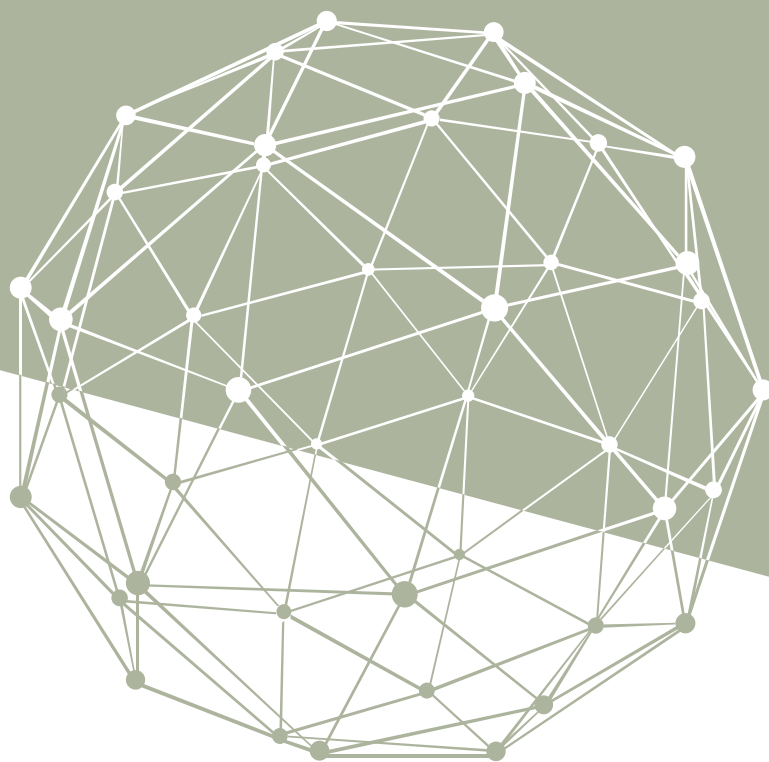
expansion. This approach was used in cases such as LiuGong Machinery Co Ltd's acquisition of HSW in Poland, as well as Jinsheng's acquisition of Saurer and EMAG.

3. Carry out global expansions directly. This approach was used in Wanda's acquisition of AMC and Jinsheng's acquisition of Koepfer Gear GmbH.

4. How can a listed company with very high P/E ratio keep growing? Merging with or acquiring a company in Europe will not only increase business but also improve capabilities. However there are some risks to this approach.

Before selecting M&A targets, companies must determine which road to take, and their probability of success.

*“Our next step is to embark on a road of innovative integration.”*



## **F**our approaches to internal management

**Backward learning:** This approach is used less and less. Lenovo employed this strategy to acquire IBM, and they merged Lenovo's Chinese business into IBM. Also, Geely's acquisition of Volvo was through partial backward learning.

**Light touch:** Many companies adopt this approach, including Jinsheng in its acquisition of EMAG, and the early stage of its acquisition of Saurer. We make changes according to periodic observations.

**Innovative integration:** By utilising the light touch approach, we keep what's good and change what's bad, which requires innovative integration.

**Our own management system:** We are still far away from this, but this is what we are working towards. Now Lenovo has its own way of acquiring companies, because they have already gained a very complete system with integration of the West and East. It has been a great success, and this is what Jinsheng hopes to learn from.

In retrospect, we have experienced backward leaning, and we are also one of the first Chinese companies who tried the light touch approach. Our next step is to embark on a road of innovative integration, and we have already made several attempts. I hope one day we can come up with our own management system and chart our own path. There is a long way to go. We are still on our journey, and need to do our very best to be successful.