

Identifying Risks in Cross-border Mergers and Acquisitions: Taking Geely as an Example

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Abstract. The merger and acquisition integration of enterprises involves the future development of enterprises, especially for cross-border integration, due to the differences in management and culture between the two enterprises, the difficulty of integration is relatively higher. Complementary advantages can only be achieved when both parties achieve better integration. Before implementing M&A integration, the company should do a background check on the acquisition target, confirm the possible risks after the acquisition, and take comprehensive countermeasures. In the process of implementing mergers and acquisitions (M&A) integration, the acquirer should actively establish effective communication channels and reduce the cultural differences of the enterprise during the communication. In terms of follow-up operation and management, we should actively learn the advanced management experience and operation model of the target company. people can adopt a cooperative model to retain the original operation model of the acquired company, and at the same time encourage the enthusiasm of employees for independent research and development. Finally, enterprises should pay attention to the human resource management after the acquisition. By understanding the needs of employees, formulate targeted plans to retain excellent employees, and attract new talents through salary, benefits, and corporate culture, so as to realize the people-oriented development concept.

Keywords: Mergers, acquisitions, risks.

1. Introduction

Geely, an unknown Chinese car manufacturer, officially completed its acquisition of Volvo in August 2010. The acquisition process lasted for three years. It is the largest Chinese company's first overseas acquisition, indicating the rapid rise of China's auto manufacturing industry. As one of the most successful acquisitions in history, the reason for the success of the acquisition has been a topic of discussion among many economists and business people. Zhejiang Geely Holding Group was founded in 1986 and is privately held by Li Shufu. Geely started from the production of refrigerator parts in the early phase, and then entered the automobile industry in 1997. With its flexible business model and innovative ideas, it became the top ten in the Chinese automobile industry in the following years. Unlike Geely, Volvo has a history of nearly 100 years, and the brand enjoys a certain reputation in the world. Volvo used to be the largest automobile company in Northern Europe and the largest industrial conglomerate in Sweden, until 2005, Volvo was the most profitable company in Ford. Analyzing the context of the acquisition, from a macroeconomic perspective, the outbreak of the international financial crisis in 2008 directly caused the market value of some internationally renowned auto brands to shrink to a certain extent. The uneven nature of the crisis contributed to the gradual shift in production from traditional core areas of the global automobile industry to selected less developed economies [1]. Unlike European countries, China, as a developing economy, is not facing such a strong impact, especially for the automobile industry, the demand for automobiles in the Chinese market is expanding. At the same time, the Chinese government adopted a series of financial and monetary policies to ensure the gross domestic product, and promoted investment and economic recovery by reducing bank interest rates and other means. From the perspective of technological environment, although there are many independent automobile brands in China, the overall technical level is backward, and China lacks the core technology of automobile manufacturing, so that there is a lack of high-end automobile brands in China. China's private automobile manufacturers need to introduce foreign advanced automobile production and design technology, so

as to improve the overall technological level of the automobile manufacturing industry. The international brands can help the local brands to build the recognition in the global market [2]. From the perspective of social environment, China as the largest developing country, has an unsaturated auto market and has a good prospect, which provides Volvo with a good development environment, and the acquisition has also won the support of most Chinese people. From the perspective of firms, Volvo's parent company, Ford, was in a difficult period. The wars in Afghanistan in 2001 and Iraq in 2003 kept oil prices rapidly increasing, which hit gas-guzzling car companies hard. In 2006, Alan Mulally proposed the "one Ford" strategy, that is, selling all non-core businesses for cash to ensure the normal operation of the core business. In 2008, Ford sold Volvo for \$6 billion. From the view of Geely's internal company, Geely urgently needs to improve its innovation ability and brand image. The acquisition of Volvo will enable Geely to master the core automobile manufacturing technology and improve its international competitiveness. In fact, Geely, as a novice in the automobile manufacturing industry, urgently needs to learn the management and operation philosophy of an old company like Volvo, so as to help Geely improve its own brand. Under the condition that both sides need each other, Geely finally completed the acquisition of Volvo. However, many scholars are not optimistic about this acquisition, because these two companies have very little in similarity, but a huge difference in product segment, technology and brand, inter-culture, language, etc [3]. This paper constructs a theoretical framework, analyzing the factors for the successful merger of Geely and Volvo from the external environment of the market and the internal business model of the enterprise, and discusses the prospect of international mergers and acquisitions in the automotive industry under the economic crisis.

2. Acquisition Process

For Geely, the acquisition of Volvo is a difficult task. As a typical leveraged buyout case, external financing has played an important role. Volvo mainly adopts three financing methods, namely, low-interest loans from domestic and foreign banks, the second is Ford seller financing, and the third is equity financing from investors at domestic and abroad. Geely completed the acquisition with the guarantee of the company's future cash flow after the completion of the merger.

2.1. Potential Risks

However, leveraged buyouts often face huge risks. organizations have to focus on developing risk management practices to mitigate the disruptive impact of risk drivers [4]. First of all, it is the operational risk faced by Geely. As an acquisition led by a weaker brand, a major production adjustment is required after the acquisition of the target company. The investment in brand and production line construction requires a stable and strong capital supply. As a decisive factor in determining the liquidity of an enterprise's supply chain, cash is the key to ensuring the subsequent development of an enterprise. Without follow-up financial support, the risk of acquisition will be huge. The second point is brand risk. The difference in brand positioning will lead to the inability to produce synergies after the acquisition. Synergism can be described intuitively as the increase in the value of the combined firms that would not otherwise exist without the merger [5]. In fact, The acquisition of Volvo can not help Geely quickly establish its brand positioning, and may even damage Volvo's brand positioning as a luxury car. Therefore, Geely needs to quickly complete brand integration in order to achieve synergy after the acquisition. The third point is quality risk. Although Geely has helped Volvo achieve lower costs by using low-priced domestic raw materials in China, the quality assurance of raw materials is still a factor that cannot be ignored. Geely made full use of its geographical advantages to help Volvo reduce production costs, thereby enhancing market competitiveness, but the safety performance of cars has declined, and this hidden danger has also become a reality a year after the acquisition. Between 2010 and 2011, Volvo recalled 10 cases, ranking first among luxury car brands, which largely damaged Volvo's brand image. Finally, cultural conflict is an inevitable factor in this acquisition. The cultural differences between China and the

West will directly affect Volvo's business strategy and development after the merger. Broadly speaking, culture affects practically all aspects of the way people of a group interact with each other [6]. Chatterge indicated that in the research of culture differences and mergers: acquiring company management should focus on cultural periods and issues as much as corporate strategy. On the other hand, Volvo was born in the Nordic countries, and Geely promised to retain Volvo's headquarters and R&D institutions in Sweden, which means that Geely will face a higher cost burden.

3. Firm Integration

The benefits of a successful acquisition are undoubtedly huge. If the integration is completed, Geely can use Volvo's market to promote its products globally, which provides a shortcut for Geely to realize its internationalization strategy. The primary problem in effectively managing merged firms is integrating them into a single unit [7]. Geely Group chairman Li believes that: the main reason for Volvo Group's loss is the decline in sales due to the impact of the financial crisis. After the acquisition, Geely actively mobilized the enthusiasm and creativity of Volvo's management team at the Swedish headquarters, and formulated a new incentive and assessment mechanism to encourage employees. On the other hand, while consolidating Volvo's existing mature European and American markets, Geely will actively explore emerging markets represented by China, broaden product categories and reduce production costs. Horizontal integration leads to a larger market base for the merged firm [8]. From the perspective of technology integration.

3.1. Integrated Action

Geely realizes that its own ability cannot absorb Volvo's advanced technology at present, and it is a correct decision to establish a research and development center to improve the technological level of the enterprise. In terms of automobile production and research and development, Geely established a research and development center in Shanghai on the one hand, and applied to build a factory in China on the other hand, hoping to realize the localization of Volvo. At the same time, Geely has not been busy depriving Volvo of its independence of operation and management after the merger and integration. Unlike Ford's management, Geely and Volvo are more like strategic partners. This model makes Geely have two different the operating model is used to serve different markets. Reshaping the workers' motive resulted in better performance [9]. Retaining the independent operation of Volvo headquarters will mobilize Volvo's enthusiasm for production and research and development to a large extent. Corporate culture is related to the development direction and business strategy of the company, and is very important in the integration process of the two companies. Retaining the Swedish headquarters will undoubtedly increase the diversity of corporate culture. Volvo is famous for its safety and reliability in the automobile manufacturing industry. Taking advantage of this and combining Chinese elements will undoubtedly make it easier for Volvo to enter the Chinese market. After Geely completed the integration of Volvo, its performance has improved significantly.

3.2. Integration Results

In 2011, its overseas sales reached 40,000 vehicles, a year-on-year increase of 12%, making it the fastest-growing company in China's domestic independent brands. Effective communication is crucial in the integration of enterprises. In the initial stage of the integration, Geely and Volvo went through a long period of running-in, and the two sides conducted continuous discussions on the concept and technical direction of product development. Finally, in 2012, Geely signed a technology transfer agreement with Volvo and introduced a series of the advanced turbocharged small-displacement engine also makes up for the shortcomings of the domestic automobile manufacturing industry, and at the same time caters to China's energy-saving and environmental protection policies, creating a good foundation for Geely's development in the Chinese market. In recent years, Geely has developed rapidly after absorbing Volvo's advanced technology, launched CMA architecture and SPA2 architecture, as well as Lynk & Co and Polestar brands, and won the Chinese brand for 4

consecutive years. The sales volume of passenger cars is the first, and it has become the first Chinese brand car company to achieve the production and sales of passenger cars exceeding 10 million. It is noteworthy that the government played an important role in the acquisition of Geely. The local government gave Geely strong support for the acquisition funds. In addition, the government has improved a series of related policies to support the internationalization of domestic brands. The company is equipped with relevant legal, financial and other related services to ensure the success of the acquisition.

4. Market Prospect

In the context of China becoming the world's largest automobile consumer market, the acquisition of Volvo has brought huge benefits to Geely in terms of brand, technology and financing. From the brand perspective, the acquisition brought intangible brand equity to Geely. Brand equity can also be viewed as the result of consumer behavior, that is, it is the consumer's biased behavior toward brands with certain positive brand associations [10]. Firstly, Geely needs Volvo to help it shed its brand image of low-end manufacturing, enhance Geely's brand positioning while maintaining Volvo's high-end brand positioning. Secondly, Geely can use Emgrand, Shanghai Englon, Volvo and other subsidiary brands to occupy different markets. Since the Chinese market lacks local high-end brands to compete with imported brands, it is easier for the products after a successful merger to gain the support of Chinese consumers. Technology is the core reason why Geely acquired Volvo. Technology is the key to competition in the auto industry. If Geely still uses low labor costs to create price advantages, Geely will always survive among the low-end auto brands. With the help of Volvo's technological advantages, Geely's advantages in low-cost manufacturing will become more obvious, and its competitiveness in China will also become stronger. On the other hand, obtaining all the technical resources of Volvo is conducive to Geely's cultivation of talents. Although there are complex technical control agreements, the technology of Geely's existing models will also be improved. Financing is crucial to the development of an enterprise. Geely can use Volvo to carry out large-scale financing to expand the scale of the enterprise and improve production efficiency. Strong financing capabilities can also provide a financial chain guarantee for Geely's operations after the acquisition of Volvo. Through financing, Geely can achieve diversified development, and by broadening its product range, Geely can attract more investors and customers, thereby building a strong brand image.

4.1. Future Development Strategy

All links and stages of mergers and acquisitions are highly related, and any potential risks may lead to the failure of mergers and acquisitions. Geely needs to consider a comprehensive response strategy for the risks brought about by the merger. M&A failure can be attributed to poor synergy, bad timing, incompatible cultures, off-strategy-making, hubris, and greed [11]. Due diligence can effectively help companies avoid post-merger risks. Geely needs to fully understand Volvo's basic financial situation, management level, industry environment, and corporate culture, so as to improve the information asymmetry faced by mergers and acquisitions. Based on the brand and market strategy, Volvo is known as "the safest car in the world". Geely's primary responsibility after the acquisition is to maintain Volvo's own brand image. Based on Volvo's brand foundation, Geely needs to create a new brand image according to the Chinese market environment. For China's huge auto market, Geely should maintain the concept of sustainable development, cater to government and environmental policies, adopt market development strategies, improve the quality of products and services, and win the recognition of consumers. First of all, Geely needs to create a service brand. In terms of pre-sales and after-sales services, consumers can experience Volvo's "customer-focused" service concept in all aspects of car purchase and maintenance. Taking the Volvo service brand as the core, we formulate detailed service procedures and monitor service quality with standardized requirements to effectively improve consumer satisfaction. Secondly, Geely needs to devote itself to

customer relationship management, which will help Geely occupy the market for a long time. With the gradual expansion of the automobile market, humanized management is the core factor in maintaining competitiveness. Customer relationship management is different from previous marketing strategies, it is a management method with consumers as the core. Through long-term communication with consumers, develop consumer preferences, and finally meet the individual needs of specific markets. Based on the technology integration strategy, although China has become the world's largest automobile consumer market, there is a clear gap with developed countries such as Europe and the United States in terms of automobile production technology and process level. Against the background of the financial crisis, Geely acquired Volvo's advanced research and development group and technology at a relatively low cost through mergers and acquisitions, which is a good opportunity to achieve a breakthrough in China's auto manufacturing industry. Geely Group needs to make full use of the state's subsidy policy for enterprise innovation at the policy level, and at the same time try to jointly innovate with other Chinese companies to share R&D costs. At the same time, within the Geely Group, employees should be actively trained in business, language, and international culture to provide guarantees for technology absorption after integration.

4.2. Cross-border Merger

Though cross-border mergers and acquisitions represent a small percentage of all mergers and acquisitions, they are a large and growing part of all direct foreign investment [12]. In the process of overseas mergers and acquisitions, Geely has no experience in human resource management, and it is difficult to achieve effective communication due to cultural differences and language barriers. All these make Geely face serious risks in human resource management. If the two companies cannot reach a consensus, the inability to integrate corporate culture will directly lead to the loss of personnel and technology. Cultural differences are the primary factor in cross-border acquisitions, In the process of identifying cultural differences, Geely should initially determine cultural conflicts from the national cultures between countries. To get a preliminary understanding of national culture, Geely also needs to establish an effective communication method with Volvo employees, so as to identify the differences in corporate culture at a deeper level. The most direct cultural integration problem faced by cross-border mergers and acquisitions is the language barrier. Therefore, Geely needs to cultivate the language skills of employees and improve the efficiency of communication between the two parties. In addition, although Li Shufu expressed respect for Volvo's corporate culture and values, relative strategies are still needed to promote the integration of corporate cultures to ensure the consistency of the strategic goals of both parties. In order to integrate corporate culture, Geely has established a global corporate culture research center in China, dedicated to the study of cultural integration after cross-border mergers and acquisitions, seeking common ground while reserving differences, emphasizing that Volvo Cars has established a "local and global" corporate culture.

5. Conclusion

Geely's acquisition of Volvo was a strategic move that stemmed from various motivations. Geely, a Chinese automotive company, saw an opportunity to expand its global presence and gain access to advanced technology and expertise in the automotive industry through the acquisition of Volvo, a renowned Swedish car manufacturer. The acquisition process involved careful negotiations and due diligence to ensure a smooth transition of ownership. However, the acquisition also carried potential risks. Geely had to navigate cultural differences and integrate two distinct corporate cultures. Additionally, there were concerns about the financial stability of Volvo, as it was facing significant challenges due to the global economic crisis and declining sales. Geely had to develop effective management methods to address these risks and turn around the struggling company. Geely's recognition of the value of Volvo under the environmental background of the crisis played a crucial role in the acquisition. Geely identified the potential of Volvo's brand reputation, technological advancements, and established market presence. By leveraging its resources and expertise, Geely

implemented effective management strategies to revitalize Volvo. This included investing in research and development, improving production efficiency, and expanding into new markets. The acquisition of Volvo proved to be a success for Geely. Through strategic planning and execution, Geely was able to save Volvo from its financial difficulties and position it for growth. Volvo experienced a resurgence in sales and market share, thanks to the introduction of new models and innovative technologies. Geely's acquisition not only created value for Volvo but also enhanced Geely's own reputation as a global player in the automotive industry. In conclusion, Geely's acquisition of Volvo was driven by the recognition of Volvo's value and the desire to expand its global presence. Despite the potential risks involved, Geely successfully navigated the acquisition process, implemented effective management methods, and created value for both Volvo and itself. The case study of Geely and Volvo serves as an example of how strategic acquisitions can lead to mutual benefits and growth in the ever-evolving automotive industry.

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