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Chinese Outward Foreign Direct Investments in Germany. Post-Merger Integration and Its Effects on Labor Relations

Bachelor Thesis

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“Learning without thought is labor lost; thought without learning is perilous.”

-Confucius

Abstract: Cross-border M&A of Chinese state-owned and private-owned enterprises have rapidly increased in the past decades. The study of post-merger integration and the effects on labor relations is topic of this paper. Two German companies, that have been acquired by Chinese multi-national corporations, have been examined with qualitative research methods in form of case studies and interviews have been applied.

Key words: M&A, mergers and acquisitions, post-merger integration, foreign direct investments, labor relations, human resources, China, Germany

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Abbreviations

BIT	bilateral investment agreement
DTT	double taxation treaty
EJW	equity joint ventures
EMNC	emerging multinational company
IMF	International Monetary Fund
IPO	initial public offering
FDI	foreign direct investment
M&A	mergers and acquisitions
MNC	multi-national Corporation
MOFCOM	Ministry of Commerce (China)
MOFTEC	Ministry of Foreign Trade and Economic Cooperation (China)
OFDI	outward foreign direct investment
R&D	research and development
RoI	return on investment
SME	small and medium-sized enterprises
SOE	state-owned enterprise
TMT	technology, media and telecommunications
TVEs	township and village enterprises
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

1 Introduction

The following thesis deals with Chinese outward foreign direct investments (OFDI) in Germany and the effects of post-merger integration on labor relations. As a result of the economic reforms that have been taking place in China for the past four decades, the People's Republic has become an economic giant, rapidly making cross-border investments across the globe. Backed by large amounts of currency reserves, China's OFDI reached a record breaking US$ 114 billion in 2014 (UNCTAD 2016), making it one of the top three global investors. The impending acquisition of Swiss Syngenta by China's state-owned enterprise China National Chemical (ChemChina), worth over US$ 43 billion dollars (Hjelmgaar and McCoy 2016), illustrates the aggressive expansion into new markets. Germany has also received its share of FDI inflows from China. While investments have remained rather modest in comparison to other countries, the acquisition of KraussMaffei Gruppe or EEF Energy From Waste GmbH—worth billions of euros—have headlined Chinese M&A in Germany. Chinese have topped the M&A discussions in Germany due to the speed at which so-called "hidden champions" are being acquired. The process of M&A is particularly of interest to us, specifically the post-merger integration (PMI) and the effects it has on labor relations.

The literature regarding M&A and PMI are extensive, but the overall selection regarding Chinese M&A and labor relations remains modest. With our paper we would like to contribute to the discussion and broaden the field by providing case studies into two German companies that have been acquired by Chinese companies. In order to do this, our paper has looked at the literature on PMI and extracted the important findings regarding the effects on labor relations. To test the theories, we have applied qualitative research methods in the form of interviews with HR managers and the work councils of these companies. By forming case studies, we then analyzed the data and came to our conclusions.

We believe that the post-merger integration has profound effects on labor relations, particularly when one considers the culture clash between Germany and Chinese enterprises. The differences in both corporate and national culture could play a role in how these M&A proceed to either succeed or fail.

It is important to understand how the employees perceive these acquisitions and the effect it has on them, whether precipitated by their involvement in the process itself or by the changes that come with the acquisitions.

This thesis will begin with a literature review on the current and past state of knowledge regarding PMI. Definitions of mergers, acquisitions and integration are given at the start of chapter two, followed in the second half by the various streams of literature pertaining to the topic. Chapter three will introduce the concept of Chinese FDI and the developments of the past 40 years; in the second half of the chapter, we will present the methodology of research we have chosen for the study and the various methods used. Chapter four consists of two case studies of German companies in the automotive sector that have recently been acquired by Chinese multi-national corporations (MNCs). From these case studies, we will make our analysis in chapter five and provide our conclusions in chapter six.

2 Literature Review

Our motivation behind selecting the reviewed literature streams was to show a chronological path on the subject of post-merger integration (PMI) and its various facets. At the beginning of the literature review, we will give general definitions for the following terms: mergers, acquisitions and integration. We will then suggest a definition for PMI based on our understanding of what the literature has provided (page 8). PMI itself is a wide-ranging topic, which is not limited to the aspects of HR. Consequently, the body of literature is very large. Every research paper starts with the motivation to conduct an in-depth study on a specific subject as part of a larger structure. We find that the literature selected for this paper largely represents the state of knowledge in the field of post-merger integration or, to be more exact, “the human side of mergers and acquisitions” (Buono and Bowditch 1989). In an attempt to facilitate an understanding of the topic and to avoid redundancies, papers with similar findings and research conclusions were left out. Each paper selected represents a certain aspect that either adds to a previous study or that gives opportunity for further investigation.

2.1 Definitions

The term “mergers and acquisitions” (M&A) has its origins in “the large wave of mergers at the turn of the century” (Nelson 1954: 33) that took place in the manufacturing sector of the United States from 1895 to 1904. This is now widely known as the “great merger movement” (Lamoreaux 1985; Strohmer 2000; Vogel 2013, Wirtz 2003; Hackmann 2010), in which 1,800 companies “disappeared into consolidations” (Lamoraux 1985: 2). To this day, the term M&A doesn’t have a unified definition but is rather a synthesis of different concepts such as mergers, acquisitions, fusions, takeovers, joint ventures and strategic alliances that are all used synonymously (Wirtz 2003: 10).

Willers and Siegert (1988: 261) understand M&A as any form of external growth, encompassing a wide spectrum that extends from joint ventures to 100 percent acquisitions of a company. Reinecke (1989: 53) defines M&A as the acquisition of a minimum equity of 50 percent in a company, while Behrens and Merkel (1990: 13) define M&A as the mergers and takeovers of companies, parts thereof or their subsidiaries. Müller-Stewens et al. (1999: 1) broaden the term with the suggestion that it is not only the transaction or proprietary rights that define M&A, but also the transfer of control and leadership authority.

Boyle (2000: 2) writes that "M&A occur when two or more organizations join together all or part of their operation". He argues that the distinction between the two ideas is made on three levels: "the relative size of the individual companies in the business combination, ownership of the combined business and management control of the combined business" (2000: 2). Furthermore, the term merger can be defined both broadly and narrowly. A broad definition is "any takeover of one company by another, when the businesses of each company are brought together as one" (2000: 2), whereas a narrow definition is "the coming together of two companies of roughly equal size, pooling their resources into a single business" (2000: 2). Additionally, in this more narrow definition of a merger, the owners of the pre-merger companies share equity and the senior management is left intact. This is in contrast to an acquisition, which is the actual takeover of company equity, including management (2000:4). Boyle (2000) expands on the distinction between mergers and acquisitions with his list of five (Table. 2.1) major criteria that are exclusive to mergers:

Table 2.1: Exclusive criteria of mergers as compared with acquisitions
"…[T]he coming together of two companies of roughly equal size, pooling their resources into a single business" (2000: 2)
"…[N]either company is portrayed as the acquirer or acquired" (Boyle 2000: 3)
"Both parties participate in establishing the management structure of the combined business" (2000: 3)
"[B]oth companies are sufficiently similar in size that one does not dominate the other when combined" (2000: 3)
"[A]ll or most of the consideration involves a share swap rather than a cash payment, etc. In a merger, very little if any cash changed hands" (2000: 3)

Source: Own table, citing Boyle (2000: 2-4)