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Transforming your Business in China


# The Management of Post Merger Integration Projects in China and Germany

## Executive Summary of 25 in-depth interviews in autumn 2016

# Interview setting

Who was interviewed?

- The CEOs and CFOs of global players
- Top Managers of the German and Austrian Mittelstand
- Global HR and OE directors
- M&A Lawyers and University Professors

The structure of this executive summary looks as follows:

- Page 3 + 4 + 5 cover the findings of German investors in China
- Page 6 + 7 cover the findings of German companies being bought by Chinese state or privately owned firms
- Page 8 focuses on conclusions and solutions
- Page 9 introduces the author

# "Neglecting Culture Cost us an awful lot of Time and money!"

- **All the companies I interviewed came to the conclusion that early preparation would have saved time and money, and would have sped up the integration process overall.** Amazingly, it's mostly the "hard facts", e.g. law, tax, etc., that are handled professionally, but the soft facts like corporate and national culture, leadership styles, and HR matters still get neglected. So far, culture makes it at least to all the priority lists, but as it's not connected to financial figures, other things get more important. Only if problems occur, actions are taken – but rarely in a structured way. This leads to a lengthy and costly learning process.

- **The „chemistry" on the top level is coherent, but what about the implementation level?** The top level gets along very well and therefore assumes that this will be the case throughout the two companies. In reality, most of the issues only come to the boil once the integration process starts. Without at least a minimum culture understanding, misunderstandings accumulate rapidly, and conflicts start to interfere with business success.

- **Expectation management is significant, but not done!** The Chinese have a saying for „unhappy marriages": „Sleeping in the same bed, but having different dreams". A prerequisite for success is to talk about the (hidden) expectations at a very early stage of negotiation.

- **No plan for integration**: Chinese talents nor customers are willing to „wait and see". They easily switch employer or supplier.

- **The management team is not carefully selected**: A post merger integration is highly complex and full of traps and potential conflicts. Only a globally and change experienced management team can handle it, so a diligent choice is necessary if you want to succeed with your venture!

# “China is More Complex then we Imagined!”

- **The remote control of a China venture is impossible! It needs your presence if you expect a ROI.** That’s why “global players” place a board member in China – an example, the German Mittelstand should follow to secure not only the investment, but also to achieve a high ROI.
- **China is different in almost every aspect!** It takes time and on-site experience to develop the necessary knowhow and intuition as a lot of information is “between the lines”. Additionally, only in China one recognizes that there are as many separate markets in China as in the EU, and one starts to accept that the rules change almost every second day. Too many foreign companies send their expatriates for a much too short time frame. As soon as they start to really understand the market rules as well as their direct reports, they return home.
- **Partnership and relationship are key to success!** Germany is a country with a high level of trust, China is just the opposite: A country where strangers and foreigners are mistrusted! Without relationships, you can’t rely on information, and everything has to be negotiated and paid for. How to establish trust? The Chinese expect respect, dialogue and mutual wins. Trust can only be established if a company and a leader proves they are in China for many years to come.

# "Top-Management Support Key to Success!"

- **If top management is invisible after the closing, people easily lose trust in the merger!** Only an intense support throughout the integration and transformation phase is key to success. Experienced companies send their top managers to the front to initiate activities like town hall meetings, marketing calls, etc.

- **Expectation management from the start:** What knowhow is (not) exchanged? How much access do both sides get to technology, and governments? What is the real value each party brings into the M&A? How can we achieve an increase in value?

- **Clear purpose and PMI story:** Why do we merge? How do we grow together? Employees and customers need a storyline to stay or keep ordering.

- **Regular strategy reviews**, The management team regularly reviews
    - the logic of the M&A,
    - the fit of the business strategy,
    - the people in place and
    - the company structure

  to re-assess the synergies and targets.

- **Mutuality is key**: We learn from them and they learn from us.

- **The learning culture has to be analysed**: How do both companies learn? Is there an established training culture? If not, what does it mean for professional and personal development? How can we ensure, we learn from them and they learn from us?

# Being Bought by a Chinese Firm

- **SOEs** (state-owned companies) **tend to have non-transparent ways of decision**: It's almost impossible for outsiders to know, who makes decisions as many strategies are politically motivated. If an SOE is interested in you critically check why they want to buy you, what your future position and decision power will be as well as their strategy for your growth in China and around the globe.
- **Lack of global experience, and probably English skills**: This means that you need interpreters, and have to be able to deal with a complete Chinese management and business style. Chinese owners expect obedience, and often lack awareness for a very different work approach in Germany. Most of the owners are also not too willing to invest in "soft fact" training as intercultural competence as they don't see an immediate ROI. Still, you can convince them to do it.
- **Are you willing to go the "Chinese way"?** It is wise to check everybody's willingness to go that „extra mile" before the closing!
- **Chinese managers sent to Germany**: In some cases, a financial manager is sent over. Take into account that he / she might not have a lot of global exposure nor received a Germany training / coaching beforehand. They often don't speak German, so they are out of the information loop. They need your face-saving support in order to learn fast and do a good job in the interest of both companies.

# The Trust Challenge

- **Language and trust is an issue**: English is – on both sides – not always well spoken, therefore messages are simplified or not exchanged. This means that a lot of important information gets lost. One or the other sight easily feels "left out" or badly informed. That easily leads to mistrust, and often to the phenomenon of "tit for tat": I treat you the same way, and won't inform you, but just take my own decisions.
- **Lack of transparency in decision processes**: Chinese organization and decision structures are not always transparent, nor do they seem logical to us. Getting into the inner circle for foreigners is very difficult, but the only chance to have a say.
- **Emotion management is key for Non-Chinese**: It's not about a poker face, but about the ability to be fully aware of one's emotions and to strategically manage them. Success in China means to know the right time for criticism and target the right person.
- **Size difference matters!** If you are bought by a big Chinese investor, a lot of tensions will occur because of the size difference and a different organisation setting. It is highly important to already check the implications of it during the negotiation.
- **The good news! Chinese investors are very receptive to complaints from Germany**. They would not pre-emptively integrate company cultures or strategically structure the PMI (post merger integration), but if the request comes from the German side, it is mostly well received.

# Conclusions: An Early Culture Due Diligence and a Clear Merger Purpose Lead to Success

Germany and China are different in a lot of aspects, and at the same time highly complementary in the skill set. It needs special efforts to profit from the differences, and tap the full potential of both parties!

## A proposal for a strategic, systematic and pragmatic approach to M&A success

**Step 1: ANALIZE**

- Discover the key differences and potentials of both companies
- Define the purpose and story of the M&A / PMI
- Analyse the stakeholders
- Define the PMI strategy, story and spirit

**Step 2: EMPOWER**

- Design the PMI roadmap: structure, methodologies, roles and responsibilities
- Build up the global transformation competencies of all change agents
- Management team building: alignment and diversity are key to success

**Step 3: REALIZE**

- Energetically and powerfully kick-off the first 100 days
- Monitor the integration process and the lessons learned
- Regularly review the PMI process
- Celebrate the achievements on day 100

# Short Introduction of Daniela Fehring

**Fluent in Chinese, English and German**

**Curriculum Vitae**:

1965: Born in Rio de Janeiro (Swiss citizen)

1970 – 88: Growing up in Switzerland, studying sinology

1988 – 90: First time to China as a foreign student at Wuhan University

1994 – 96: Assistant to the Branch Manager of Credit Suisse Shanghai

1996: Moving to Germany and establishing my consultancy

**Services**: Merger Excellence

Culture Due Diligence

Global and Virtual Leadership Competencies

"Reading the Chinese" – A transformational coaching for leaders in China

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