Internationalization of Chinese firms in Europe: the role of cultural differences

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Abstract
During the last decade China has become an important international investor and its firms have also begun to invest in Europe targeting strategically important and high-tech industries. However, there are many Chinese firms that have learned some hard lessons from European acquisitions. Among the various factors that can hinder or facilitate the success of Chinese investments, we devote special attention to the role of cultural differences. Drawing from international literature on cross-border acquisitions and cross-cultural management, we assume that national culture influences corporate strategies and structures as well as managers’ behaviour.
To understand fully differences and modes of interactions among headquarters and subsidiaries, we decided to analyse a single case study. A qualitative research method appeared more suitable for achieving these mentioned objectives. Findings highlight the significant role of cultural values. Differences arose in the headquarter’s strategic choices and management cultures of the headquarters and its subsidiaries. We observed some attempts to manage cultural differences, however, the Chinese investor did not really undergo a process of learning and adaptation to the local dimension.

Sintesi
Nell’ultimo decennio molte aziende cinesi hanno iniziato ad investire in Europa acquisendo aziende operanti in settori strategici ed ad alta intensità tecnologica. Tuttavia, tali acquisizioni non sempre hanno prodotto i risultati sperati. Tra i vari fattori che possono ostacolare il successo di un’operazione di acquisizione, particolare attenzione viene qui dedicata al ruolo delle differenze di cultura nazionale. L’analisi della letteratura internazionale suggerisce infatti che le differenze culturali possono influire sulle strategie aziendali, sulle strutture organizzative e sul comportamento dei manager.
Allo scopo di migliorare la comprensione delle diversità che intercorrono tra filiali europee e capogruppo cinese, questo lavoro esamina approfonditamente un singolo caso studio aziendale. Dai risultati ottenuti emerge la presenza di alcune differenze che hanno il potere di ostacolare il raggiungimento degli obiettivi perseguiti, nonché la scarsa propensione da parte dell’investitore cinese ad adattarsi al contesto locale ed alle prassi manageriali italiani.

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INTERNATIONALIZATION OF CHINESE FIRMS IN EUROPE: THE ROLE OF CULTURAL DIFFERENCES IN THE FUNCTIONING OF A M&A IN THE AUTOMOTIVE INDUSTRY

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1. Introduction

During the last two decades China has evolved from an autarchic nation to one of the largest trading economies of the world. Thanks to its open door policy begun in the late 1980s, China has initially attracted a great deal of FDI from Western investors offering its domestic markets local competitive advantages. In exchange, it has obtained knowledge and technology that have allowed China to build up a domestic production capacity and subsequently become a great exporter (Huang, 2009).

In more recent times, China has been experiencing macroeconomic imbalance, financial tensions due to trade surplus and overcapacity problems so that the government has encouraged Chinese enterprises to zou chuqu - 走出去 - to venture out of China. As a consequence, significant Chinese outward investments have been directed to gain entrance to markets where China can sell its products thanks to its competitive advantages (e.g. in manufacturing industries, shipping and other service
sectors) and to obtain natural resources and raw materials to supply its industries (Sutherland, 2009). In this case, the main targets are developing countries (Asia, Middle East, Latin America, Africa) and the large US market. There is, however, also a smaller number of Chinese companies that have begun to invest in Europe targeting strategically important and high-tech industries (MOFCOM, 2007; Spigarelli, Bellabona, 2007). In the last case, the objective is the attainment of strategic assets such as advanced technology, know-how and recognized brands.

So far, economists and management experts have mainly studied the amount and motives of China’s outward investments (Deng, 2004, 2007 and 2009; Spigarelli, Bellabona, 2007; Bonaglia et al., 2007; Manarungsan, 2009). Considerable attention has also been devoted to catalyst factors that support Chinese outward foreign direct investments with the Chinese Government at the top of the list (Buckley at al., 2007). Importance was given to the socio-economic implications of China’s globalisation policy since it can bring both benefits (e.g. fresh capital, access to the Chinese market and large networks for local firms) and perils (e.g. a negative impact on local labour conditions, the loss of sensitive knowledge and technology) to national economies (Wu, 2005a and 2005b; Antkiewicz, Whalley, 2006; He, Lyles, 2008; Globerman, Shapiro, 2009).

On the contrary, the literature has paid little attention to the success or failure of operations that have taken the form of both merger & acquisitions, joint ventures and green field investments. One possible explanation is that these operations are too novel to support some conclusions about investment performances. There are, however, already empirical observations demonstrating that several Chinese firms have learned some hard lessons from international acquisitions - in particular when operating in Europe (Tolentino, 2008). The losses suffered from Chinese TCL company when invested in Thomson Electronics in France is a striking example.

\footnote{In 2003 China’s television TCL formed a joint venture (named TTE) with Thomson Company, which after years of losses was declared bankrupt in May}
According to the World Bank, one-third of Chinese enterprises has lost money on their foreign investments and that about 65 percent of their joint-ventures have failed (Beijing Review, 2005). Yand and Teng (2007) report a survey showing that in 2005, about 60% of China’s overseas mergers failed, with the share prices of three quarters of the merged companies plummeting by more than 20%.

Problems arisen in international Chinese mergers have been attributed to different factors. An analysis from Standard & Poor’s indicates: inadequate due diligence on target companies, a lack of knowledge of foreign law and the inability to deal with foreign government’s protectionism policy, especially in some sensitive sectors (Shangwu Zhoukan, 2006). In particular, difficulties seem to be related with Chinese firms’ lack of knowledge of the destination markets (with reference to distribution, taxation, legal and accounting systems) and their scarce experience in international management (Wu, 2005; Spigarelli, Bellabona, 2007). Compared to western competitors which have been operating for decades in the global context, Chinese enterprises still have to build their own capabilities in coordinating operations despite the plurality of languages, cultures and approaches to human resource management.

Among the various factors that can hinder or facilitate the success of Chinese investments abroad, we devote special attention to the role of cultural differences. In particular, we aim to understand how Chinese cultural specificities can affect the functioning of an acquisition. To understand fully differences and modes of interactions among headquarters and subsidiaries, we decided to analyse a single case study. A qualitative research method appeared more suitable for achieving these mentioned 2007. Besides errors in the technology and market strategy, the joint venture failure is also attributable to a scarce knowledge of the European institutional context and culture. For example, the take over of the Thomson Company laid off 1000 over workers, causing the French government to step in to reinstate the workers. As a result, TCL had to divert funds from her China operations to supplement her French operations due to higher labor costs and suffered losses consecutively for 2 years after that (Zhong et al., 2007).
objectives. In detail, we have examined the case of a large state-owned Chinese group, which has invested in Europe in order to increase its technological knowledge and gain access to international markets.

Findings highlight the significant role of cultural values. Differences arose in the headquarters’ strategic choices and management cultures of the headquarters and its subsidiaries. We observed some attempts to manage cultural differences, however, the Chinese investor did not modify its corporate governance rules, nor really undergo a process of learning and adaptation to the local dimension. At the same time, expected performances were not achieved.

2. Review of the literature

2.1. Internationalisation and cross-cultural management

Internationalization is a strategy of growth that companies usually pursue to exploit their competitive advantage at the international level or to gain advantages located in the host country (e.g. advantages related to national labour costs, taxation, access to local natural resources, etc.). This strategy can take different forms (internationalisation of sales, licensing, delocalisation of some production activities, etc.) and companies can choose among different modes of entry to the foreign countries: by exporting, creating a new company in the host country (greenfield investment) or acquiring an existing company (merger & acquisition).

In any case the rationale used to explain the decision to move from a domestic market to a larger international arena is a company’s search for performance improvement. In fact, the mainstream literature has usually analyzed the process of internationalization (Stopford and Wells, 1972), the different organizational structures (Egelhoff, 1988) and instruments of global coordination and control (Gupta, Govindarajan, 1991) as
the outcomes of a corporate decision process based on economic variables. In this view, a company acquires or merges with a foreign company when it appears to be the optimal solution that maximize benefits (from economies of scale, resource availability, etc.) and reduce costs (e.g. transaction and agency costs). Soft factors related to different host countries such as national culture, political system or institutions have been traditionally neglected or underestimated, with the exception of a stream of research known as cross-cultural management.

At the beginning of 1980, problems faced by American multinational corporations in managing employees and managers located in different international subsidiaries highlighted how organizational behaviour is related to countries and cultures and how it is important to understand and improve interaction among co-workers, clients, suppliers and alliance partners located in different countries and that do not share the same cultural vision (Adler, 1983, 1991). Thus, several authors began to analyse cross-border acquisitions and managerial issues linked to functioning of international organizations including cultural aspects (Negandhi, 1983, Joynt, Warner, 1985; Elashmawi, Harris, 1998).

Culture, which can be defined as a set of values, beliefs, expectations and artefacts shared by the members of a society (Hofstede, 1980 and 1991; Schein, 1985), is able to influence people’s attitudes and behaviours. The values, beliefs and norms that individuals learn from school, family and everyday social interactions with others indicate which cultural attitudes are seen as desirable and shape the individual’s behaviour and goals related to the work context. Because of its internal construction, cultural values often remain confined to the unconscious level. Consequently, cultural values are difficult to modify unless external economic, technical or social conditions undergo a major change and even in this case the transformation is very slow and concerns only people’s behaviours but not their deeper assumptions and values (Hofstede and Bollinger, 1987).

A better comprehension of national cultural differences is important since it can improve understanding of consumer
preferences and other stakeholders’ behaviours thus improving company’s communication and strategic action in the foreign country (Catwright Cooper, 1993). Instead of replicating the same competitive and organizational model abroad, companies should learn how to adapt to local context as adaptation is directly related to performance (Morosini, Singh, 1994; Catwright, Cooper, 1996).

At the same time, companies have to become aware that culture affects practically all aspects of organizational life from the way in which employees interact with each other and perform their work, to the types of decisions made in a company, its organizational policies and procedures, and strategy considerations. In fact, companies reflect national cultural patterns in their organizational culture, managers’ preferences and objectives, control systems and organizational structures (Hofstede, 1980; Trompenaars, 1983; Morosini, 1998).

This implies that when two different companies merge, there are two different corporate cultures and national cultures to combine as well as different management systems. In this case, cultural fit is fundamental and it has to be evaluated already in the phase of partner research and selection (Allen et al., 1981,). Otherwise internal incomprehension and inappropriate team management due to national cultural distance can lead to malfunctioning, conflicts and, lastly, to poor performance and a company’s disinvestment (Buono et al., 1985; Weber, 1996; Weber et al., 1996, Morosini et al., 1998).

Among the different aspects that need to be managed in international operations, a key issue is represented by human resource management (Schneider, 1988; Buono and Bowditch, 1989). Human resource is the most critical factor especially in cross-border operations aiming to obtain and share technical and managerial competences, market knowledge and know-how (Minbaeva et al., 2003). In this case it is extremely important that employees and managers of different countries are willing to cooperate, as knowledge is mainly uncodified and is embedded in personnel. Thus, technology and know-how transfer requires
effective interactions among people coming from different organizational and national cultures (Contractor, Lorange, 1988; Kedia, Bhagat, 1988).

2.2. Success and failure of Chinese outward investments

To understand the role of cultural aspects in promoting or blocking the success of Chinese investments in Europe, we notice that research on Chinese companies operating abroad is still scarce if compared to the huge amount of studies on Western companies operating in China. Consequently, intercultural encounters with managers and employees coming from China have been mainly observed from “the Western point of view”, while describing the history of numerous American or European multinationals creating subsidiaries and joint ventures in the People Republic of China’s (Adler et al., 1989; Casson, Zheng, 1992; Graham, Lam, 2003).

Problems encountered in foreigners’ investments in China which can be related to cultural aspects are mainly attributed to differences in human resource management and to the role played by Guanxi in business relationships and negotiations (Bruton et al., 2000; Ahlstrom, 2008). However, other cultural elements of the Chinese society also influence economic activity. For example, the concept of face (Mianzi, a Chinese word representing personal relationship and reputation) is particularly important as it translates into power and influence. Losing face would mean a drop in the prestige of a person and a loss of authority. It is also remarkable the role played by Chinese respect for tradition, the tendency toward a future-minded mentality, the importance given to perseverance, thrift and to reciprocation of greetings, favours and gifts: a set of Chinese values that are strictly related to the work of Confucius (Hofstede, Bollinger, 1987; Liu, Mackinnon, 2002).

These aspects, however, are usually under-evaluated when discussing Chinese foreign investments in other countries.
Problems are mainly attributed to a lack of expertise about target countries regarding economic and political environments: insufficient information on business and regulatory conditions of the host country appear as the main obstacles to the success of China’s international strategy (Wu, 2005; Spigarelli, Bellabona, 2007).

Poor economic performance is also ascribed to the low efficiency of large state-owned enterprises. Due to the lack of competitive pressures in their homeland, these companies are not prepared to measure up with the rules of global competitiveness. Most of the companies that have ventured overseas – such as Capital Steel, Bao Steel, SAG, NAG, FAW Group, Dongfeng Group, Lenovo and ZTE - are large state-owned firms or private enterprises with some sort of monopolistic powers in China which are not familiar with competitive strategies based on product’s differentiation, quality or other intangible aspects (Chen, 2007).

Moreover, Chinese companies often lack managerial expertise in coordinating international operations and still face obstacles in the search for international talents although they are fundamental to align Chinese organizations with unfamiliar international standards, regulations and systems (Accenture, 2005).

Nevertheless, it is also recognized that cultural issues can be a tough challenge that Chinese companies have to face in addition to the above mentioned problems. Of the Chinese joint-venture failures analyzed in a recent World Bank report, more than 85 percent of CEOs attributed their difficulties to differences in managerial styles and corporate culture (Beijing Review, 2005). Cross-cultural problems are not impossible to overcome, but they require careful attention. Chinese managers have to become more familiar with different management styles, cultures, priorities and mindsets that belong to the acquired companies and adapt Chinese corporate practices to the local context if necessary - as occurred in Chinese Haier’s plants located in the US (Schafer, 2005).

Analysing the so called ‘liability of foreignness’ (Hymer, 1976) that Chinese firms have to overcome to operate in a foreign country such as United States, He and Lyles (2008) summarize all
additional obstacles and related costs that Chinese firms incur: costs resulting from the host country’s particular political-economic characteristics; costs related to spatial distance (e.g. costs in travel, coordination, transportation); firm-specific costs due to Chinese’ unfamiliarity with the local market and its culture.

3. Research Methodology

In order to understand if cultural differences can hinder or facilitate the success of Chinese investments in Europe, we decided to explore how cultural aspects can affect the functioning of an acquisition. As the functioning of an acquisition does not only depend on adequate management of cultural differences, cultural distance is here regarded as a factor than influences the success of international operations *certer paribus*.

Since greenfield investments represent a sort of local replication of the corporate model, we preferred to focus our attention on takeover operations, where cultural problems can be more frequent and difficult to handle. Moreover, in the first case, cultural differences are mainly confined to the external context (e.g. understanding local customers’ attitudes and preferences, partnering with local suppliers and dealers), while in case of a merger or acquisition cultural differences also represent an internal issue (Aureli, 2005).

In coherence with the exploratory nature of this research, we decided to analyse a single case study in depth. Thus, we collected qualitative data obtained from personal interviews conducted with managers and from public documents.

Drawing from international literature on cross-border acquisitions and cross-cultural management we assume that national culture influences individual’s behaviours. As company managers are individuals that belong to a specific cultural context, we also assume that company strategies and structures as well as management systems are affected by cultural aspects.
Thus, we expect that subsidiaries located in European countries which have specific cultural values may find difficulties in communicating and working with the Chinese headquarters. Either Chinese managers have to adapt their ways of communicating, manage and interact with local partners or local subsidiaries have to standardize to the corporate culture.

In order to identify those most critical organizational aspects that can arise from Chinese confrontation with an European enterprise, we decided to use Hofstede’s cultural map (1980; 2001) which has been largely used to describe differences in large multinational organizations and to explain cultural influence on workplace attitudes and behaviours (Laurent, 1983; Trompenaars, 1983).

According to this author, cultural differences can be mapped on five cultural dimensions: *individualism, power distance, uncertainty avoidance, masculinity* and *long-term orientation*.

*Individualism* pertains to societies in which everyone is expected to look after himself and his immediate family. At the opposite, there are societies with high scores of collectivism which indicates that people are integrated into strong cohesive groups. As China is labelled as a collectivist country, it is expected that Chinese employees and managers have a strong sense of loyalty and duty toward the organization (a sort of moral involvement with the company). Moreover, the emphasis is on group expression while individual initiative and assertion is not supported.

*Power distance* indicates the importance of hierarchies and the degree to which people accept interpersonal inequality in power. Thus, in high power distance societies such as China, the authority of the superior is never questioned and subordinates believe that the opinions of their superiors are more important than their own. Subordinates do not aspect to be involved in decision making and superiors are expected to assume the responsibility for this authority and leadership power. On the contrary, low power distance indicate scarce conformity and
deference to authority: autonomous behaviours and independent initiative are welcome.

Uncertainty avoidance indicates how one person fears the uncertainty of a situation. Thus countries with a low uncertainty avoidance index such as China are characterized by people who do not feel threatened by ambiguous situations. From an organizational point of view this means that lifetime employment is not common and people do not need many detailed formal rules to feel comfortable.

Masculinity indicates a person that looks for self-realization, personal power and material rewards as work goals more than personal and family goals (e.g. career advancements are more important than creating a friendly environment at work or looking after family members). Moreover in high masculinity countries such as China, gender roles are defined more rigidly so that some occupations are typically male while women are expected to occupy less qualified and poorer paid jobs.

The last cultural dimension, long-term orientation, was developed by Hofstede (2001) essentially through observation of Chinese culture. Originally called Confucian dynamism, this dimension highlights the future orientation (vs. short term orientation of many Western cultures) and the importance given to thrift and perseverance by the members of a society.

Thanks to this framework it will be possible to compare Chinese culture with the others and identify those organizational aspects that may be in greater contrast.

4. Description of the case study

The Chinese corporation analysed

The automotive industry is a worldwide industry that involves itself in the manufacture of cars, motorcycles, trucks, vans, buses and coaches. It represents an interesting area of analysis for international merger and acquisitions as its global scale and
complex value chain has always involved a plurality of international players.

Chinese companies are rather new in this sphere compared to American and European producers of motor vehicles. They have begun to play an important role in the last few years, increasing their presence through a series of international joint ventures and acquisitions.

In 1990s some Chinese automakers began to create first international joint ventures. Chang’An Motors is a striking example as it began to produce motor vehicles with Japanese and Western companies (with Suzuki, Ford and Mazda), while Nanjing Automobile Group collaborated with Italian Fiat and Iveco. More recently, Chinese companies prefer merge and acquisitions. In 2004, Shanghai Automobile Group (SAG) bought 48.9% of shares in the Ssang Yong Motor Company (the fourth largest auto company in South Korea), while the Chinese company Nanjing Automobile Group (NAG) bought British MG Rover production line and brand. In 2007, Chinese business newspapers reported another two possible big mergers: China’s FAW Group was negotiating to buy Chrysler at a price of about one billion Euros and Dongfeng Motor Corporation was trying to merge with Volvo’s truck business (Yang, Teng, 2007)\(^4\).

In this paper, we chose to examine the case of a large state-owned Chinese group (hereinafter referred to as QJ), located in the Zhejiang Province, which has invested in Europe searching for market expansion, assets and technology.

Founded in 1985, QJ is the largest motorcycle production and sales company in China. It also operates mini dirt bikes, generators, vacuum pumps and other machinery and electrical products concerned with the motorcycle. However its most important business is related to the manufacturing of motorcycles

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\(^4\) Thanks to recent financial and economic crisis, additional overseas acquisitions are even more possible. The industry downturn has provided new opportunities for Chinese companies as some European and American automakers risk failure and their acquisition prices are much more lower than before.
and scooters which are exported to 136 countries in the world. The present production capacity is 1.5 million 2-wheeled vehicles per year and it has more than 14,000 employees. QJ group has a joint-stock company and 5 joint-ventures. The company has been listed on the Chinese stock exchange since 1999.

Today China still represents QJ’s main market, while over 22% products are exported. In the future the company plans to become a worldwide top brand in the motorcycle business. Its international expansion is guided by the management motto: “European design, Japanese quality with Chinese cost”.

In order to reach its goal, the company has begun to invest in several areas of the world during the last years. With reference to Europe:

- it has established a distribution company in Hungary in 1999 aiming to build a global distribution and after-sales service network, serving the European market, North and South American countries and West Asia;
- it acquired a motorcycle manufacturing company in Italy in 2005. The Italian company has a long tradition and strong expertise in this industry and boasts a glorious international brand;
- during the second half of current decade it built two R&D centres (Italy and Austria) in cooperation with professional and experienced experts from Italy, Austria, Germany, France and Japan. These centres develop new products and study technical and aesthetic innovations.

QJ represents a typical Chinese company deciding to invest in Europe to: 1) access markets where it can exploit its competitive advantages based on low manufacturing costs and 2) obtain strategic assets such as advanced technology, know-how and recognized brands. To reach the first objective, QJ opted for a greenfield investment: it decided to create a new distribution company with a new brand in Hungary (Keeway), while it preferred to acquire an existing company with a renowned history to obtain knowledge resources.
Moreover, this case presents several similarities with the mainstream flow of Chinese outward investments toward Europe - made up of state-run enterprises which have plenty of money as a result of various government support measures but suffer a shortage of managerial expertise. In fact, QJ is a state-owned enterprise located in one the well developed areas (Zhejiang, Jiangsu and Guangdong) where provincial governments encourage firms to go abroad to look for new opportunities.

Among different investments conducted by the Chinese corporation we decided to focus on the acquisition of the Italian motorcycle manufacturer. Compared to other greenfield investments, the takeover of the Italian company appears to have been more difficult to handle: managers have had to face two existing organizational and national cultures from first phases of the operation and it has not been possible to select and recruit freely a workforce with international attitudes and expertise.

The rationale of the acquisition

The acquisition of the Italian motorcycle company made perfect economic sense. On one hand, the large Chinese corporation had massive financial capitals to invest, a high production capacity and an international distribution network. It intended to increase its market presence outside China, however its products are characterized by a low degree of innovation and poor quality standards for Western customers since they were originally conceived for the internal market. On the other hand, the small Italian manufacturer enjoyed long-lasting experience in the industry, significant know-how and a recognized brand which advocates Italian design, quality and innovation. Despite its competences in design and prototyping, this company lacked financial resources and had difficulties in sales caused by Japanese competition leading to a temporary halt in production. Thus, the merger of the two companies appeared to be the perfect integration of complementary resources.

In particular, QJ would benefit from advanced technology and manufacturing expertise of the Italian company useful to improve
and adapt existing products to Western countries, enlarge its product range and enter international markets with a well known brand (which does not raise doubts about reliability and product safety in European consumers’ minds the way many Chinese brands do). At the same time, the Italian company could benefit from a wider distribution network and gain access to the large Chinese market, while improving internal efficiency through delocalisation of some production activities to the Chinese plants.

In 2005, after the deal was signed and the Chinese corporation acquired the entire capital base of the Italian company, several changes occurred in order to achieve expected benefits. Thanks to Chinese capital resources, the Italian company restarted motorcycle production in just three years and became a centre of R&D for the entire group. Its technical capabilities were reinforced by hiring new personnel and new departments for quality inspection, design and prototyping were created. More complex production processes such as engine construction are carried out in Italy, whereas other activities are carried out in China. Plastic components and other standardized elements are manufactured in China and then shipped to Italy. This allowed a significant reduction in production costs without diminishing the quality of the final product.

Positive results deriving from the new organization of production processes were not so easy to obtain, however, and several changes in the managerial systems of the acquired company took place.

**Italian and Chinese culture at comparison**

Using Hofstede’s cultural map (1980; 2001) we notice that China and Italy are characterized by several differences. Among the five dimensions put forth by Hofstede, the two countries are significantly different in terms of *individualism* (Italy= 70; China= 20), *power distance* (Italy= 45; China= 80) and *uncertainty avoidance* (Italy= 70; China= 30), while they are almost similar on *masculinity* (Italy= 62; China= 66). China is
also characterized by a long term orientation index (China= 118), while Italy is presumably less future oriented. This implies that Chinese managers doing business in Italy may encounter several difficulties in working with local managers and employees as the introduction of their own business practices in strategy formulation, management control and human resource management can potentially contrast with existing workforce attitudes, behaviours and management systems.

5. Findings

In the following we will analyse how the new governance has impacted the above-mentioned managerial systems in order to understand whether the Chinese management has considered potential synergies and obstacles deriving from the merging of two different cultures (see tab. 1).

Tab. 1 – Changing in Benelli’s managerial systems

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**Planning: “Challenging targets in the medium-long range”**

A national culture influences how strategic decisions are taken. In fact, it impacts both on the decision-maker’s cognition map and how information is gathered (Ansoff, 19844). Meanwhile it

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5 In his research, Hofstede (2001) did not calculate the long-term orientation index for Italy. We can assume, however, that it should be similar to other European countries. If we refer to Germany and Great Britain, whose index is about 30, we can state that Italy is more present and past oriented than future oriented.
influences the process of strategy formulation, specially the following aspects: the goals identification process; how firms structure their planning; the orientation toward short or medium-long term targets; the links between planning and implementing strategies.

In the Benelli case study, it is important to notice that the Chinese management has modified all of them. From our interviews, two aspects should be highlighted:

- the focus on challenging targets in the medium-long range, such as the declared return to the motorbike Gran Premium (Moto GP);
- the adoption of an incremental strategy.

The first aspect could be explained by considering their aim to engage the involved communities (local workers and Institutions, clients, motorbike fans) in a challenging development project, whose aim is strengthening Benelli’s technological competences.

The latter aspect is very interesting and can be deeply understood through Hofstede cultural dimensions. Chinese people are characterised by a low level of uncertainty avoidance compared to Italians, therefore they can easily face ambiguous situations and they do not need to formulate a structured planning in order to define goals and to make any effort to reach them. The Chinese prefer to exploit opportunities and they change their strategies and consequently their organisation, step by step. This is not in contrast with long-range aims, because of their long-term orientation. At the same time, it must be stated that Italians feel more comfortable if they work in a context with a lower level of uncertainty. From the interviews it emerges that Benelli’s managers feel disoriented because of the new strategic approach.

Management control: “Looking for trust”

The national culture also influences the characteristics of a firm’s management control. First of all it influences the “object” of control, which may be either a performance to be achieved or a defined procedures to be followed. Then it influences the orientation towards short or medium-long term control. Finally, it
involves the way management control is implemented within the firm: either in an informal manner or in a structured way. At Benelli, the Chinese directors introduced a more formalised system of management control than the previous one, specially focused on quality control and cost control. This seems to be coherent with the firm’s strategic goal to become competitive in comparison to Japanese producers of motorbikes.

Even in this case, Hofstede’s map is a useful tool for explaining reasons why the “object” of control changed from “following the defined procedures” to “the achievement of defined targets” (expressed in terms of quantitative and qualitative parameters). Chinese employees and managers have a strong sense of loyalty and duty toward the organisation, which is perceived as a strong cohesive group where relations are based upon trust. So far, after the M&A two different phases are to be addressed.

In the first phase, Chinese managers preferred to maintain strict control on procedural respect, then when they had opportunities to assess the loyalty of the Italian management and workers, they gave them more autonomy to reach the defined targets.

**Human resource management: “Avoiding direct conflicts”**

In Benelli’s human resource management, divergences related to the impact of different national cultures are evident in the following aspects:

- conflict resolution;
- benefits and incentives to managers and workforce.

Conflicts may arise between managers and subordinates and among workers on the same level of the firm’s hierarchical authority when there is divergence in interests or in points of view.

In the Chinese culture, characterised by a high index of power distance, it is preferred not to question decisions made by superiors, who are expected to assume the responsibility for the authority given. Thus an evident conflict is perceived by the
manager as losing reputation within the firm’s organisation. So far, Chinese managers avoid debating on their decisions with subordinates and, generally speaking, evident conflicts are avoided at all levels.

Italian culture, however, presents a lower power distance that indicates scarce conformity and deference to authority. Therefore, the above-mentioned differences in attitudes could cause misunderstandings between the Chinese headquarters and the Italian workforce.

Another potential area of misunderstanding and disappoints concerns the different approaches to assessing workers’ performance rewarding the achievement of company goals.

In the Chinese culture, characterised by low individualism, company performance is considered the result of efforts from the entire team involved in operations and not the individual goals.

6. Conclusions and Remarks

This case indicates that Chinese firms should not ignore the cultural gap. In today’s uncertain world, positive interaction with co-workers but also with clients, suppliers and other local stakeholders represents a key factor for survival.

We observed some attempts to manage cultural differences. In fact the Chinese headquarters promote travel to Chinese establishments for Italian engineers and other managers in order to improve the knowledge transfer between technicians and to increase the managers’ loyalty attitude.

Another attempt undertaken by the Italian management has been to organise a course on Chinese culture and language for the Benelli workforce in order to mitigate the disorientation arising among workers and employers facing a complete different way of working and reasoning. The Chinese investor, however, did not really undergo a process of learning and adaptation to the local dimension. At the same time, expected performances were not achieved.
Although the case study presented can help shed light on the role of cultural aspects in M&A, we know that it has several limitations. First of all, this study surveyed only one company and therefore the understanding obtained is limited in scope. Comprehensive understanding of the subject depends on more case studies which should be carried out with reference to different industry sectors and different cultural backgrounds. Secondly, this study does not seek to measure the effectiveness or performance of the acquisition which is also dependent on other multiple variables and circumstances besides cultural integration.
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