**Closing Case Emerging Markets: Emerging Acquirers from China and India**

Multinational enterprises (MNEs) from emerging economies, especially those from China and India, have emerged as a new breed of acquirers around the world. Causing “oohs” and “ahhs,” they have grabbed media headlines and caused controversies. Anecdotes aside, are the patterns of these new global acquirers similar? How do they differ? Only recently has rigorous academic research been conducted to allow for systematic comparison (Table 12.8).

Table 12.8

Comparing Cross-Border M&As Undertaken by Chinese and Indian MNEs

|  | **Chinese MNEs** | **Indian MNEs** |
| --- | --- | --- |
| *Top target industries* | Energy, minerals, and mining | High-tech and software services |
| *Top target countries* | Hong Kong | United Kingdom |
| *Top target regions* | Asia | Europe |
| *Top acquiring companies involved* | State-owned enterprises | Private business groups |
| *% of successfully closed deals* | 47% | 67% |

Source: Extracted from S. Sun, M. W. Peng, B. Ren, & D. Yan, 2012, A comparative ownership advantage framework for cross-border M&As: The rise of Chinese and Indian MNEs, *Journal of World Business*, 47: 4–16.

Overall, China’s stock of outward foreign direct investment (OFDI) (1.5% of the worldwide total) is about three times India’s (0.5%). One visible similarity is that both Chinese and Indian MNEs seem to use M&As as their primary mode of OFDI. Throughout the 2000s, Chinese firms spent US$130 billion to engage in M&As overseas, whereas Indian firms made M&A deals worth US$60 billion.

MNEs from China and India target different industries to support and strengthen their own most competitive industries at home. Given China’s prowess in manufacturing, Chinese firms’ overseas M&As primarily target energy, minerals, and mining—crucial supply industries that feed their manufacturing operations at home. Indian MNEs’ world-class position in high-tech and software services is reflected in their interest in acquiring firms in these industries.

The geographic spread of these MNEs is indicative of the level of their capabilities. Chinese firms have undertaken most of their deals in Asia, with Hong Kong being their most favorable location. In other words, the geographic distribution of Chinese M&As is not global; rather, it is quite regional. This reflects a relative lack of capabilities to engage in managerial challenges in regions distant from China, especially in more developed economies. Indian MNEs have primarily made deals in Europe, with the UK as the leading target country. For example, acquisitions made by Tata Motors (Jaguar Land Rover [JLR]) and Tata Steel (Corus Group) propelled Tata Group to become the number-one private-sector employer in the UK. Overall, Indian firms display a more global spread in their M&As, and demonstrate a higher level of confidence and sophistication in making deals in developed economies.

From an institution-based view, the contrasts between the leading Chinese and Indian acquirers are significant. The primary M&A players from China are state-owned enterprises (SOEs), which have their own advantages (such as strong support from the Chinese government) and trappings (such as resentment and suspicion from host-country governments). The movers and shakers of cross-border M&As from India are private business groups, which generally are not viewed with strong suspicion. The limited evidence suggests that M&As by Indian firms tend to create value for their shareholders. On the other hand, M&As by Chinese firms tend to destroy value for their shareholders—indicative of potential hubristic and managerial motives evidenced by empire building and agency problems.

Announcing high-profile deals is one thing, but completing them is another matter. Chinese MNEs have particularly poor records in completing the overseas acquisition deals they announce. Fewer than half (47%) of their announced acquisitions were completed, which compares unfavorably to Indian MNEs’ 67% completion rate and to a global average of 80% to 90% completion rate. Chinese MNEs’ lack of ability and experience in due diligence and financing is one reason, but another reason is the political backlash and resistance they encounter, especially in developed economies. The 2005 failure of CNOOC’s bid for Unocal in the United States and the 2009 failure of Chinalco’s bid for Rio Tinto’s assets in Australia are but two high-profile examples.

Even assuming successful completion, integration is a leading challenge during the post-acquisition phase. Acquirers from China and India have often taken the “high road” to acquisitions, in which acquirers deliberately allow acquired target companies to retain autonomy, keep the top management intact, and then gradually encourage interaction between the two sides. In contrast, the “low road” to acquisitions would be for acquirers to act quickly to impose their systems and rules on acquired target companies. Although the “high road” sounds noble, this is a reflection of these acquirers’ lack of international management experience and capabilities.



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From a resource-based view, examples of emerging acquirers that can do a good job in integration and deliver value are far and few. According to the *Economist*, Tata “worked wonders” at JLR by increasing 30% sales and keeping the factory at full capacity. This took place during a recession when European automakers were suffering. Fiat, for example, could only utilize 40% of its factory capacity in Italy. According to *Bloomberg Businessweek*, Lenovo was able to “find treasure in the PC industry’s trash” by turning around the former IBM PC division and using it to propel itself to become the biggest PC maker in the world. In ten years it grew from a US$3 billion company to a US$40 billion one. However, Lenovo knew that worldwide PC sales were going down, thanks to the rise of mobile devices. In response, Lenovo recently bought “the mobile phone industry’s trash”—Motorola Mobility division—from Google and endeavored to leverage the Motorola brand to become a top player in the smartphone world. This deal quickly made Lenovo the world’s third best-selling smartphone maker after Samsung and Apple.

**Case Discussion Questions:**

1. Why have M&As emerged as the primary mode of foreign market entry for Chinese and Indian MNEs?
2. Drawing on the industry-based and resource-based views, outline the similarities and differences between Chinese and Indian multinational acquirers.
3. *ON ETHICS:* As CEO of a firm from either China or India engaging in a high-profile acquisition overseas, shareholders at home are criticizing you of “squandering” their money, and target firm management and unions—as well as host country government and the media—are resisting. Should you proceed with the acquisition or consider abandoning the deal? If you are considering abandoning the deal, under what conditions would you abandon it?