

MERGERS AND ACQUISITIONS AS A DEVELOPMENT STRATEGY FOR CHINESE FIRMS

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The global aspirations of Chinese companies to expand their operations are strongly supported by the government. Since 2001 there has been a policy of internationalizing national business and the policy of internationalization of national businesses and the formation of leading companies on the basis of consolidation process, with the government continuing to play a significant role as a major player. The role of the government, which is a major owner of China's largest companies, remains significant.

Weichai Holding Group Co., Ltd. has a development history of more than 70 years, it is a backbone enterprise in the research and development, manufacturing and sales of internal combustion engines supported by the state, and is now a provincial large-scale enterprise group managed by the State-owned Assets Management Committee of the People's Government of Shandong Province.

Founded in 1946, Weichai has 90,000 employees worldwide, with a revenue of more than 300 billion yuan in 2020, ranking 77th among the top 500 Chinese enterprises, 23rd among the top 500 Chinese manufacturing enterprises, and 1st among the top 100 enterprises in China's machinery industry. Weichai is an international multinational group, with power systems, automotive business, construction machinery, intelligent logistics, agricultural equipment, marine transportation equipment and other business sectors in the world, subsidiary companies throughout Europe, North America, Asia and other regions, products are exported to more than 110 countries and regions.

The company owns 7 listed companies and 9 stocks at home and abroad, including Weichai Power, Weichai Heavy Machinery, Yaxing Bus and KGX.F of Germany.

On July 28, 2021, it was selected into the 17th China Machinery Industry Top 100 List sponsored by the China Machinery Industry Federation and the China Association of Automobile Manufacturers, ranking first.

In 2020, Weichai Group overcame the negative impact of the global COVID-19 epidemic, set out to resume operations and production, seized market opportunities and accumulated production and sales of over 1 million engines, a 33% increase over 2019; maintained a 15% increase in revenue and profit over the previous period.

With the successful launch of the commercial diesel engine with a thermal efficiency exceeding 50%, Weichai has made a lasting mark in the history of the global internal combustion engine industry.

The company's corporate strategy is formulated as follows.

Weichai Power has always adhered to the dual-drive development strategy of product and capital operation. At present, the power sector is the most core competitive business of Weichai Power, and this business segment supports the overall profitability of the company. Weichai Power, as a leading gas turbine enterprise in China, has now become an international group with a perfect industrial chain and industrial structure.

Before the implementation of overseas mergers and acquisitions, Weichai Power's main business forklift truck business only occupied the domestic low-end consumer market, and had not yet set foot in the high-end market and overseas market. Through the acquisition of KION, with the help of its global leading technology and marketing channels, Weichai Power has successfully entered the high-end market in Europe and the United States. Through mergers and acquisitions, Weichai Power has opened up overseas markets and enhanced the comprehensive strength of the company, and has now successfully transformed into a strong comprehensive group. Mission: Green Power, International Weichai.

Enterprise tenet: Customer satisfaction is our aim.

Enterprise spirit: responsible for doing, dare to be the first, the pursuit of excellence.

Enterprise values: integrity operation, reform and innovation, truth-seeking and pragmatic, win-win cooperation.

Enterprise goal: to build a world-renowned power brand.

Enterprise vision: to build a world-renowned power brand, establish the largest power group in China, and build an engine manufacturing base at the world's advanced level.

The company has a subsidiary cluster composed of 40 high-quality enterprises such as Shaanxi Heavy Duty Truck Co., Ltd., Shaanxi Fast Gear Co., Ltd., Zhuzhou Xiang Torch Spark Plug Co., Ltd., and Mudanjiang Futong Automobile Air Conditioning Co., Ltd. It has established a new pattern of coordinated development of the three major industrial sectors of powertrain (engine, transmission, and axle), commercial vehicles, and auto parts, and has become the only group in China with three major business segments at the same time.

After the integration, the company's three major business sectors go hand in hand and develop synergistically, and are in an absolutely dominant position in their respective market segments in China. Among them, the market share of high-speed engines in the supporting markets of heavy-duty vehicles with a total weight of more than 14 tons and 5 tons has reached more than 36% and 82% respectively; Fast transmission has a market share of more than 92% in the heavy-duty vehicle market of more than 14 tons; The market share of Shaanxi Heavy Duty Truck has reached more than 12%.

The company has offices in the main domestic markets, and has a special maintenance service center in the market radiation area, which basically forms a pattern of after-sales service center providing 24-hour service support within a radius of 50 kilometers, and constitutes a scientific and perfect market network integrating marketing, service and information.

Weichai's internationalization process is also developing in the direction of depth, the company has built 12 sales outlets abroad, and its products are exported to more than 30 countries and regions such as India, Vietnam, Russia, Southeast Asia, the Middle East, etc., and is well-known at home and abroad for its high-tech, high-performance, high-quality products and first-class service.

With the increase in the number of overseas mergers and acquisitions implemented by Weichai Power, the proportion of domestic revenue generation to the company's total operating income has been decreasing, while the proportion of overseas income has increased significantly. From 7% of total revenue in 2012, it has grown rapidly to 40% in 2019, and even as high as 50% in some years.

Overall, although the gross profit margin of Weichai Power's overseas business is higher, the overseas expenses are also high. Therefore, even in terms of operation and management, Weichai Power has formulated an appropriate development strategy and invested a lot of human and financial resources for this purpose, but the actual effect has not reached the level expected by managers. It can be seen that Weichai Power needs to further improve its cost management in mergers and acquisitions.

After the completion of overseas acquisitions, Weichai Power attaches great importance to the complementarity of advantages and strategic synergy between various businesses, and in the process of integration, it has always insisted on promoting business integration with cultural integration. Now Weichai and its overseas M&A subsidiaries are not only in the interconnection of elements such as personnel and resources, but also in management, culture and so on. Therefore, when integrating overseas mergers and acquisitions, enterprises should pay attention to cultural integration.

To summarize, we note that China's economy is successfully developing, and the influence of Chinese enterprises on the global stage is growing. According to some estimates by international experts, by 2027 the country will send \$1.5 trillion to invest abroad and acquire assets around the world. About half of all foreign direct investment China overseas is realized through overseas mergers and acquisitions of Chinese companies. Note, that there are two opposing trends: the growth mergers and acquisitions of Chinese companies abroad and the corresponding sharp decline in the volume of such transactions with the participation of foreign investors in the domestic market of China. With the processes of globalization and financial instability, for many companies globalization and financial instability, mergers and acquisitions (M&A) are an integral part of corporate strategies.

Through mergers and acquisitions, a company can acquire a powerful impetus for its development. On the other hand, mergers and acquisitions are an instrument of successful competition for resources, sales markets, distribution channels, technology, and know-how.

Literature

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