

FOREWORD

Liu Chuanzhi

President and CEO of Legend Holdings Ltd

Chinese Multinationals, which is the product of a cooperation between HEC Paris and the School of Economics and Management of Tsinghua University, discusses the internationalization strategies of Chinese enterprises. In my opinion, this book goes to press at an opportune time and therefore bears great significance. As I did in the chapters analyzing Lenovo's acquisition of IBM's PC business, I would like to share my thoughts and experience of this phenomenon.

I will begin by explaining the significance of this acquisition. The current business environment demands that Chinese enterprises go to the global market. A large number of Chinese companies will choose to "go global" for development. In the process of "going outward", they are bound to be confronted with various kinds of problems and difficulties that they have never experienced in China. This juncture calls for companies to take the lead and spearhead the movement beyond China's borders. If breakthroughs are achieved, these pioneering companies will serve as examples; subsequent Chinese companies will be able to avoid similar pitfalls and gain confidence in this endeavor.

This is what I see of prime significance in Lenovo's acquisition of IBM's PC unit. Acquisition and the subsequent integration of the two companies is a classic problem studied in textbooks of any business school. While Lenovo represents a company operating in a developing country, IBM is considered an iconic company featuring American-style capitalism. In this sense, Lenovo's merger with IBM's PC business can be viewed as a relatively weaker company's buy out of a stronger one, which is considered the most difficult type of acquisition. Lenovo's experience can therefore provide management academics, both at home and abroad, with a vivid case of overseas acquisition.

The risks associated with the acquisition are threefold. The first two risks are whether the brand of the new entity can be recognized by international customers, and whether key employees in the acquired company are willing to stay. These are

typical issues generated when a relatively weaker company acquires a stronger company. However, the third risk, that of blending the different company cultures, is common in all cases of acquisition. It seems that up to now, the first two risks have been properly handled. But whether the acquisition will experience success depends on how well the new Lenovo can integrate the two cultures. While top-notch companies in China and America — especially when they are in the same industry — are quite close in terms of core values, differences in thinking and behavior between Chinese and American people are numerous. For example, I conscientiously grant some concessions during negotiations with my business partners because I always opt for long-term cooperation and benefits and at the same time want to express my sincerity and respect for the other party. But international companies, generally speaking, will not show any appreciation and may have the feeling that I don't know what I'm giving up. Another example of cultural difference is that while in the West employees tend to be very direct when talking about compensation with their bosses, their Chinese counterparts would be much more indirect and subtle in the hope that their effort and value will be recognized and they will be rewarded with better pay accordingly. However, should Chinese employees approach this more aggressively, their employers, not being used to such behaviour, will most probably not tolerate.

As a representative of Legend Holdings — the controlling shareholder of Lenovo Group Limited — I hope, first and foremost, that the whole value of this alliance will be greater than the sum of its parts. The new Lenovo is expected to improve in turnover rate and profit ratio and thus create higher return for the shareholders. This should be considered the basic requirement for an acquisition. Yet, this alone will not suffice. We aspire for further strategic pursuits in that we want to see Chinese people controlling or taking positions in the core management team. Of course, the most important results are higher profits and a greater return for shareholders. My strategic concern will be gradually accomplished during the post-M&A integration, because a sense of when to advance and retreat, or whether we should be flexible or rigid, is an art. While a lack of preparation spells failure, more haste may produce fewer results. The key lies in the capabilities of the Chinese managers and the attitude of their American colleagues.