Competitiveness Review

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Francesca Spigarelli Ilan Alon Attilio Mucelli

Received 30 December 2014
Revised 30 December 2014
Accepted 5 January 2015

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Emerging market multinational in the heavy construction industry

Francesca Spigarelli
Department of Law, University of Macerata, Macerata, Italy
Ilan Alon
International Business Department, Rollins College, Winter Park, Florida, USA, and
Attilio Mucelli
Department of Management, Polytechnic University of Marche, Ancona, Italy

Abstract

Purpose – This paper aims to examine the global competitiveness of an emerging market multinational (EMM) from China through the case of a major European acquisition, in Italy, in the heavy construction industry. Country- and firm-specific factors are considered. Horizontal integration in this oligopolistic industry changes the industry dynamics, with significant implications for its players.

Design/methodology/approach – The paper follows case study methodology and triangulates data through a literature review, an examination of available company data and interviews of key personnel. Firm- and country-specific factors, both advantages and disadvantages, including the business environment in the construction industry, globally and regionally, are analyzed.

Findings – The paper identifies several key success factors at the firm level, including the integration of research and development, marketing and sales; the development of extensive communication and trust among the managers of both companies; the exploitation of the Chinese market as a source of demand; and the shifting of selected production lines to the Chinese market.

Research limitations/implications – The traditional models of country-specific advantages/disadvantages and firm-specific advantages/disadvantages are augmented by examining the host market and industry task environments. Host country-specific factors for successful integration include favorable local conditions, both in terms of endowments and institutions, and an industrial cluster with supporting firms and services.

Practical implications – Following the case study, managers can refer to the key success factors to emulate "best practices". The paper concludes with a heuristic developed by the Chairman of Zoomlinon, Chunxin Zhan, underlining five principles for a successful EEM acquisition: understanding, sharing, responsibility, compliance and coordination.

Originality/value – This paper develops a deep case study analysis and provides useful theoretical and practical implications with reference to Chinese acquisition in the Western markets.

Keywords Case study, Chinese multinationals, Emerging markets multinationals, Machinery construction industry, Merger and acquisitions, Post-acquisition integration problems

Paper type Case study

Competitiveness Review
Vol. 25 No. 4, 2015
pp. 346-370

1059-5422
DOI 10.1108/CR-12-2014-0041

1. Introduction

The literature on Chinese mergers and acquisitions (M&As) continues to mount (Boateng *et al.*, 2008; Deng, 2007, 2009; Rui and Yip, 2008), as acquisitions become the preferred mode of expansion for Chinese investors (Alon *et al.*, 2011). In the context of the literature of new MNEs from emerging countries (Ramamurti, 2012), China is among the most studied due to the growth and magnitude of its multinationals (Alon *et al.*, 2009; Alon and McIntyre, 2008; Zweig, 2002). Emerging markets multinationals are emblematic of twenty-first century global economic landscape (Chang, 2011). Competitiveness of multinationals is based on both country-specific advantages (and disadvantages) and firm-specific advantages (and disadvantages). The competitiveness of Chinese firms in the global environment is no exception (Rugman and Li, 2007).

Some scholars suggest that international expansion is "institutionally embedded rather than reflecting a strategic choice by the leaders of firms" (Child and Rodrigues, 2005). The globalization of Chinese firms needs to be understood in their unique institutional context (Deng, 2009; Xiaohua and Stoltenberg, 2014). China's multinationals have strong country-specific advantages, but lack experience, brand names and the most competitive technologies, suggesting that firm-specific advantages are absent. Thus, Chinese companies internationalize from a position of strength of the home market, but weakness in global capabilities at the firm level (firm-specific disadvantages). This presents a unique context for the globalization of Chinese companies and for our specific research into the acquisition of Compagnia Italiana Forme Acciaio (CIFA) (an Italian firm) by Zoomlion (Chinese firm).

Chinese enterprises frequently internationalize to expand to new markets (Alon *et al.*, 2014), fend off international competition or escape domestic market saturation (Taylor, 2002; Zhang, 2003; Battat, 2006; Jiang, 2006; Buckley *et al.*, 2008; Cross and Voss, 2008; Liu and Tian, 2008; Deng, 2004; Morck *et al.*, 2008). By acquiring Western companies, they gain advanced technologies and strategic competencies, including managerial skills (Cross and Voss, 2008) and internationally recognized brands (Morck *et al.*, 2008; Rui and Yip, 2008). Some scholars emphasize a strategic intent perspective to explain foreign acquisitions by Chinese firms (Rui and Yip, 2008) to achieve strategic capabilities, overcome competitive weaknesses and leverage their ownership advantages and institutional incentives.

Several studies provide evidence of the weaknesses associated with such internationalization processes (Spigarelli *et al.*, 2013). A critical issue is whether Chinese enterprises operating abroad can effectively absorb new technology, use new brands, invest in marketing and intangible assets and, above all, become accustomed to Western standards of management practices and corporate governance regulations (Fan and Zhu, 2014). These problems may intensify with international M&As, where there may also be cultural problems, especially if the M&As are not accompanied by adequate training programs for managers and professionals (Tan, 2005; Bert *et al.*, 2009).

This paper contributes to the current knowledge on acquisitions by Chinese companies in Western markets. We examine the case of Zoomlion, a Chinese company in the heavy construction sector, and its purchase of CIFA, an Italian company. Consistent with the extant literature, Zoomlion internationalization process was motivated by a number of factors. The company wanted to keep growing in terms of sales and creating value for shareholders. On one hand, expanding to new markets to sell the current product range was fundamental to escape domestic market saturation in the average quality, mid-priced products. On the other hand, the company wanted to become a global player, on par with other industry champions. To do that, Zoomlion needed to:

- move the production to a higher level of technology and quality;
- gain advanced technologies and strategic competencies to run an international company;
- gain managerial skills (mostly in the sales and post-sales services) to serve the Western – demanding – markets; and
- acquire internationally recognized brands to compete in the Chinese market, moving to a higher-quality product with Western appealing.

This case is generally seen as a success among international M&As and in particular ones from China. Despite the differences in institutions, cultures and managerial approaches, the two companies have found a productive and successful approach to the international cooperation, which stands in contrast to other M&A attempts of Chinese companies in Italy (Spigarelli *et al.*, 2013). Using public records, published materials, interviews of Chinese and Western managers and internal sources of data, we identify a number of key success factors for Chinese international M&A. We add host market country-specific factors (CSFs) to the traditional model which only includes home market CSF and firm-specific advantages/disadvantages (FSA/Ds) by examining the particular case, a Chinese non-state-owned multinational.

2. Theoretical background

The current model used in analyzing Chinese internationalization international competitiveness based on two factors, as depicted in Table I. The theoretical framework underlying the competitiveness of the firm is based on the link and interaction between firm-specific advantages (FSAs) and country-specific advantages (CSA). FSAs are the assets, mostly intangible, which may give a superior competitive position to both the acquired and the acquirer (Dunning, 1993). FSAs could affect the decision of a Chinese firm to go abroad (Chikán *et al.*, 2008) or could lead to the acquisition of a target company that has a strong or specific advantage the Chinese firm wants to acquire.

	FSAs	
CSAs	Weak	Strong
Strong	Cost leadership firms. Generally resource-based and/or mature, internationally oriented firms producing a commodity-type product. CSAs of location and energy costs are the main sources of the firm's competitive advantage	Firms generally can choose to follow any of the Porter's strategies (cost leadership, differentiation and focus) because of the strength of both their CSAs and FSAs
Weak	Inefficient, floundering firms with neither consistent strategy nor any intrinsic FSA or CSA. They are domestically based small- and medium-sized firms with little global exposure	Generally differentiated firms with strong FSAs in marketing and customization. They usually have strong brands. FSAs dominate: in world markets the home country CSAs are not essential in the long run

Source: adapted from Rugman and Li (2007, pp. 334-335)

Table I.
The CSA/FSA matrix

CSAs include domestic economic conditions (land, labor, natural resources, climate and location) and government-specific advantages (GSAs) related to organization of human capital, business climate and favorable industrial policy (Williamson *et al.*, 2013, p. 308; Ketkar, 2014; Rugman *et al.*, 2014):

> As China's economy improves the most efficient firms will be able to expand abroad. Initially they will build on China's CSAs, but eventually they will start to generate home grown FSAs in knowledge and technology (Rugman and Li, 2007, p. 341).

Using the 2×2 matrix, most of Chinese firms would belong to Quadrant 1. Nevertheless, the set of FSA/Ds can change positioning over time (Marinova and Child, 2011) as a result of firm's strategic action, in response to the competitive environment (Amit and Shoemaker, 1993), or because of institutional change (Child and Tse, 2001). Chinese firms might move to Quadrant 3 after consolidating some FSAs from foreign acquisitions, for example.

Child and Marinova (2013, p. 4) suggested that firms consider "different conjunctions of home and host country characteristics". We follow Child and Marinova's advice and include the host country environment in identifying the competitiveness of a Chinese multinational. The host country affects the institutional distances and provides a differential environment that can be either advantageous or detrimental. If home markets provide the "push" motivation to go global, as in the case of the Chinese Government encouraging state-owned enterprises to look for international opportunities, the host market provides a "pull" by attracting (Chinese) multinationals to locate there. Push factors might include preferential policies and financial support provided by the government (Peng *et al.*, 2008) as well as domestic institutional voids (Luo and Tung, 2007; Ketkar, 2014).

Pull factors may include host country endowments (CEs) that attract the interest of Chinese firms, including a high level of economic development (Buckley *et al.*, 2007; Cheng and Ma, 2008; Kolstad and Wiig, 2012), market size and availability of key resources and technologies (Buckley *et al.*, 2007; Kolstad and Wiig, 2012). Host country "pull" forces and home country "push" factors co-determine Chinese investments (Wei and Alon, 2010). There is a relationship between CSA and FSA in determining the competitiveness of the firm. Sometimes, those home CSA can "translate into firm-specific advantages" (Child and Marinova, 2013, p. 19). For example, in China, provincial or central government may provide access to low-cost capital, which can fund international expansion, including M&As.

Host country institutional CSAs may include the presence of Chinese expatriates and local Chinese communities (Buckley *et al.*, 2007, 2008; Zhou, 2006), a policy of liberalization and openness to inward foreign direct investment and an entrepreneurial business culture (Cheung and Qian, 2009; Buckley *et al.*, 2007). The local business environment may also attract Chinese investors. In Europe, and Italy in particular, the presence of clusters and industrial districts (Niu *et al.*, 2012), rich with competitive suppliers, skilled workforce and entrepreneurial know-how, attracts Chinese investment in particular industries. The country-of-origin effect on select industries, such as textiles and fashion, is compelling as well.

Bringing together all relevant theoretical contributions on the topic, Table II summarizes in a matrix all the different types of CSFs, acting at the home country (China) or host country level (Italy). Advantages (or disadvantages) at the country level

Table II.
Country impact: home and host country perspective

Home CSAs (China)	Host CSAs (Italy)
CE	
Land	Market size
Labor	Level of economic development
Natural resources	Endowments of natural resources
	Location
IE	
Support from the Chinese Government	Population of Chinese overseas
Go global and other industrial policies	Liberalization and FDI attraction policies
Infrastructures	Ease of doing business
Human capital	Local business environment (clusters, suppliers and skilled work force)
Business climate	

Source: Adapted from Lv and Spigarelli (2014)

could be linked to CEs or to the institutional environment (IE) and could apply to China or the host country. The IE corresponds to Ramasamy *et al.*'s (2012) conception of GSAs.

Several endogenous and exogenous factors contribute to how country- and firm-specific factors affect acquisitions (Marinova and Child, 2011). Cultural, administrative, geographic and economic (known as CAGE) distances affect internationalization strategies (Ghemawat, 2011). Cultural distances are especially salient when the two parties need to work intensively with one another, as in the case of an M&A which integrates two cultures both at the national and the company levels (Franke *et al.*, 1991).

3. Methodology

Using the FSA and CSA (home/host) framework, this case study is intended to deepen our understanding of factors shaping Chinese decisions to invest abroad and to highlight the key success factors.

We followed standard case study methodology (Yin, 1989) and triangulated our data by researching external reviews of the company, including a literature review and interviews with key personnel in both the acquired and acquiring firms. Sources used included corporate reports, including financial statements. The most valuable in-depth information was derived from direct, open-ended and non-structured interviews with executives (5), top- and middle-level managers (3) and shop-floor workers (10). There were also informal follow-ups with emails and phone calls. Field visits and interviews were carried out from 2008 to 2012. The interviews were not taped and anonymity was preserved. The exchange of information (as well as of rumors, anecdotes and feelings) was particularly intense with three key persons in the company, all of whom were Italians: the executive vice president, the CFO and the press officer. Contacts with Chinese employees were limited to two interviews, including the chairman and CEO of the Chinese group. This, of course, is a limitation of the case analysis, but the level of the Chinese contacts gave both depth and breadth that cannot be matched by line employees.

As we are particularly interested in the M&A event, we investigate the details surrounding the purchase event, before and after. We conclude with an outline of key success factors of international acquisitions and a new heuristic depicting the international competitiveness multinationals.

4. Zoomlion acquisition of CIFA

4.1 The scenario

In September 2008, at the start of the global financial crisis, CIFA was taken over by the Chinese group Zoomlion. CIFA capital was sold for €511 million, equivalent to an *enterprise value* of approximately €624 million. At that time, this was the second largest Chinese M&A in Europe in terms of value.

During the sales negotiations, Zoomlion fought Sany (a Chinese state-owned company from Changsha, Hunan) for the purchase of the Italian company. At the end, Zoomlion won the race for internationalization in Italy. Even prior to the acquisition, it was familiar with CIFA and its management, having collaborated with the company on industrial projects since 2001. Moreover, the Chinese Government preferred Zoomlion to get the necessary authorizations to carry out investment operations abroad, partly to avoid internal competition between two national champions and to prevent the increase in the purchase price in this single commercial negotiation. This action shows the Chinese coordinated industrial policy for going global.

From the Italian perspective, the sale of CIFA was at an opportune time. Just a few months after the acquisition, this sector experienced radical changes, with scenarios that could never have been forecast in advance. The post-acquisition phases were negatively influenced by the crisis in the European construction industry, the most serious since the end of the World War II. CIFA's orders for various product lines in Europe dropped between 45 and 90 per cent in 2009. In late 2012, in Italy, the consumption of cement plummeted in quantity to lows found in the early 1970s. From the Chinese perspective, the timing was not all bad either. The construction machinery production sector experienced a sudden change in its center of gravity, seeing the demand shift from Europe and North America, which progressively lost their importance, to Asia (and specifically China), which was going through its own industrial revolution, shaping the twenty-first century economic landscape.

4.2 The industry

The demand for heavy construction equipment is closely linked to the production of concrete, related to civil, commercial and industrial building and infrastructure development. As shown in Figure 1, the new investments trend after the global crisis reflected a shift from Europe and North America to Asia. Considering market shares by sales volume, the global construction machinery industry had shift the fulcrum from North America and Europe (28 per cent each in 2002, compared to 18 per cent China, 10 per cent Japan and 16 per cent others) to China (32 per cent in 2009, compared to 22 per cent of North America, 13 per cent Africa, 4 per cent Japan and 29 per cent others). World leaders had large product range, while smaller companies were efficient, mostly in equipment for specialized applications. Also, considering the company's projections (Figures 1 and 2), China is going to lead the world demand for construction. In 2009, China became the first country for total investments in construction.

Before the financial crisis, the market was dominated by Japanese producers. In total, 10 out of 50 major firms by sales in the world were Japanese (see Figure 3). The US firm

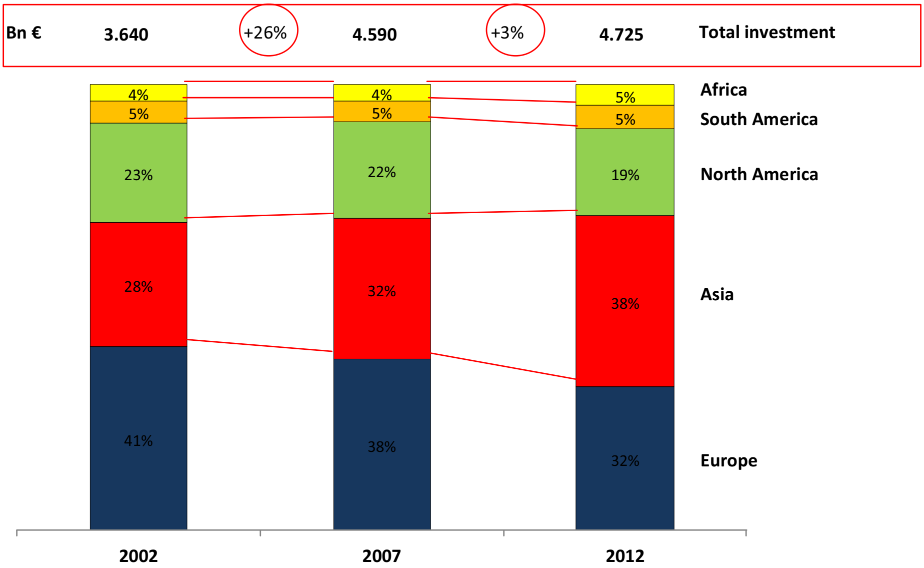


Figure 1.
Investments in new construction

Source: Cresme SIMCO (2010)

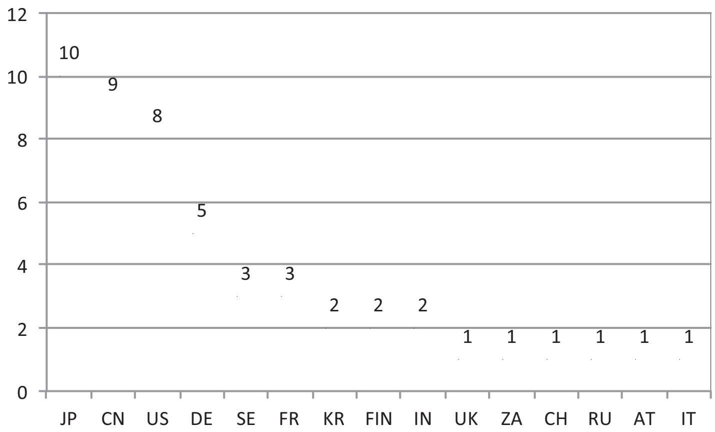
Figure 2.
Worldwide Construction machinery industry

Caterpillar and the Japanese Komatsu were the leading players, with sales, in 2009, respectively, of 18,148 million US dollars and 17,623 only in the machinery industry.

As for the Chinese market, Table III depicts the market shares in the Chinese construction machinery industry in 2010.

In 2010, Chinese producers controlled over 90 per cent of sales in the concrete machinery, loader and bulldozer segments, while foreign firms controlled around 65 per cent of market shares in the excavator segment and 30 per cent of forklift sales (Schütte and Chen, 2012, p. 15).

Focusing on concrete machinery sector, until the 1990s, China was dominated by Germany firms Putzmeister and Schwing. Later, local players such as Sany and



Source: CIFA , internal documents

Figure 3.
Global distribution of construction machinery firms (number of firms in Top 50, 2009)

Company	Market share (%)
Sany heavy industry	11
Zoomlion	11
Caterpillar	9
XCMG	8
Volvo	7
Komatsu	5
Hitachi	4
XGMA	3
Kobelco	1
Other Chinese	31
Other foreign	10
Total	100

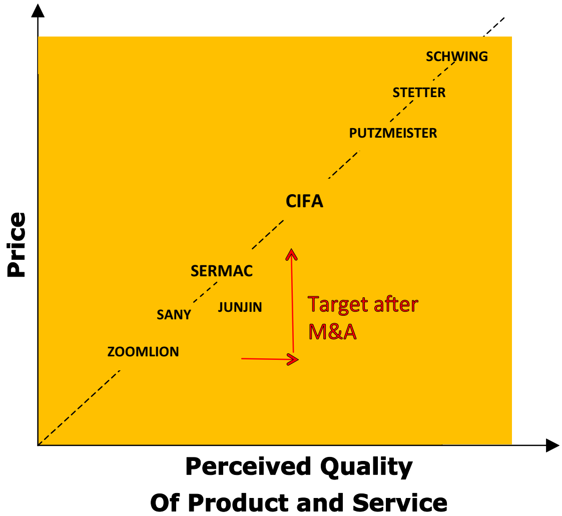
Source: China Construction Machinery Association (2010)

Table III.
Market shares in China's construction machinery industry (2010)

Zoomlion expanded their market shares (Schütte and Chen, 2012). Figure 4 shows different market positioning of key players in the concrete machinery sector in terms of perceived quality and price. Zoomlion's acquisition of CIFA provided the company with an opportunity to move up the value/price range, offering higher quality and more diverse range of products for the expanding market of China.

4.3 Zoomlion: FSA/Ds of the Chinese buyer

Changsha Zoomlion Heavy Industry Science & Technology Development Co., Ltd. (Zoomlion) was founded in 1992 in Changsha (Hunan province), by eight engineers led by Zhan Chunxin, today the group's Chairman and CEO. After 20 years, Zoomlion is a multinational corporation with more than 30,000 employees, a turnover in 2012 of more than 7.7 billion dollars (1.5 billion dollars in 2008 at the time of the acquisition). Its



Source: Adapted from CIFA, internal documents

Figure 4.
Key players at the time of acquisition for concrete machinery

products are sold in over 70 countries, and it is among the world's top six construction machinery manufacturers.

The firm, divided into several business units, has become a hi-tech public company. Key FSAs of the group included research and development (R&D) related to cutting-edge technologies and equipment for infrastructure projects in the construction business (earthmoving machinery, cranes, concrete machines, asphalt machines and sanitation equipment). Through its involvement in national infrastructure projects and engineering projects in the energy, environment and transport fields, the group had gained an excellent reputation in China. As for firm specific disadvantages (FSDs), Zoomlion have neither a strong distribution and service network nor good managerial skills to run international business in the Western markets. Moreover, product range was not yet suitable for most of the international markets, and the Zoomlion brand value was not internationally recognized (see Table IV).

In 2009, Zoomlion was ranked in tenth place in revenue among global construction machinery companies (and sixth place in 2012) and in second place among Chinese construction machinery firms. The group was listed among the top 500 Chinese enterprises on the Shanghai and Shenzhen stock exchanges and ranked as one of the top 100 innovative and experimental companies in China.

Zoomlion had clear international and financial targets: to be in the top five leading global players by 2015 and to contribute by 40 per cent to the total revenues of the group with international sales. As for specific product segments, Zoomlion's objective included:

- to drive the concrete business unit to be No. 1 in the world;
- to be in the top five players in the cranes business;
- to be in the top ten players in the sanitation and road machinery; and
- to develop a significant presence in the earth moving machinery.

Strenghts	Weaknesses
Strong availability of assets, performance, people and financial resources Advantage of China-based manufacturing Clear corporate intent and strategy European platform is a base for development not only in concrete and a learning step for the international approach Sense of importance and action for the international markets is growing inside the company	Existing distribution and service network is weak to develop a truly international business International development skills are not strong Product range is not yet suitable for most of the international markets Zoomlion brand value is not internationally recognized Gap between company's people and practices and the international practice and needed capabilities
Opportunities	**Threats**
After crisis, market forecast is for growth in many areas Chinese-based manufacturing is cost competitive Global supply chain in the industry make technology more accessible The crisis impact has weakened many international traditional competitors Some newly developing markets like Brazil and India are still in the early phase of development More customers in the international markets are willing to consider "value-for-money" products	Raw material and commodities cost increase Increase of labor cost in China Appreciation of RMB Many key components are not own technology, nor part of the Chinese supply chain Duplication culture versus innovation culture New environmental regulation can cause increase in constrains and costs Chinese competitors have put international development as a priority and can build advantages quickly

Note: RMB = remimbi (yuan)
Source: Zoomlion, internal material

Table IV. Zoomlion SWOT analysis

4.3 CIFA: FSAs of the acquired firm

The joint-stock company "CIFA" was founded in Milan in 1928 by Carlo Ausenda, a 29-year old Milan-born engineer. Ausenda started the business of design and supply formworks for concrete pours used in large infrastructure, including tunnels. Ausenda used his professional experience in the USA to introduce new techniques and tools for building infrastructure in the Italian market. In this way, the entrepreneur was able to transfer his knowledge assets into firm-specific capabilities in the then emerging Italian market.

The following summarizes the company's history and internationalization steps:

(1) *History*: Shareholders and management:
- *1928-1967*: Entrepreneurial approach, with the founder as the leader.
- *1967-1987*: Ausenda's family keeps the ownership of the company but an external manager ran it.
- *1987-1995*: CIFA was acquired by a leading Italian group (Ferruzzi), in the cement business.
- *1995-1999*: CIFA was acquired by a private equity firm.

- *1999-2006*: CIFA was acquired by two suppliers of the company.
- *2006-2008*: A new private equity fund acquired 70% of the company's shares. The fund started a modernization process to change administration, operations, marketing, information technology and human resources.

(2) *History*: The internationalization steps:

- *1960-1979*: CIFA started to export batching plants, formworks and mixers. Drivers of the exports to Africa, the Middle East and Latin America were the Italian general contractors.
- *1980-1999*: CIFA started to set up a sales and service network of dealers in Europe, the Middle East and North Africa covering 70 countries.
- *2000*: CIFA opened two subsidiaries in the USA and Mexico (assembly plants, no production) and signed a joint venture in India.
- *2001*: CIFA entered China with the expectation of building a subsidiary in the Far East. Zoomlion ordered more then 100 concrete booms and pumps from CIFA.
- *2002*: CIFA visited Zoomlion group in Changsha. Shareholders started thinking about a partnership with Zoomlion.

When Zoomlion purchased CIFA, it was profitable (Table V summarizes the financials) and successful. The Italian company ranked third in the world by revenue for concrete machinery, while Zoomlion was fifth. CIFA was one of the few European players in the concrete machinery for construction sector with a complete product range, from pumps (truck-mounted, portable and magnum) to mixers, formwork and batching plants. In Italy, CIFA had more than 70 per cent of the market for pumps and an even higher share for mixers. CIFA had a 15 per cent market share in more than 12 European countries for pumps and in more than 15 European countries for mixers.

The core of the company's strategy, prior to acquisition, was its *highly skilled and sophisticated R&D department*. CIFA strove for continuous improvement and innovation, collaborating with universities and research centers of excellence and maintaining a strong focus on patents. The heart of CIFA's competitive performance lies in its ability to combine technology, design and functionality to maximize performance. This was made possible by flexibility in the business model and the assembly phases, and strong relations with suppliers.

Another key FSA was related to *the international network*. CIFA had strengthen its existing position in core markets (Europe, Middle East and North Africa), while delocalizing production to increase sales in emerging markets. It had the widest distribution and assistance network in Europe, with a dominant position in Italy. The global network of dealers had vast experience and strong entrepreneurial skills.

On the other hand, CIFA was controlled by a private equity fund, thus lacking of a strong entrepreneurial orientation. There was the need to find an industrial partner to guide the company expansion. CIFA had a weak market share in emerging markets and needed to grow fast in China, where competitors were rapidly expanding. Despite the forecasts were clearly pointing out the importance of China in the next future, CIFA did not have the strengths and capabilities to be competitive there. Table VI shows a SWOT analysis for CIFA, while Table VII compares key FSA and FSD of the two partnering firms.

Table V. Financial and economic data of CIFA (in thousands of €s)

	2001	2002	2003	2004	2005[a]	2006	2007	2008	2009	2010
Value of production	17,808	17,210	23,943	15,413	535	13,972	22,063	16,392	7,185	7,747
Production costs	26,712	33,510	46,675	26,959	1,819	17,447	24,023	19,231	10,951	12,018
Profits/losses	−11,033	−18,651	−24,642	−9,443	−1,291	−3,849	−1,916	−3,841	−3,522	−4,749
Assets	53,550	47,964	42,560	32,176	9,594	22,178	26,902	27,009	20,829	18,982
Debts	53,729	51,244	45,402	41,519	10,876	23,294	23,507	24,623	19,844	18,642
Net equity	−179	−3,281	−2,842	−9,342	−1,281	−1,234	3,218	2,206	985	−218
Investments in R&D	3,478	1,892	881	516	n.a.	n.a.	1,836	n.a.	n.a.	1,261
Employees	104	73	71	74	48	89	97	100	99	95
Sales abroad (%)	64	70	58	50	n.a.	n.a.	70	55	50	69

Notes: [a] Economic and financial data for 2005 refer only to a three-month period; the M&A took place in 2005
Source: Financial statements and balance sheets of the acquired company

Strenghts	Weaknesses
The sole full line ready-mix concrete equipment player world wide R&D-skilled department to support a leader strategy (CIFA had planned to launch 14 new machines and 5 new plants between 2008 and 2010) Leader in Technology A good financial surplus and performances Good market positioning in European Union, Easter Europe, Middle East and North Africa Skilled international distribution network (dealers and agents) Skilled management	Lack of entrepreneurial leadership Lack of penetration in the emerging markets Weak knowledge of Chinese market Management team only based on Italian people
Opportunities	**Threats**
Good local business environment with clusters Availability of quality sub-suppliers Availability of skilled work force Good universities and research centers network in North Italy Strategic logistic position in the hearth of Europe Population of Chinese overseas Reputation of the Made in Italy production	Instable political environment Increasing labor cost High taxation rate High burocracy Strong competition from German firms

Table VI.
SWOT analysis of CIFA

Zoomlion	CIFA
FSA	
R&D in cutting-edge technologies and equipment for key infrastructure projects in the construction business Reputation in the Chinese market	Efficiency and rationality of internal processes; flexibility of business model R&D and innovation International position, with strong distribution network
FSD	
Weak distribution and service network Weak international development skills Product range un suitable for most of the international markets Brand value not internationally recognized	Lack of entrepreneurial guidance (firm led by private equity fund) Lack of penetration in the emerging markets

Table VII.
Key FSAs and FSDs of acquired and acquirer firms

4.4 CSFs: home and host

Several home and host CSFs facilitated the acquisition (Table VIII). From the Chinese perspective, home CSFs were mostly related to support from the Chinese Government and authorization to go abroad. Zoomlion was preferred to Sany in the internal race for internationalization. Home market conditions, as mentioned in the industry analysis,

Home country (China) (Push) factors	Host country (Italy) (Pull) factors
CE	
Relevant	
Need for construction materials and technologies for development	Location-specific advantages Specialized technologies Skilled workforce Large market (Italy at the heart of Europe)
IE	
Relevant	
Regional drive to champion internationalization Go global policy supportive measures and government approval	Entrepreneurial culture, local business environment (cluster, suppliers, skilled work force, etc.)

Table VIII. Country impact: home and host country perspective

had a positive role in pushing the globalization of Zoomlion. The Chinese market was booming and national firms were competing hardly in the past years. Despite the need to upgrade the production and to improve the quality of machinery, many key components and technologies were not available in the home market. Yet, they were not part of the Chinese supply chain. As a result, expanding abroad was fundamental to have access to key resources and technologies. Some Chinese competitors had already put international development as a priority and were trying to build global competitive advantages quickly.

Host CSFs pertained to the positive business environment in Italy and Lombardy in particular. While the bureaucracy, residence visas and work permit issues created barriers to operating in Italy, labor laws (social security, unions and contracts), tax regulations and accounting rules did not constitute obstacles for the Chinese acquirer, and the general regulatory framework was not perceived as a problem.

Prior to the investment, the acquirer was familiar with the positive general climate and conditions of the local business and social environment. Particularly welcome was the availability, within the target firm and within the local community, of skilled blue-collar and white-collar workers. Similarly, relations with local universities were strong.

CIFA was located in a competitive cluster, near Milan, the capital of Lombardy, that is the most dynamic and productive region in Italy, the second leading European region in terms of GDP (www.investinlombardy.com). The area is entrepreneurial, with 826,000 active companies and 8.2 active businesses for every thousand inhabitants (www.investinlombardy.com). The region leads innovation in Italy, thanks to world-ranked R&D centers and a university.

Industrial districts are the backbone of regional development in Italy, with skilled human resources and agglomeration of industry-specific knowledge-based and supporting infrastructure. The Chinese acquirer could benefit from economies of knowledge and specializations in several clusters related to metal work and metal processing, electronics, rubber and plastic processing (www.osservatoriodistretti.org/category/regione/lombardia). Lombardy was also the leading region in Italy of retailing networks, logistic and financial services that could make connections with China very easy.

Other relevant information to better analyze and contextualize the impact of home and host country has to do with the 2 × 2 matrix of political stability and institutional maturity (Child and Marinova, 2013; Rodrigues, 2010). See Table IX. A country has political stability in case its governance "enjoys popular legitimacy, if changes in government are orderly, and if the policies of different governments exhibit substantial continuity" (Child and Marinova, 2013, p. 8). Institutional maturity refers to a situation in which the country's institutions, in terms of legal system and regulatory authorities, "function in a transparent manner, adhering to clear rules that are applied in a universalistic manner to all citizens" (Child and Marinova, 2013, p. 8).

China has typically high in political stability, but rather low in institutional maturity, while Italy has a very unstable political environment, since the IIWW Italy experienced more that 60 different governments and more than 40 prime ministers, yet is institutionally mature. China is commonly considered as weak in term of institution. It has the 90th position (out of 189 countries) in the 2015 World Bank Doing Business ranking, with huge problems in dealing with construction permits (179th), protecting minority investors (132nd), starting a business (128th), etc. Italian institutional maturity, on the other hand, could be considered as medium. Italy was ranked 56th in the ranking of Doing Business 2015. The World Bank placed Italy in very poor position for access to credit (89th), construction permits (116th), registering property (41th), enforcing contracts (147th), taxes (141th).

5. Creating global competencies

Internationalization was a fundamental step in the growth strategy of Zoomlion, but operating abroad was a tough challenge, to be exploited quickly, taking advantage

Political stability	Institutional maturity	
China		
High		Economic relations are highly embedded in social relations and shaped by political objectives. Government intervention in business is high and not transparent. Despite formal regulations, firms' channels of influence are personal and opaque
Italy		
Low	Economic relations are set within institutionalized (market) rules, but subject to political considerations aimed at satisfaction of competing local interests	Economic relations are embedded in social relations and shaped by personal or factional objectives. Decisions on business-related matters are made though personal and secret channels, often subject to corruption

Source: Adapted from Child and Marinova (2014), p. 10 and Rodrigues (2010)

Table IX.
CSFs China and Italy (CSA and CSD)

of the unique opportunity available. CIFA allowed Zoomlion to acquire a market leader with outstanding economic and financial performance, to be integrated with Zoomlion's own rich assets to establish a dominant position.

At the time of sale, CIFA was the only manufacturer of a full range of concrete machinery and equipment, with important synergies in all business areas, from pumping to mixing to formwork to plants. By dominating the entire concrete value chain, Zoomlion could ensure synergies from production to transport, and from casting to special applications. In the downstream phases, it could draw on a unique sales network, with integrated dealers and agents as well as a single and complete after-sales service. This factor was critical for serving large contractors and customers in emerging markets, who typically required complete solutions spanning the whole production range. There were also huge synergies upstream in savings on purchasing costs and optimization of design.

As a result of integration, FSA/Ds map can be summarized as follows (Table X).

While the industry was severely hit by the effects of global downturn, Zoomlion conquered obtained a formidable market position (seventh) in the general (Figure 5).

After the acquisition, the integration process was based on a gradual approach of coordinating management and operational activities. Integrating people, processes, systems and values was considered a top priority to ensure the success of the operation.

To ensure multiple levels of integration in R&D, as well as in production and sales, targeted actions were undertaken at the organizational level, as clarified below.

5.1 Integration in R&D

Following the acquisition, management focused on integrating the concrete machinery R&D activities. Coordination between the Italian and Chinese teams, pushed by Zoomlion, was the responsibility of the CIFA R&D manager.

The strategy began at the technical heart of the activities of the two companies, as this was a crucial aspect of their competitive advantage. Moreover, starting integration with a technical issue seemed simpler than other options. Zoomlion needed to gain technological know-how to better interpret and understand the common product applications used in international markets, which have very different needs and requirements compared to the Chinese domestic market. For

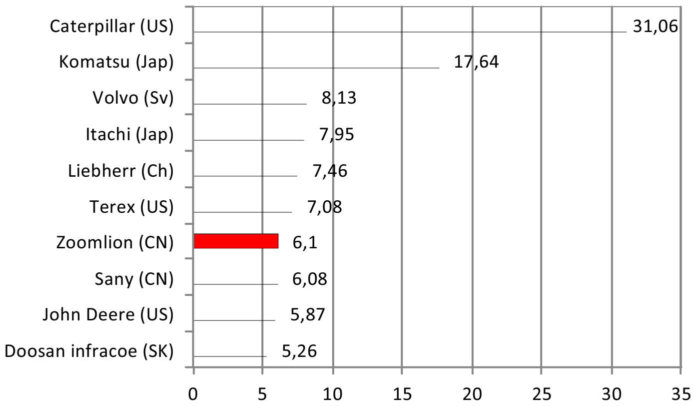
Firm specific advantages and disadvantages	Zoomlion – CIFA
FSA	Strong R&D department Increased patent portfolio Increased penetration in China Increased reputation in the Chinese market Wide distribution network in EMENA Economies of scales due to increased production volumes
FSD	Weak international position in America and other emerging markets, due to global financial crisis (delay of international expansion plans)

Table X. Key FSAs and FSDs of CIFA–Zoomlion

CIFA, the joint work offered an opportunity to gain direct, in-depth knowledge of an unknown yet essential market, and a potential outlet for CIFA products in the context of fiercely growing internal competition. Key steps in the R&D integration are summarized in Table XI.

5.2 Integration in marketing

CIFA and Zoomlion agreed on an approach for branding and marketing based on territorial diversification and product segments. The initial choice for brand positioning on all markets was to identify CIFA as the "top of the range" brand with high quality and pricing in line with perceived quality. The Zoomlion brand focused on a reputation for reliable, standard machines to satisfy a less sophisticated customer with a lower price point. However, after a year and a half, the specific character of the Chinese market demanded a change in tack and new products bore both trademarks. In late 2010, a new product range was developed bearing the "Zoomlion–CIFA" trademark. The Italians were involved in the design phase, the



Source: www.statista.com

Figure 5.
Word's largest construction machinery manufacturers (2013), based on construction equipment sales (in billions US dollars)

Steps	Key issues/activities
Understanding the organization	Disproportionate numbers of researchers and engineers in the Chinese and Italian teams (400 and 40, respectively)
A new organizational structure	Definition of new roles and responsibilities, to foster constant and transversal work of the different teams. A number of expert engineers were appointed to act as technical and linguistic interfaces
Mutual contamination beyond any specialization	Italian and Chinese R&D activities remained independent. They had different projects to create specific products for their respective markets. To avoid losing the value of collaboration, mixed teams were established for some projects to share development plans and continue the joint efforts

Table XI.
Integration of R&D: Key steps

Chinese in innovation and industrial development. Given the potential for collaboration in co-designing products bearing the joint trademark, the opportunity arose to manufacture and assemble some of the joint-branded models directly in China. Production of some parts for machines assembled in China remained in Italy, which made sharing designs and technical solutions easier.

5.3 Integration in sales

Cooperation in sales was based on geographical specialization and the partial integration of staff. In the EMENA area (Europe, Middle East, North Africa), after some initial difficulties, CIFA took over full responsibility, coordinating both Italian and Chinese sales staff and stimulating competition among dealers. In Asia, all the area managers were Chinese and they coordinated with Chinese sales staff who managed only CIFA products. Similarly, the whole post sales network was run by Zoomlion. For marketing and communication activities supporting sales, CIFA managed all the activities in the EMENA area, including those for the Zoomlion brand, while the Chinese holding company took care of initiatives in Asia for all brands in the group.

5.4 The role of communication

A set of management solutions and organizational tools ensured smooth-running processes. Day-to-day operations had been modified in both companies, starting with the technical departments. Regular meetings were held between the R&D teams of CIFA and Zoomlion to discuss industrial development plans jointly. In addition, a regular reporting procedure from Italy to China and from China to Italy helped monitoring results and productivity of both firms. Monthly and weekly reports on CIFA and Zoomlion were originally produced by the technical departments and circulated among Italian and Chinese managers. Soon, other departments, including marketing, sales, operations and finance, added their own reports. Constant bilateral reporting prevented the creation of walls among the two firms and prejudice. A newsletter reported on projects and events at CIFA. The contents were translated into Chinese and distributed to all Zoomlion staff in China to share news of Italian company life in China.

5.5 From joint branding to production in China

For Zoomlion and CIFA, the choice to manufacture products with joint branding in the Chinese market clearly underlines the synergies that can be obtained by sharing competitive production advantages. To ensure greater competitiveness of CIFA-branded or co-branded products in China and reduce costs and delivery times, Zoomlion supported the implementation of a "reverse internationalization" operation. CIFA established an Italian production plant in China that opened in late 2009. The Factory in the Factory(FinF) was built as a dedicated plant for the production and assembly of CIFA-designed machines and European components and employs around 50 staff, four of whom are Italian: the factory director, the service manager, the product training manager and a technician with expertise in steel structure machining. The FinF was located in the Zoomlion production park. The building was painted in orange (CIFA typical color) and the staff wore special uniforms. The FinF, which later became a separate company, CIFA Hunan, is essentially a CIFA factory, operating by Italian production standards. It had an island-based rather than a line-based production system covering niche market models sold to Chinese markets with the Zoomlion–CIFA brand. CIFA produced other brands bearing only the Zoomlion trademark, destined for the European market and built to meet European standards.

Entering China through Zoomlion, CIFA was been able to accelerate the market penetration phase. The timing was perfect since the right products reached the market in the midst of a boom period. The profitability and cash flow generated by CIFA Hunan helped the company strengthen its operations in Italy and Europe and led to restructuring some buildings, designing new products, establishing new testing centers and advancing CIFA's own internationalization process in Latin America and India. The turnover losses suffered after 2009 due to the financial crisis were completely recovered and pre-crisis sales levels returned by 2012.

Moreover, the superior market results achieved through the joint branding strategy and the FinF further drove the integration of the group's design activities. Co-design on experimental models brought some astonishing results that reached the pages of the *Guinness Book of Records*. These include the invention of the truck-mounted pump with an 80-metre placing boom in 2011 and the pump with a 101-metre boom in 2012. R&D and co-design cooperation boosted the CIFA portfolio of international patents, thus increasing company value significantly.

6. Conclusions

CIFA–Zoomlion was one of the largest Chinese acquisitions in Europe. Compared to many moves by Chinese enterprises into the West, the operation described in this paper has a number of anomalies. Some theoretical and managerial implication can be drawn from the case analysis.

6.1 Theoretical implications

This work contributes to the literature and to the academic debate on M&As in emerging market multinationals (Spigarelli *et al.*, 2013). Key firm-specific and country-specific factors contributed to the success of Zoomlion integration in the global market.

We enhanced CSA model by differentiating, at the country level, advantages (and disadvantages) arising from CEs from those linked to the IE of the host market.

In Zoomlion acquisition, home country factors helped in terms of IE. Consider, above all, the preferential government approval that supported CIFA international plans compared to Sany. Host country factors were relevant in terms of both CEs and IE. Particularly, Italy could offer a strategic location in the hearth of Europe, as well as entrepreneurial culture within the local clusters, where skilled suppliers and skilled work force were available.

The success of the merger relied also in the ability of the Chinese management to combine and leverage complementary strengths of both firms. The competitive advantages of the combined company increased while the brands preserved their distinctive features and focused production on specific markets and customers.

Zoomlion had a strong R&D in cutting-edge technologies and equipment, but CIFA had supremacy in efficiency and rationality of internal processes and in R&D

management. As a result, Chinese owners put in the hands of Italian people the supervision and management of the entire R&D department. Zoomlion had a high reputation in the Chinese market that was leveraged to place both double brand and mono brand high quality products. CIFA had a competitive advantage in international position, with strong distribution network that was used to strengthen the double portfolio strategy.

6.2 Managerial implications

Several business cases has shown how Chinese enterprises involved in acquisitions fail to create value, mainly due to collisions between very different cultures, methods, managerial styles and management standards (see, for example, the Benelli case in Spigarelli *et al.*, 2013). CIFA–Zoomlion avoided typical difficulties, which usually emerge in the medium term of an M&A, through close attention to integration of the operational and management processes of the acquirer and the purchased company.

The competitive advantages of the companies before integration was strengthened through synergies in markets (in China's case) and technology leverage (in Italy's case). The combined company was more globally competitive, combining the mutually reinforcing competencies. Further, the decline of the European construction market did not adversely impact the combined company, as it shifted both production and marketing to China. The resulting company was able to overcome regional market cycles through resource redeployment and strategic agility.

From the Italian perspective, the acquisition allowed CIFA to obtain significant financial support from Zoomlion, which facilitated access to credit and ability to exploit the huge opportunities offered for CIFA products in China. It was precisely the solid presence in the Chinese market that compensated for the reduction in revenue suffered in Europe and skirted the disaster which struck other companies in

Key success factors	Key actions
Mutually reinforced competencies in R&D Increased penetration in China leveraging on high reputation of the Italian brand Integrated sales workforce and reinforced distribution network in EMENA and China Clear international vision and good approach to international ventures of Chinese management	Integration in R&D, lead by Italians Branding and marketing approach based on territorial diversification and product segments, with a double-brand strategy in EMENA markets and joint-brand strategy in China Geographical specialization and partial integration of staff in the international sales network Dynamic and bilateral communication flows (Italy–China), starting from technical (R&D) reports Reverse internationalization of CIFA in China, to open an Italian production plant to ensure greater competitiveness of CIFA-branded or co-branded products in China and reduce costs and delivery times

Table XII. Key success factors and key actions developed the same sector in Europe (as Sermac in Italy, as the Italian Simem that signed a strategic alliance with Putzmeister, as German Intermix acquired by Putzmeister, as Skako in France or Lezaisk in Polland or Schwing in the USA).

In light of these considerations, we can state that the CIFA–Zoomlion M&A provide some "best practices" approach to planning of pre- and post-acquisition phases, with a clear, constant focus on the integration of processes at all levels, which can strengthen the competitive advantages of both parties involved (Table XII).

The Chairman of Zoomlion, Chunxin Zhan, summed up the underlying philosophy of the acquisition in Italy. He referred to five principles:

(1) *Understanding (tolerance)*: Understanding refers to appreciating the cultural diversity between Italy and China.

(2) *Sharing*: Sharing refers to both companies having a joint vision of the underlying strategies and joint access to benefits from the results achieved.

(3) *Responsibility*: Responsibility refers to the need to comply with corporate social responsibility rules in Italy, paying great attention to employees' rights.

(4) *Compliance with the rules*: Another fundamental aspect is the need to define common and accepted rules of conduct for managers and human resources in both China and Italy, supported by a transparent system of sanctions.

(5) *Coordination*: Finally, coordination represents the ability to act in a synchronous manner, despite cultural and business practice differences.

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About the authors

Francesca Spigarelli, Phd, is an Assistant Professor at the University of Macerata. She teaches economics and managerial economics. Her main research topics are foreign direct investments from emerging countries, Chinese Go Global policy, small- and medium-sized enterprises internationalization processes. She is the author of several articles and book chapters in international publications. She also has significant executive and MBA education as well as consulting experiences in the field of internationalization processes of small and medium companies. She is the coordinator of several European Funded Research Project (Seveth program framework and Horizon 2020) Francesca Spigarelli is the corresponding author and can be contacted at: spigarelli@unimc.it

Ilan Alon is George D. and Harriet W. Cornell Chair of International Business, and a research fellow at Georgetown University. He teaches undergraduate and graduate courses relating to international business management and marketing at Rollins College. He also has significant executive and MBA education and consulting experiences in Europe, Asia, the Middle East and America. Among his recent books are Chinese Entrepreneurs, China Rules, Globalization of

Chinese Enterprises, Service Franchising: A Global Perspective, Business Education and Emerging market Economies: Perspectives and Best Practices and Chinese Economic Transition and International Marketing Strategy.

Attilio Mucelli is an Associate Professor in Management Accounting and Financial Accounting. His main research topic is related to management and cultural problems in internationalization processes of firms. Special focus on investments by companies from BRIC countries (Brazil, Russia, India, China) in the Western markets, with specific reference to Chinese Go Global strategy and to Chinese M&As abroad. He also focused on relational capital analysis, measurement and evaluation systems; intellectual capital measurement and evaluation systems and management of innovation process.