Best Practices for China M&A

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Successful M&A in China Requires a Thorough Understanding of Its Unique Challenges

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Despite a reduction in structural hurdles to mergers and acquisitions in China, the process remains daunting and complex. However, carefully following eight best practices can ease the challenges inherent in partnering with Chinese businesses, says John Jullens, a Partner at Booz & Company based in Shanghai.

"The crucial first step in forming relationships with Chinese firms is to select the partner that best fits your business needs. This does not necessarily mean the partner with the strongest perceived network of personal influence, or guanxi, which is considered vital to doing business in China. Instead, companies should take a fact-based, data-driven look at what resources or organizational capabilities they need to be successful in China and select a partner who is demonstrably able to fill that," Jullens explains.

Jullens discusses the complexities of M&A in China and the eight best practices he recommends in Episode 45 of the Mergercast by Booz & Company podcast, titled "Best Practices for China M&A."

During the interview, he describes these best practices:

- Focus on filling capabilities gaps by selecting a partner who is demonstrably able to provide the organizational capabilities a business needs to be successful in China.
- Don't be fooled by quanxi, the importance of which is often overestimated and can deter focus from the goal of filling capabilities gaps.
- Drop the marriage metaphor. This is consistent with Chinese antitrust laws, which allow for "non-monogamous" arrangements, such as joint ventures with more than one partner, including companies that are direct competitors.
- Keep on triangulating to fill data gaps. Because much data is simply not available or transparent in China, foreign businesses must create and constantly maintain their own information base by interviewing officials, friends and business leaders.

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- Conduct a thorough stakeholder analysis before signing a deal to identify your Chinese partner's key decision-makers and influencers, whose identities, interests and roles may not be clear initially.
- Clarify decisions rights up front to prevent unexpected actions by a Chinese partner. For example, the Chinese partner of a western business once exchanged its entire management team with that of a direct competitor.
- Go easy on the integration so as not to impose your business' processes and standards on a Chinese partner to the point of destroying its unique capabilities and value.
- Find ways to earn trust by stressing your long-term commitment, empowering the local deal team and showing respect for your Chinese counterparts.

"Memories of the devastation caused by foreign involvement from the Opium Wars to Japanese occupation are still very much alive today. So there's a fear that western companies simply want to take profit and resources from China," Jullens explains.

Nevertheless, he adds, "Chinese companies are actively looking for partnerships. Learning to navigate the complexities can be very healthy for non-Chinese businesses, who can become more thorough, thoughtful and tenacious as a result."

About Mergercast

Mergercast by Booz & Company is a podcast series exploring the world of mergers, acquisitions and restructurings. Episode No. 45, "Best Practices for China M&A," has a run time of 30 minutes and 58 seconds. Listeners can play the podcast on its homepage (http://www.booz.com/mergercast) or subscribe via RSS feed, e-mail or the iTunes store.

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