
An analysis of Chinese acquisitions of Italian firms in the manufacturing sector

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Abstract: Outward foreign direct investment (OFDI) from emerging economies has begun to increase significantly and has been growing at a faster pace than FDI from the developed world. This research seeks to assess the impact of Chinese acquisitions and their implications for the Italian firms in the luxury manufacturing sector. This paper presents a cross-case analysis of two Chinese acquisitions in order to provide some in-depth insights into the strategic drivers moving the Chinese firms to invest in the luxury manufacturing sector, the post-acquisition benefits and challenges as well as the distinctive integration strategies. The study contributes to our understanding of how emerging market firms acquire and integrate firms from advanced economies, and how such acquisitions contribute to the acquiring firms' performance and competitiveness. To this end, strategic drivers, post-acquisition benefits and challenges as well as integration strategies were identified.

Keywords: Chinese acquisitions; made in Italy; luxury manufacturing sector.

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1 Introduction

While traditionally foreign direct investment (FDI) flowed from advanced developed economies into developed and developing countries, more recently, a new trend has emerged in the pattern of FDI. Outward foreign direct investment (OFDI) from emerging economies has begun to increase significantly and has been growing at a faster pace than FDI from the advanced developed world. Increasingly, multinational corporations (MNCs) from emerging economies are buying business assets and capabilities in the luxury sector all over Europe. These MNCs from emerging economies (EMNCs or EMNEs) have been the subject of recent interest, seen in a growing number of studies (Guillen and García-Canal, 2012; Kale and Singh, 2012; Williamson et al., 2013). According to Marchand (2015), two elements can explain this interest. First, the scope and pace of the international expansion by emerging economy firms has been exceptional. Second, the patterns of international expansion by emerging economy firms have raised questions about their originality and whether existing theories of international expansion strategies are adequate or need to be modified (Vecchi, 2013a, 2013b, 2014a, 2014b; Vecchi and Brennan, 2014).

The international expansion of emerging economy firms is particularly relevant to Italy and its manufacturing luxury sector. Italy has a traditional competitive advantage in the production of luxury products (Vecchi, 2008, 2013a, 2013b). The Italian luxury market has long been regarded as the origin of mainstream luxury goods and includes firms like Ferragamo, Prada, Gucci just to name a few. With a rich cultural heritage embedded within their brands, these Italian firms have captured loyal customers and remarkable profits from all over the world. In Italy, luxury firms are deeply rooted in their design, quality, artisanship and service and it has often taken decades to build their reputation. These features often appeal to the Chinese investors.

This paper presents a cross-case analysis based on case-studies of two Chinese acquisitions to provide some in-depth insights into the influences and the motives driving Chinese firms to invest beyond their borders and in particular into the Italian luxury manufacturing sector. Both cases explore the patterns and the modes of Chinese acquisitions as well as the distinctive challenges that both the Chinese investors and the acquired Italian firms inevitably have to face. The paper comprises six sections. The first section provides an introduction covering the background of the research and outlines its rationale. While the second section reviews the relevant literature, the third section provides a description of the methodology. The fourth and the fifth sections present the two case-studies and the cross-case analysis respectively. The original contributions of the research and directions for further research are discussed in the concluding section of the paper.

1.1 OFDI from emerging countries

The Chinese acquisitions affecting the Italian manufacturing sector are emblematic of a wider trend. Many emerging economies have benefited from a massive infusion of capital, technology and managerial expertise from the traditional industrialised countries (Rios-Morales and Brennan, 2010). Because of this and other factors, firms in some of these countries have amassed sufficient capital, knowledge and know-how to invest abroad on their own. The proportion of FDI accounted for by NICs is increasing. A variety of reasons has been offered for the emergence of FDI from NICs (Rios-Morales

and Brennan, 2010). These include the support of exports, the expansion of market presence, the acquisition of established brands and foreign skills and the establishment and strengthening of local distribution networks. The increasing financial strength and the growing international exposure of companies from NICs together with greater domestic competition have also been suggested as explanations. Finally, the goals of building international brands, accessing advanced technologies and establishing R&D centres in developed countries help to explain this growing trend.

The surge of FDI in recent years has generated a growing body of literature on FDI with the theory of internationalisation and the eclectic paradigm widely utilised. The theory affirms that the extent and pattern of international production undertaken by MNCs is determined by the interaction of three sets of interdependent variables: ownership, localisation and internalisation advantages, resulting in the abbreviation and alternative name of the eclectic paradigm, namely the OLI paradigm (Dunning, 2006). The first competitive advantage represents the ownership (O) of specific resources to be exploited externally. The second element of the OLI paradigm regards the host country location attractiveness (L). Rugman (1981) defines the L-advantage as the country specific advantage (CSA) that is unique to the business in each country. With regard to the last variable of the paradigm, the internalisation (I) advantages involve the opportunity to keep firm specific resources within the company rather than to exploit them in the market through arm's length transactions (Amighini et al., 2010). The OLI variables explain why internationalisation occurs but do not identify the process of internationalisation. Thus, the eclectic paradigm has been subsequently extended to include the theory of the investment development path (IDP) that was first put forward in 1975 and since then it has gone through various iterations (Dunning, 1981, 2006; Dunning and Narula, 1996). According to this theory, companies engage in FDI not only to exploit their existing O-advantage in a host location, but also to augment the advantages by acquiring complementary assets or new markets (Dunning, 2006). Both theories identify the institutional environment as one key factors for internationalisation, however, the focus is generally on the recipient country only.

1.2 OFDI from China: acquisitions' strategic drivers, post-acquisition challenges and integration strategies

In the context of MNCs from NICs, China represents one of the leading players ranked 5th among all economies in terms of OFDI flows (UNCTAD, 2011). While China's dominant position as a recipient of global FDI flows has been well documented, the overseas investment activities of Chinese companies have received considerably less attention. However, a recent wave of cross-border acquisitions by Chinese firms has brought increased interest to this topic. In this age of financial crisis and austerity, an increasing number of European luxury companies are seeking financial support and alliances with wealthy companies. The result is that Europe is experiencing a structural wave of Chinese MNCs acquisitions where annual inflows tripled from 2006 to 2009, and tripled again by 2011 to €10 billion for 2012 (Rhodium Group, 2012). This phenomenon is rising some concerns. According to Meunier (2012, p.iii) in a recent briefing to the European Parliament,

“Chinese OFDI may come with implicit strings attached and could potentially act as a Trojan Horse affecting European norms and policies, from human rights to labor laws. The surge of Chinese investment could also potentially

affect European institutional processes, exerting both centrifugal and centripetal pressures on European integration”.

As such, to the purpose of this research it is useful to identify the distinctive strategic drivers of the acquisitions, their post-acquisition benefits and challenges as well as the integration strategies as they have been identified by the existing literature on the subject.

1.2.1 Strategic drivers

In terms of strategic drivers, Mathews (2002) has developed a theoretical framework called linkage, leverage and learning (LLL) to analyse the phenomenon of the MNEs from the Asia-Pacific region – the ‘*dragon multinationals*’. The framework captures the idea that latecomers use their overseas investments and global linkages to leverage their cost advantages, and learn about new sources of competitive gains. Differently from the OLI perspective, Mathews sees the first phase of MNEs formation as most likely to begin with asset-exploring purposes rather than asset-exploiting motives. He argues that linking with mature market MNCs, a latecomer firm may leverage knowledge, technology and market access with the result of entering in a learning process, which can be then exploited for further growth (Mathews, 2006).

Child and Rodrigues (2005) examine the patterns of, and motives for, internationalisation by prominent market-seeking Chinese firms. Case-studies of these firms indicate that they are seeking technological and brand assets to create a competitive position in international markets. While mainstream theory tends to assume that firms internationalise to exploit competitive advantages, Chinese firms are generally making such investments in order to address competitive disadvantages.

Luo and Tung (2007) present a more exhaustive springboard perspective to describe the internationalisation of emerging market multinationals that engage in international expansion as a springboard to acquire strategic resources and reduce their institutional and market constraints in their domestic market. Six drivers for the international expansion of emerging market firms are identified by Luo and Tung (2007). First, emerging market firms are keen to acquire technology and brands through internationalisation to overcome their lack of resources. Foreign firms’ willingness to sell or share their technology, know-how or brands due to financial exigency or restructuring needs enable them to fulfil this void. Second, emerging market firms use international expansion as a springboard to overcome their latecomer disadvantage. For instance, through some path-independent and proactive steps, such as mergers and acquisitions and strategic asset-seeking from advanced markets, ‘springboard’ moves allow emerging market firms to alleviate some latecomer or newcomer deficiencies in areas such as consumer base, brand recognition as well as technological leadership. Third, emerging market firms use international expansion as a springboard to overcome global rivals’ major foothold in their home country market. To most emerging market firms, their home country markets are still their main market of operation. However, these markets have been increasingly penetrated and even dominated by advanced market firms. To become global or transnational, some emerging market firms acknowledge that they must directly serve and win consumers in key foreign markets such as Europe, the USA, and Japan. Fourth, emerging market firms use outward investment as a springboard to bypass trade barriers such as quota restrictions, anti-dumping measures and special tariff penalties. Fifth, emerging market firms use international expansion as a springboard to mitigate domestic institutional constraints. Institutional voids such as lack of legal protection for

property rights, poor enforcement of commercial laws, non-transparent judicial and litigation systems, underdeveloped factor markets, inefficient market intermediaries and political hazards in their domestic market undermine the competitiveness of these firms, thus propelling them to go global. Sixth, emerging market firms use international expansion as a springboard to secure preferential treatment offered by emerging market governments. They do so mainly through reverse investments. Lastly, emerging market firms use international expansion as a springboard to leverage their competitive advantages in other emerging or developing markets.

Rui and Yip (2008) suggest that Chinese firms strategically use cross-border acquisitions to achieve goals, such as acquiring strategic capabilities to offset their competitive disadvantages and leveraging their unique ownership advantages, while making use of institutional incentives and minimising institutional constraints.

1.2.2 Post-acquisition benefits and challenges

According to the LLL model, the degree of international success is related to the extent to which links can be established and resources can be leveraged. The potential advantage is related to the accessibility to these resources in terms of their inimitability, transferability or substitutability. The benefits depend both on the ability of the firms to leverage external resources and on their 'absorptive capacity' that is their ability to identify, assimilate and exploit external knowledge (Cohen and Levinthal, 1990).

Barkema et al. (1996) in particular, found that firms face cultural adjustment costs, especially when they engage in 'double layered acculturation' such as in the cases of acquisitions. However, the authors show that internationalising firms can move down the learning curve in such acquisitions, especially when they choose their expansion path so that they can exploit previous experience in the same country or in other countries with similar cultural characteristics. On the contrary, Morosini et al. (1998) outline that national cultural distance enhances cross-border acquisition performance by providing access to the target's and/or the acquirer's set of routines and repertoires embedded in national culture. Within the context of Chinese acquisitions, Björkman et al. (2007) propose that cultural differences can be both an asset and a liability – they can be beneficial as they may enhance potential synergies, but they can also create obstacles to fully reaping the benefits of the acquisition by exacerbating social integration problems and thus diminishing the acquiring and acquired firms' capacity to mutually absorb capabilities from each other.

Luo and Tung (2007) argue that when undertaking international expansion, emerging market MNEs face some distinctive challenges including of their poor corporate governance, the need to manage and integrate their rapidly expanding international footprint, their lack of global experience, and their weak product/process innovation capabilities.

Williamson and Anand (2013) show how Chinese firms can upgrade by acquiring advanced economy firms and by assimilating their capabilities. Studies frequently claim that acquiring advanced or higher order capabilities such as innovation capability is a motivation for Chinese firm acquisitions (Deng, 2009; Luo and Tung, 2007). The evidence on acquisitions of advanced economy targets enabling Chinese firms to upgrade their capabilities however is very limited and is anecdotal or case based. Case-studies show that many acquisitions of advanced economy firms have failed (Williamson and Anand, 2013). Some studies find anecdotal evidence of Chinese firms upgrading their

production capabilities aided by their acquisitions of advanced economy firms (Ramamurti and Singh, 2009; Williamson and Anand, 2013). There is however no evidence of innovation capability upgrading. Although Chinese firms do indeed obtain patents and technological products of target firms, what Williamson and Anand (2013, p.276) call 'hard technology and intellectual property' through acquisitions, gaining ownership of existing patents and products is not the same as gaining the capability to innovate new-to-the-world products and processes (Chari, 2015).

According to Brennan (2015), the greatest challenge facing Chinese acquisitions in Europe is adjusting their style of organising and of managing their operations from their traditional hierarchical mode of organisation, as well as the command-and-control based approach to management, to one that is more compatible with the more autonomous work culture prevalent in Europe. Chinese acquirers that tend to be more successful in Europe have largely adopted a hands-off approach to the acquired entity; those that have not adjusted their style of management tend to face challenges, such as the loss of key human capital, as well as related reputational capital. Navigating the very different cultural and institutional environment in Europe and operating according to local norms and practices requires preparation and training for Chinese managers. An additional challenge for Chinese investors in Europe relates to their need to develop their absorptive capacities if they are to fully reap the benefits from the know-how and capabilities of the acquired entities.

1.2.3 Integration strategies

Haspeslagh and Jemison (1991) consider that the success of an acquisition strongly depends on the successful integration of the two organisations following the acquisition, with the choice of integration type being based on two essential criteria: the interdependence between the entities, and the target's need for organisational autonomy. Combining these two criteria helps to identify a number of ideal-typical integration modes. The first one is absorption, which is intended to quickly align the target's strategies and practices with the acquirer's and results in significant changes in the structure and the systems of the target. The second approach is preservation, which allows the target's strategies and organisation to be maintained, since changes are restricted to an absolute minimum. In practice, there is a continuum between absorption and preservation, more than a binary choice between two distinct categories. The third approach is symbiosis, which aims for the target and the acquirer to learn from each other and share their qualities.

As for the integration strategies implemented by Chinese firms, Child and Rodriguez (2005) show that the apparent preference of Chinese firms when investing abroad to rely on acquisitions and organic growth rather than joint ventures with non-Chinese MNCs suggests that they may prefer to retain their distinctive administrative heritage. Fortanier and Van Tulder (2008) compare the pattern of international expansion of large firms from China with those from developed countries. They find that Chinese firms have internationalised more rapidly and more recently and tend to present a more volatile trajectory of internationalisation vis-à-vis those in developed countries.

Deng (2009) argues that Chinese firms possess firm-specific assets that give them competitive advantages at home and seek complementary strategic assets that are more advanced through their acquisitions abroad. The partnering approach to post-acquisition integration helps secure these strategic assets by giving autonomy to the target firm's

management team, retaining talents and creating synergy. Similarly, Kale and Singh (2012) assume that Chinese firms would prefer to develop an integration approach based on partnering, characterised by a high level of autonomy left to the acquired entities and a selective coordination of activities with the acquirer. This partnering approach developed by Chinese firms is likely to change over time. As they become more and more experienced, Chinese firms may develop more interventionist approaches.

In similar fashion, according to Marchand (2015) 'classical' MNEs from developed countries usually develop an absorption type of integration, whereas Chinese firms use mainly the partnering approach: they would not absorb their acquisitions, rather collaborating with them. The partnering integration mode, which is close to a strategic alliance, would be, if not completely distinctive, at least a recurring feature of Chinese firms and manifests itself through several features: structural separation of the acquired entity, selective coordination of activities between the two entities, few replacements of the target's resources (management team, brands), high organisational autonomy left to the target, and a gradual integration speed.

2 Chinese acquisitions in the Italian manufacturing sector

The scenario of Italy and China is particularly interesting due to the peculiarity of the Italian economic system which shares some features with the Chinese one. These are namely the strong presence of small and medium-sized enterprises (SMEs) that are specialised in traditional manufacturing industries (Rabellotti and Sanfilippo, 2008; Amighini et al., 2010). A recent study (Pietrobelli et al., 2010) shows that Chinese firms often regard Italy as a particularly informative European market since the consumers' taste is often perceived as being very demanding and very sophisticated. Moreover, in mainland China, Italy's reputation for high quality and premium products remains strong and the market for luxury goods has experienced remarkable growth (*The Economist*, 2012). According to Filippov and Saebi (2008), Chinese investments in Italy reflect the effort to enter competitive European markets and obtain access to superior technologies, know-how and capabilities. The high level of specialisation in sectors such as the automotive, textile and clothing, machinery and home appliances represents a very appealing factor for China wishing to upgrade its production and technological capabilities and build its own global champions in these industries (Mariotti and Mutinelli, 2009).

According to a report from the Rhodium Group (2012), the first Chinese investment in Italy was in 1986 when Air China opened a commercial office in Rome and until the end of the 1990s the number of investments from China was negligible. However, since 2000 the number of Chinese acquisitions in Italy has increased significantly as a confirmation of the importance of the strategic asset seeking motivation. Pietrobelli et al. (2010) affirm that what is happening today in Italy resembles the '*Marco Polo effect*' that happened in China centuries ago but in the opposite direction. At that time, Marco Polo was impressed by the level of civilisation achieved in China and brought back to Italy some important scientific and technological discoveries. The same is happening today, since Chinese companies seem to be interested in gaining the knowledge and the expertise developed in Italy, in particular in design-intensive and in high-quality production. For these reasons, Chinese MNEs are increasingly targeting the acquisition of

technological skills, design capabilities and brands that are available in the Italian specialised manufacturing clusters (Pietrobelli et al., 2010) as illustrated in Table 1.

Table 1 Main Acquisitions by Chinese firms in Italy by sector

<i>Year</i>	<i>Target</i>	<i>Acquirer</i>	<i>Sector</i>	<i>Stake %</i>
2001	Meneghetti	Haier	White goods	100
2004	Wilson	Wenzhou Hazan	Textile	90
2005	Benelli	Qianjiang Ltd	Motorbikes (luxury)	100
2006	Elios	Feidiao Electrics	White goods	NA
2007	HPM Europe Spa	Hunan Sunward Intelligent Machinery	Machinery	51
2007	Omas srl	Xynyu Hengdeli Holdings	Textile	90
2008	Cifa	Changsha Zoomlion	White goods	60
2008	Tacchini Group	Hembling International Holdings Limited	Fashion (luxury)	100
2009	Elba	Haier	White goods	20
2010	Volvo Italia	Zhejiang Geely Holding	Automotive	NA
2011	Sirton	Shanghai First Pharmaceuticals	Pharmaceutical	NA
2012	Ferretti Group	Shandong Heavy Industries-Weichai Group	Boats (luxury)	75
2012	De Tomaso	Hotyork Group	Automotive (luxury)	80
2012	Miss Sixty	Crescent Hyde Park	Fashion (luxury)	50
2012	Ferragamo	Peter Woo	Fashion (luxury)	8

Source: Data collected by the author

Rather than building home-grown brands that would require a long time to become established, Chinese firms seek to invest in Italian brands that possess a rich heritage but have fallen on hard times or gone out of fashion to consolidate their position in the global market. An emblematic example is the acquisition of Omas, a company specialised in the production of luxury fountain pens since 1925, which was acquired in 2007 by the group Xynyu Hengdeli Holdings. Other cases are the Hembly International Holdings, a leading Asian clothing retailing group that acquired Sergio Tacchini, a well-known but declined luxury clothing brand in 2007 and Trendy International, a Hong Kong clothing distributor who recently bought a minority stake in Miss Sixty, a popular luxury clothing manufacturer for teens. Overall, the widespread anxiety concerning China's international expansion calls for a better understanding and knowledge of the strategies of Chinese companies entering the Italian market to better inform what is becoming an increasingly important debate. Although this topic is becoming fashionable in international business studies, the empirical evidence on Chinese FDI in European countries is quite limited and mainly relates to the UK (Burghart and Rossi, 2009; Cross and Voss, 2008; Liu and Tian, 2008) and Germany (Schuller and Turner, 2005). This evidence is even scarcer if we consider Italy and to large extent the luxury manufacturing sector.

An exception to this lack of evidence is a study conducted by Spigarelli et al. (2013). Spigarelli et al. (2013) illustrate how Chinese companies use Italy to access Western markets (and strategic logistical services), as well as a wide range of distinct skills/intangible assets, such as brands, know-how and technology, particularly in the manufacturing industries. The findings suggest that while superficial product portfolio

and cost benefits can accrue due to the acquisition, cultural and administrative differences and lack of synergies between the two companies prevented the acquirer from fully integrating the intangible assets, particularly human resource talent, of the acquired firm. Given such limited evidence, there is a valuable opportunity to conduct further research.

3 Methodology

This paper presents the results of two case-studies of Chinese acquisitions that were conducted to provide some in-depth insights into the influences and the motives driving these firms to invest into the Italian manufacturing sector. The paper relies on two in-depth case-studies (Yin, 2008) that were purposefully chosen to illustrate some distinctive organisational challenges that were faced by both the target and the acquirer firms before, during and after the acquisition. The acquisitions of Meneghetti by Haier and of Idra Srl by LK Technology Holdings Ltd were selected as suitable case-studies. Both manufacturing firms were acquired by Chinese investors in 2001 and in 2008 respectively. Both Italian firms operate in a niche manufacturing sector and they both enjoy a long history and tradition and can be considered as being representative of the manufacturing luxury sector due to their design-intensive nature and the premium quality of their products.

To increase comparability and confidence in the findings, the two case-studies followed a structured research protocol as illustrated in Table 2. Apart from secondary research in the form of media reports and company documentation, primary research was carried out via interviews. These in depth interviews were conducted with two top executives and with a range of other six key informants who were knowledgeable about the acquisitions.

Table 2 Case-study research protocol

<i>Data source</i>	<i>Main focus</i>	
One in-depth interview with Meneghetti General Manager	Overview of the target's market	Overview of the acquirer's market
	Brief history of the target	Brief history of the acquirer
	Target's main strategic assets	Acquirer's main strategic assets
One in-depth interview with Idra Financial Controller		Acquirer's international expansion
	The acquisition	
	The post-acquisition	
Six in-depth interviews with key-informants	The integration phase	
	Discussion of the findings to increase their robustness	

First, the General Manager of Meneghetti and the Financial Controller of Idra were interviewed to investigate some aspects of the acquisition that would not have emerged with other data collection methods. Both interviewees have been working in their respective companies for many years and played a crucial role before, during and after the acquisition. The interviewees also provided useful material such as financial reports of the companies along with other secondary data that were useful to corroborate the findings. Additionally, to overcome the limitations that conducting two purposefully

chosen case-studies entail (Yin, 1984), and to increase the robustness of the findings six key informants possessing relevant expertise in the field and knowledgeable about the acquisitions were also interviewed (Tellis, 1997). The data collected from the two main interviews and the interviews with the key-informants was cross-referenced with secondary data from company material (e.g. official press releases, companies' bulletins, companies' websites) for triangulation (Jick, 1979).

4 The case-study: the acquisition of Meneghetti by Haier

4.1 The target

Founded in 1960, Meneghetti SpA is a family company producing domestic appliance components, such as cooking hobs and ovens, under third parties' renowned brands. In the late '90s, the business was particularly committed to the production of the so-called 'mini-kitchen'. The mini-kitchen was meant as a compact self-contained kitchen designed to fit small spaces. The design included, in addition to the structure, built-in cooking hobs, an oven and a small refrigerator. Since the in-house production was already covering the cooking hobs and the ovens, Mr. Meneghetti decided to start manufacturing the refrigerator unit as well. In the late '90s, he inaugurated a new refrigerator plant in Campodoro, near the city of Padua, not far from the original plant based in Rosà (in Vicenza). Unfortunately, later in the same year, Mr. Meneghetti, the charismatic innovator and leader of the company, passed away leaving the management to the heirs. In 2001, the Meneghetti family decided to retain the core business of the family and to sell the refrigerator plant in Campodoro to the Chinese Qingdao Haier Co., Ltd maintaining an 8% share ownership. The facility's production capacity was 250,000 units per years and at the time, the facility employed 100 people (Yi and Ye, 2003).

4.2 The acquirer

Qingdao Haier Co., Ltd. is a company specialised in manufacturing and distributing household appliances and consumer electronics goods. Based in Qingdao, China, it currently owns 24 manufacturing centres, 21 industrial parks, and five R&D centres in Europe, North America, Asia, the Middle East and Africa. Controlled with a share holding of 45.9% by Haier Group Corporation, a privately held company characterised by large state-owned stakes, Qingdao Haier Co., Ltd. has been listed on the Shanghai Stock Exchange since 1999. Recently it gained recognition as one of the best publicly traded companies in Forbes Asia Fab 50 and as the world's number one major appliances manufacturer, with a 9.7% of retail volume share. The company in 2013 was also ranked eighth in the Top 50 Most Innovative Global Enterprises and ranked first for Consumer Products and Retail by the Boston Consulting Group. Originally named Qingdao Refrigerator Co., Ltd., Haier was founded in 1984. As happened to many Chinese companies, Haier business growth and development has been shaped by Chinese historical and political milestones of the post-Mao era. Starting from 1979, when the Chinese economy officially welcomed foreign investments through the introduction of the first law on Sino-foreign equity joint ventures, until 1984, when policy reforms appointed 14 coastal cities as open areas for foreign investments, reducing red tape and granting tax benefits. These were the circumstances that allowed the German company

Liebherr to sign a joint-venture contract with Qingdao Refrigerator Co. in 1985. Throughout this alliance the company, whose name changed to Haier, acquired equipment and technology know-how from the German counterpart managing to boost expansion within the national market. The use of a shared trademark was a great help to win market share since the foreign brand reputation conveyed an idea of prestige and quality to the Chinese customers (Yi and Ye, 2003). By the end of the '90s, the Chinese market for refrigerators was incredibly promising and fast growing. Social acceptance of private property and increases in per-capita incomes were the main drivers of household appliance sales in China. The refrigerator was the first electrical appliance that a family wanted to own and the symbol of a whole new revolution – not just a status symbol but the appliance that changed the traditional way of storing and consuming food and beverage. During this phase, with a net profit of USD 20mil, 50,000 employees and the undisputed leadership in the national market, Haier started to pursue a differentiation strategy and aggressively expand internationally. The decision to internationalise was mainly to maintain high growth in the wake of growing competition from foreign firms and to comply with Government directives of the 'Go Out Policy' (11th five-year plans of the People's Republic of China). Haier's aim was to become a truly global player, by increasing its market shares and by building a worldwide brand. To fulfil this goal, the initial strategy adopted was to first penetrate the difficult markets and later on focus on the easier ones. The most challenging and profitable markets were the USA and the European ones. Committed to this effort, the company was called to strengthen skills, competencies and above all sustain massive capital investments. In the USA, Haier entered the market first through a joint venture with Michael Jemal and then through a greenfield investment in South Carolina, where a production facility was opened. In addition, a marketing centre in New York and a research and development hub in Boston were established. In Europe, on the other hand, the circumstances were far more complicated. On the one hand, European customers had always been generally considered quite sophisticated and, most importantly, the market was extremely fragmented - a product appealing to the British taste possibly did not appeal to the Spanish. Therefore, gaining success in the European market meant that Haier needed what it takes to win the global market. The development of the European strategy started with an initial joint venture with Philips in Netherlands and later on through acquisitions and the establishment of commercial outposts in all the major markets (e.g. France, the UK, Spain, Germany, Poland, Greece, Russia). Nowadays, Haier's production strategy is blended. Part of its manufacturing is made in China and part of it is localised in local markets. In Europe, for instance, Haier established design centres, a manufacturing facility and regional commercial centres. The regional commercial centres are under the control of Haier Europe Trading, the European commercial branch of Qingdao Haier Co., Ltd., which is headquartered in Paris. The rationale of this blended strategy is to establish a "locally designed, locally made and locally sold" system that allows Haier to acquire the latest information and understand the changes in local customers' demands (Kumar and Steenkamp, 2013). In addition to the capability of quick reactions to market changes, producing locally allows Haier to put 'made in the US' or 'made in Italy' labels, avoiding in this way the customer perception of low quality exports from China. Haier products are sold through most major retail chains. Considering the refrigerator business, Haier pursues a differentiation strategy in China and in the USA through the Casarte brand, targeting high margin price segments, whereas in Europe and in Italy the products are targeted to medium margin price segments like the ones from the main competitors such

as Candy, Merloni and Indesit. However, brands such as Borsch, Liebbers and Siemens are still preferred by European consumers due to a strong preference towards European brands. The latter issue has posed one of the biggest challenges for Haier – build satisfactory products for customers getting more and more sophisticated and at the same time overcome the drawbacks linked to common prejudices and misconceptions over Chinese brands.

4.3 The acquisition

Having decided to go global, Haier's first strategy to approach the European market was to send sales representatives knocking the office doors of the most important retailers (e.g. Carrefour, Conforama, El Corte Inglés, Kingfisher) to introduce and place their products. According to the General Manager of Meneghetti, the approach was not very effective. Sales representatives were not fluent in English, the catalogues were most of the time in Chinese and the product itself unappealing to the European taste. The refrigerators that were selling so well in China and that were reporting fair success in the USA were almost impossible to place in the European market because they were considered 'ugly' (interview with the General Manager). In addition, the label 'made in China' was creating the wrong expectations – the product was supposed to be extremely cheap and only adequately functional. It was during this phase that Haier was approached by Mares Marketing. Mares, a company based in Varese, specialised in offering sales and marketing services to manufacturers of domestic appliances in need of expertise to develop their sales network in the European market. In early 2000s, it was the founder manager of Mares Marketing that put in contact the heirs of the late Meneghetti and the Haier managers to promote the acquisition of the refrigerator plant in Campodoro. In July 2001, the official announcement was released: Qingdao Haier Co. purchased the Italian refrigerator plant belonging to Meneghetti spa, based in Campodoro, for USD 8 million. The new-born entity was named Haier (Italy) Appliances. The acquisition was meant to mark a turning point in Haier expansion. The inaugural celebration was delivered in Chinese style. Haier management explained the mission and the vision for the future, the traditional ribbon was cut, Italian and Chinese flags were waved in the air. In the meanwhile, all employees listened carefully somehow astonished by the nationality of the ownership but mainly relieved that the future now appeared less uncertain. However, Haier's euphoria for the conclusion of the first European acquisition rapidly burnt out when the deal revealed itself not to be as good as expected. The facilities were surely new but the refrigerator production had never been properly launched, therefore since the customer portfolio was without any orders there was a clear production overcapacity. The Chinese management team sent to Italy consisted of just one production director and an interpreter (interview with the General Manager).

4.4 The post-acquisition

At the beginning, the difficulties were several. Irregular production orders, incommunicability between managers and workers, and finally chaos generated by the whole '*cassa integrazione*' situation. '*Cassa integrazione*' is a sort of an unemployment insurance that companies facing financial difficulties can resort to. It means that for a fixed number of days in a year workers do not come to work but are still paid by the company for these working days lost. In so doing, the company still saves money by

making reduced payments towards National Insurance and Stamp contributions and still guarantees employment and workers' rights. From the Chinese standpoint it was unbelievable that workers were to be paid for not working and staying home, the Chinese managers did prefer to keep them in the factory even if there was no production. From 2001 to 2003, nothing relevant happened in the Italian subsidiary. Haier kept expanding in Europe through the opening of regional commercial centres, each one independent from the others, with their own product manager, accounting and logistics departments and one production director to achieve the budget. The headquarter for the Haier European commercial area was located in Paris. In Italy, the regional centre was originally based in Varese and later on in Milan. In the meantime, the Campodoro facility was only marginally involved in the greater strategy. According to the General Manager, at that time the plant was seen more as a burden than a resource to be exploited (interview with the General Manager). Things started to change by the end of 2003. The Qingdao management realised that the Italian plant could be used as a regional observatory to observe the market, the product itself, the competitors' price dynamics, the suppliers' networks and all the production information that were not usually available through the commercial salesmen. The responsibility to supervise the plant was given to the General Manager of Meneghetti, a very reputable Italian manager with extensive experience in the sector having previously worked extensively in Zanussi, Electrolux and Whirlpool. When considering Haier's acquisition of Meneghetti, it can be said that from 2001 to 2004, the Chinese management of Haier Italy Appliances was more concerned with minimising the damages rather than proactively starting a proper post-acquisition strategy (interview with key-informant A). At that time, the production consisted of the assembly of a double-door refrigerator (with a refrigerator and a freezer integrated in the same appliance) of Chinese design that in Europe targeted the lower end of the market. The profit margins expected were almost impossible to achieve. Acquiring the relevant management expertise, in the person of the General Manager, was the first step made by Haier to change the *status quo* of the forgotten Italian plant. During the following four years, the Italian management (the General Manager and his team) and the Chinese chief engineer in Qingdao, the only one truly believing in the potential of the Campodoro plant, jointly conceived the product that marked the turning point for Haier's expansion – the 3D refrigerator. The product was totally designed from scratch for the European consumers, it was innovative from a technological standpoint, functional, and “beautiful to look at since its design was refined and sleek” (interview with the General Manager). Unsurprisingly, the 3D refrigerator became the Haier ambassador product in Europe, registering great success also in China, where the ‘made in Italy’ label greatly appealed to wealthy consumers. The Campodoro facility became the production centre of the new product. Even though Italian wages were costly by Chinese standards, the product was meant to target the high end of the market, therefore the profit margins were possible to achieve. In the Campodoro facility, the production line was modernised to match the needs of the new design, maximise process and product communalities and minimise process bottlenecks and inventory. In 2009, the Campodoro plant worked at its full capacity with a yearly production of 80–100,000 units (interview with the General Manager). The factory was not just an assembly facility, it purchased the painted foils and the manufacturing was entirely made in-house. Since the plant was relatively small – competitors had more than one production line and production of 1 million units per year, the economies of scale were more difficult to obtain. This provided the rationale for sourcing components from China where the prices were lower and where a further

discount could be obtained due to Haier's bargaining power. As for decisions regarding annual production volumes, the Italian factory was subordinated directly to the Qingdao headquarters rather than the Haier Europe Trading branch. Haier Europe and Haier Italy had their own catalogue both selling products that were both manufactured by Haier Italy and some imported from Haier's Chinese factories. The 3D refrigerator soon gained the status of a global product that gained the appreciation not only from Western countries but also in China, where it became surprisingly an overwhelming success (interview with the General Manager). Specifically for this product Haier created the brand 'Casarte' that recalled the idea of 'Italian-ness', luxury and the prestige of 'Made in Italy' products. Haier targeted wealthy Chinese, with a yearly income of over USD 1 million for the product, and priced the product at USD 100 higher than the price of similar products from the competitors. The product was well distributed and helped Haier gain remarkable visibility as a brand in Europe. Unlike other multinationals coming from emerging economies, Haier proudly owned manufacturing facilities in Italy and its products were authentic 'made in Italy' goods. Nowadays, the situation has slightly changed from the 'golden era' that can be dated from 2008 to 2012 (interview with the General Manager). The original 3D product has not been radically innovated yet and its production is slightly decreasing. The European market still represents an obstacle to Haier since the path towards its quest has been much longer than just the first step made by acquiring the production facilities in Campodoro (interview with key-informant B). The drawbacks linked to the misguided perceptions of Chinese brands are still heavily influencing the purchasing of Haier refrigerators, as the General Manager confirms "when facing two options that are quite comparable among themselves, the consumer tends to stick with the European well-known brand rather than to opt for the Chinese one" (interview with the General Manager).

4.5 The integration phase

According to the General Manager, working in China and with the Chinese managers is "not a task for weak hearted" (interview with the General Manager). The main challenge during the integration phase concerns the fundamental differences between the Italian and the Chinese culture, not just at the organisational level but also at the national level. As it was explained by the General Manager

"I was confused at first. I did not understand the Chinese culture and the way the Chinese managers behaved. Similarly, they had the same feelings about me. The turning point happened when I started learning more about their culture and to realize that it was impossible to keep doing business as I was used to. It was essential to recognize that I was not doing just business but I was doing business with the Chinese".

When considering Chinese business behaviour, it is quite difficult to identify which are its distinctive features, as it happens for the Japanese or German firms; however, it is possible to detect some distinctive traits since Chinese business behaviour tends to be heavily influenced by the Chinese national culture (interview with key-informant D). This was confirmed by the General Manager, for instance, when he mentioned the radically different attitudes towards the concept of time when approaching a project. In the Italian organisational culture, for instance, a Gantt chart is one of the most common tools used to plan the production timeline. The drawing of the Gantt chart and the planning involved are the initial steps, the initial phase when the manager or the team

identifies the adequate timeframe for the project completion, defines the milestones and the checkpoints, finds out the alternatives, the corrective plans and the possible shortcuts. Through this approach the aim is to face and solve the majority of the issues that are likely to happen during the project and to closely monitor its development from the beginning to its completion. Conversely, “the Chinese saw the Gantt chart not as the starting point but as the final one. Once the planning was executed the paper sheet was put away and forgotten” (interview with the General Manager). Moreover, the General Manager stated that the tool itself was somehow used to please the supervisor rather than to visualise the pattern toward the completion of the project. For instance, it often happened that the Gantt chart was started from the end going backwards, with the result that everything was apparently fitting even though the rationale behind the tool was completely missed. Also the notion of contract and negotiating is different, “I was used to the idea that when the contract was signed by both the parties that it was it, instead the Chinese approach allows for further negotiation and changes even once the contract has been signed” (interview with the General Manager). Pleasing the supervisors is another issue highlighted by the General Manager that sometimes leads to misunderstandings and organisational delays.

“In China people will never say no. You have to understand when the denial is tacit. For instance, once, it happened that something was going wrong back in the Chinese facility and from the Italian office it was impossible to understand what the whole matter was about. Since the situation was murky, I decided to book a flight and go over myself. It was clear that my Chinese colleagues were not looking forward to my arrival but rather than just explicitly telling me not to come they made up excuses. First it was that the one I wanted to talk with was on a business trip in the US, then that he was free only on a particular hour, and lastly that the plant would have been closed in the days I was planning to visit to allow employees to attend the Olympic torch passage through the city. It was probably at that time that I finally had the definitive proof and I gave up: the Olympic torch official path was not going nearby Qingdao at all. The most exhilarating fact was that while in my office in Campodoro I was wondering together with my team what the Chinese were doing, at the same time in an office in Qingdao my colleague and his team were probably wondering why I was being so stubborn not to understand that it was a no and that I wasn't welcome.” (interview with the General Manager)

Similarly, the General Manager discovered that the importance of pleasing a guest sometimes could be misleading for communication. At the beginning of his experience in Haier, during the first meeting in China he was asked to give a talk to the Chinese colleagues. The room was filled up with 50 people and they were all listening carefully to what he had to say. However, he soon realised that no one understood a thing of what he was saying even if there were no complaints. From then on, he learnt to stop now and then and ask not only if they were following him but also if they were able to summarise the concepts just explained. In this way, he learnt how to improve his own speech delivery and to actually dialogue with colleagues. Language was not the only barrier to face during the integration phase. Communication as a whole is an essential issue when managing a business as wide as Haier's (interview with key-informant C). Nowadays, technology allows people to work in offices as far away as 9,000 kilometres from one another without any trouble. However, within a Chinese organisation it is important to make yourself known in person to your peers and breach the circle of friendship, the so called *guanxi* (interview with the key-informant A). According to the General Manager's

experience, the Italian management devoted substantial effort into relationship networking with the Qingdao colleagues in order to develop mutual trust. The General Manager's trips to Qingdao were frequent and every time a gift from Italy was brought. However, building mutual trust and relationship is not enough to manage the relations within the organisation. Haier, in particular, even though relatively young from a Western perspective, is quite a traditional business with a very hierarchic and bureaucratic organisation structure. There are too many management layers and the main consequence is that the decision process is extremely lengthy and time consuming. The leadership is overloaded and when called to decide, the decisions are inefficient due to lack of information and time. Moreover, the oppression at the top of the organisation is balanced by a paralysis at the periphery where managers have very little autonomy and no recognition for their good or bad actions. According to the General Manager, things are starting to change in Haier, thanks to the efforts of the current CEO. Chinese are very ambitious when setting a goal or an objective to achieve, however, most of the time what the management forwards is not a decision but a proclamation, a poster, a *dazebao*. This for example caused some confusion immediately after the acquisition of Meneghetti, when the Haier delegation in Campodoro announced investments and goals but then left the management of the facility to just one Chinese manager, who did not speak either English or Italian, without implementing any of the actions in the initial statement. The tendency for ambitious proclamations without due follow up actions was also evident in the reticence of the Chinese management to further invest in the marketing and the communication campaign. This was perceived as Haier's lack of resolution to ultimately build a strong brand. When the General Manager was asked about it, he answered that Haier made significant investments in the European market, but due to delays, lengthy decisions and weak communications the 3D product came out a couple of years later than planned. "At that point, in Qingdao the success of the 3D product was experienced as something to exploit not as something to leverage in order to gain even more in the future" (interview with the General Manager). In addition, when it became necessary to renew and revamp the product, it was decided to commit the restyling to the Porsche Design Centre, without even considering any of the smaller independent designers who were probably more equipped and knowledgeable about the refrigerator market. In all these circumstances, the General Manager said that the Italian team tried to influence the decisions from the headquarters but it was extremely difficult due to the organisational approach of the Chinese counterpart. Decisions were made from the top managers and the involvement of the lower managers was not always welcomed. The same was confirmed by the General Manager who stated that initially his position within the company was not clearly defined, only later due to fortuitous circumstances and personal interests he became more involved in the design of the new 3D product and he gained recognition and credibility far above and ultimately appointed General Manager.

Due to the 3D product success, the Italian facility became a flagship of Haier production in Italy. Qingdao headquarters requested some changes to make the Italian factory look "a little bit more Chinese" (interview with the General Manager). Now on the walls of the offices there are Chinese posters, a clock that gives the time in Italy and the time in China, the Haier poem and outside the building there are the Italian, the Chinese and the European flags. Interestingly, when asked whether the Italian culture was somehow absorbed by the Chinese, the General Manager affirmed that it was impossible. This is the reason why in the Campodoro facility the two cultures clearly coexist and gave birth to an integrated one (interview with the General Manager). Evident examples

are the Chinese posters on the corridor wall where the Mandarin text and its Italian translation are one next to each other. However, the translation is not a literal translation but one that is more apt to the Italian culture.

“It would have been ridiculous to do otherwise. It was impossible to import the Chinese culture in our plant. However, a fundamental integration step was to take conscience of the peculiarities and the differences between our culture and theirs and make sure that everyone respect each other.” (interview with the General Manager)

Table 3 summarises the acquisition of Meneghetti by Haier and its critical phases.

Table 3 The acquisition of Meneghetti and its critical phases

The acquisition	At the time of the acquisition, aim of Haier was to penetrate the European market, one of the most challenging and profitable markets in the world. Following a greenfield investment in the USA, Haier realised that acquiring an already existing production plant in Europe could have been a more effective strategy. The Italian Meneghetti seemed a good choice at the time - the facility was located in the North of Italy, where there is strong tradition of white goods manufacturing, and the previous owners were willing to close the deal rapidly and at a convenient price. Owning a manufacturing plant in Italy would have allowed Haier to exploit the closeness to the target market, to better understand the European consumers' taste, to gain an in-depth knowledge of the suppliers' networks and competitors as well as to unveil strategic information that through commercial outposts were impossible to obtain.
The post-acquisition	During the first couple of years after the acquisition, the Italian plant was treated more like a nuisance than an asset. Things started to change once a new General Manager, with important previous experience in the white goods sector, was appointed. The Qingdao headquarters decided to invest heavily into the European market. A new 3D product was developed for the European customers thanks to the synergies established among the Italian plant and the Qingdao headquarters. The Italian plant was the only Haier's manufacturing facility in Europe. In the Campodoro facility, new machineries were acquired and the production line was modified to accommodate the production of the new 3D refrigerator. Components were sourced from China. Directives regarding production came directly from the Qingdao headquarters. Although the product experienced remarkable success in Europe, the drawbacks associated with a Chinese brand were still significant. Conversely, in emerging markets and mainly in the Chinese one, the 'Made in Italy' tag on Haier refrigerators proved to be very successful.
The integration phase	In the transition period after the acquisition, the main issues among the Chinese management and the Italian facility emerged in terms of different working routines and lack of communications due to language barriers. Once the Italian General Manager was appointed, the cultural issues were only partially solved. Differences persisted in the context of organisational relationships and communication with the Chinese managers. Moreover, the Chinese firm was characterised by a very highly centralised approach to the decisional process. Strategies were slow to be implemented and there was a significant low level of autonomy at the periphery. Different attitudes towards working practices and project management tools caused delays and waste of resources in shared projects. A particular focus on efficiency and short-term results was noticed.

5 The case-study: the acquisition of Idra Srl by LK Technology Holdings Ltd

5.1 The target

Established in 1946 in Brescia, Italy, Idra srl is one of the world's leading manufacturer of die-casting machines for aluminium and magnesium. In the last 68 years, it has designed, produced, customised and serviced more than 13,000 machines all around the world. In Europe and in the USA, Idra dominates the high end of the industry together with a few other European players such as Italtipresse, Buhler and French. The market for Idra's products is global and its customers are world renowned companies. For instance, when considering the automobile industry, the Ford Mondeo's rear door is produced exclusively on Idra die-casting machines, as well as the dashboard structure of the BMW Mini. In the same industry, other high-profile customers are Benz, Audi and Fiat Chrysler. Throughout its long history, Idra's know-how and brand name have remained consistent with the original vision of its founders despite formal changes in the company's name (from Idra Presse SpA to Idra srl) and its owners (from Italian to Chinese) (interview with the key-informant E). In 2002 Idra Presse SpA, previously listed in the Milan Stock Exchange, was delisted due to financial difficulties and one year later, Idra Presse SpA entered the process of arrangement with its creditors. In 2004, the company was taken over by I2 Capital, a private-equity investment bank, a joint venture between Banca Intesa San Paolo SpA and Intek SpA. I2 Capital acknowledged the current undervaluation of Idra and decided to acquire it in order to reorganise and sell it in a couple of years for a profit. In the meantime, the whole production activities were leased to a new-born legal entity, named Idra Casting Machines srl, based in Milan. In the Summer of 2006, Idra Casting Machines conferred, through a reverse merger, all the know-how and of its operations to STP Presse srl, a former subsidiary, and became the holding company of the Group. Later on, STP Presse srl was renamed Idra srl. By the end of 2007, Idra srl was closing one of the best years since 2004. The restructuring of the company was completed; a new manufacturing plant has been inaugurated and the break-even reached. Prospects for the future were remarkably positive and the company was finally ready to conquer back its leading position within the Western markets after almost a decade of sacrifices and difficulties (interview with the Financial Controller).

5.2 The acquirer

L.K. Technology is a company engaged in the design, manufacturing and sale of die-casting machines, plastic injection moulding machines and computerised numerical controlled (CNC) machines. The Group was established in 1979 in Kwai Chung, in Hong Kong and started its expansion into Mainland China in 1991 with the opening of L.K. Machinery Co., Ltd., its first manufacturing plant in Shenzhen. Nowadays, it owns manufacturing facilities in Shenzhen, Zhongshan, Ningbo, Shanghai, Fuxin and Kunshan in China, and in Taiwan and in Italy and it currently employs 4,000 employees all around the world (L.K. Technology Fact Sheet). In October 2006, L.K. Technology Holding Ltd. (558: HKG), was listed in the Hong Kong Stock Exchange. The Group obtained its first international certificate, the ISO 9001 in 1994 as well as several accreditations from BSI, in 1997. More than 100 acquired patents later, it has received several national awards and recognitions such as 'China Top Brand', 'Hong Kong Top Brand', 'Machine 500 China'

and '2013 Hong Kong Awards for Industries: Machinery and Machine to Old Design Award'. Its products are deployed in the automobile, household electrical appliances, building, aircraft and military industries. Nowadays, L.K. Technology is recognised as one of the largest die-casting machine manufacturers in the world and one of the five most influential manufacturers in China's plastic injection moulding machines (interview with the Financial Controller). The majority of its production is concentrated in China and the Group mainly targets low-cost industries in emerging economies. When considering Western markets, such as Europe or the USA, L.K. Technology encountered significant difficulties in breaching the market supremacy of European players – customers in the European and the US market generally seek high quality performance machines, and tend not to consider price as their priority. When considering L.K. Technology's path towards internationalisation, it is possible to identify two different phases (interview with key-informant F). The first one comprises the first two decades of operations when the management focused major efforts and resources towards the development of the manufacturing and sales network in Mainland China and in neighbouring countries such as Thailand, Taiwan and Japan. By early 2000s, the rapid development of the Chinese automobile, communication, motorcycle, machinery and electrical industries had led to significant rises in the demand for die-casting. Particularly in the categories of aluminium and magnesium die-casting machines, from 1995 to 2003, the average annual growth rates were of 11.95% and 35.45% respectively (The rapidly growing market of China's Die Castings, 2007). In these circumstances, the second wave of internationalisation occurred. In 2006, to capture overseas markets, L.K. Technology incorporated a sales and service company in Delaware, USA, and in 2008 it acquired Idra srl, in Italy. Through these outposts the Group meant to establish a strong presence in the more profitable and difficult Western markets. Currently, the international strategy of L.K. Technology relies on a proprietary network of sales and service companies in China, Hong Kong, Thailand, Japan, Taiwan, India and Italy. In addition, LK Technology outsources the commercial and service operations to independent local dealers in Israel, Indonesia, Philippines, Turkey, Germany and Brazil.

5.3 The acquisition

When I2 invested in Idra Presse SpA after the delisting, the operation was not a long-term industrial investment but a financial one (interview with the Financial Controller). The objective of the private-equity fund was to exploit the potentials of a troubled company, currently undervalued by the market, restructure it and after a couple of years resell it for a profit. The screening for potential future acquirers started immediately after the acquisition. In 2004, among other interested parties, L.K. Technology established the first contacts. What made of Idra an attractive investment, according to the Financial Controller at Idra srl, was the fact that at that time "Idra had a very strong brand, knowledge of the industry at a global level, heritage and an excellent product. Moreover, in the industry, Idra was synonymous with long-lived product" (interview with the Financial Controller). Since 2004, the Hong Kong management was keeping an eye over a possible investment deal in Europe. There was Idra, a world-class player in the business and it was on the market for sale. L.K. Technology, at the time, was undergoing its second wave of international expansion. In 2006, the US greenfield investment represented a first attempt to conquer the Western markets, but still the brand was too weak and the competition too fierce. In the die-casting industry, due to the characteristics

of the product, customers were few and manufacturers even fewer, it was therefore significantly difficult to breach competitor's hold on the market. When L.K. Technology realised that the sales forecasts in the USA were not enough to conquer the Western markets, the move towards Idra was made (interview with the Financial Controller). The acquisition of Idra was an appealing chance on the market. The Chinese company had a strong presence in the national market and significant knowledge of the industry, but it lacked a strong brand identity and a well-oiled international network. The acquisition would turn L.K. into the largest die-casting machines manufacturer in the world. Moreover, the two firms had some synergies that could be exploited – namely scale and production efficiency of the Chinese company and the strong brand name and global sales network of the Italian counterpart. However, according to the Financial Controller, an important driver for the acquisition was also the fondness that the CEO had towards the Italian firm. Using the automotive sector as a metaphor, the Financial Controller said that “Idra is what Ferrari is for the automotive industry. Imagine you are a Chinese car manufacturer and you discover that Ferrari is on sale. You have the resources to buy it and on the top you are a great fan of it. Would you buy it, would not you? Well, this is what happened to Idra and L.K. Technology” (interview with the Financial Controller). In the first months of 2008, during the last phases of due diligence, Idra reported the 2007-year results – it was one of the best years since 2004. In that moment, Idra was a great deal, the firm had just undergone extensive restructuring, a new plant had just been inaugurated, break even had been reached and forecasts for 2009 were very promising. In April 2008, L.K. Technology announced that, through its indirect wholly owned subsidiary Honest Well Investment Limited, an agreement with Idra Casting Machines srl had been signed. L.K. Technology acquired a 70% stake of Idra srl. In addition, both L.K. Technology and Idra Casting Machines srl agreed to immediately fund Idra with €3,500,000 and €1,500,000 in cash, respectively. Additionally, the acquisition provided for the parties to enter into a call option agreement. In this way, L.K. Technology through Honest Well had the option to purchase the 50% of Idra Casting Machines' quota in the first option period and the remaining 50% in the second option period. The acquisition of the remaining shares happened respectively in 2010 and 2011. This provision was taken with the aim of ensuring as much continuity as possible during the shift between the old and the new ownership. In the official L.K. bulletin the reasons for the acquisition were made public “the marriage of strengths of the two companies will allow them to fully realise their corresponding resources, professional talents and services, and expand their market shares in China and around the world” (L.K. Acquisition Bulletin, 2008). Due diligence reports, financial statements and commercial forecasts all looked positive for 2009.

5.4 The post-acquisition

By the end of 2008, the first signs of the upcoming financial crisis appeared. Sales mirrored the uncertainty of the markets. Especially because of the decrease in investments for industrial machineries in the automobile industry, existing orders were cancelled and new orders were delayed. In 2009, Idra registered a loss of €6.5 million. L.K. Technology, as the main shareholder, helped considerably by continuing to financially support the subsidiary despite the loss. From the outset of the acquisition there was the deliberate intent of keeping L.K. Technology and Idra srl quite independent from one another. As stated in the official 2008 acquisition bulletin, the strategy was quite

clear: “L.K. Group will run the two brands independently, letting them shine under their unique charms, it will also strive to expand the coverage of both brands in China and in the world, thereby facilitate strong advances of its die-casting machine business” (L.K. Acquisition Bulletin, 2008). In order to better convey the rationale behind the separation of the brands and the autonomy of the Italian subsidiary, the Financial Controller again used a metaphor from the automobile industry:

“We introduce ourselves in the markets as Idra srl, not L.K. Technology. The brands have two completely different targets. It is just like for Ferrari and Fiat. The purchasing experience, the after sales services and the commercial strategies are completely different. It is fundamental not to confuse the brands. Can you imagine a Ferrari getting around with the Fiat logo? It is important to keep the two entities separated in order not to confuse the final customer.”
(interview with the Financial Controller)

Therefore the Idra Group runs the manufacturing facility in Travagliato, Brescia (Italy) and manages the commercial and after sales outposts of Idra North America, Inc. (USA), Idra Pressen GmbH (Germany) and Idra China Ltd. Not only in the day-to-day management but also in the setting of the strategy, the Idra Group’s management team is completely autonomous. As stated several times by the Financial Controller, the commercial and the communication strategies of the two brands are radically different and merging them would only result in confusing the customers. Moreover, it was decided that in the Idra’s website, in the section dedicated to the company history there would be no references to any of the several restructuring operations and to the latest acquisition. This deliberate choice underscored the notion that no matter the name of the legal entity or its ownership, Idra’s values of innovation, quality, reliability and expertise have always remained unchanged since 1946. Within this context, the presence of the Chinese shareholder is generally not highlighted in any instance related to commercial activities, however, it becomes fundamental when considering the financial aspect of the activities (interview with key-informant E). During the last couple of years, Idra and other Italian companies, have been coping with the European market recession. Within this context, the Chinese investor has played a crucial role towards Idra’s recovery thanks to its solid financial position. The Financial Controller confirmed that when the interlocutors are banks, financial institutions, and shareholders, having the support of a solid partner such as L.K. Technology has helped convey a sense of reliability. The Chinese counterpart, in contrast with the marketing strategy implemented by Idra, proudly and publicly acknowledges its ownership of Idra, one of the most renowned brands in the industry. Owning the Idra brand has allowed L.K. Technology to widen its products range and to gain access to the European market. In addition, L.K. Technology has seized the opportunity to acquire Idra’s best practices and its R&D centre. L.K. Technology has conferred Idra’s General Manager with substantial decision making autonomy. Yet, the Italian subsidiary is called to fulfil budget requirements and achieve the prescribed performance standards. The Financial Controller confirmed that the majority of L.K. Technology’s cash efforts focus on Idra’s R&D department. Idra has a long tradition of excellence in all sorts of engineering activities, and L.K. Technology has been an excellent partner in understanding the importance of the R&D function to sustain the firm’s success (interview with key-informant A). As for other operations, the Financial Controller contends that they do not require any major investment since in the

Travagliato facility mainly focuses on assembly. The components are purchased from all over the world and Idra focuses on project design and manual assembly of the machines. Idra does not leverage L.K. Technology's network in China to reach additional economies of scale. However, in the near future the Italian and the Chinese management are planning to start buying components together to obtain a lower price (interview with the Financial Controller).

With respect to the post-acquisition phase, the Financial Controller underlined how the most delicate step that the Chinese ownership had to face was to appoint the right person to guide the Italian subsidiary. In the first years after the acquisition a transition manager covered the role, however, only in April 2009, L.K. Technology managed to finally identify in Mr. Ferrario as the most suitable General Manager. With an experience of over 30 years in the industry, he used to work in Teksid, EurAlcom Group and Meridian Technologies, and thanks to his deep knowledge of the product he has become a crucial asset for the Group. According to the Financial Controller one of the greatest asset was the fact that "before being a manager in Idra, he was one our customers. When you have to sell a machine is maybe better to know what the machine it is able to do rather than how the machine is made" (interview with the Financial Controller). So far, the acquisition and post-acquisition have run smoothly. In the last L.K. Technology Holding annual report (2013/2014), Idra has recorded revenues of HK\$400,371,000 (approx. €47 million) registering a slight decrease compared to the same period in the previous year. However, the Italian subsidiary is slowly recovering from the financial crisis and has started making profitable contributions to the L.K. Group (interview with key-informant D).

5.5 The integration phase

According to the Financial Controller, the integration phase between L.K. Technology and Idra has ran smoothly. Significantly the Chinese acquirer has not imposed any kind of cultural behaviour or somehow forced the blending of the two cultures. The acquisition strategy was meant to keep the headquarters and the subsidiary independent of each other; therefore the potential for organisational or cultural clashes has been quite low (interview with key-informant C). In addition, the two firms have often shared a common view on the strategy to be implemented (interview with the Financial Controller). For instance, when called to decide which department to upgrade, both the Chinese and the Italian management agreed on strengthening the R&D centre. The Financial Controller confirmed that very few contacts have occurred so far between the Italian and L.K. management. The more frequent interactions usually happen when the Chinese Financial Controller travels to Italy. Therefore, amongst Idra's management executives there is not any perception of authoritarianism from the Chinese management. The company is well structured and the Italian General Manager has wide authority over the Idra and Idra's subsidiaries. When asked if he has noticed peculiarities or distinctive elements of working in an Italian company acquired by a Chinese company, the Financial Controller took some time to think about it. The first things that he mentioned were linked to communication with his Chinese colleagues and their noticeable focus on short-term objectives. As for the communication issues, he said that the Chinese colleagues tend

“to be quite inscrutable. When you speak with an Italian or an European colleague you understand their body language, the looks he or she gives you. With the Chinese it is very different. You do not have a lot of feedback from them. I am not able to understand whether they are pleased or not with the information I am delivering to them. Moreover, sometimes they ask you to forward information but they do not come back to you to give you any feedback about the reason or the utility to them.” (interview with the Financial Controller).

He also noticed a visible focus on the short-term objectives. He said that, when discussing budgets and objectives to be achieved, the main issue with someone used to working largely in emerging economies is that for them it is difficult to understand why results that are easily achievable in China are not so easy to be obtained in Europe. Since situations and circumstances are not comparable, the pressure from the top management to achieve results is not always very welcome. At the same time, the Financial Controller said that

“I do think that this kind of pressure is not very different from the pressure that every subsidiary of a multinational would experience. The only difference is that in our case sometimes we have to spend time convincing the Headquarters that our performance has to be compared with other European companies and not with the Group subsidiaries in emerging markets.” (interview with the Financial Controller)

Finally, the Financial Controller added that one peculiarity of L.K. Technology is that the company headquarters is located in Hong Kong but the company founder is Indonesian and a great percentage of managers holding top management positions obtained their university education in the USA or in Western countries. Therefore, according to the Financial Controller the company’s mentality tends to be quite advanced in comparison with other players from emerging countries. Generally speaking, with the exception of few cultural differences that are not perceived by the Financial Controller as very significant since Idra has always been kept quite independent from the L.K. management, the perception of the Chinese headquarters is very positive. As for the prejudice about lower quality that is often associated with Chinese production, the Financial Controller confirmed that such a prejudice was one of the cards played by competitors to smear Idra’s reputation in the European market. However, since the die-casting customers were very few and the relationship with them was almost on a familiar basis it was quite easy to overcome their initial fear about losing Idra’s product quality. On the contrary, thanks to L.K. Technology’s cash infusions, Idra was able to better survive the recession and had better responsiveness and flexibility to handle demand volatility. As a result, in the last couple of years, Idra has recovered part of the previously lost market share and is now recovering back to the performance levels from before its delisting. As for the reaction of the Italian management and the employees to the news of the acquisition, there was surprise at the beginning, but most were happy that a serious player, with a solid financial position, and most importantly with a strong industrial plan to take Idra back to success, was making the acquisition. After almost five years of turnarounds, restructuring and layoffs, everyone was comforted by the arrival of L.K. Technology into the company (interview with the Financial Controller).

Table 4 The acquisition of Idra and its critical phases

The acquisition	Global competitors in the die-casting machine sector are few and customers are also few, especially in the premium segment. At the time of the acquisition, L.K. Technology, one of the biggest players in China and in other emerging countries, was seeking to penetrate the European market. However, the Chinese group lacked a global network and a strong brand. In these circumstances, Idra, one of the longest-standing companies manufacturing die-casting machines, whose brand conveyed an idea of excellence, quality, heritage and reliability, was on sale. Motives for the acquisition were appealing: the Italian company had just undergone a restructuring, a new facility was just opened and the financial projections looked bright. Through the acquisition, L.K. Technology would have been able to acquire a strong brand, widen its product range and access a valuable portfolio of established customers.
The post-acquisition	<p>In order to avoid any disruption during the acquisition and the post-acquisition phases, L.K. Technologies initially acquired only 70% of shares, and then in the following two years acquired the remaining 30%. From the beginning, the strategy was to keep L.K. Technology separate from Idra. The Chinese company mainly played the role of a financial partner during the financial struggles due to the economic recession which was particularly harsh for European and Italian companies. From an organisational point of view, Idra remained organised as before the acquisition. The Chinese investments strengthened the R&D division and thus contributed to the success of the Italian brand.</p> <p>Conversely, L.K. Technology benefitted from holding Idra in its portfolio as it is a strong brand and LK Technology also seized the opportunity to acquire strategic competences from Idra. The fundamental step in the post-acquisition phase was the appointment of a new general manager, a veteran of the sector, to whom the headquarters granted wide autonomy.</p>
The integration phase	In the Travagliato facility, the contacts among Chinese and Italian managers were few. During the first years after the acquisition, the majority of the contacts occurred between the financial controllers in China and Italy. Idra has an independent commercial strategy and a wide autonomy in the day-to-day management but it is required to match performance standards and fulfil prescribed budgets. Cultural clashes were not major issues within the integration phase since the autonomy and separation was wide. However, cultural differences emerged in the low propensity of Chinese managers to give feedback or shares information and in the pressure exerted by the Chinese managers for short-term results.

5 Cross-case analysis

The case-studies were drawn to better understand the strategic drivers behind the acquisitions of Italian manufacturing firms as well as the post-acquisition challenges and the integration strategies adopted by the Chinese firms. From the comparison of the two case-studies several similarities emerge. First, both Chinese companies at the time of the acquisitions, had affirmed themselves as top ranking players in their domestic and neighbouring markets and were looking at overseas opportunities to maintain high

growth rates and increase their market shares. Moreover, at the time of the acquisitions, both companies were not at their first overseas international experience. The motives for the acquisitions were, however, different. Haier acquired Meneghetti following a market-seeking approach; unexpectedly the same product used to penetrate the European market became the most popular product in the domestic market. Differently, the acquisition of Idra srl by L.K. Technology Holding was the expression of asset-seeking approach where the Chinese company was looking to mainly acquire intangible assets such as a global brand and its heritage (interview with key-informant C). Additionally, when considering the timing of both the acquisitions, some interesting peculiarities emerge. Haier acquired Meneghetti in 2001, when Europe was still one of the most attractive markets. The Italian facility was sold to the Chinese acquirer when the Meneghetti family was forced to deal with the death of the founder and owner of the company, a very delicate issue in the life of a small-medium enterprise (interview with key-informant A). Idra was acquired in 2007, a period when the economic recession was already eroding the spending capabilities of the European markets. The decision to acquire the company in this case was not driven by the need to enter a new market but was more linked to the idea of striking a convenient deal in the M&A market. At the time of the acquisition, the Italian company was suffering from financial distress. In both cases, the foreign company acquisition can be considered as a shortcut, and in the case of Idra also a convenient deal, to rapidly acquire competencies, strategic assets and market knowledge that it would have been too lengthy or impossible to build in-house (interview with key informant F).

In both acquisitions, it was observed that one of the fundamental factors that acted as catalyst for the Chinese investor was the locational advantage of the company (interview with key informant A, B, D, F). Both target companies are embedded in two industrial districts. As such, they both provide a rich context characterised by a network of competences and a high concentration of intangible assets and mutually supporting relationships that can easily mitigate the liability of foreignness (Vecchi, 2008). For instance, when considering the case of Haier, the central northern area of Italy is one of the most important white goods industrial district in Europe. Similarly, the Brescia area hosts two out of the three leader companies in the die-casting machine sectors. In addition to the location advantages, it is important to emphasise how the manufacturing location becomes one of the fundamental factors when considering the brand entitlement to strategically use the Made in Italy label, whose appeal is particularly strong for emerging markets customers (interview with key-informant E).

The benefits that the Chinese firms gained from the acquisitions of tangible and intangible assets are particularly interesting to investigate in each case. On the one hand, through the acquisition of Meneghetti, Haier managed to exploit the knowledge and the proximity to the European market to develop a line of goods targeting a more sophisticated customer base. Leveraging the synergies among the internal resources of the two entities, Haier managed to achieve cost efficiencies and economies of scale in the Italian manufacturing facility that allowed supporting the higher Italian labour costs. Additionally, the Made in Italy tag associated with the new product line allowed the company to place its product in a higher market segment. The different product positioning and the consequent higher profit margins achieved have increased the visibility of the brand and attracted new sales, especially in the USA and in emerging markets. On the other hand, in the Idra case, L.K. Technology took advantage of the visibility of a globally known brand both to broaden its brand portfolio and to get access to new distribution channels and sales networks. In addition, with the acquisition of one

of the oldest companies in the industry, L.K. Technology managed to acquire a production facility in Italy, an innovative R&D centre, a whole established network of customers and some experiential knowledge of the markets.

In order to exploit the whole set of locational advantages, the Chinese companies maintained the identity of the Italian targets by avoiding the delocalisation of production in both acquisitions. The Italian identity of the target companies was strongly preserved mainly to strategically leverage the heritage and power of the Italian brands and secondly not to confuse the final customers. Crucial when considering the level of identity preserved in the post-acquisition phase is to observe the integration strategy adopted by both Chinese companies. In Haier, for instance, the integration was an 'absorption strategy' where the autonomy of the Italian subsidiary is low and the degree of dependency with the Qingdao headquarters is high. In Idra, on the other hand, the integration strategy implemented was a 'preservation acquisition' where the level of autonomy of the acquired firm is high and the strategic interdependencies quite low – there are no shared distribution channels, marketing campaigns, economies of scale between the target and the acquirer. Moreover, in the Idra case, it is evident how the Italian identity was strongly preserved, especially when considering the communication strategy implemented – in Idra's website there are no references to the acquisition in 2007 whereas in the L.K. Holding's Chinese website the acquisition is widely publicised. In both acquisitions the presence of Chinese managers within the organisation was temporary, mainly during the post-acquisition period when in Haier a Chinese transition manager was appointed and in Idra a Chinese financial controller was in charge of the harmonisation of the accounting systems and of the overall control. The integration processes in the two cases were different. In the case of Haier, the integration process was long and difficult. At first, immediately after the acquisition, the daily routines and the union habits of the Italian facility caused conflicting situations with the Chinese transition manager. Later, when an experienced Italian manager was appointed, integration issues arose in the context of organisational relationships and internal communication, even though the Chinese management and the Italian one were not physically integrated in the same office. In this case, the tight contact between the two companies led to communication issues that emerged both due to different use of technical and managerial tools, different approaches to the concept of time, different notions of contract, the implicit denial and the tendency to always please the supervisor. In Idra's experience, integration issues have concerned mostly the lack of feedback and participation in the decisional process for the subsidiary management. Both in Haier and in Idra a particular focus on efficiency and short-term results was pointed out by the interviewees, but this was not attributed to cultural differences but to relative lack of knowledge of the European market. In particular, it emerged that since the European market is still unknown to the headquarters they sometimes tend to compare their prior experience in other markets without taking into account the peculiarities of the European market. Interestingly in both acquisitions, the first reaction of the employees of the acquired firm to the news of the acquisition was very positive. Since at the time of the acquisitions both Italian companies were facing some delicate issues, namely the death of the founder/owner in the case of Meneghetti and some substantial lack of financial support in the case of Idra, a new foreign investor was welcomed as positive news.

In both case-studies the positive expectations were not left unattended since both Chinese firms heavily invested in the acquired company. In Haier, for instance, the investments mainly regarded the product design of the 3D refrigerator, the launch of the

new product on the European market and the renewal of the whole production facility. In Idra the investments were aimed particularly at sustaining the delicate financial situation of the acquired company caused by the economic recession. However, additional resources were devoted to the R&D department, which was duly acknowledged as the core activity for the company's ultimate success. Finally, in both case-studies the presence of a Chinese investor provided a strategic advantage against the competitors, especially the European ones, since the presence of a solid Chinese investor facilitated access to bank credit lines and the achievement of economies of scale. Moreover, having a Chinese investor meant that the Italian companies could have the opportunity to obtain access to the difficult but very large Chinese market via a privileged path, since they can capitalise on their headquarters' domestic market knowledge, their distribution channels and their networks.

6 Conclusions

The study contributes in many ways. First it confirms a number of claims made in the literature on emerging economy firm internationalisation. Second, it identifies certain nuances that are easily missed in broad theoretical studies. Third, it raises some interesting points for further research.

The study, through in-depth case studies, confirms a number of claims made in theoretical studies of emerging economy firm international expansion, particularly into advanced economies. Specifically, the Chinese firms in both case studies confirm the expectation in Luo and Tung (2007) and in Chari (2013) that emerging economy firms that have secured their position in their home markets are the ones more likely to internationalise to upgrade their competitiveness. Both Haier and L.K. Technology, as reviewed in the case studies, were well established in their home market and nearby markets before they sought to acquire the Italian firms. Both case studies also confirm arguments in the literature that emerging economy firms seek strategic assets such as brands and higher technology in their acquisitions of advanced economy firms (Luo and Tung, 2007).

The in-depth case studies also highlight some nuances not easily seen in broad theoretical studies, and raise some interesting research questions for the future. For example, the case studies show that the acquisition of an advanced economy firm's brand by an emerging economy firm must be managed carefully in the advanced economy markets, since the low cost image of the emerging economy firm's products can erode the value of the advanced economy target's brand. This is a nuance that is important but not appreciated widely in the extant literature. The case studies for example showed how Italian and other European customers were concerned about the brand value of the Italian firm deteriorating after its purchase by Chinese firms, and how some competitors even tried to use the acquisition to raise doubts in the minds of consumers. The case studies also show that the erosion of brand image can be prevented, for example by carefully separating the brand identities of the advanced economy target firm from that of the emerging economy acquiring firm through marketing, communication, and even the separation of the advanced economy operations from the emerging economy operations. The separation of organisations raises an important and interesting research question. Specifically, since emerging economy firms acquire advanced economy firms at least in part to acquire their advanced capabilities, how do emerging economy firms acquire the

capabilities while keeping the two organisations separate since a close or joint working relationship is important for the transmission of tacit capabilities (Chari, 2015).

The case studies also showed that despite the substantial autonomy granted to the target firm, there were communication and coordination issues stemming from cultural differences. The theoretical literature assumes that when the headquarters and target are not tightly integrated such issues do not arise. This clearly was not the case in the case studies, as the Italian managers felt that the Chinese managers were driven more by short term results and set standards without an appreciation for the European market conditions. Similarly, when an Italian General Manager wanted to travel to the headquarters he could not get a firm yes or otherwise for his plans. The in-depth case studies thus highlight nuances that are glossed over in broad theoretical classifications of what to expect with different types of integration strategies. Here too more research on the types of communication and coordination problems faced when advanced economy target firms are allowed to operate largely autonomously, and the identification of strategies used to successfully address these problems, will help.

Finally, while confirming claims in the literature that emerging economy firms seek advanced capabilities and brands when acquiring advanced economy firms, the case studies also highlight a nuance. That is, advanced capabilities and brand image are often tied to locations and hence emerging economy firms that acquire advanced economy targets for their strategic assets are unlikely to delocalise their production out of the target country. Even so, there may be economies of scale to be realised by sharing some production or procurement activities. Further research can shed light on how emerging economy acquirers of advanced economy target firms balance the need to retain production in the advanced economy with the potential for scale economies from consolidating production in lower cost locations.

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