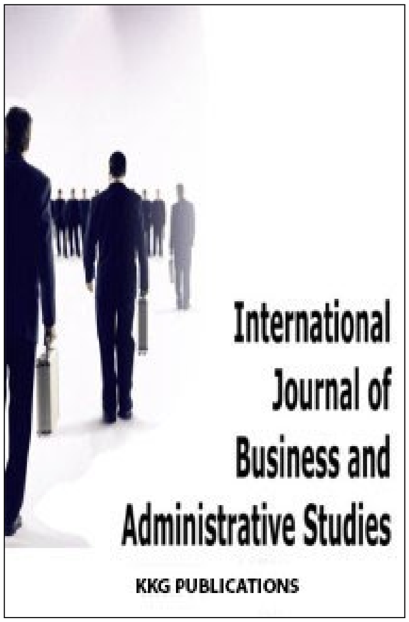


Key Knowledge Generation

Publication details, including instructions for authors:

http://kkgpublications.com/business/

The Merger of Geely Automobile and Volvo Car Corporation as an Example of the Expansion of Chinese Capital in the Automotive Sector

KAROLINA LOPACINSKA

Wroclaw University of Economics, Wroclaw, Poland

Published online: 13 December 2016

To cite this article: Lopacinska, K. (2016). The merger of Geely automobile and Volvo car corporation as an example of the expansion of Chinese capital in the automotive sector. *International Journal of Business and Administrative Studies, 2*(6), 162-173.
DOI: https://dx.doi.org/10.20469/ijbas.2.10001-6

To link to this article: http://kkgpublications.com/wp-content/uploads/2016/2/Volume2/IJBAS-10001-6.pdf

KKG PUBLICATIONS

International Journal of Business and Administrative Studies
2016, 2(6), 162-173

IJBAS

THE MERGER OF GEELY AUTOMOBILE AND VOLVO CAR CORPORATION AS AN EXAMPLE OF THE EXPANSION OF CHINESE CAPITAL IN THE AUTOMOTIVE SECTOR

KAROLINA LOPACINSKA *

Wroclaw University of Economics, Wroclaw, Poland

Keywords:
International Merger
Chinese Expansion
Automotive Sector
Geely Automobile
Volvo Car Corporation

Received: 16 August 2016
Accepted: 5 October 2016
Published: 13 December 2016

Abstract. One of the crucial forms of the expansion of Chinese companies into new markets over the last decade has been the increasing pace and scale of conducted mergers and acquisitions, as well as inter-regional agreements, such as joint ventures. The value of agreements such as mergers and acquisitions, established by Chinese companies worldwide in the year of 2015 reached a record level of $477.2 billion, far exceeding the results of the previous year, what demonstrates the growing openness of the Chinese investors to cooperation with foreign partners. The fields in which Chinese companies have invested the most in recent years are: energy, real estate, finances, automotive, metals, agriculture and technology. The article presents the effects of the merger concluded in 2010 by a Chinese passenger car manufacturer Geely Automobile with the Swedish company Volvo. The presented example of the expansion of Chinese capital in the automotive sector has been one of the most important investments ever made by the Chinese company on the foreign market. The basis of the analysis made by the author were the results obtained from annual financial reports, published by the mentioned companies. They allowed the assessment of changes in the position of the examined Chinese corporation by using such financial and marketing measures as: market share, market value of the company, value of companys revenues, the popularity of the brand and its image. Comparative analysis of the development of these indicators before and after the merger shows that the actions of Geely Automobile, effectively led to the strengthening of the company's potential, as well as to the increase of its competitiveness on both the domestic and international markets, while its strategic aspirations allow to expect further dynamic growth and development of the company on the international arena.

INTRODUCTION

The growing rate and scale of carrying out mergers and acquisitions as well as establishing interregional joint ventures are a manifestation of strong expansion of Chinese enterprises to new markets over the past decade. The value of agreements such as mergers and acquisitions carried out by Chinese enterprises worldwide reached the record-breaking level of USD 477.2B in 2015, thus significantly exceeding the results achieved the year before, which proves also the increasing openness of Chinese investors to cooperation with foreign partners. Over the past years, Chinese enterprises have invested mainly in the following sectors: energy, real properties, finance, automotive, metallurgy, agriculture, and technology.

The paper presents the research problems regarding the impact of the Chinese government's policy on the development of the Chinese automotive sector and agreements such as mergers and acquisitions concluded by Chinese-owned enterprises in the automotive sector on creating the position of those enterprises on the global market and, as a consequence, expanding their international competitiveness. The author made an assumption that mergers of Chinese-owned enterprises are one of the major forms of expansion of such organisations on the contemporary market and formation of their position on that market. At the same time, agreements such as mergers and acquisitions are a method for expanding the international competitiveness of Chinese enterprises, thus contributing to their success on the global market. The basis for building competitive advantage of Chinese enterprises and the sectors in which they operate (in this case, the automotive sector) is pursuit of an effective development policy relying on cost reduction, innovative processes and new knowledge creation. It needs to be also emphasized that initiatives taken by the government of China regarding domestic enterprises play a significant role in the process.

METHODOLOGY

The analysis undertaken in the article concerns the development process of the Chinese automotive sector in the period 2000-2014 as well as the course and effects of the merger finalised in 2010 by Geely Automobile, a Chines passenger car manufacturer, with Volvo, a Swedish company. The presented example of the Chinese capital's expansion in the automotive sector has been one of the most important investments made by a Chinese company on the foreign market.

*Corresponding author: Karolina Lopacinska
†Email: lopacinska.karolina@gmail.com

The basis for accomplishing the research objectives was analysis of secondary sources, i.e. literature review in the field of economics, in particular international economic relations, and management as well as the research based on the statistical sources concerning the Chinese automotive sector development dynamics in the period 2000-2014. In particular, the information obtained from annual financial reports on the activities of the analysed companies i.e., Geely Automobile and Volvo Car Corporation, were used. The basic method is a comparative analysis of the enterprise's position before and after carrying out the merger by means of financial and marketing measures such as: the percentage market share, the company's market value, the value of the revenue it generates, brand popularity and image.

LITERATURE REVIEW

The issue of international mergers and acquisitions as well as expansion of Chinese enterprises has been recently touched upon more and more frequently in the Polish and foreign relevant literature. China, as a growing global investor which invests in diverse branches of the industry, is an object of increasing interest on the part of business, politics and science. More and more researchers, especially foreign ones, discuss the issue of mergers and acquisitions in order to explore the sources of the success achieved by Chinese enterprises on various markets.

For instance, Sudarsanam (1995; 2010) presents a broad spectrum of contemporary challenges and problems as well as an exhaustive overview of concepts and techniques concerned with mergers and acquisitions, as well as their implementation in different market conditions. The author demonstrates an international and multidisciplinary research perspective oriented towards the mergers and acquisitions carried out both on the European and American markets. Weston (1990; 1992), in turn, presents the principles the application of which is necessary to succeed as a result of mergers. Sherman and Hart (2010), in turn, describe the entire process involved in carrying out mergers and their consequences and consider each stage of the process by analysing cases of mergers and acquisitions carried out by selected enterprises. Hopkins (1999) and Vasconcellos (1998) focus on international mergers and acquisitions, and specifically, on the strategic meaning of such agreements and integration strategies following mergers. In their research, the authors allow for the financial and economic bases influencing the direction and scale of the integration. The relevant literature also makes a comparative analysis of the Chinese and Western management style in order to emphasize the challenges faced by the investors who commence cooperation with enterprises from other cultural environments (Gallo, 2011). What is primarily stressed is the crucial role of an appropriate combination of Western business practices with the Chinese wisdom as an essential condition for success of merger-based undertakings. Furthermore, the impact of the Chinese culture, and particularly of Chinese values and tradition, on the development of direct foreign investments such as joint ventures and on the management style as well as on organisational theories and behaviours of Chinese enterprises (Alon, 2003; Alon, Fetscherin & Sardy, 2008) is also examined. What follows from the performed analyses is that agreements based on mergers and acquisitions are treated as important stimulants for the economic development and competitiveness building in all countries in the world that undergo transformations. The issue discussed in the paper is underlain by theories of international business, and mainly by the theory of competitive advantage by Porter.

Competitiveness of Chinese enterprises had been based on producing labour-intensive goods with a low added value until recently. Now, however, the competitiveness is not restricted exclusively to the traditionally employed methods and areas. This is because China successfully absorbs new technologies from abroad, thus becoming a fierce competitor for companies from developed countries. According to the prevailing point of view, labour costs, interest rates, exchange rates, and economies of scale are among the strongest indicators of Chinese enterprises' competitiveness. More and more such enterprises face increasingly greater challenges arising from internationalisation and globalisation. Also, comprehending the dynamics of the continuously changing global market is possible only if the market is examined thoroughly and its development trends are followed skilfully. The fact that Chinese enterprises adapt the globally applied models related to the pursuit of economic activities and the quality of the offered products will facilitate greater acceptance on international markets and thus increased share of Chinese enterprises on those markets as a result of growth in sales and results achieved and the general improvement of the reputation of Chinese enterprises.

In light of Porter's theory of competitive advantage, which identifies the sources of creating competitive advantage, carrying out mergers and acquisitions is a type of strategy which serves the purpose of gaining a higher market position than that of competitors. This is because having competitive advantage enables generation of a higher value for both the customer and the enterprise.

In his theory of national competitive advantage, Porter emphasizes the role of the state's socioeconomic policy in building and reinforcing competitiveness of enterprises on international markets, which in consequence contributes to the improvement of the whole nation's well-being. This is particularly noticeable in the case of China, where the socioeconomic policy facilitates gaining competitive advantage by enterprises. As a result of mergers and acquisitions, enterprises enhance their potential in the technological, financial, material, and infrastructural aspects, which further increase their market value (Porter, 2008).

Development Process of the Automotive Sector in China

The rapidly and dynamically developing Chinese economy has drawn the attention of world superpowers, such as USA, Western European countries and Japan, which appreciate its high potential both on the domestic and foreign markets. Its progress in the automotive sector development in particular is spectacular.

Over the recent years, China has become one of the leading car manufacturers in the world in spite of the fact that passenger car manufacturing was virtually non-existent in China and cars were only a privilege for a relatively small number of high-level officials until 1975. A majority of automotive vehicle manufacturing included heavy goods vehicles and, to a lesser extent, motorcycles, mainly with brands of foreign automotive companies. The increasing vehicle manufacturing and sales growth, which was observed even during the global financial crisis, principally changed China's position in the automotive sector. For a dozen or so years, Chinese enterprises, such as Geely Automobile and Chery Automobile, have commenced manufacturing vehicles to foreign markets, owing to which China, with its sales level of 2.3M, competed with Germany for the position of the third largest automotive market in the world (following the USA and Japan) as early as in 2000 (Hong & Mu, 2010). Currently, China is both the largest car manufacturer and investor. In 2009, with its manufacturing level of 13.79M pcs, it was considered the largest manufacturer, leaving behind Japan, which achieved the manufacturing level of 7,934,516 pcs at that time. Despite the slowdown on the global car market, the development of the Chinese automotive sector has still been spectacular, i.e. for over a decade. For instance, the 2008 car manufacturing volume in China was eight times bigger than in the mid-1990s. The car manufacturing dynamics in China against other countries in the period 2005-2014 are presented in table 1.

TABLE 1
Production Volume of Cars in China in Comparison with Other Countries in the Years 2005-2014 (in Million Units) and Average Annual Production Growth (%)

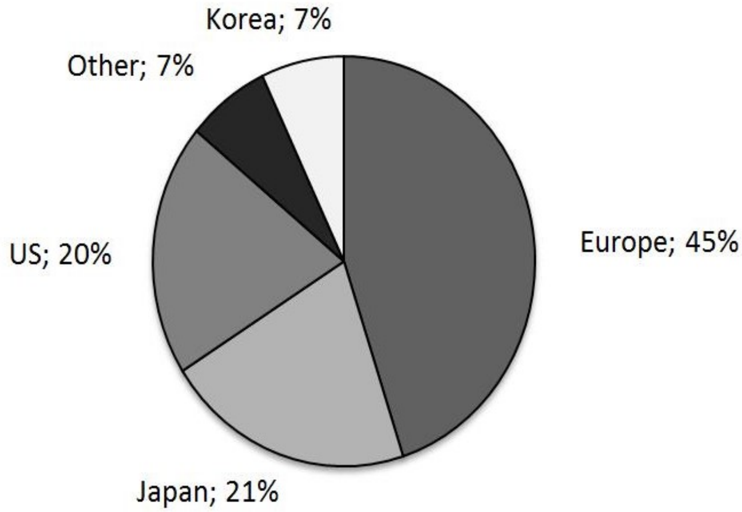
	Production volume and dynamics												
Country	2014	%	2013	%	2012	%	2011	%	2010	%	2005	%	2000
World	89,7	102,5	87,5	104	84,1	105	80,0	103,1	77,6	116,7	66,4	113,8	58,3
China	23,7	107,2	22,1	114,7	19,2	104,6	18,4	100,8	18,2	319,4	5,7	276,3	2,0
European Union	16,9	104,5	16,2	100	16,2	91,7	17,7	103,5	17,1	94,1	18,1	106,0	17,1
United States	11,6	105,3	11,0	107	10,3	119,3	8,6	111,8	7,7	64,8	11,9	93,3	12,7
Japan	9,7	101,4	9,6	96,8	9,9	118,3	8,3	87,2	9,6	98,1	10,7	106,4	10,1
Germany	5,9	103,3	5,7	101,2	5,6	91,9	6,1	104	5,9	102,5	5,7	104,1	5,5
South Korea	4,5	100	4,5	99,1	4,5	97,9	4,6	109	4,2	115,4	3,6	118,7	3,1
India	3,8	98,5	3,8	93,3	4,1	106,2	3,9	110,4	3,5	217	1,6	204,4	0,8

Source: Own compilation based on: (OICA, 2016)

While the manufacturing level in this country was ca. 2M vehicles in 2000, the number increased to nearly 6M in 2005, and to as many as 18M in 2010. Such impressive manufacturing growth was achieved to a large extent through concluding numerous agreements in the form of joint ventures with automotive giants such as Volkswagen and General Motors.

It is worth emphasising here that the initial assumptions of the automotive policy were concerned with importing car parts from other countries, while at present the policy focuses on building supply chains in China. Today, the development of Chinese automotive groups is independent of foreign investors and the strategy pursued by Chinese entrepreneurs concentrates on using the solutions applied before by external competitors and supplementing the acquired knowledge with solutions developed on their own. China, with its quickly growing and competitive market, has become an object of great interest for global automotive companies, which express their willingness to invest there, thus striving for establishment or expansion of relationships with local investors. As follows from the report prepared by EU SME Centre, the largest investor in the Chinese automotive sector in 2014 was Europe with its export there, mainly from European countries such as Germany, Great Britain, or Belgium, growing by as much as 81% in the period 2010-2014. In 2014, as many as 637,934 European vehicles were imported to the Chinese market, which constituted almost half of the total Chinese import in that sector.

FIGURE 1
The Share of Individual Countries in Car Sales on the Chinese Market (presented data relate to 2014)



Source: EU SME Centre, 2015

Apart from European countries, Japan, the USA and South Korea were among top car exporters to China with their export of 292,552, 291,690 and 95,448 vehicles in the discussed period, respectively (Fig. 1) (EU SME Centre, 2015). A significant role in the development of Chinese enterprises was played by the country's joining the World Trade Organisation (WTO) in 2001, which required certain adjustments and greater market openness. In the face of the increasingly fiercer competition from abroad and the technological gap between domestic and foreign enterprises, many experts expressed their misgivings about the existence of actual development prospects for Chinese automotive companies. In fact, the high dynamics of the economy's development contributed to growth in the share of domestic manufacturers in the automotive market from 13.5% in 2001 to 26.8% in 2006, reaching the level of 44.3% in 2009. Following China's joining the WTO, the local automotive industry began to grow faster than ever. The total manufacturing volume increased by 38.8% and 36.7% in 2002 and 2003, respectively, making China the fourth largest car manufacturer and the third largest car market in the world.

TABLE 2
Companies that Sold the Greatest Number of Cars in China in 2008

Rank	Company	The number of cars sold
1.	FAW-Volkswagen	498 908
2.	Shanghai Volkswagen	478 059
3.	Shanghai General Motors	395 715
4.	Tianjin FAW Toyota Motors	347 663
5.	Dongfeng Motors	318 785
6.	Chery Automobil	286 569
7.	Guangzhou Honda Automobil	277 358
8.	Beijing Hyundai Moto	253 298
9.	Geely Automobile	221 823
10.	Chang'An Ford Mazda Automobil	200 756

Source: (China Autos Report, 2009)

Surprisingly, it is not the oldest plants in China that became leaders on the ranking list of the largest manufacturers but younger companies, such as Chery Automobile and Geely Automobile. This is shown by the results compared in table 2.

TABLE 3
The Number of Vehicles Produced in China in the Years 1998-2009 by the Two Leading Companies Chery Automobile and Geely

Year	Production of two Leading domestic companies	Production (Total)	Year	Production of two Leading domestic companies	Production (Total)
1998	n.d.	1627829	2004	86000	5234496
1999	n.d.	1 829 953	2005	188000	5 708421
2000	2 000	2 069 069	2006	514 381	7188708
2001	28 000	2334440	2007	597774	8882456
2002	50000	3286804	2008	576955	9350000
2003	90000	4443686	2009	508500 (n.d. relating to Geely)	13 830 000

Source: (Lasak, 2010)

Geely Automobile commenced passenger car manufacturing in 1997, while Chery in 1999, and it climbed to the fourth position among all car manufacturers in China as early as in 2005 with more than 10% of the share in the manufacturing volume. Both Geely and Chery were ranked among ten largest Chinese passenger car manufacturers at that time (Tab. 3) (Lasak, 2010).

Basic Consideratoins and Directions of Action for Stimulating the Development of the Automotive Sector

This dynamic growth of the automotive sector in China gives rise to the question about growth factors as well as its sustainability and effects. Undoubtedly, this is owed to the actions taken by China after joining the World Trade Organisation with the aim of opening the market. They consisted mainly of reducing the tariffs which had been used by the Chinese government to protect local enterprises and eliminating local requirements concerning the content. These actions rapidly led to progress in the development level of the Chinese car market. The growth was also constantly monitored by the government, which strove for expanding the progress in the automotive sector to cover the entire economy.

A key determinant of the continuous growth of the Chinese car industry was the vehicle purchasing power of the local population. The power is driven by two factors: The price/revenue ratio and the capacity to finance or lease vehicles by financial service providers. The increasing income of residents of China has become the main driving force of the demand for sedan cards among the middle class of customers from developed areas. Moreover, after China's joining the World Trade Organisation, the growing number of foreign enterprises occurring on that market has been followed by a greater diversity of the car models offered by the companies, which has become an additional factor encouraging car purchase.

Hence, the increasing manufacturing volume of the automotive industry in China has been a result of both sales growth on foreign markets and high domestic demand. A crucial role in stimulating the development of the Chinese economy has always been played by the government. With reference to the automotive industry, it is essential to shape its structure and to determine the profile and location of manufacturing plants as well as the manufacturing scale. Such regulations used to have an adverse effect on the development of the automotive market until the end of the 1970s. Yet economic reforms and opening the Chinese market to cooperation with foreign partners exerted a positive influence also on the car industry, improving the effectiveness of local manufacturers. The automotive sector was regarded one of five key branches of the Chinese industry, along with the machinery, electronic, petrochemical, and construction ones, as early as in 1994. This constituted grounds for obtaining state support for its further development. The main problem at that time was to find strategic partners for further expansion, improvement of the quality of the vehicles manufactured in China, and growth in the productivity level in Chinese factories (Holweg, Luo & Oliver, 2005). In 2008, during the world financial crisis, China and many other countries experienced recession as regards the automotive industry. It affected both sales and manufacturing of cars in that country. As a consequence, the sales volume dropped by 6.7% and the car manufacturing volume decreased by 5.2% in 2008. The crisis contributed to deterioration of economic conditions and therefore actions aimed at avoiding certain effects of the crisis and recovering the domestic industry were taken in 2009. Mechanisms for implementing the "Automotive industry adjustment and stimulation plan" were launched in order to support the automotive industry.

The main assumptions of the plan included among others:

- Creating demand for smaller cars,
- Stimulating the development of domestic industrial plants on a continuous basis,
- Striving for integration of manufacturing plants.

Operationalisation of those assumptions through identification of the necessary actions concerned the following areas:

- Stimulating the domestic demand,
- Supporting and stimulating the development of the main areas of the industry,
- Creating money supply (i.e. through greater availability of loans),
- Safeguarding jobs (Lasak, 2010).

Within the above-mentioned areas, discussions were carried out about possible actions for future improvements, presented in table 4. The implementation of those stimulating government actions for ensuring further development of not only the automotive industry but also the whole economy brought very positive effects. This is because tax reduction contributed to increased domestic demand, which, in turn, resulted in sales growth of small cars (mini and compact cars) by 70%, the purchase of which was to be encouraged by governmental actions.

The effectiveness of the Chinese stimulation package for the automotive industry is confirmed by the fact that China became the largest market in the world in terms of the number of sold cars in 2009. Therefore, the stimulation actions were continued in 2010, thus extending the path for the dynamic development of the Chinese automotive industry (Lasak, 2010).

In summary, the Chinese automotive industry demonstrated high dynamics with the compound annual growth rate of 11.4% in the period 2004-2014. The growth was to a large extent driven by factors such as: fast economic growth rate and low prices relative to the increasing demand for cars in cities of the region. The largest share in the total 2014 sales was attributable to passenger cars, which constituted as much as 83% of the vehicles sold in that period, followed by heavy goods vehicles with 14% of sales, and tractors with a share of 2.6%.

TABLE 4

Actions Resulting from Implementing the "Automotive Industry Adjustment and Stimulation Plan"

Assumptions of the plan	Actions taken
1. Stimulating the domestic demand	1. Subsidies for farmers to motivate them to replace their cars for newer models (the total amount = 5T yuan). 2. Reduction of tax (from 10% to 5%) for cars with engine capacity below 16 litres 3. Introduction of a more lenient loan policy in order to encourage people to purchase.
2. Supporting and stimulating the development of the main areas of the industry	1. Development of a car industry development stimulation plan. 2. Reforms of car industry plants 3. Stimulation of the development of new technologies (seeking alternative energy sources used both in passenger cars and heavy good vehicles 10T yuan were dedicated to that purpose). 4. Encouragement of manufacturing for export
3. Creating money supply (i.e. through greater availability of loans)	1. Increase of new bank loans to 1.6 quadrillion yuan in January 2009 2. Government subsidies for the development of the infrastructure and public insurance system 3. Lowered bank requirements from borrowers.
4. Safeguarding jobs	1. Support for the development of small and medium enterprises as well as the service sector related to the automotive industry. 2. Reduction of encumbrances related to social insurance for manufacturing plants from the automotive industry. 3. Support for state industrial plants in order to avoid reduction of jobs. 4. Development of professional training programmes addressed to university graduates and employees (immigrants) in order to prepare them for work in the car industry.

Source: [Russo, Ke, Tse & Peng (2009); China's Stimulus Package, (2009); San, (2016)] The constant growth of car sales in China was reflected in the number of the vehicles registered in that country, which reached 154M pieces by the end of 2014 and which is expected to grow to as many as 200M vehicles by the end of 2020.

Merger of a Chinese Brand Geely Automobile with a Swedish Company Volvo the Essence and Premises of the Partnership

The Chinese automotive sector manufacturing growth has been to a large extent achieved due to larger openness of the Chinese market and establishment of strategic partnerships in the form of mergers, acquisitions and interregional agreements such as joint ventures with foreign companies by Chinese manufacturers.

The assumed basis for analysing the growth was the merger of Geely Automobile, a Chinese company, with Swedish Volvo Car Corporation carried out in March 2010. The aim of the conducted analysis is to evaluate the changes in the market position of the Chinese corporation examined with the use of measures such as: The percentage market share, the company's market value, the value of the revenue it generates, brand popularity and image.

Volvo is a brand known and valued on the international arena for its high safety standard and high quality as well as reliability of the vehicles sold. This is because the four major values professed by the company include precision, craft and attention to details in order to achieve a high quality of the manufactured vehicles, appearance, based on fondness of simplicity, reduction of exhaust emissions with simultaneous improvement of capacity, care for the environment, and aspiration for ensuring safety to its customers.

Geely Automobile, in turn, is the largest first private car manufacturer in China. The company deserved recognition of the Chinese government, which offers it both support and access to cash loans and local government projects which have enabled it to pursue the adopted expansion strategy. Today, Geely is among ten largest car manufacturers in China.

It needs to be emphasized that Geely Automobile is a company that is extremely active on the Chinese market with ambitions for expansion not only home but also abroad. As part of its activities, the company makes significant changes concerning both car makes and manufacturing chains. Moreover, through strategic alliances with key international suppliers and concern about a high quality of services and a high level of customer satisfaction it also has access to a range of valuable resources and expert's opinions (Geely Automobile Report, 2011).

Both parties negotiated the terms and conditions of the agreement, which was fully supported by Beijing, for over two years. It was the largest, worth USD 1.8B, foreign transaction conducted by the Chinese company. As a result, Geely owned 16% of the total turnover generated by Volvo and its employees in 2009. In the same year, Volvo lost USD 1.3B as a result of selling merely 330,000 cars, including as few as 22,000 in China alone. However, as soon as in 2010, Volvo recorded sales growth by 11.2% in comparison to the previous year owing to sales of as many as 373,525 cars.

The decision to merge Geely, which had been known mainly for manufacturing small cheap cars, with Volvo, which had created its reputation based on manufacturing reliable safe high quality cars for the middle class in the USA and Europe for years, was at the same time surprising and promising.

One of the main premises for the merger of the two companies was the unexpected exchange of the benefits lying in the experience and values of Volvo and in the potential and strategy of Geely Automobile [Volvo Cars]. Another premise for acquiring the Swedish brand by the Chinese company, which is also emphasized, is Geely's aspirations for manufacturing the safest and at the same time the most efficient and environmentally friendly cars in the world and striving for the implementation of the strategy for strengthening Chinese brands through the intellectual capital of a valued company, such as Volvo. Geely perceived the investment as a chance for shaping its reputation anew and reinforcing it as well as taking advantage of Volvo's experience not only in manufacturing safe cars but also in managing the global supply chain (Geely Automobile Report, 2010).

Li Shufu, Geely's founder, who also became a member of Volvo's management board, believes that both companies will remain on the market as independent entities. Until October 2010, China was the third largest market for Volvo, while as soon as in 2014 it was its largest outlet. This is because as much as 17.4% of Volvo's total sales were generated in China in that period. The remaining portion was divided among others between the Swedish market, where over 13% of the manufactured vehicles were sold in the American market, with over 12% of the sold cars, and the British and German markets, where 8.8% and 6.8% of cars were sold, respectively (Volvo Cars, n. d).

Effects of the Merger of Geely Automobile and Volvo

Under the technology transfer agreement, Geely has now full access to Volvo's technology, the application of which on the Chinese market will permit achievement of its strategic goals. By means of Volvo's technology, Geely is planning to develop a new Geely Automobile car made for the Chinese mass consumer. Relationships between the two companies are described as partnership. There is no competition between them as they are oriented towards different target markets. Geely sells cars intended for a mass consumer, while Volvo aims at the luxury goods market. Therefore, the technological cooperation between Geely and Volvo has been relatively good to date. Directly after concluding the agreement, Geely Automobile recorded a better net profit growth than expected, i.e. 13%, in 2011. Although Geely's domestic sales volume dropped by 3% in that year, export increased by as many as 93%, i.e. by 39,600 cars, which constituted 9% of the total sales generated by the company in 2011, which was 421,611 vehicles (News Flanders, 2012).

As a result, considerable progress was made in 2013, which enabled Geely Automobile Group to optimise the consumed resources further and accelerate the implementation of the platform strategy as well as to standardise and modernise product development jointly. Owing to that, the Group achieved strong and unique competitive advantage.

A factor which facilitates the implementation of the strategy's assumptions is also a change in attitudes of consumers, who are becoming more and more demanding about the expected capacity, environmental impact, energy consumption efficiency, and safety of the vehicles. When observing the cooperation of both companies to date, it can be safely said that, thanks to the synergy effects, Geely has strong bases for accomplishing its long-term goal, which is achievement of the position of the leading international car manufacturer. Geely has been improving the quality of its vehicles and thus reinforcing its competitiveness on the market.

Having recorded a higher net profit growth than expected, i.e. 13%, in 2011, Geely Automobile gained profit growth by 19% as soon as in 2012 and 31% in 2013, which translated into stable growth of the company. Moreover, the number of vehicles sold in 2013, which was 549,468, was higher than in 2012 by 14%, 22% (118,871 cars) of which were sold by the company on foreign markets, i.e. 17% more than in the previous year. As a consequence of the systematic improvement in the range of products offered by the company, its financial results for 2013 were at the level of RMB 28.7B, which also means growth by 17% (Table 5). What also deserves emphasizing is the fact that the company managed to achieve such spectacular results despite increase in expenditure for research and development in connection with the restructuring processes initiated in the company. This was possible owing to the contribution of the actions taken to a clear improvement of the range of products offered in 2013 (Geely Automobile Report, n. d.).

2014 was a great challenge to Geely due to factors such as: political instability on some of the outlets served, weakening of currencies in emerging markets in relation to the American dollar, and crucial structural reforms aimed at facilitating the company's sales and marketing areas. This was manifested in the total sales volume drop by 16.8% and the export volume drop by nearly 50%, which was recorded by the company in 2014, in comparison to the upward trend of previous years [Fig. 2]. In spite of the difficulties, the company tried to create and reinforce its competitive advantage and managed to maintain good shares on key outlets, which proved that the competitiveness level of the products offered by Geely improved. Although the vehicle sales decreased significantly on foreign markets, the company's export volume was still as much as 11.2% of the total Chinese export in the automotive sector, thus ensuring it the position of one of the largest passenger car exporters in China.

It also needs to be stressed that despite the growing challenges and fierce competition, Geely Automobile was capable of keeping its financial liquidity at a good level both on the domestic market and on foreign markets in 2014. This resulted from successful implementation of the product development strategy and restructuring in the area of the pursued sales and marketing activities, which as a consequence allowed the company to improve the quality of the products and services offered, to increase its sales potential, and to enhance the effectiveness of the actions taken (Geely Automobile Report, 2014).

Following the downward trend of 2013-2014 financial results (the total revenue equal to RMB 21.7B decreased by 24%, while the net profit value dropped from RMB 2.68B by as much as 46%, to the level of RMB 1.45B), Geely's performance in HY1 2015 met the expectations of the management staff. This is because the sales growth was 53% as a result of selling 233,990 vehicles. In spite of the general slowdown observed on the Chinese automotive market in that period and the challenges which continued to occur on certain foreign outlets, the positive reception of two new models: "New Emerald" and "New Vision", considerably contributed to increasing the sales volume of the brand's vehicles on the domestic market. Sales results of passenger cars of other Chinese brands also improved. The total number of vehicles sold grew by 14.6% over 6 initial months of 2015, which was a particularly good result given the total passenger car sales growth of 4.8% recorded by the Chinese market. In 2015, Geely Automobile managed to maintain its strong financial position although it incurred higher costs of sales as well as distribution, marketing and promotional activities related to launching of the new car models (Geely Automobile Report, 2015).

The transformation of Volvo, which continued through 2013, resulted in launching the largest line of renewable products, i.e. Drive-E type drive units, in the company's history, which was reflected both in the net income growth by 4%, from SEK 272.6B in 2013 to SEK 282.9B in 2014, and in the operating revenue level, which grew from SEK 7.9B in 2013 to SEK 8.4B in 2014. The result was an important step towards the company's sustainable profitability level. Through the appropriate sales development and cost optimisation, Volvo managed to make up for the loss incurred in HY1 2013 and transform it into full-year profit. The company's retail sales of that year, which was driven mainly by the growth achieved in China, were similar to the number of vehicles sold in 2012. Moreover, Volvo Car Group reinforced its long-term funding structure by concluding loan agreements with partners and financial institutions.

The attempts made by the company in 2015 resulted in further reinforcement of the brand's profitability. This was confirmed by the growth in the level of the generated operating revenue by as much as 75% and growth in the operating margin in the initial three quarters of 2015 by 2.6%. Additionally, the sales volume, which was over SEK 73B at that time, also increased by 9% relative to the results achieved by Volvo over the three quarters of 2014. A drop was recorded only as regards the number of orders placed for heavy goods vehicles, which was lower by 15% if compared to the previous year, and for construction machinery, where the number of orders decreased by as much as 34% (Volvo Group, 2015a). Thus, the number of Volvo heavy goods vehicles sold by the end of 2015 was 18,333. It needs to be emphasized here that, while the company recorded a drop by as much as 63% in South American countries, 2% in North American countries, and 9% in Asia, the European demand for heavy goods vehicles grew by as much as 40%. Thus, the total heavy goods vehicle sales level was similar in 2015 to that in 2014 (Volvo Group, 2015b).

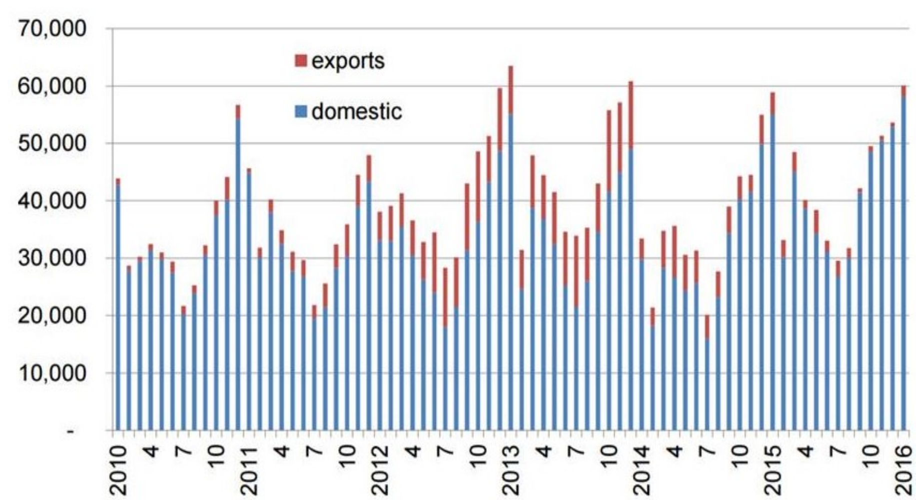
Another fact that deserves emphasizing is that Volvo Car Group achieved a record-breaking result from sales in terms of the number of cars sold in 2015. The company exceeded the number of half million pieces for the first time, with as many as 503,127 vehicles sold, i.e. 8% more than in the year before. It needs to be indicated that the result was driven mainly by the demand for a new version of the flagship Volvo model, XC90 SUV. High sales growth was achieved by the company on all its outlets, and especially on the European and US markets, where the new XC90 model had a particularly positive reception (Reuters, 2016).

TABLE 5
The Financial Results of Geely Automobile after the Merger with Volvo
Geely Automobile Holdings Limited - 6 Years Financial Summary

	2014	2013	2012	2011	2010	2009
Turnover (RMB'000)	21,738,358	28,707,571	24,627,913	20,964,931	20,099,388	14,069,225
Profit before taxation	1,943,405	3,304,182	2,529,077	2,183,208	1,900,323	1,550,460
Profit for the year (RMB'000)	1,449,128	2,680,248	2,049,786	1,715,849	1,549,711	1,319,028
Annual Sales Volume (Unit)	417,851	549,468	483,483	421,611	415,843	326,710

Source: Own compilation based on: (Geely Automobile Report, n.d.).

FIGURE 2
The Sales Volume Achieved by Geely Automobile (Monthly)



Source: (Geely Automobile Report, 2016)

This was manifested in the growth by 24.3% recorded by the company in the USA, which resulted from selling as many as 74 thousand vehicles, i.e. 16 thousand more than in 2014 (MenadzerFloty, 2016). On the European market, in turn, the sales growth was 10.6% at that time, and the largest outlet for Volvo brand in Europe was still Sweden, where 70 thousand vehicles were sold in 2014, which is the second such high result in the history. Despite the general economic slowdown on the Chinese market, the 2014 result was maintained at that time. However, growth in the sales of the car make at the level of 11.4% was recorded as soon as in the last quarter of 2015 (Reuters, 2016).

In response to the demand of purchasers, the company decided to open a Volvo factory in the USA, which would start manufacturing cars for that market in 2018. The factory is expected to manufacture 100 thousand vehicles per year. The company would have then manufacturing centres on as many as three continents, i.e. in Europe, Asia and North America. As follows from the above analysis, the industrial expansion of Volvo Car Group on the Chinese market has brought good results to date. The company concluded two joint venture type agreements in Zhangjiakou and Daqing, and established a plant in Chengdu, which commenced its operations in November 2013. However, it needs to be stressed that the actual turning point in Volvo's development was its acquisition of 45% of Dongfeng, a Chinese company offering heavy and medium goods vehicles and being one of four largest car manufacturers in China today. The strategic alliance proves a substantial change in perceiving the company's potential on the Chinese heavy goods vehicle market, which as needs to be indicated is the largest market in the world (Volvo Group Report, 2014; Geely Sweden Report, 2013).

With reference to the results achieved in 2015, Volvo is planning to contend with automotive giants such as the German Mercedes-Benz or BMW in 2016. This will be the next step on the company's way to accomplishing its goal, i.e. to achieve the sales volume of 800,000 vehicles by 2020 and become the global premium car manufacturer (MenadzerFloty, 2016).

As a result of the merger, Geely and Volvo commenced sales of jointly developed safe and reliable vehicles in 2015. Geely Automobile hopes that this will help it to additionally strengthen its reputation through achieving the top position as a passenger car exporter in China. CEVT (China Euro Vehicle Technology), an independent research and development centre opened in Gothenburg, Sweden, in 2013, has become the key platform for facilitating the cooperation between the two companies (Europe Autonews, n. d.). Currently the centre employs 200 specialised engineers who are supposed to develop a new modular architecture and a set of C segment car components, with both Volvo Car and Geely Group's needs taken into account. The components will not only provide the world class technology but also permit considerable reduction of development, testing and supply costs, thus leading to generation of significant economies of scale. This will not only be beneficial to Volvo but also increase Geely's capability to compete on the automotive market. This will ultimately translate into profits of the established corporation (MenadzerFloty, 2016).

CONCLUSION

As a consequence of the slowdown observed on the automotive market in China and the difficulties faced by Geely as regards its export activities, the pressure exerted by competitors on the Chinese market, directed towards domestic brands, is expected to intensify in the coming years as more and more aggressive strategies of action will be used by foreign brands. This is because companies will strive for securing their shares on the Chinese market by implementing appropriate competitive advantage building strategies i.e. through competing with price. The process of introducing stricter regulation requirements as regards fuel efficiency, warranty for products, possible withdrawal of products, and exhaust emission standards will involve an enormous cost pressure for domestic brands in China. This contributed to decreased demand for passenger cars in many large Chinese cities already in HY1 2015.

On the other hand, despite the arisen difficulties and challenges, Geely Automobile managed to not only maintain but also strengthen its competitive advantage on the market. The company's distribution system, which was restructured in 2014, can significantly contribute to improvement of the quality of the offered services, thus increasing efficiency of Geely's sales channels. This, in turn, will provide it the support necessary for maintaining the company's development dynamics and strong market position.

Currently, Geely Automobile's actions focusing on increasing customer satisfaction by improving the quality of the products and services offered bring gratifying results. The company invests in new, more efficient, and environmentally friendly technologies both when developing new vehicle models and when enhancing old ones. The successful cooperation between Geely and Volvo Car Corporation and the considerable progress in their technological cooperation have allowed the company to continue with the optimisation of resource consumption, thus accelerating the company strategy, standardisation and joint modularisation in the product development process. In consequence, it has contributed to achieving synergy effects in terms of the quality of the manufactured products and creation of the brand image, which has translated into the company's strong and unique competitive advantage. Geely expects that the benefits of the synergy resulting from its cooperation with the Swedish partner will create a solid foundation for implementing the sustainable development strategy for both companies in the coming years, at the same time increasing their competitive strength as regards the quality offered, technology applied, and brand image. In the face of the forecast growth in the demand for environmentally friendly electric cars, Geely Automobile considers also establishment of a strategic partnership with foreign companies which are leaders in applying the required technologies (Geely Automobile Report, 2015; Global Geely, 2016).

REFERENCES

Alon, I., Fetscherin, M., Sardy, M. (2008). Geely motors: A Chinese automaker enters international markets. *International Journal of Chinese Culture and Management, 1*(4), 489-498.

Alon, I. (2003). *Chinese culture, organizational behavior, and international business management*. Connecticut, CT: Greenwood Publishing Group.

China Autos Report. (2009). *China Autos Report Q2 2009*. Business Monitor International Ltd.

China's Stimulus Package. (2009). *China's stimulus package: A six month report card, A corporate network special report, 2009*. London, UK, The Economist.

EU SME Centre. (2015). *The automotive market in China*. Retrieved from http://www.ccilc.pt/

Europe Autonews. (n. d.). *Automotive news Europe home*. Retrieved from http://www.europe.autonews.com/

Gallo, F. T. (2011). *Business ledership in China. How to blend best western practices with Chinese wisdom*. New Jersey, NJ: John Wiley & Sons.

Geely Automobile Report. (2014). *Geely automobile holdings annual report 2014*. Retrieved from www.geelyauto.com.hk

Geely Automobile Report. (2015). *Geely automobile holdings interim report 2015*. Retrieved from www.geelyauto.com.hk

Geely Automobile Reports. (n. d.). *Geely automobile holdings annual reports*. Retrieved from www.geelyauto.com.hk

Geely Automobile. (2011). *Geely automobile corporate presentation 2011*. Retrieved from www.geelyauto.com.hk

Geely Automobile. (2010). *Geely automobile holdings limited official announcement about Volvo 2010*. Retrieved from www.geelyauto.com.hk

Geely Automobile. (2016). *Geely automobile corporate presentation 2016*. Retrieved from www.geelyauto.com.hk

Geely Sweden Report. (2013). *Geely Sweden ab annual report 2013*. Retrieved from http://www.volvocars.com/

Global Geely. (2016). *Geely news 2016*. Retrieved from https://goo.gl/fgi24q

Hong, Y., & Mu, Y. (2010). China's automobile industry: An update. *EAI Background Brief No. 500*.

Holweg, M., Luo, J., & Oliver, N. (2005). The past, present and future of China's automotive industry: A value chain perspective. *International Journal of Technological Learning, Innovation and Development, 2*(1-2), 76-118.

Hopkins, D. (1999). Cross-border mergers and acquisitions: Global and regional perspectives. *Journal of International Management, 5*(3), 207-239.

Lasak, P. (2010). The development of the Chinese automotive industry. *Economic Studies / Polish Academy of Sciences. Institute of Economic Sciences, 4*(67), 413-438.

MenadzerFloty. (2016). Retrieved from https://goo.gl/qds7jF

News Flanders. (2012). *Volvo and Geely to set up JV to meet requirements, 2012*. Retrieved from http://news.flanders-china.be

OICA. (2016). Retrieved from http://www.oica.net/

Porter, M. E. (2008). *Competitive advantage: Creating and sustaining superior performance*. Washington, WA: Free Press.

Reuters. (2016). *Geely-owned Volvo car sales top half a million in record 2015*. Retrieved from https://goo.gl/kTfsNO

Russo, B., Ke, T., Tse, E., & Peng, B. (2009). *The eight overarching china automotive trends that are revolutionizing the auto industry*. Shanghai, China: Booz & Company.

San, A. P. (2016). Factors affecting the number of registered automobile insurance in Myanmar based on Bayesian modeling using the MCMC procedure. *International Journal of Humanities, Arts and Social Sciences, 2*(2), 74-86.

Sherman, A. J., & Hart, M. A., (2010). *Mergers and acquisitions from A to Z* (3rd ed.). New York, NY: Amacom.

Sudarsanam, P. S. (1995). *The essence of mergers and acquisitions*. New Jersey, NJ: Prentice Hall.

Sudarsanam, P. S. (2010). *Creating Value from mergers and acquisitions: The challenges*. New Jersey, NJ: Financial Times Prentice Hall.

Vasconcellos, G. (1998). Cross-border mergers and acquisitions: The undervaluation hypothesis. *Quarterly Review of Economics and Finance, 38*(1), 25-45.

Volvo Cars. (n. d.). Retrieved from http://www.volvocars.com

Volvo Group Report. (2014). *Volvo group annual report 2014*. Retrieved from http://www3.volvo.com/

Volvo Group. (2015a). *Volvo group the third quarter 2015*. Retrieved from https://goo.gl/dq8LTy

Volvo Group. (2015b). *Truck deliveries in November 2015*. Retrieved from https://goo.gl/dq8LTy

Weston, F. (1990). *Mergers, restructuring and corporate control*. New Jersey, NJ: Prentice Hall Pulishing House.

Weston, F. (1992). *Financial theory and coporate policy*. New York, NY: McGrew Hill Pulishing House.

– This article does not have any appendix. –