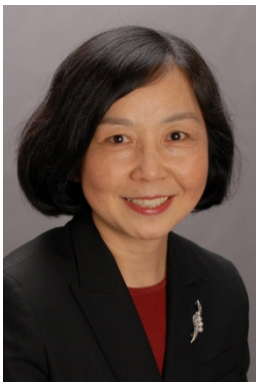

Globalization and catching up - the Volvo story and beyond

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Mergers and Acquisitions (M&A) continue to be a popular strategy for corporate development and those involving developing countries such as China are becoming increasingly significant in international businesses. China's 'Going Global' strategy utilizes M&A as a powerful vehicle for catching up on innovation and modern technology. According to the statistics of Chinese Ministry of Commerce, in 2010 China made direct investment in over 3000 overseas companies in 129 countries and regions[1]. Of the ten largest international M&A cases listed in the Wall Street Journal for 2010, no fewer than four deals involved Chinese companies

The complexity of M&A has attracted a substantive body of research on the factors that affect outcomes. It has been found that cultural differences between the companies involved can create obstacles to achieving integration benefits[2]. There are three main approaches to the problems of cultural fit. The first is for the acquiring company to impose its own culture on the acquired company, at the risk of cultural clashes. Another strategy is to integrate the cultures to form a new one, different from either of the existing cultures. In the third approach, the acquiring company might opt for two separate cultures and the acquired company will maintain an independent cultural identity. Whichever strategy is in place,

different values, attitudes and experiences have a major impact on post-acquisition performance, especially on the employees of the company.

Since most M&As in recent decades have involved companies in developed western countries as the acquiring parties, the change in ownership of the Volvo Car Corporation from the American Ford Motor Corporation to the Chinese Geely Holding Group has raised many eyebrows and doubts in terms of cultural clashes, employee satisfaction and ultimately the future profitability of Volvo. At the end of 2011, about one year after the Chinese acquisition, we conducted an in-depth case study of Volvo Cars Switzerland (Zurich) to explore reactions to this new trend of ownership shift from an advanced economy to a developing country, and to understand the consequences of a change in corporate culture for Volvo employees. Three steps were taken:

1. Preliminary investigation through a case study of Geely's takeover of Volvo in an EMBA class;
2. Interview with four key managers at Volvo Cars Switzerland;
3. Survey of employees at Volvo Cars Switzerland.

Our findings highlighted two opposing perceptions of the Chinese Volvo acquisition.

Outside Volvo:

Of the 31 EMBA students based in Switzerland and holding management positions, nearly all expected a top-down company structure, technology transfer to China, and more control in the short-term. Long-term expectations included a change of production site, longer working hours and a general injection of Chinese managers into key positions. In terms of opportunities and challenges under new Chinese supervisors, most expressed concerns about integration problems, personal relationships with Chinese bosses and the difficulties arising from cultural dissimilarities. Although the majority of the managers mostly cited challenges, some opportunities were also mentioned - mainly personal enrichment, new career opportunities and the general benefits of cross-cultural perspectives.

These rather sceptical views clearly assume 1) that the Chinese parent company would impose its own culture on Volvo or at least exert strong influence on day-to-day business; 2) a pre-

conception that Chinese leadership is hierarchical whereas western leadership is based on egalitarian cultures[3].

Within Volvo:
When the Geely Group took over Volvo from Ford in August 2010, former Volkswagen North America CEO Stefan Jacoby was appointed as CEO and president of Volvo. Geely chairman Li Shufu stressed that *'Volvo will remain independent after the acquisition. It will keep Sweden Headquarters as well as production bases in Sweden and Belgium. The management team will have the autonomy to run the company*[4]*.'*

Soon after the acquisition, Volvo drew up a new corporate strategy and began implementation and communication at the beginning of 2011. Whilst Volvo's goal – and trademark – had been safety and the environment, the focus of the new strategy is 'Designed Around You'. This slogan can be seen as the new overall guiding principle for Volvo's future success and highlights how Volvo Cars is slowly moving towards a culture, where the most important assets are people - both customers and employees. The new company mission states the company's purpose in clear terms[5]: *'Our global success will be driven by making life less complicated for people, while strengthening our commitment to safety and the environment.'*
Our interviews with the four (out of seven) key managers, together with the survey of 17 employees (63% of Volvo Car Switzerland employees), delivered some unexpected results: a general feeling of satisfaction, little uncertainty and no worries about the future under Chinese ownership. This may raise eyebrows, but if you look at how the employees saw the past under the American big brother, the results are less surprising. Volvo's Ford era was marked by hierarchy, little freedom in decision-making, top-down and long communication channels, and an uninspiring work environment. The mood was sombre and nobody had faith in the future. Geely is seen as a saviour that rescued Volvo from an apparently dire situation.
The table below shows the results of our analysis comparing the Volvo Car organizational culture before and after Chinese acquisition:

Volvo Car Switzerland in Ford era	Volvo Car Switzerland in Geely era
American style	Multicultural leadership
Hierarchical	Flat organization
Cost control	Flexibility
Management decisions	Group decisions
Keep things for yourself	Take initiative
Words without actions	Actions are taken
Do what was told	Take risks
Long process	Speed
Keep low profile	Growth oriented
HQ mentality	Customer oriented

So far the chairman of Geely Group has kept his promise and Volvo has been operating independently.Volvo Car Corporation returned to profit under the new 'Designed Around You' management strategy achieving revenues of SEK125,525 million (USD18,589 million) in the first 12 months[6]. Overall employee job satisfaction across Volvo worldwide reached a record high of 84%[7].

Whilst the original purpose of acquiring Volvo was to inherit and maintain its position as world leader in safety and environment-friendliness and to achieve Volvo's goal of "zero casualty, zero emission", Geely has developed a firm belief about Volvo's future and has decided to establish a Research Center for Global Corporate Culture in China, officially announced on 17 February this year[8].

Obviously it is too early to celebrate as Volvo is still in the process of cultural transition. Nevertheless this example of a change of ownership from a developed country to China demonstrates how developing economies are catching up. The Volvo story shows that dissimilarities are not necessarily fatal to the success of M&A. Geely's approach suggests that much research is needed into the interactions in cross-cultural management.

Conclusion

The differences between China and Sweden could hardly be greater. The acquisition of the Swedish high-end global brand Volvo by a private Chinese car manufacturer Zhejiang Geely Holding Group in 2010 has drawn great attention in the business world. The contrasts in every aspect of business, especially national cultures, meant the risk of failed integration of the two companies was expected to be very high. This article reports on our recent in-depth case study of Volvo Car Switzerland. The findings suggest that dissimilarities are not as critical to the success of mergers and acquisitions (M&A) as most research shows. The Volvo story presents a new model of M&A from emerging countries, which will have major implications for international management research and practices.

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