

# The first international business professional degree innovation entrepreneurial elite challenge

(第一届全国 MIB 精英挑战赛)

"The Belt and Road" initiative under the Sany Heavy  
Industry to go out of the optimization of the study

(“一带一路”倡议下三一重工走出去之道  
的优化研究)

## “一带一路”倡议下三一重工走出去之道的 优化研究

**摘要：**近年来，伴随着“一带一路”战略的进行，我国民营企业不断加大对外投资的力度，积极贯彻落实走出去迈向国际化的政策。但在实践经营过程中发现，我国机械制造业的发展仍存在许多问题。随着“一带一路”的发展和国际化战略的强化，三一重工的对外并购整合中的文化差异以及制度适应性问题尤为突出，已远远不能迎合全球工业发展的需求，供给数量和质量及相配套的制度供给数量与质量与实际需求不相匹配，三一重工走出去的政策结构改革迫在眉睫。本文从分析三一重工内外部环境机制及支持其发展的国家政策供给现状出发，系统梳理其存在的问题，在此基础上从宏观、中观、微观的角度提出解决其所存在的问题的具体优化思路。

**关键词：**一带一路；三一重工；国际化战略；并购

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**Abstract:** In recent years, along with the "The Belt and Road" strategy, China's private enterprises continue to increase the intensity of foreign investment, and actively implement the policy of going out to internationalization. However, in the course of practical operation, there are still many problems in the development of China's machinery manufacturing industry. With the development of the "The Belt and Road" and the strengthening of the internationalization strategy, the cultural differences and institutional adaptability of Sany's external mergers and acquisitions are particularly prominent, which is far from meeting the needs of global industrial development and supplying quantity and quality. And the supply quantity, quality and the matching system does not match the actual demand, it is imminent for Sany to go out to reform the policy structure. Based on the analysis of the internal and external environmental mechanism of Sany and the status of national policy supply supporting its development, this paper systematically solves its existing problems. On this basis, this paper puts forward the specific problems of solving the existing problems from the macroscopic, mesoscopic and microscopic optimization ideas.

**Key words :** The Belt and Road; Sany Heavy Industry; Internationalization strategy; M & A

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# 1 Introduction

## 1.1 Research background

In the context of going out, Sany Heavy Industry actively start international production cooperation along with the neighboring country by the strategic opportunity of "The Belt and Road". In the first half of 2016 financial year report, Sany has achieved an international sales income of 4.61 billion CNY, accounting for 41.6% of the company's main business income<sup>1</sup>. In recent years, Sany's internationalization process is accelerating and has achieved profit growth goals in India, Asia Pacific, Latin America and other countries.

China's private manufacturing is an indispensable force in China's manufacturing, which supports China's overall economic development as an important source. In recent years, our government has continuously increased the management and supervision of China's manufacturing, and actively implement the development policy towards the internationalization. However, in the course of practical operation, there are still many problems in the development of China's machinery manufacturing industry. With the accelerated pace of internationalization and the rapid development of information technology, the existing Chinese private manufacturing has been far from being able to meet the needs of the international market. China must execute from the improvement of China-made product supply, the quality of supply system to meet the consumer demand for changes in demand and flexibility, innovation and innovation better, which has become an inevitable trend.

## 1.2 Purpose and significance of research

In the context of economic globalization, Chinese manufacturing is facing market pressure as a precedent driven by "The Belt and Road". Supply-side reform, overcapacity, industrial transformation have become the hot topic currently, our government has introduced a series of policies to release production capacity, change the current economic situation that supply and demand substandard. For the manufacturing enterprises, it has to transform the enterprise development strategy,

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<sup>1</sup> 三一重工2016年半年报发布 企业现金流充裕[J]. 工程机械,2016,(10):80.

make a clear understanding of their own position in the market competition, and make the national policy as a guideline, will companies be able to seize market opportunities, improve the competitiveness of enterprises and achieve sustainable development goals.

In the strategy of "going out" promoted by government, it is inevitable for enterprises to develop internationalization. Internationalization initially understand the international market aimed to export-oriented and start a global strategic layout from the international business perspective, and integrate all the national resources and optimize the product value chain through a series of international strategies. International operation requires enterprises to cooperate with each other to cope with the fierce market competition, to adapt to economic regionalization and the trend of development. This paper analyze the theoretical basis of Sany's process of internationalization according to M & A theory as the most representative industry, Sany. Then, this paper analyzes the opportunities and threats that M & A will adopt in the internationalization strategy based on the latest national policy, and gives constructive guidance suggestions, which can provide the inspiration for the internationalization of Chinese enterprises.

### 1.3 Research status

Since the construction of "The Belt and Road" in the efforts to achieve a strong power of science and technology under the background of the economic power, many domestic scholars have researched the development of China's private manufacturing status and problems. Based on DuPont analysis and factor analysis, Liu Yu and Wang Rui<sup>2</sup>(2014) research on the problems more cured in listed companies in China's construction machinery industry, compared to Zoomlion to analyze the internal affairs of Sany Heavy Industry Income, cost and international mergers and acquisitions, and then reveal the problems existing in the company's system. They (2014) pointed out, under the conditions of synergistic effect theory and market power theory, Sany's acquisition is an important movement for its success to

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<sup>2</sup> 刘钰,王睿.

杜邦分析法在我国工程机械行业上市公司财务分析中的应用——以三一重工和中联重科为例[J].  
现代商业.2014,(03):268-269.

the international market. Yu Qian<sup>3</sup> (2014) elaborates the significance of Sany's M & A according to the theory of efficiency, the cost of agency, the theory of managerialism, the theory of transaction cost and the theory of taxation. Zhou Chan<sup>4</sup> (2013) researches to change the type of financing, optimize the capital structure, to prevent financial risks, strengthen the working capital management and improve the efficiency of capital use based on the branding and capital structure of Chinese machinery manufacturing enterprises the international needs, adopt the way of multi-professional finance to avoid the homogenization of products or be eliminated by the fate of the market. Yin Xueying、Liang Yueming and Liu Aijun<sup>5</sup> (2016) open up foreign markets using the three patents as the core of the main competition to deal with the strategy, highlighting the importance of patented technology. However, Zhang Haiyan<sup>6</sup> (2016) focused on the research and development of China's machinery manufacturing industry, emphasizing the perfect R & D organization system and regulatory system that play core competitiveness in order to produce potential economic and social effects. Li Ronghua and others<sup>7</sup> (2016) introduced the product distribution of Sany Heavy Industry through innovation-driven theory, and developed the whole industry chain to realize the digital intelligent transformation. In addition, Ma Xiaohan<sup>8</sup> (2015) analyze the five kinds of pressures of Sany, emphasizing the management of funds, from increased R & D spending and strengthen brand management to protect their sales revenue in the process of international construction. Wu Hong<sup>9</sup> (2007) analyzes the macro environment of Sany by using PEST analysis method, and analyzes the

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<sup>3</sup> 于茜. 三一重工海外投资策略研究[D]. 天津大学, 2014.

<sup>4</sup> 周婵. 三一重工股份有限公司融资策略研究[D]. 南昌大学, 2013.

<sup>5</sup> 尹雪英, 梁月明, 刘爱军. 三一重工股份有限公司专利分析[J].  
科技创新与应用, 2016, (29):56.

<sup>6</sup> 张海燕. 我国机械设备制造业研发问题分析——以三一重工股份有限公司为例[J].  
现代企业, 2016, (08):21-22.

<sup>7</sup> 李荣华, 韩香, 杨青, 何玫, 王琳琳. 三一重工: “新时代 新三一” 转型更精彩[J].  
中国公路, 2016, (24):103.

<sup>8</sup> 马晓涵. 浅析三一重工的现状及对策分析[J]. 中外企业家, 2013, (02):25.

<sup>9</sup> 伍红. 三一重工股份有限公司发展战略研究[D]. 湖南大学, 2013.



competitiveness of its industry by Porter's five-force mode from the macro, micro, qualitative and quantitative different angles respectively to research. Finally, from the internal condition it has summed up the internal strengths and weaknesses from the internal factor (IFE) evaluation matrix, and analyze the external factors (EFE) evaluation matrix from the external environment, and then summed up the external opportunities and threats, identified Sany (QSPM), it is concluded that the basic competitive strategy of Sany Heavy Industry should be differentiated competition by using qualitative method and quantitative strategy plan matrix (QSPM).

In summary, most scholars in China use the theory of agency cost, managerial theory, transaction cost theory, competitive advantage theory and differentiation theory to study the status quo of Sany Heavy Industry, analyze its predicament and the reasons, and put forward corresponding countermeasures, which provides a reference for optimizing the international development of China's private machinery manufacturing enterprises. In this paper, by combining the specific situation of Sany Heavy Industry with the advanced development strategy theory, it has practical significance to find the appropriate strategy to solve the current predicament. In addition, this study also helps to accelerate and promote the development of China's construction machinery industry strategy and method of research for the Chinese construction machinery industry under the background of "The Belt and Road" to help to improve the strategic management level of international stage.

## **2 The Development of Sany Heavy Industry**

### **2.1 Status of Construction Machinery Industry**

Generally speaking, construction machinery enterprises is engaged in the production of earth and stone construction projects, road construction and maintenance, mobile lifting loading and unloading operations and a variety of construction projects required for comprehensive mechanized construction machinery and equipment enterprises, known as construction machinery enterprises. There are many areas of product application for construction machinery enterprises, such as in the construction of national defense, in transportation construction as well as urban construction, industrial construction and production. China's construction machinery industry belongs to intensive industries of capital, labor and technology,

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after several-decade development, not only are the products diverse, but also a variety of specifications and models, which has met the needs of different customers.

year	import		Export		Import and export ratio (%)
	Amount of money(Billion)	Year-on-year increase long(%)	Amount of money(Billion)	Year-on-year increase long(%)	
2011	90.54	7.7	159.09	53.8	0.57:1
2012	58.84	-34.9	191.62	20.1	0.31:1
2013	47.34	-19.5	195.31	1.93	0.24:1
2014	42.85	-9.5	197.91	1.33	0.22:1
2015	33.67	-21.4	189.78	-4.11	0.17:1

**Form 2-1** Statistics on Import and Export Trade Volume of Construction Machinery in China from 2011 to 2015

Data Sources : China Construction Machinery Industry Association

We can see through the Table 2-1, in the period of "Twelfth Five-Year Plan", the import volume of the main products had decline, which is opposite to the export volume, from the trade volume, China's construction machinery imports showed a downward trend that the ratio of imports increased and the ratio of import and export fell from 0.57 in 2011 to 0.17 in 2015, and the trade surplus increased year by year. In terms of operating income, the total export value of China's construction machinery industry accounts for about 15% of the total sales in the period from 2011 to 2015.

In the period of "Twelfth Five-Year Plan", China's construction machinery import and export trade volume accumulated more than 120 billion US dollars, increased by 64% than "Eleventh Five-Year". And imports volume reached to 27.32 billion US dollars, fell 3.93% compared to "Eleventh Five-Year"; exports volume reached to 93.37 billion US dollars, increased 106.7% compared to "Eleventh Five-Year", and thus the accumulated trade surplus had reached the volume which would cause problems in industry development. Through the analysis of the development of domestic and international construction machinery market, especially according to the "The Belt and Road", the infrastructure construction industry opportunities and new development environment caused by three strategies,

Beijing-Tianjin-Hebei coordinated development and the Yangtze River economic zone, China Construction Machinery Industry Association predicted that China's construction machinery sales in domestic and foreign markets is expected to reach to 650 billion CNY by 2020. Industry exports and overseas operating income accounted for more than 30% at the end of "Thirteenth Five-Year Plan", the export volume strives to achieve steady growth in the industry, and the export volume will reach to about 240 or 250 billion US dollars accounting for more than 20% of total annual sales of the industry by 2020.

## **2.2 Analysis on the Status of Sany Heavy Industry**

### **2.2.1 Company Profile**

Sany Heavy Industry Co., Ltd. was founded by Sany Group in 1994, the company's products include concrete machinery, mining machinery, lifting machinery, pile machinery, road construction machinery, construction and assembly of prefabricated structural components, and some products have become China top brand. Sany adheres to the concept of "quality can change the world", matching value services and star treatment to the terminal consumer demand. Up to now, with its first-class product quality, Sany has been widely involved in the construction of a number of key projects around the world, such as Dubai Tower, Beijing Olympic venues, London Olympic venues, Brazil World Cup venues. Sany's scale is rising, Sany Heavy Industry's 6S Center has been spread all over the major cities in the country, with nearly 200 sales subsidiaries, more than 2,000 service centers and nearly ten thousand technical service engineers around the world.

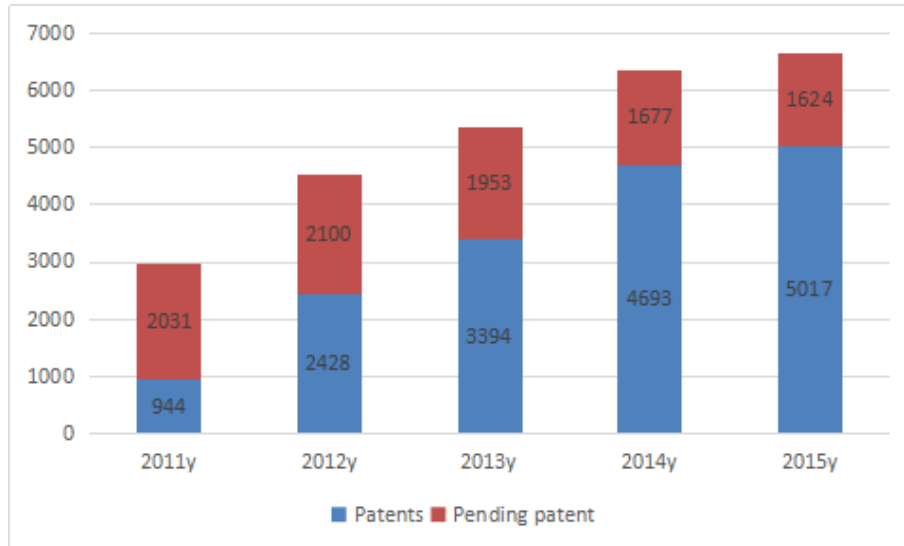
In recent years, Sany Heavy Industry in accordance with the latest national development policy of the "B&R", actively explored South America, Africa, Southeast Asia and the countries along the line whose infrastructure is backward, and eventually benefit considerably from foreign cooperation.

### **2.2.2 Patent number analysis**

At the end of 2015, the company has applied for a total number of 6641 patents, authorized 5017, the number of applications and licenses ranked first in the domestic industry, and the company in 2010 and 2011 won the Chinese patent award - China Patent Gold Award twice. Figure 2-1 lists the number of patent applications and authorized patents for Sany Heavy Industry in recent years. From 2012 to 2014, the

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number of patents and patent applications each year of Sany Heavy Industry are about 1000, and in 2015 they had applied for 271 patents, authorized 324 patents. After the initial patent application period, Sany has been entering a period of steady growth of patents.



**Figure 2-1** Sany Heavy Industry in recent years the cumulative number of patents and authorized patents

Source: Sany Heavy Industry Annual Report

### 2.2.3 R & D investment analysis

The financial investment of enterprises is the basic guarantee for technological innovation. The R & D expenditure of Sany Heavy Industry in 2012 is 2.547 billion CNY, the R & D expenditure is 1.93 billion CNY in 2013, the R & D expenditure is 1.601 billion CNY in 2014, and the R & D expenditure is 1.2 billion CNY in 2015. Although the number of R & D investment costs decreased year by year, but taking it into account that the Sany's operating income decreased year by year in recent years, its R & D expenditure accounted for the proportion of operating income changed little, which are almost more than 5%, as shown in Table 2- 2.

**Table 2-2** R & D investment and operating income of Sanyi Heavy Industry over the years

year	2011	2012	2013	2014	2015
R & D investment / billion	25.86	25.47	19.35	16.01	12
Operating income / billion	507.76	468.31	373.28	303.65	233.67

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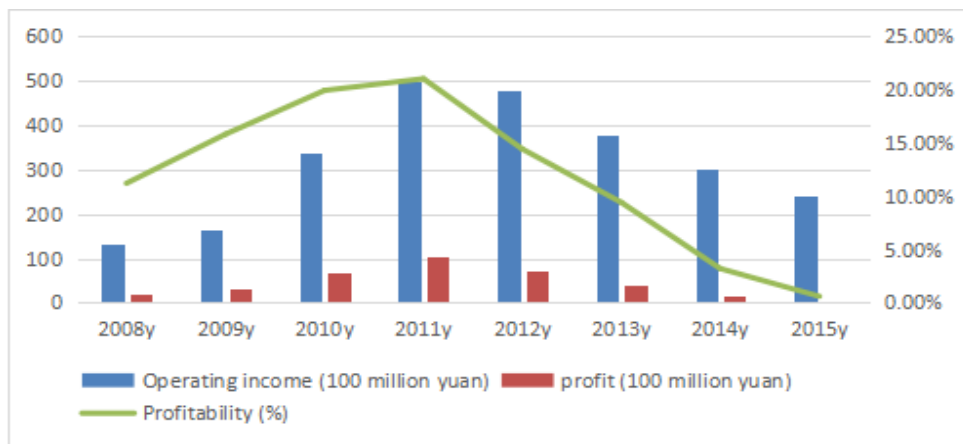
Percentage /%	5.09	5.44	5.18	5.27	5.14
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Source: Sany Heavy Industry Annual Report

According to the "High-tech Enterprise Management Measures" promulgated on January 29, 2016, the ratio that the total amount of R & D expenses of high-tech enterprises with sales income whose total sales revenue reaches more than 200 million CNY should exceed 3% in the same period. In the relatively mature construction machinery industry, the R & D investment ratio, 5% , of Sany Heavy Industry is much higher than other similar enterprises in China. The proportion of domestic R & D spending in China's major rivals accounted for less than 5% in genera until in 2015 which is higher than 5% reaches to 5.07%.

#### 2.2.4 Sany Heavy Industry Market Analysis

Figure 2-2 shows the change in operating income, profit and profitability of Sanyi since 2008. The overall trend of Sany's revenue and profit growth is rapidly increasing before 2011, reaching its peak in 2011 and continuing to decline. In addition, the company's annual profit margins vary widely, although the trend in operating income keeps same with the profit trends, the rate of decreasing became larger and reached to 21.25% in 2011. And then it rapidly decrease to only 0.5% in 2015. The abnormal decline in profit margins also reflects the cruel situation of the company's products in the market competition.



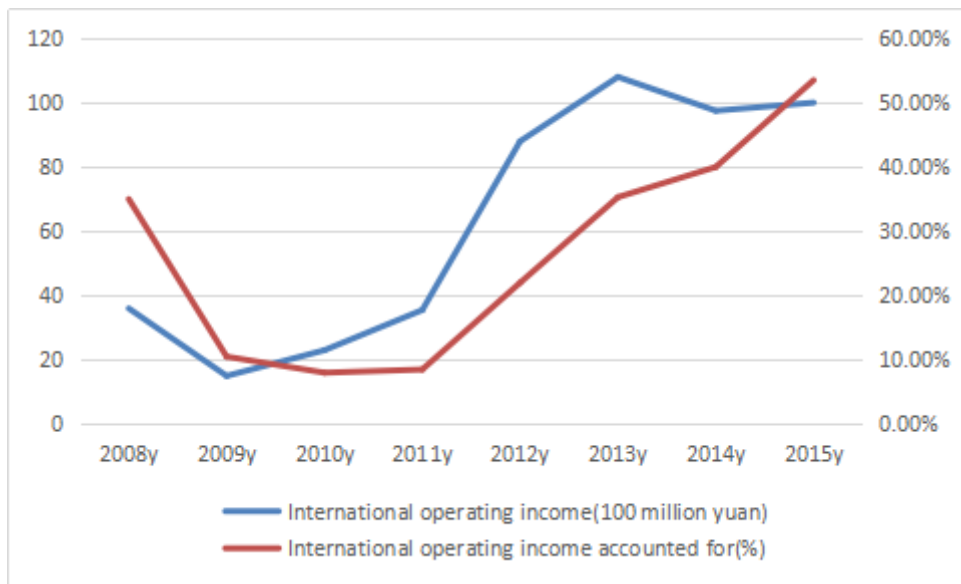
**Figure 2-2** Sany heavy industry operating income, profit and profit margins

Source: Sany Heavy Industry Annual Report

Sany Heavy Industry signed an investment agreement with the Indian government in 2006, established the Sany Indian companies and the first overseas markets basis. Since then, Sany Heavy Industry speed up the process of

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internationalization, and has invested in the United States, Germany, Brazil, Indonesia and other countries. Since 2011, the domestic construction machinery industry got into the doldrums, Sany Heavy Industry speed up the process of internationalization, and actively find new development space in the international market. The iconic event is that Sany Heavy Industry in 2012 to acquire international concrete giants Germany Putzmeister. Figure 2-3 shows the international operating income of Sany's main business in recent years and its proportion to the main business income. As we can see from Figure 2-3, Sany's International salary revenue has increased year by year since 2009 (slightly lower in 2014), the proportion of international operating income to the main business income is rising all the way, which is in contrast to its domestic sales performance.



**Figure 2-3** Sany Heavy Industries over the years the main business of the international operating income and their proportion

Source: Sany Heavy Industry Annual Report

### **3 The problems faced by Sany Heavy Industry when going out**

Currently, although the Chinese market is confronted with overcapacity, but the production capacity of China's construction machinery is not behind the production capacity, but advanced production capacity. It can be made to alleviate excess capacity effectively through external investment. Sany Heavy Industry carry out the relevant foreign investment through international strategy which mainly includes two

aspects, one is relying on large enterprises large projects, that is, relying on The Belt and Road to expand the overseas sales. And on the other aspect, it aims to get the new technology to create new technology. The Sany Heavy Industry has achieved some success in the process of internationalization, but there still exists inevitable problems in the consequent process of international development.

### **3.1 Differences in legal policy**

Investment exist with risks in the background of The Belt and Road, Sany Heavy Industry chooses to execute overseas expansion, which is bound to involve asset transactions between two countries, as well as the restrictions of the economy, legal policy and market supervision between the two countries. China's foreign investment research related to laws and regulations are relatively rich, and the current domestic laws related to the investment are mainly about the approval, foreign exchange, tax and other aspects of management and restrictions, even there have been some bilateral and multilateral investment protection agreement. However, due to the lack of coordination between domestic law and international law, including the laws of the host country, our enterprises have not been effectively protected when they go out. At the same time, when Chinese enterprises are going out, the choice is mostly the neighboring countries and the western countries, often facing economic and political barriers and risks, our enterprises can neither successfully enter the host country nor get the protection of our government, which cause our enterprises stay in a passive state in the process of globalization.

### **3.2 Lack of depth in the aspects of the target business and national environmental research**

Most of the enterprises in the international market will face a similar problem, that is, the strategic objectives are not clear, even if the engineering machinery companies. The main goal is to occupy the target overseas market and get the access to industry-related advanced technology, or to learn the unique business management model. Different strategic objectives has a significant impact on the way companies choose to enter the international market. Companies can not change the international economic situation for the corresponding adjustment and decision-making without clear strategic objectives. Once the strategic objectives of the enterprise is not clear,

all the behavior of the enterprise will be in a passive situation, there can be something worse in the product, technology and management model to make new breakthroughs. In addition, companies may lose the talent due to the lack of accurate human resources planning, which ultimately makes the overseas investment caused by blindly following the wave of mergers and acquisitions damage the interests of enterprises, and even more risks.

As one of the world's top five construction machinery manufacturers, Sany Heavy Industry enterprises is faced with the domestic fierce competition, the major companies competing to go out to get more overseas markets. However, in the early stages of overseas expansion, the lack of comprehensive investigation of the host country in the depth on the economy, law, policy and cultural levels, which causes the problems similar to patent infringement, threatening other countries National security and management problems when the enterprises enter into the target country. For example, when Sanyo invests in the United States, the investment has not made a full investigation and analysis of the project, leading to subsequent accidents involving US national security issues, making the investment loss heavily. In the case of Sany Heavy Industry in 2012, the same problem occurred in the case of Putzmeister, Germany. As a result of the fierce competition between the same industry, the period was short, and the investigation was not fully complete, and only half a month to complete the merger, which will lead to a series of financial, human resources, technology integration and other negative integration effect after acquisition.

### **3.3 Eastern and Western cultural differences**

In the process of international investment, the difference of cultural environment will directly affect the daily business activities of enterprises, while cultural differences in the case of improper handling will hinder the realization of corporate strategic objectives. Culture is a standard set of values and behavior of the system, accompanied by different geographical characteristics, the individuals of the different cultural concept from different countries naturally represents the different cultural thoughts, therefore, Eastern and Western cultures have their own unique cultural system.

Oriental culture, represented by Chinese enterprises thinks highly of the collective interests than individual interests or heroism. Oriental culture emphasizes the collaboration between the collective teams, which is different from the western



culture that emphasizes personal interests. They encourage self-innovation, more emphasis on the power of individual to pursuit interests. Because of the different cultural background, which makes our enterprises inclined to the power of centralized management, which relatively ignore the development of individual capacity of employees and their own legitimate rights of interests and protection; while foreign enterprises tend to chose decentralization of power management, they choose decentralization, emphasizing the equality among employees and enabling individual employees to develop their own personal abilities. Therefore, in the process of cross-border mergers and acquisitions, if the attention which should pay to the talent management is not enough, it is likely to cause brain drain. In the aspect of innovation, oriental culture emphasizes the experience and authority of predecessors, and thus makes the lack of the spirit of innovation and exploration. Western culture emphasizes the ability of individual self-innovation and attaches importance to the combination of theory and practice. The differences between Chinese and Western cultures make the use of legal concepts become still different. Oriental culture attaches importance to human relations, while Western culture advocates the use of "legal system" to constrain and regulate society. On this basis, enterprises with the Western cultural background have a more perfect and standard management system, emphasizing more on the efficiency of the work, but our enterprises are deficient in overall orderly management model and thinking as well as the forward-looking planning.

### **3.4 Go out to face the problem of enterprise integration**

The overseas expansion of an enterprise generally involves two or more countries, and there are certain differences between the policy, economy, law and cultural aspects of different countries. The enterprise must consider the issues that how to integrate the differences among different countries and gain win-win cooperation. For example, China's Sany Heavy Industry enterprises in the acquisition of Germany's Putzmeister business need to consider how to reconcile the differences between the two in order to avoid improper integration of the enterprise due to unsatisfactory results.

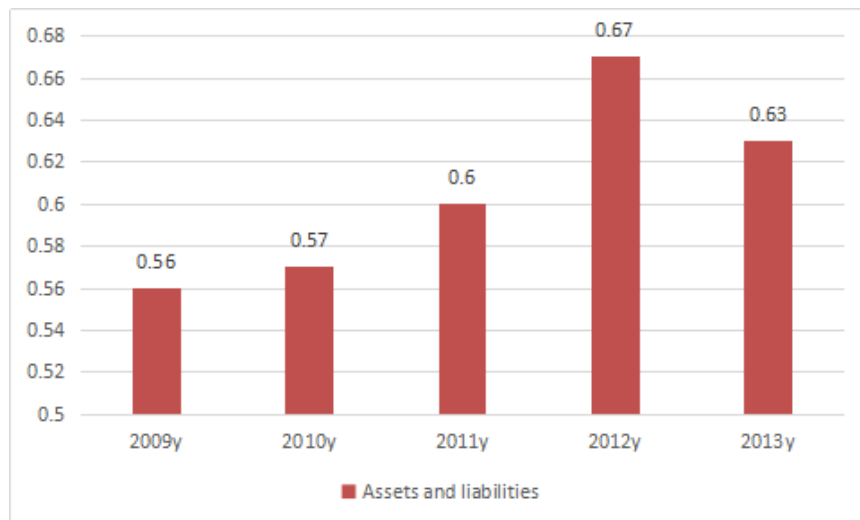
### 3.4.1 Financial assets

#### (1) Cash flow risk

Sany Heavy Industry Group aims to solve the tax avoidance and circumventing unlimited liability and other issues in the early period of the acquisition took the "special purpose company (SPV)" way and joint model with CITIC Fund to acquire the target enterprise through the SPV. Sany can take its own shares in the SPV to bear the debt risk, while Sany in order to avoid the integration risk faced in the process and improve the efficiency of mergers and acquisitions, the joint of CITIC Fund and Sany can rely on CITIC Fund to assist the integration of the company after the integration of funds management, and effectively reduce the risk of integration of mergers and acquisitions to ensure that the M & A process is standardized and efficient. However, due to the short time, the strategy did not achieve the desired effect, Sany still payed the stock price of 2.654 billion CNY in cash, bearing a large cash flow risk.

#### (2) Increased asset-liability ratio

After the acquisition of Germany Putzmeister, Sany integrate its own assets and found, finding that Sany's asset-liability ratio increased significantly, and its solvency has declined. From Figure 3-1 below, Sany increases the possibility in borrowing after the acquisition.



**Figure 3-1** Sanyo Heavy Industries 2009 - 2013 changes in asset-liability ratio

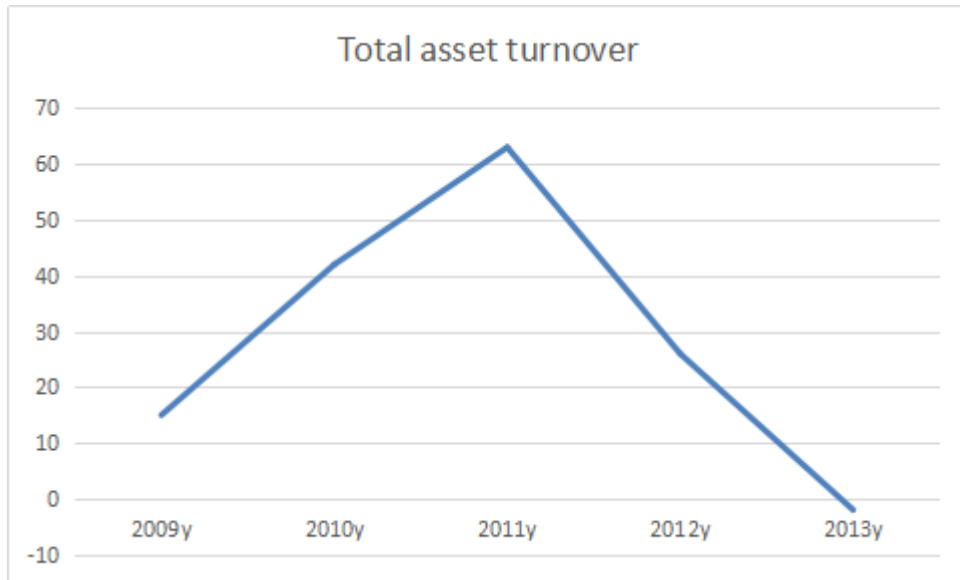
Source: According to Sany Heavy Industry Annual Report data compilation

#### (3) Profitability decline, lower earnings

Combined with the financial statements of Sany Heavy Industry from 2009 to 2013, the relevant financial indicators will be collated and analyzed as shown in

"The Belt and Road" initiative under the Sany Heavy Industry to go out of the optimization of the study

Figure 3-2, which be seen that the changes in assets of Sany Heavy Industry in recent years, furthermore the development potential. During the period from 2009 to 2013, the total assets of Sany increased firstly and then decreased significantly. Then, the total assets growth rate of Sany in 2013 showed a negative growth, indicating that the future development capacity of Sany may be get restricted, and thus its future is not optimistic.



**Figure 3-2** Changes in total assets of Sany Heavy Industry in 2009 - 2013 (%)

Source: According to Sany Heavy Industry Annual Report data compilation

### 3.4.2 Technology integration issues

Based on situation that the business scope of Sany and Putzmeister and the types of their respective products are similar, making the cross-border M & A project belongs to the same industry acquisition. In this integration process, the goal of products after integration of business is more categoric, that Sany Heavy Industry enterprises will use the high-tech technology owned by Putzmeister to produce high-level products to form a complementary relationship between the domestic and foreign market to. Even if there exist no technical problems in the position of Sany on the market and product, but the technical integration is still difficult.

The initial objective of the mergers and acquisitions is to obtain more than 200 related product patents owned by the other side, and integrate with its own technology research and conduct development innovation. At the end of 2012, Sany launched the eldest son of "Sino-German hybrid technology," - C8 concrete pump. Until the end of 2014, Sany launched four independent research and development of

new products again. Although Sany continue to innovate in the technical breakthroughs with all independent research and development, but its input and the high cost has not been rewarded yet. Thus, in order to maintain the independent operation of both sides in the process of mergers and acquisitions, Sany did not fully obtain the other's core technology, so that the effect of its technology integration is not satisfied.

### **3.4.3 Staff placement issues**

Talent is the continuous inexhaustible force in the development of enterprises, enterprises must cultivate innovative technology talents to develop innovation, only a group of high-quality technical talents can provide protection for the development of enterprises. Sany should focus more on the issue that how to retain the talent beneficial to the development of the enterprise after acquisition.

On the eve of the acquisition, Sany has done an adequate preparation. In the same day, the president of Sany, Wenbo firmly committed to the following three points: One is Putzmeister will continue to operate independently; the second is to retain the original management team; the third is not to dismiss any German workers. As a result, there are no substantive issues at the organizational and institutional levels. However, in the issue of personnel placement, Sany is facing the dissatisfaction and protest from Putzmeister German employees and employees of our country, even compensation program proposed by Sany Heavy Industry can not make up, which led to the case-"disguised layoffs ".

## **4 Optimization of Sany Heavy Industry to go out of the response to the policy**

### **4.1 Macro Aspects**

#### **4.1.1 Coordinate international expansion with government media**

China's national development strategy has undergone great changes, "B&R" initiative provide a very good political atmosphere and policy support for Chinese enterprises to overseas visits. Sany Heavy Industry, under the guidance of the " B&R " strategy, summed up the successful experience of the acquisition of Putzmeister in

Germany, decided to join M & A in the overseas expansion strategy and to combine the layout with the " B&R " initiative to lock the overseas expansion target area in the countries along the way.

In discussing M&A related matters, Sany Heavy Industry also encountered the government's exclusions when merging Germany's Putzmeister company. And the long-standing trade barriers and national industrial protection problems have made the target countries' government form a series of laws and regulations which obstacle mergers and acquisitions, and cumbersome process high cost of mergers and acquisitions. For policy restrictions on the host country, the government needs to play a vital role in acting as a lubricant in transnational mergers and acquisitions. Although our government has put forward the " B&R " development strategy, and proposed the cooperation concept of win-win, the government still need to actively negotiate with the countries along the line, establish a good positive image, enhance the trust of countries along the country. At the same time, China also needs to set the corresponding rules and restrictive measures for the overseas business of domestic enterprises to prevent the deceptive trade means of domestic enterprises from undermining the cooperative relations between the two countries and damaging the image of our country.

#### **4.1.2 Through multi-channel to enhance corporate image**

Although the "B&R" strategy promote domestic enterprises to actively invest abroad, build factories, no doubt increasing the pressure of China's enterprises to enter overseas markets if entering into a mature market or a strong competitive country and the host country being unfamiliar with China's products and services.

In recent years, natural disasters and terrorist attacks have occurred frequently, Sany Heavy Industry played a positive role in Chile mine and Fukushima nuclear crisis in Japan, donated a lot of engineering equipment. By undertaking intangible social responsibility, the recipient countries are indirectly informed of the products of the enterprise and enhance the intangible value of the product. After Sany Heavy Industry assisted in Japan Fukushima nuclear crisis, Japanese entrepreneurs agreed that Sany Heavy Industry had formed a huge blow on the Japanese manufacturing industry.

Sany Heavy Industry, as a leader in the domestic market, has completed a number of industry landmark projects since its inception, such as Dubai Tower,

London Olympic venues, Japan's first high-rise, these typical cases in world contribute to build international brand image of engineering equipment Manufacturers, and thus enhance consumer's estimated value for product and service quality.

#### **4.1.3 Protect the core technology with regulatory policies**

Intellectual property as an invisible enterprise asset, plays a critical role in shaping the core competitiveness and long-term development for enterprise. Protection of intellectual property rights is the need for their own competitiveness, or the needs of national development, but also the needs of world harmony and stability. The protection of intellectual property rights is China's solemn commitment towards the world to join the WTO. If China does not adhere to its credibility, the world's companies will no longer cooperate with China and will bring serious impact to China's economy. Large-scale reproduction and imitation destructed the market's normative, seriously damaged the interests of enterprises in the era when information technology is so advanced, especially for technical engineering enterprises whose intellectual property protection is more essential.

On the issue of intellectual property protection, Sany Heavy Industry needs to carefully choose the investment area, chooses the market with sound laws and regulations to protect the intellectual property rights. However, the countries along the Belt and Road, are mostly developing countries, the potential threat of investment in these countries is the host country's legal system lacking of soundness. Our government should clarify the protection clauses of intellectual property rights when formulate the trade agreements and rules with the cooperating countries and strengthen the supervision and control of the domestic intellectual property laws and regulations system.

### **4.2 Medium level**

#### **4.2.1 Follow the local engineering standard system**

What Sany's selected overseas expansion strategy is the global localization strategy, which focuses on the provision of products and services in line with local consumer preferences. For the construction of infrastructure, safety is the first requirement, set the technical standards for infrastructure construction is the

foundation to guarantee the quality of the project, but also the basis for assessing the quality of the project. Different target markets have different geographical environment, cultural requirements and other basic elements, Sany Heavy Industry need to strictly follow the local government to develop engineering and technical implementation standards. Such as Germany, as a high-end market, its ultra-high technical standards require Chinese companies to spend a lot of energy and money to develop products that meet the German standards, but on the other hand, if the Chinese enterprises have reached the German technical standards, then the product can be applied in all target markets around the world. However, due to the high cost, the emerging markets with lagging infrastructure, generally lack of systematic technical standards or technical standards are low, Sany and other Chinese enterprises can combine Chinese or international technical standards with local geographical and cultural environment to carry out engineering operations. Only to meet the local technical standards, it's possible to assure Sany's long-term development in the overseas market.

#### **4.2.2 Create a global engineering industry chain**

Sany Heavy Industry not only seize the development opportunities of government's "one side" strategic, but also actively join the global economic tide, and take the advantage of low-cost, high efficiency of globalization to integrate global resources. In China, the manufacturing industry is facing an awkward situation of excess capacity, but this does not mean that construction machinery production capacity is backward production capacity. "B&R" strategy include the investment project in infrastructure, which shows that construction machinery companies still have a strong market potential. In China, as a saturated market, " B&R " strategy provide a huge target market for engineering machinery enterprises, in order to achieve mutual benefit, and the strategy combined China's product manufacturing capacity with the huge market demand of developing countries along the line, that is why Industrial cooperation is a necessary means of win-win.

Sany Heavy Industry, with the support of the government, in a globalized environment, although the whole industry chain has been initially formed, we should establish a global engineering industry chain. For example, excavators, not only did achieve production of series of excavator products less than 200 Tons, and began to achieve the independent research and development production of cylinder,

four-wheel area, hydraulic parts and other core parts, but this set of industrial chain lack of global elements. Sany Heavy Industry should take the form of mergers and acquisitions of foreign enterprises, through the entire manufacturing industry chain, making manufacturing, service, marketing and other fields to be fully localized operations by utilizing the low cost advantage of globalization.

### **4.3 Micro level**

#### **4.3.1 Proposals for cross-border M & A**

Although Sany has successfully acquired the German Putzmeister, and now it is running well, but this acquisition case does not mean that all the mergers and acquisitions business can be so smooth. Prior to the acquisition of Putzmeister in Germany, Sany Heavy Industry had already begun a multinational investment business, but encountered many M & A technical problems in the process of internationalization. Due to M&A will become the main direction in the future overseas expansion business for Sany Heavy Industry, so Sany Heavy Industries still need to pay attention to and prevent the problems M & A process may occur.

##### **(1) clear the acquisition of motivation**

M&A motives for enterprises is essential, those reflect the future direction of the development of enterprises, and has a strategic significance. The construction machinery enterprises should clear their M & A motives before mergers and acquisitions, to avoid blindly follow the trend. On the contrary, taking full account of their own strengths and weaknesses, carefully analyzing the market environment, and make their own M & A motives to obey the future development strategy of enterprises.

##### **(2) Information resources integration before M&A**

Acquirer should be aware of the complete information the acquired party and the host country's national policy at first, and then consider whether it is suitable for M&A. Sany put a lot of effort and manpower into preliminary investigation in Putzmeister, and observe and study the acquired party, which led to the final success of the merger. Therefore, in the future mergers and acquisitions, Sany should still pay attention to the integration of various information resources before the merger, to understand their own and its position in the industry, to grasp in-depth the other party's resources. What's more, in order to better implementation of the strategy, to



increase the probability of successful mergers and acquisitions, comprehend policy and economic environment of the country where the merged enterprise is located.

### **(3) Integration of resources after the merger**

After the merger and acquisition, Integration work including corporate culture integration, business management integration, marketing integration and technology integration. It is precisely because the universal value "change the quality of the world" that Sany is accepted and trusted by many countries and host countries. This universal value concept reduces the cultural conflict between the two companies, making the integration work to avoid human interference. At the same time, Sany after the merger respect for the host country's culture and laws when handling corporate affairs, and maximize the advantages of acquired party's product and technology. Not only did save the original source of the enterprise, but also enhancing the brand recognition of foreign market on Sany, and then achieve the overall development strategic objectives of enterprises further. Therefore, Sany Heavy Industry in the future M&A business, in different target markets, towards different target companies, have maintained a harmonious and friendly corporate image, and actively present the other's business advantages, respect for the legal regulations and cultural habits of target market to form win-win situation.

#### **4.3.2 Diversification of overseas expansion strategy**

The current overseas expansion strategy include export, franchise, turnkey projects, foreign investment, outsourcing, etc., Sany, when considering overseas expansion business, should take expansion strategies which are in line with the actual situation of their own business. In the background of "B&A" strategic, expanded enterprises should analyze target country's political, economic, cultural, legal environment, and combine own business development stage and business with target market's information to find out suitable overseas expansion strategy. Such as Sany Heavy Industry, the leading domestic enterprises, its capital size, operational management capabilities and corporate brands have prompted Sany to prone to choose M&A or invest to build factories, and export equipments, which is the expansion of decision-making after the analysis of target countries and their own capacity. Although Sany Heavy Industry has the ability to take cross-border M&A investment measure, but diversification of overseas expansion strategy is more capable to avoid the risks of acclimatized, legal, cultural conflict. Other companies

should also choose their external expansion strategy to match their own ability and avoid the huge losses when learning from the experience of Sany overseas expansion.

#### **4.3.3 Introduction of international business along the line**

"The Belt and Road" strategy, on the one hand, advocate domestic enterprises to invest abroad, on the other hand hope that the countries along the Belt and Road can benefit from the strategy to achieve multi-national win-win situation. Up to now, Sany Heavy Industries in Turkey, Russia and other countries have built factories, and also set up their own industrial park in India, and plans to build their own production base in Africa. Sany Heavy Industry as one of the biggest beneficiaries of the "B&R" strategy, has also taken corresponding measures with the principle of discussing, building and sharing so as to benefit the neighboring countries from the strategy. For instance, on the one hand, Sany cooperate with China State Construction Engineering Corporation, CRCC, CGCOC GROUP participating in the construction of major national projects; On the other hand, Sany's leaders actively promote the "introduction" of international business, for example, Sany has reached agreement with Africa on the projects of housing industry, wind power, road construction, and signed a letter of intent cooperation with the leaders of countries along the line. Although Sany is actively responding to national policies at present, many developing countries still lack of advanced infrastructure engineering technology. To improve this situation, it requires large enterprises like Sany achieving complementary advantages with these countries shortage of technologies and resources to achieve simultaneous development.

## **5 Conclusion**

With the "The Belt and Road" strategy, Sany Heavy Industry will gradually expand the overseas markets. Although Sany's major foreign markets are mainly the low-end market relying on relatively low prices ,and the company's overall industrial distribution of the "The Belt and Road" is still high, Sany Heavy Industry accounted for a steady increase in total business, In 2015, Sany Heavy Industry has achieved an international sales revenue for 10 billion CNY, accounting for 44.2% of the company's sales revenue.

The way that enterprises to go out are generally: foreign investment,

construction, opening branch, foreign joint ventures, and the acquisition of local companies. In international investment, Sany Heavy Industries often use the acquisition of local companies as a preferred means which acquired companies in the "The Belt and Road", and the subsidiaries of acquisition are also located in the countries along the line. In addition, Sany Heavy Industry can be the one side as a springboard in the acquisition to carry out business in developed countries. In the high-end market, the standard from developed countries is easy to form technical barriers, while that may be an opportunity for Sany, Sany Heavy Industry in accordance with the standards of high-end market production can be made out of the product to get expansion.

When the enterprise going out, it should pay attention to the information of the law, culture, policy and economy of the host country, as well as the integration of culture, capital and manpower after mergers and acquisitions, and the enterprise can seek professional advice from professional organizations which has a positive impact for cross-border mergers and acquisitions in the long run.

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