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HOW CHINESE “SNAKE” SWALLOWS WESTERN “ELEPHANT”: A CASE STUDY OF LENOVO’S ACQUISITION OF IBM PC DIVISION

ABSTRACT

Chinese Cross-Border Mergers & Acquisitions (CBMA) have accounted for a majority of Chinese outward direct investment (OFDI) and thus received much academic attention in recent years. Along with China’s integration with global economies, hundreds of Chinese companies have become multinational corporations (MNCs). Equipped with little internationalisation experiences and resources, Chinese MNCs not only struggle to survive intense competition, but also hunt for new opportunities in the global market. As late comers, Chinese MNCs have faced various problems and challenges, particularly in acquiring Western enterprises. Taking the deal of China’s Lenovo acquisition of IBM PC department (PCD) as a case, this paper offers insights into the specific features and characteristics behind Chinese CBMA. The study reveals Lenovo’s unique integration process and thus contributes to the theoretical development of CBMA literature. This study also evaluates the overall performance of Lenovo before and after acquisition of IBM PCD by using both subjective and objective measures.

Key Words: Chinese outward foreign direct investment, cross-culture mergers and acquisitions, post-transaction integration, case study

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INTRODUCTION

The recent booming of Chinese outward foreign direct investment (OFDI) has caused consternation around the world. In particular, the acquisitions of Western firms by Chinese MNCs. Previous studies indicate that the motives of Chinese CBMA have been dominated by the seeking of advanced technology, natural resources, firms' specific assets, internationalised brand, global marketing network, and talents (Zhou and Huang, 2011, 2012). Prominent examples include China Geely acquiring the famous and historical Sweden Volvo in 2010, China SAIC acquiring MG Rover in 2005, and China Lenovo buying IBM PCD in 2004.

However, the overall success of these high-profiled acquisitions remains to be seen due to the huge challenges after the transactions were completed, particularly during their post-transaction integration stage. Practically, most Chinese MNCs are short in experiences of dealing with cross-culture issues and managing acquired firms with different institutional settings. Additionally, current Chinese CBMA research is either fragmentally tested in different theoretical lenses (Zhou and Huang, 2012), or lacks empirical contributions to reveal the true stories behind their activities (Peng, 2006).

This case study looks at Lenovo, China's largest personal computer (PC) producer and vendor, and its internationalisation model, emerging integration approach, and embedded practices, with a specific focus on the acquisition of IBM PCD. Recent studies on this case have merely focused on the pre-integration stage. Specifically, much attention has been paid to analysing the communication strategy (Liang, 2011), brand promotion strategy (Anonymous, 2009), financial performance (Cai, 2006), and implication of public relations (Liang, 2011).

However, the post-transaction integration is still an under-researched field. This empirical case study has been developed with the aims of exploring the story behind Chinese CBMA (Huang and Zhou, 2012), and studying the embedded relationships between different theoretical perspectives, such as strategic combination benefits, organisational integration and culture resistances, on Chinese CBMA performance (Zhou and Huang, 2012).

LITERATURE REVIEW

Lenovo Group Limited (Lenovo) is a Chinese publicly traded multinational technology enterprise. It sells PC, tablet computers, smart phones and televisions, IT software, and

other products in more than 160 countries. It was officially formed in 1984 with the purpose of importing computers and televisions for Governmental use. After two-decade of fast expansion, Lenovo developed and owned its self-brand computer and became one of the most famous Chinese PC vendors and manufactures.

In 2000, Lenovo launched its three-year global diversified development strategy with the assistance from the McKinsey Company. This diversified strategy was intended to establish an Internet platform to integrate various businesses together and achieve an optimized and diversified sales outcome. However, its dream quickly ended due to the burst of global IT bubbles. The general manager of Lenovo said, "From the beginning of 2000 to October 2002, our diversified development strategy has faced huge problems... some areas even lost control" (Zhang, 2011: 57).

With the sinking of its diversification strategy, Lenovo decided to acquire an overseas company to reverse its huge setback in China's market. The acquired candidate, International Business Machines Corporation (IBM), is a multinational and integrated technology and consulting corporation founded in the USA in 1911. IBM manufactured and marketed computer software, hardware and provided services to mainframe computers with customers spread in more than 170 countries. In 1990s, IBM's operations had fallen into trouble. Consequently, it sold its PC division to Lenovo at a low price at the end of 2004. The total transaction value was approximate US\$1.25 billion in cash and equity stakes.

The unbalanced acquisition

The news of a Chinese company acquiring a Western large-sized, long history, and world-famous company shocked the world at the time the acquisition was completed. Overall, the two companies were unbalanced not only in their market values, but also in many other aspects, such as brand recognition, corporate culture, organizational structure, and welfare. Table 1 presents selected characteristics of the acquirer and the division acquired.

Several gaps between the newly joined companies have been identified. First, before the acquisition, Lenovo was inexperienced in globalization, but had done a good job in the Chinese PC market. Compared to IBM's over one-century global operational experience, Lenovo only had a twenty-year development history. However, relying on the huge volume of Chinese consumers, Lenovo had been positioned on the top 9 of global

PC vendors and had earned the exclusive recognition in the Chinese PC market. Second, Lenovo was neither more famous nor wealthier than IBM in the international PC market. Before the deal announcement, Lenovo had never been listed on the Fortune global 500, and its capital was only one-tenth compared to IBM's. Third, they were very different in businesses and operations.

The major customers of Lenovo were Chinese individual consumers and SMEs. A total of 82% of its revenue in 2004 was from its desktop sales. In contrast, IBM had paid much attention to providing services and IT solutions to international large and medium-sized enterprises, while its PC business was only an attached part and non-strategic business segment.

Table 1. Selected characteristics for Lenovo and IBM

Characteristic	Lenovo	IBM
Country and year of incorporation ¹	China (1984)	USA (1911)
Operational age before acquisition	20	93
Market value at DoA ²	46,009,788*	513,279,155**
Employees	Appx. 9,600	Appx. 10,000 (PCD)
Rank of Fortune at DoA ³	NA	19 th
Rank of worldwide PC seller ⁴	9 (2% market share)	3 (5.2% market share)
Key characteristics ⁵	<ul style="list-style-type: none"> • Top and most recognized IT brand in China • Major customers are Chinese personal consumer and SMEs • Products: Desktop (82%) and notebook (18%) • Efficient operational platform and extensive retail network 	<ul style="list-style-type: none"> • Premium Global PC Brand • Major customers are worldwide large and medium enterprises • Products: Desktop (40%) and notebook (60%) • Global network in sales, financing, and service support

Notes: 1 and 5. Annual reports and websites of the two companies; 2. Date of announcement (DoA) of acquisition on 8/12/2004; 3. Data from Fortune Global 500 of year 2004; 4. Reference: (Spooner and Kanellos, 2004); 5. *Calculation: HK\$2.58 x 138,564,500 (shares) x 0.1287 (exchange rate) = US\$46,009,787.967; 6. **Calculation: HK\$96.65 x 5,310,700 (shares) = US\$513,279,155.

Cultural differences

The cultural difference at the national level reflects the initial values of human beings in diverse countries, "such as feelings of right and wrong, good and evil, beautiful and ugly, rational and irrational" (Sarala and Vaara, 2010: 1369). It can impede cooperation with different national identities (Olie, 1994; Vaara, 2003), and thus create fundamental problems for integration and knowledge transfer. According to Hofstede's culture model (Hofstede, Hofstede, and Minkov, 2010), Lenovo (China) and IBM (USA) were two

companies with different national cultures.

For example, China was a more centralized, disciplined and hierarchical society than the US (Tang, 2012); Chinese society was traditional and long-term orientated, while US culture was more likely to change and preferred short-term values. Moreover, the two firms' organisational cultures were also different. Therefore, the huge different national cultures, coupled with the large dissimilar organisational cultures between Lenovo and IBM, would provide a challengeable task in managing their post-transaction culture integration.

Synergetic potentials

The synergetic potentials of this acquisition were genuinely high due to the nature of their operations and assets (Zhou, 2013). For example, IBM PCD owned the leading technology of notebook, and its PC brand was also a most recognized technology brand around the world. Consequently, Lenovo could rely on the matured market, technologies and brand of IBM and enjoy fast expansion in the international market. Moreover, Lenovo had lower cost infrastructure and larger manufacturing scale than IBM, while IBM's advanced global operational system and its premium brand were exactly what Lenovo desired to acquire.

From a traditional Chinese perspective, this kind of acquisition could be described as "a snake swallowing an elephant" (C.Z. Liu, 2007). However, the limited cross-culture management experiences, coupled with the high requirement and difficulty in implementing post-transaction integration set many barriers in front of Lenovo. Therefore, many people believed this acquisition may eventually fail, because it involved huge difficulties and challenges. Ten years have passed so far and Lenovo is still standing in the top position of the PC industry worldwide. Thus, this acquisition seems to be very successful. This study provides details behind this acquisition.

RESEARCH METHOD

With the purposes of exploring the true story behind Chinese CBMA, contributing the emerging concepts for China's management research and providing an in-depth examination, this study chooses one of the most prominent Chinese CBMA case as an example. In order to reveal the true story behind unexplored areas, case study research is apparently the best way to do so (Creswell, 2009). However, case study was not the

primary research method adopted by researchers in the extant Chinese CBMA research due to the sensitive nature of Chinese overseas acquisition and the context of complex Chinese culture.

Under the rigorous case study process and methodology suggestions from Yin (2009, 2014) and Creswell (2009), this case study collected empirical evidences by (semi-structured) interviewing three top executives of Lenovo (details in table 2) who participated significantly in this acquisition. The Authors then incorporated the empirical evidences with a large set of secondary data to provide discussion on this acquisition.

Table 2. Interviews and interviewees information

Case	Lenovo acquired IBM PCD
Number of interviews	3
Background of interviewees	<ul style="list-style-type: none">• One director of Lenovo's global business in North America, who has significantly participated in the acquisition.• One middle manager who is familiar with the acquisition• One executive who is familiar with and participated in the acquisition
Dates of interviews	October 2012 January 2013 July 2013
Duration and venues of interviews	Interviewee A: 1.5 hours at Jade palace, Beijing Interviewee B: 1.2 hours at Beijing office Interviewee C: 1.3 hours at Grand Hotel, Beijing

FINDINGS AND DISCUSSIONS

This section will report the key findings and discussions. Firstly, the discussion focuses on revealing the key motives, combination benefits and potential synergies between Lenovo and IBM PCD. Secondly, a systematic examination on the post-transaction integration, and its emerging integration approach, integration process and other exposed managerial issues are provided. Thirdly, the specific culture integration process and related culture issues, such as culture clash and resistance are identified and discussed. Finally, a comprehensive evaluation on Lenovo's post-transaction performance is conducted through adopting a combination of both subjective and objective methodological measurements (Zhou and Huang, 2012).

Combination benefits between Lenovo and IBM PCD

Along with China's "go global" policy introduced by the Chinese central government in 1990s, many Chinese firms were encouraged to absorb advanced technologies, assets and

know-how through acquiring overseas firms, especially those in the manufacturing industry.

Motive: Strategic-asset seeking

With regards to the acquisition motives, according to the existing research on Chinese OFDI, most Chinese manufacturing MNCs are strategic-asset seekers when engaging in abroad investment, particular in the form of CBMA (Child and Rodrigues, 2005; Luo and Tung, 2007). In this line, Chinese MNCs usually acquired overseas mature firms with advanced proprietary technology, immobile strategic assets (*e.g.*, brands and local distribution networks) and other capabilities to compensate their disadvantages as latecomers in the international market and to rapidly catch up to the world's top MNEs' (Buckley *et al.*, 2007: 505).

Similarly, Lenovo believed that acquiring a high-profiled overseas company was the fastest way of promoting itself. CBMA not only could assist Lenovo to position itself in the international market very easily but also might absorb resources and technology that it could not develop on its own. Therefore, resources-, brand- and technology-seeking are three major motives that boosted Lenovo venturing overseas. Interviewee A expressed:

We believed that through this acquisition, Lenovo can reach the designated position at one step...and we can benefit from this acquisition in three areas: global market, valuable brand and advanced technology.

Risks and synergistic benefits

While acquiring an advanced company could potentially offer a big pie to Chinese MNCs, the associated risks were also high, particularly after the transaction had been completed. At the stage of due diligence, Lenovo realized that IBM was much more appropriate to its internationalization trajectory, because of its close related business and popularity in the global PC industry, but it was also riskier than other potential targets. Therefore, in acquiring large MNCs, the coexistence of outstanding synergistic benefits along with the high risks of integration has occurred to most Chinese MNCs. The interviewee B said:

Actually, the two enterprises are closely related. We not only can absorb its advanced

technology, operational advantages, efficient distribution channels and existing valuable brand, but also can benefit from cross selling the joint products in the global market. However, we quickly realized this acquisition was risky: our brand is only popular in China and our capital was merely 1/4 of IBM, and thus everyone was worried about "how does a small fish eat off a big one."

Organisational integration

Inexperienced Chinese MNCs

Besides the huge gaps and unbalanced power between the joining parties, the risks arising from the post-transaction integration stage, such as co-operations, culture clash and cross-border management, were all tough issues facing the inexperienced Chinese MNC. As expressed by the interviewee A:

We haven't touched this integration area before...and we were worried about the huge differences in management philosophy, operational systems and national and corporate culture between the joined parties... Besides that, IBM had a big employee team across more than 100 countries. How to manage them is a still a crucial problem.

Speed of integration

The extant CBMA research on Western economies argues that the speed of integration should be fast. Otherwise the combining firms would lose the momentum of capturing synergies after the deal is closed (Cogman and Tan, 2010). However, Chinese CBMA could be different. Actually, most of them have been struggling with the post-transaction integration. Lenovo had been under various pressures at the beginning of the integration. The insufficient capital, low brand popularity, coupled with the invisible culture clash behind the joining companies, had put Lenovo in the dark corner. As the CEO of Lenovo said:

Integration involved major functional and personal changes...because the two organizations had different background... If they were integrated too fast... the risk was too high... we preferred keeping the two business independently... let them get to know each other, and then implement integration gradually (Li, 2010: 23).

Mixed integration mode: An emerging “light touch” approach

After acquisition, Chinese CBMA usually pay much attention to stabilizing the existing businesses of the joined parties in the short term, and then gradually and strategically integrated them together. This finding is slightly different from traditional integration approaches (Haspeslagh and Jemison, 1991). In this case, the mixture of “Preservation” and “Symbiosis” approaches could be identified and that is consistent with the recent research from Liu and Woywode (2013).

Theoretically, according to the combination of the high and low levels of organizational autonomy and strategic interdependence of combining parties, the *Preservation* approach is the low level of integration implementation, and the acquired firm would receive a high level of autonomy, while the *Symbiosis* approach lifts the existed autonomy and achieve strategic interdependence gradually (Haspeslagh and Jemison, 1991). The following table summarized the two-step integration process of this case.

Table 3. Summarised integration process of Lenovo acquisition of IBM PCD

Time	Integration Approach	Integration process
Starting time: May 2005	Learning and Preservation	<ol style="list-style-type: none"> 1. Appointed new president to handle integration. 2. Give high autonomy to the acquired firm and treat the two companies independently. 3. Integrated the few functional departments of headquarters, such as finance, law, and HR departments. 4. Maintained existing customers and employees.
Starting time: September 2005	Symbiosis	<ol style="list-style-type: none"> 5. Introduced its new global organization structure. 6. Conduct technology transfer. 7. Functionally and gradually integrate the two organizations together: business integration, R&D, supply chain and regional headquarters.

Source: Haspeslagh and Jemison (1991), Zhang (2011), Zhijun and Avery (2006).

Preservation and business stability

In the initial transition stage, how to stabilizing the combined company is a very difficult task. The appointment of a new CEO, who has the same culture background of the acquired company and was familiar with its rules, HR, salary and welfare systems, would decrease the difficulty of implementing initial integration (Zhou and Huang, 2014). In this case, Lenovo quickly appointed the former senior vice-president of IBM as its CEO to keep the existing management team intact and reduce the culture huge clash from

acquisition. The newly appointed CEO announced a series of statements to make this transition smooth. For example, it was announced that no changes in compensations were planned, and the new parent company would offer more opportunities for promotions.

Besides these stabilizing mechanisms, the "Parallel management" model is another good strategy that assisted Lenovo overcoming the potential culture clash and reducing staff turnover effectively. This managerial model is similar to the relationship between China and Hong Kong, in another word "One country, two systems." In this model, the two companies traded separately and only a few major functional departments, such as finance, law and HR department, were initially integrated. After the first stage of integration, Lenovo did not suffer great loss in key talents. Its employee turnover was below 2% (Zhang, 2011).

In order to lay the groundwork for the symbiotic integration to be followed, Lenovo also set English as the official language and emphasized the new corporate culture was completely open and global. Interviewee A mentioned:

At the beginning of the integration...employees in both sides felt very stable...and we wanted them [employees from IBM] to realize our company was not a low budget traditional Chinese company... we kept the former welfare and salaries and didn't cut off anything...

Symbiosis and synergy realisation

Functional and operational integrations are two major tasks in the post-transaction integration stage (Tang, 2012). Along with the introduction of new *global organization structure*, the two companies moved into their approximate five-year comprehensive integration, and gradually enjoyed the synergistic benefits.

First, the well-designed organizational restructure is the key success of functional integration. Interviewee C mentioned:

We have used a long length of time to establish our new structure...[actually] the two companies were very close in resources, technologies and HR...so our aim was to use the effective structure to integrate and control the two firms... Personally, I think it is a good structure.

Based on the new structure, the supplementary and complementary resources could be well integrated to capture synergies. Interviewee C took the integration of IBM's supply chain as an example:

We integrated IBM's supply chain, which was the most efficient in the global PC industry. Because it is centralized and globally managed...costs are ultimately reduced, and we are happy to see that.

The effective coordination mechanism, coupled with the good organizational structure, could improve the synergy realisation. Interviewee C said:

Based on our new structure, our company has established a very good coordinative mechanism. As a global team, we work together, just like the staff in an assembly line. Our new product development process is a cooperative and integrated process, it is not a single effort provided by a regional research centre... For example, Asian people have a finer finger compared with the Westerners. Under our global operational process, we require Japan centre to design the new PC based upon the customer references from the United States centre, and then manufacture the product in Shenzhen (China) and trade it through Singapore or Hong Kong sales department very effectively.

Technology transfer and R&D

Besides the major integrations, Chinese MNCs also pay much attention on transferring superior technology, particularly the companies in the manufacturing industries. This is usually a one way transfer happening in Chinese CBMA: from the acquired company with advanced technology to the acquiring Chinese company. The interviewee A evidenced:

In this case, the [technology] transfer is usually one way. When we purchased IBM, we also got its total IP (intelligence Property). That made our technology transfer very smooth. And we have created our new global R&D center to analyze these technologies and develop new products.

Branding strategy

Brand promotion is another crucial part that Chinese MNCs usually focus through acquisition. Drawing support from the acquired famous brands, Chinese MNCs can promote their own brands in a fast way by using their unique strategy. The interviewee B explained Lenovo's brand development strategy through integration:

To enhance brand recognition, we adopted "dual-brand" strategy. Relying on IBM's brand that is worldwide famous, we strengthened our own brand by putting the two brand names together on the new product. Although these two brands are positioned at different target customers, its brand integration was very successful. So far, our brand is very popular around the world, especially in America.

Culture resistance and integration

For most Chinese MNCs, the most difficult task of conducting CBMA in the post-transaction stage is how to deal with cultural issues. The interviewee A evidenced:

Actually, in this acquisition, the culture integration is the most difficult part...compared with others... and we have faced many problems in achieving acculturation.

The huge differences in the culture backgrounds, such as national and organisational culture, along with the large gaps in corporate value and employees' behaviour, have interfered the integration of the joined parties. Existing research indicates that the incompatibilities and conflicts in culture at both the national and organisational levels in CBMA would not only impact on the post-transaction integration process (Quah and Young, 2005), but also hugely interfere their management styles and practices (Marks and Mirvis, 2000; Tang, 2012).

In this case, three steps of culture integration, namely *learning, mutual absorption and integration, and new culture creation*, can be identified according to the cultural interactions between Lenovo and IBM PCD. Figure 1 and Table 4 illustrate the process, objectives and major activities of culture integration in this case.

Table 4. Process, objectives and major activities of culture integration

Process	Objectives	Time	Major activities
Learning and initial culture touch	<ul style="list-style-type: none"> • Maintain the relative independence of two cultures • Stabilize the existing customer and employees • Establish the initial communication path between each other • Maintain the relative independence of two cultures, but understanding each other and reach cultural infiltration 	May 2005	<ul style="list-style-type: none"> • Set English as official language • Established the communication departments around the world
Mutual absorption and culture integration	<ul style="list-style-type: none"> • Communications in all levels to overcome the culture barriers • Improve management style and effective communication path • Create new corporate culture • Cross-culture training 	January 2007 December 2007 December 2007 January 2008 April 2008	Formed “Global Integration and Diversification Department” Officially announced the “Global New Culture” Officially announced the beginning of culture integration. Launched the “Culture Compass” activities Started culture class “East meet West”
Continuous culture integration	<ul style="list-style-type: none"> • Continues implementing culture integration • Adjust the existed corporate culture • Continue sponsoring employees in culture training • Generate an innovative and acceptable corporate culture 	November 2011	Launched the TRUST: Culture salon’ for senior managers

Sources: C.Z. Liu (2007), Li (2010), Li (2007), C. Liu (2007), Zhang (2011), and Zhijun and Avery (2006).

First stage: Learning and initial culture touch

At the first stage of cultural integration, Chinese MNCs prefer adopting a preservation approach to manage the initial culture clash. More specifically, they maintain the appropriate cultural independences between joining parties, while understanding each other and gradually implementing cultural infiltration. This has been marked as an effective strategy adopted by Chinese MNCs. The interviewee A confirmed:

Well, the initial culture difference was very high. I can rate it as 90 (out of 100). The employees from both sides had different thinking and beliefs on this acquisition. At the transition stage, we did a few things only from the culture side because we wanted to relax the employees.

Besides setting English as the official language, finding the common ground of the combined firm and creating a joint mission and value were also a good way to start bundling their culture together. The interviewee B said:

We had tried our best to stabilize the emotion of employees... and we wanted to get a common culture... the two companies had the similar value and vision, such as integrity and responsibility... so, we created a unified culture background to strengthen cultural identity gradually.

Second stage: Mutual absorption and cultural integration

After Lenovo completed its organisational restructuring, it officially entered into the stage of comprehensive cultural integration (Li, 2010). Due to the different national and organisational culture background of the combined firms, organisational problems abounded, particularly in the areas of communications and management.

Compared with Western firms' democratic and flexible organisational culture, the culture of Chinese MNC is very different, and so the management style. The differences in top management styles of the joined companies not only can impact their functional integration and daily operations, but also can decrease the ultimate CBMA performance (Datta, 1991; Teerikangas and Very, 2006). The strict implementation and compliance, as well as the rigid and hierarchical management style led to Chinese employees to strictly follow the order from superiors in the ordinary sense. As an example from Lenovo, if someone came late to a meeting, he or she would be punished by standing in the corner of the room even he or she is the senior manager (Tang, 2012). The interviewee B also evidenced:

The culture difference between us is very big... the discipline of Chinese firms is very strong, just like military administration. And there is no room for negotiation at all.

The executives with different national cultures may also feel conflicts when working together or jointly making decisions, especially between the cultures of Western countries and China (Morosini, Scott, and Singh, 1998). Chinese culture has been marked as hierarchical, collectivist, traditional and Confucian, and thus most Chinese managers have the "spiral" logic while Western managers prefer a "linear" logic (Stahl and Mendenhall,

2005). Therefore, the decision making processes are different in both cultures. In this case, such cultural differences have hugely limited the efficiency of making decisions and have negatively impacted the organisational performance as well. To alleviate these cross-cultural problems, Lenovo requested every staff member to “straight talk” and express their ideas in every meeting and formal discussion (Liu, 2008). Interviewee B provided an example:

In the meetings, the American staffs like to express their ideas, especially when decisions need to be made...while the Chinese employees always keep silence... In American culture, if you don't express your idea, people assume you agree with the decision, and the proposal would be passed... However, in Chinese culture, if you keep silence, that means you don't agree... so at the beginning, we have made a few wrong decisions in joint meetings due to cultural differences.

The huge cultural differences, coupled with the lack of experience in managing the overseas large-sized employee team, not only constrained the speed of conducting culture integration, but also limited the effectiveness of communications (Peng, 2006). Language difference is still the big problem presented to most Chinese MNCs. More specifically, lack of English proficiency could raise many managerial questions about how to communicate with acquired subsidiaries and manage overseas employees effectively (Huang, 2011). In this case, the lack of English skills has been a barrier to effective communication. Interviewee A said:

...the senior managers didn't use English frequently... so Lenovo has done two things: Provide English training and encourage the Chinese staff to use English in their ordinary work and emails.

The key of cultural integration is communication. By in-depth communication, two parties can truly understand and recognize each other (Li, 2010: 157). Therefore, the improvement of language proficiency is an essential part of creating a clear communication medium between the joined companies. Setting English as the official language and mandating the employees to use it in the daily operation are the noticeable strategies. Interviewee A mentioned:

The boss asked us to use English as daily language, and enforced us to use English in our emails for communicating with our USA counterparts.

The ongoing language training is another good initiative to improve the language proficiency. Interviewee C said:

You know, our English was not very good at the beginning...then the company sponsored us to learn English at a training centre... now we can frequently deal with daily operations in English.

Besides improving the linguistic ability of its employees, Lenovo also established a special communication department to ensure the effective communication among employees worldwide (Tang, 2012). Setting up a culture department that supervises the progress of overall cultural integration was a good strategy for the Chinese MNC. With the supports from HR experts, Chinese MNCs could analyse their different history and culture backgrounds, and provide an optimistic way of implementing cultural integration.

In January 2007, Lenovo formed the new "Global Integration and Diversification Department" responsible for cultural creativity and innovation, and also managing staff diversity and cultural integration (Liu, 2008). After the random survey on 2,300 employees from combined organisations, Lenovo officially announced its "Global New Culture" unifying core value, behaviour and mission. The interviewee C mentioned:

With the help of the new culture department, we defined "Candor, Respect, and Compromise" as three designed principles to guide us achieve acculturation and bound us together...

Besides creating a unified corporate culture, Lenovo adopted a series of culture projects to accelerate its cultural integration. The project dubbed as culture discovery has been adopted to improve culture sharing and understanding systematically. This project involved regular exchange visits, joint activities, regional parties, and group culture training. The interviewee B said:

They [foreign staff] don't know China very much, they only know China is a rapidly developing country... so we frequently invite foreign managers to China for training and team building... such as climbing the Great Wall... these activities are very useful... because culture exchanging is very hard to be improved in the conference room, but it is easier to get additional and deep understanding through team building and team work.

Third stage: Continuous cultural integration

After approximately five-year cultural integration, Lenovo realized the unified global corporate culture that intentionally bound the Chinese and overseas employees together was not perfect, and that a longer time was still needed to achieve acculturation. Therefore, it launched a fresh project called “Cultural Compass,” which allowed employees to discuss online about “performance pursuits, winning attitudes, embracing reform and open communications” (Liu, 2008).

Additionally, Lenovo continuously encouraged and paid employees to take training courses in technology, management skills and other areas. Despite Lenovo having spent five years in dealing with cultural issues, its process of implementing cultural integration is not complete. Many cultural problems are still present in the company. Interviewee A said:

Until now, I think... it [cultural integration] has not been completed...there still remain many cultural problems...I think this part is the most difficult one for the whole acquisition.

Performance and evaluation

Current studies on evaluating CBMA performance are of two types: subjective and objective measurements (Zhou and Huang, 2012). Both methods can provide substantial results for CBMA performance in the different ways. More specifically, the subjective method relies on the evaluation of short- or long-term M&A post-transaction performance, while the objective measurements focus on whether the deal has achieved the various strategic goals or expectations set before the transaction.

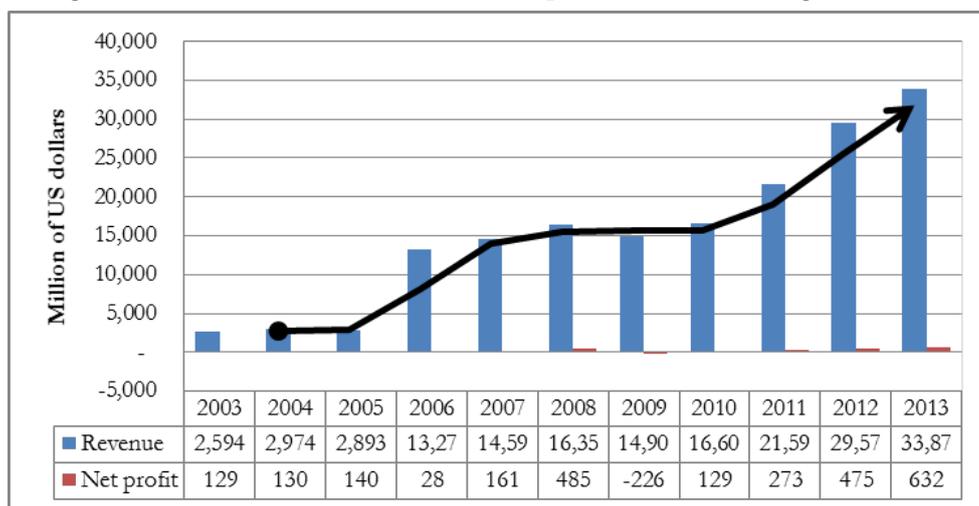
Scholars argue that the financial evaluation may not reflect the actual position of CBMA performance (DePamphilis, 2011; Larsson and Lubatkin, 2001), while the subjective measurement may also suffer bias from respondents (Brouthers, 2002). This

calls to link these methods together and “simultaneous use of multiple measures in future research” to contribute a comprehensive valuation and enhance its reliability and credibility (Zollo and Meier, 2008: 13). Therefore, both objective and subjective measurements have been adopted to measure the Lenovo’s CBMA performance in response to these calls.

Objective measurement

CBMA performance can be evaluated objectively through financial analysis approach (Priester and Wang, 2009). Ratio analysis and stock-based measurement have been marked as the preferable models in evaluating the value creation of Chinese CBMA (Huang and Zhou, 2012; Sandoval, 2011; Zhou and Huang, 2011). Broadly, ratio analysis focus on comparing the ratio changes between acquirer’s pre- and post-acquisition and evaluates the effectiveness of a firm’s operating performance (such as growth and profitability) and financial policies (Palepu and Healy, 2008; Sharma and Ho, 2002), while the stock-based measurements explore the shareholder’s value creation (DePamphilis, 2011). Based on the information from its financial reports, Lenovo has performed very well. Figure 1 illustrates the historical annual revenue and net profit of Lenovo during 2003-2013.

Figure 1. Historical annual revenue and net profit of Lenovo during 2003-2013



Sources: Company financial reports from 2003-2013

Statistics show that Lenovo's annual income in 2005, five months after the acquisition, was around US\$2.9 billion which has slightly improved compared to data from the two previous years (Table 5). This may indicate that Lenovo has successfully controlled and stabilized the initial transition stage. In 2006, Lenovo entered into a stage of comprehensive integration. Its annual revenue jumped to US\$13 billion, mainly contributed by the newly merged PC Division of IBM which was approximately US\$9 billion before the acquisition. This represents about 448% growth rate on annual income due to its great success in accessing overseas market through acquiring IBM's existed marketing channels (Li, 2010).

However, net profit decreased due to heavy operational expenses, cash reserves and interest payments. After 2006, Lenovo's annual income steadily increased. At the end of 2009, Lenovo had completed its organisational integration, and the combined firm started to boost its revenue at an amazing speed. During the financial year 2013, Lenovo's revenue and net profit have increased 1300% and 500% respectively compared to 2003. Therefore, it could simply conclude that Lenovo has performed successfully in its post-transaction integration from the financial accounting perspective.

Table 5. Summary of financial analysis on Lenovo's financial reports during 2003 to 2013

Items	Before acquisition 2003 and 2004	Organizational and Culture integration		Continuous Culture integration
		First stage of integration 2005	Second stage of integration 2005 to 2010	Further culture integration 2011 to 2013
Average annual revenue	2,784,212	2,892,586	13,102,702	28,347,403
Ave. net profit	129,405	140,088	119,505	460,081
Ave.Net Profit margin	4.70%	4.80%	1.40%	1.60%
Ave.ROA	13.00%	1.90%	1.65%	3.10%
Ave.ROE	23.27%	20.89%	9.77%	20.00%
Ave.D/E ratio	1.05	0.73	3.37	5.43

Note: Lenovo listed on Hong Kong Stock Exchange and the date of annual report is on 31 March of each year.

Sources: Company financial reports from 2003-2013.

Additionally, several findings can be summarized through analysing Lenovo's ten-year financial data (Appendix 1). First, Chinese MNCs need to have sufficient capitals to leverage their ability to conduct post-transaction integration. Table 5, together with Appendix 1, shows that despite Lenovo's annual revenue having dramatically increased during the whole process of organisational integration (2005 to 2010), its average net profit margin has decreased from 3.4% to 1.4% compared with 4.8% in the first

integration stage. That could be the result of the large amount of expenses on miscellaneous and operation, bank related payments and others. Moreover, Appendix 1 shows that the total liability at the end of financial year 2013 had reached US\$14 billion that was nearly 400% of 2003. The increasing Debt/Equity ratio (1.25 to 5.30) in the observed period also indicates Lenovo was on the position of high financial risk. Therefore, the financial analysis showed that Chinese MNCs need to have higher capacity of financial leverage in order to well integrate their acquired entities.

Second, accessing overseas market through CBMA is one of the important synergetic benefits that most Chinese MNCs looked for. Lenovo's PC business primarily focused on the Chinese market before 2004, and its overseas revenue could be negligible. However, immediately after acquisition, its income structure has substantially changed, and its overseas revenue has become the major source. During the financial year 2004-2005, approximate 64% of Lenovo's turnover was contributed by its overseas operations. After five-year integration, Lenovo's PC business had accesses into more than 200 countries around the world. (Li and Xu, 2010).

Subjective measurement

Subjectively, Lenovo's acquisition of IBM PCD has been extremely successful. Interviewee B evidenced:

I think we have got a successful and good result in our overall acquisition performance. From the financial side, it is successful. Revenues increased several times, and they were really far beyond the original target set... From the management side, it is also successful in taking over IBM's PCD and many synergies have been gradually achieved.

More specifically, several subjective findings have been explored based on the conventional theoretical background in CBMA research (Zhou and Huang, 2012, 2013). First, there is a positive and logical relationship between combination benefits and CBMA performance: the higher combination benefits the greater the overall success. The interviewee A shared his practical explanation:

These expectations of combination benefits definitely affect the performance and success of this acquisition. That's because they [expectations] could decide how good you can get... the more benefits in front of you, the greater easily to achieve success.

Second, the well-designed organizational structure, coupled with the adoption of effective integration mechanisms, allowed the Chinese MNC easily and smoothly to conduct competence transfer and resources sharing. These two major fundamental factors could have much impact on the overall success of post-transaction integration. These conclusions are in line with prior scholar's findings (Alon, Fetscherin, and Gugler, 2011; Frensch, 2007; Haspeslagh and Jemison, 1991; Huang and Austin, 2011). The interviewee A evaluated the integration in his personal view:

Well, in this case, the two companies are highly integrated, and the degree could be measured above 80% in my sense.

Beyond these influencing factors, the interviewee C also confirmed the positive relationship between integration and overall success of acquisition:

Absolutely, the successful in integration directly affect ultimate performance, and this can be seen from this case.

Third, this case also confirmed cultural resistance has a negative impact on CBMA performance, and such issues are more evident in Chinese MNCs. They need longer time to conduct cultural integration than organisational integration. The interviewee A said:

It is a negative impact. The high cultural resistance will lead to low performance. In this case, we have spent five years in dealing with culture...until now, nearly 70% of culture issues have been handled smoothly, but we still need time to do the remaining 30%.

SUMMARY

This case is one of the leading, well-known and remarkable cases of Chinese CBMA. Relying on the successful integration of IBM PCD, Lenovo has become a world-famous multinational corporation. In 2013, Lenovo had been ranked as the world's largest

personal computer vendor based on the research from Gartner Inc. (Ohnesorage, 2013). This story has been interpreted by many researchers, and its underlying internationalization model has been copied by many Chinese MNCs when dealing with overseas investment. This case not only presented how a “Chinese snake swallows a Western elephant,” but also shows the remarkable strategies behind its performance. Based on semi-structure interviews with three senior managers of Lenovo, and a collection of public information, the following conclusions can be made:

Firstly, Chinese MNCs believe that acquiring an overseas firm is a fast way of expanding its international market than other internationalization strategies, such as Greenfield and JVs. As latecomers in internationalisation, Chinese MNCs can quickly catch up with their competitors through CBMA. Moreover, most Chinese MNCs are seeking strategic assets, particularly in the manufacturing industry. Brand, technology and resource are three major attractions that motive them to conduct CBMA.

Secondly, corporate control over the post-transaction integration stage has become a challenge for most Chinese MNCs due to the limited internationalization experiences, inefficient organization structure and lack of HR in managing abroad operations and administration, particularly in acquiring an overseas large-sized and famous company. The case findings revealed that the careful and well-designed integration plan and organisational structure not only can assist Chinese MNC overcome various barriers, but also can assist the implementation of underlying integration more effectively and smoothly.

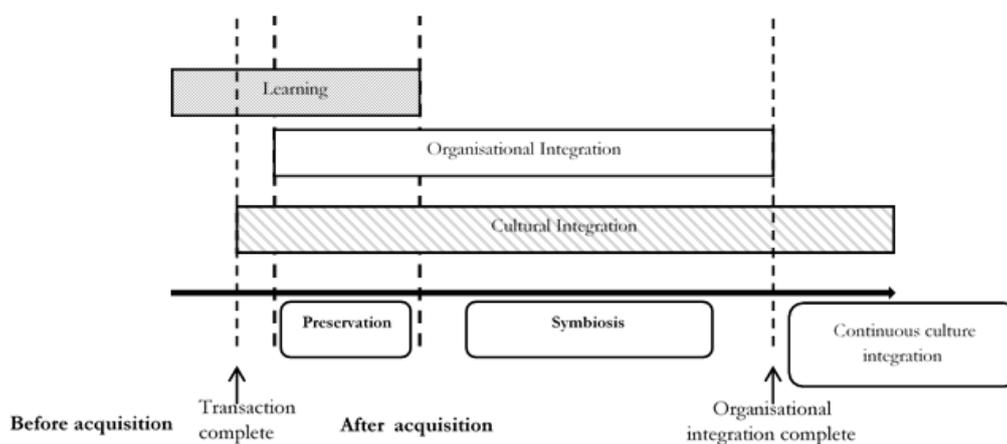
From the theoretical perspective, the case findings fully confirmed and supported the proposed speculations in current Chinese CBMA research (Zhou and Huang, 2012). Moreover, the combination of subjective and objective measurements can overcome the theoretical limitations of evaluating CBMA performance. Because of the complex conditions of researching on CBMA performance, using the financial performance cannot explore the inside story behind managing the acquisition, while merely relying on the findings from interviews may also suffer bias from the respondents (Frensch, 2007; Rikard Larsson and Finkelstein, 1999). Consequently, in line with recent methodological calls (Luo and Tung, 2007; Zollo and Meier, 2008), this case study has adopted both measurements to evaluate Lenovo's post-transaction performance, and make the overall findings stronger and more reliable.

From the practical side, this case study revealed that the timeline of Chinese MNCs conducted post-transaction integration may differ from previous findings (Wang, 2007; Wen, 2011; Yi, 2010). As shown in Figure 2, the Chinese MNC prefers the steady approach in integrating the two companies. Lenovo did not immediately conduct organisational integration as soon as the transaction was completed. In contrast, it opted to observe and learn the new company for a short time. The combination of *Preservation* and *Symbiosis* integration approaches is a remarkable finding in this study, and it is consistent with recent research of Chinese MNCs in Germany (Liu and Woywode, 2013).

This emerging approach can make the overall integration smoother and more stable, particularly for small Chinese MNCs acquiring an overseas large-sized company. That can be understood because of the fears of potential negative effects from initial employee turnover and the exposed cultural clashes. Therefore, adopting the preservation approach is more favourable for Chinese MNCs at the beginning of integration.

Moreover, Chinese MNCs are inexperienced in dealing with cultural issues. Therefore they require a longer time to complete cultural integration compared with organisational integration. In this case, Lenovo has conducted its organisational integration along with slow cultural integration. Evidences show that Lenovo had completed its organisational integration by the end of 2009, while its cultural integration is still ongoing (Li, 2010; Zhang, 2011; Zhijun and Avery, 2006).

**Figure 2. Dynamic process of post-transaction integration:
Timeline of learning, organisational integration and culture integration**



Finally, several other patterns have been found in integration implementation, specifically in the areas of communications, organisational structure, and appointment of senior management. Firstly, lack of English proficiency is still the long-time weakness for most Chinese executives. Chinese MNCs should pay more attention on language training and establish a clear communication path to promote the overall coordination more effectively.

Moreover, Chinese MNCs prefer appointing insider or acquired company's former executive as the new CEO due to the similar culture background with overseas employees and trust valued at same conditions. Lastly, Chinese MNCs should pay more attention on reconstructing the new company in the integration stage. A well-designed and centralized organizational structure not only can make the joining companies as an organic whole, but also can ensure the resource sharing and competence transfers more easily and smoothly flowing between the two organizations.

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Appendix 1: Financial analysis on Lenovo financial reports from 2003-2013

	Revenue	Net profit	Total Assets	Total Liability	Equity	ROS	ROA	ROE	D/E ratio
Before acquisition									
2003	2,594,212	128,553	866,169	671,981	537,031	5.0%	14.8%	24%	1.25
2004	2,974,213	130,257	1,159,088	490,740	576,046	4.4%	11.2%	23%	0.85
After acquisition									
2005	2,892,586	140,088	7,499,926	487,848	670,480	4.8%	1.9%	21%	0.73
2006	13,275,751	27,670	5,040,558	3,995,911	1,044,647	0.2%	0.5%	3%	3.83
2007	14,590,204	161,138	5,449,116	4,314,840	1,134,276	1.1%	3.0%	14%	3.8
2008	16,351,503	485,157	7,199,847	5,586,584	1,613,263	3.0%	6.7%	30%	3.46
2009	14,901,351	-226,389	6,308,299	4,997,384	1,310,915	-1.5%	-3.6%	-17%	3.81
2010	16,604,815	129,368	8,955,928	7,349,910	1,606,018	0.8%	1.4%	8%	4.58
2011	21,594,371	273,236	10,705,939	8,871,039	1,606,018	1.3%	2.6%	17%	5.52
2012	29,574,438	475,416	15,860,748	13,412,779	2,447,969	1.6%	3.0%	19%	5.48
2013	33,873,401	631,592	16,881,997	14,201,816	2,680,181	1.9%	3.7%	24%	5.3

Notes: 1. Lenovo listed on Hong Kong Stock Exchange and the date of annual report is on 31 March of each year; 2. Revenues, Net Profit, Total Assets, Total Liability, and Equity in US\$ 000's. ROS is return on sales or net profit; ROA is return on assets; ROE is return on equity; and D/E ratio is total liabilities to equity.

Sources: Company financial reports from 2003-2013.