



ASSESSING THE OPERATIONS STRATEGY ALIGNMENT FOR THE PROPOSED CHEMCHINA ACQUISITION OF SYNGENTA

Dr. Amol Gore

Professor (Operations Management), University of Mumbai a/f Institute of
Management Studies and Research

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Abstract:

The ChemChina acquisition of Syngenta has created quite a flutter and the emerging issues are being examined from different perspectives. Some evidence suggests that such decisions are motivated at corporate level often with scant regard for functional strategies and business units. The purpose of this paper is to examine the impact on operations strategy and investigate the prospects for ChemChina operations. As a rather conceptual piece, the attempt is to build a case based on the available literature from specific sources as well as interviews. This case work would be particularly useful for discussion in MBA classes and serve the academic audience.

Index Terms: Operations Strategy, Acquisition, Supply Chain, Competition & Case

1. Introduction:

The acquisitions by Chinese companies anywhere in the world are often viewed with some skepticism and become conspicuous due to criticisms from the West that perceives these deals to be unfair trade practices or concerning as such. These scaremongering to outright antagonisms are a cliché from the Chinese acquisition of IBM's personal computer business to the recent Starwood Hotels, and competition for the top cross-border acquirer status in 2016-2017. Research (Zhang, 2014; Yang and Stoltenberg, 2014; Schuman, 2016), indicates that several factors contribute to deepen the concerns. For instance, politically well-connected Chinese companies fund acquisitions based on politics and not pure merit. Furthermore, issues of transparency, board structure, commercial versus national interests and managed competition, galore. However, there is no particular evidence which suggests that fundamental corporate affairs are entirely different. In fact it is noteworthy that other acquisitions effected bereft of China also involve different motivations and direct corporate actions (see e.g. Schmidt and Fowler, 1990; Clarke-Hill and Robinson, 1996; Brooks and Ritchie, 2005; Ruckman, 2005). Nonetheless, since Chinese acquisitions have recently increased quite substantially (Du Xiaojun et al., 2013), there is a growing interest to examine such acquisitions from multifarious perspectives in order to draw meaningful conclusions, learnings and key factors. In this paper, the proposed ChemChina acquisition of Syngenta has been deliberated from operations strategy viewpoint specifically to scrutinize the overall operations of ChemChina. A case has been developed with the contemporary literature and accessible data. As the acquisition process is moving forward rapidly and expected to be completed in all respects in the coming days, it is interesting to comprehend the decisions that the operations managers need to be consider and re-consider with the available new set of alternatives.

2. Literature Review:

The literature on operations strategy in general is focused on the process of operations strategy in a fragile attempt to segregate the stages of operations strategy implementation. Nevertheless some useful tools have emerged in the course pursuing the intersection of a company's performance objectives with its decision areas. 'Operations Strategy Matrix' is one such versatile tool that at worst provides a checklist of issues necessary to be addressed. Similarly, Hayes and Wheelwright (1984) propose a four stage model that elucidates the expectations and aspirations of the operations function and the ability of any operation to contribute to opening up market potential for the organization toward achieving the goals of the enterprise. Some authors (see e.g. Hill, 1994; Hayes et al., 2004; Peña and Garrido, 2008) have gone ahead to stress other aspects and linkages that suggest operations strategy as concerned with the reconciliation of market requirements and operations resources. The same has been encapsulated by Slack and Lewis (2015) in a holistic manner indicating operations strategy as concerned less with individual process and more with the total transformation process that is the whole business. Then, operations strategy is closer with how the competitive environment is changing and what operation has to do in order to meet current and future challenges. Further, it is also about the long-term development of operations resources and processes so that they can provide the basis for a sustainable advantage. When pronounced with acquisitions to accomplish identical aims, the pieces of theory are limited and more entrenched in the acquisition procedures, means and systems, as a body of knowledge (Farinós et al. 2011; Lee et al., 2015). Few authors provide clues on evaluating the operations strategy for fairly uncharacteristic acquisition situations and therefore the previously discussed tools would still continue to offer solace to the academics and practitioners alike. This paper attempts to apply this literature for the specific situation of ChemChina acquisition of Syngenta.

3. Methodology:

A single case study approach has been adopted in this paper. The reason for adopting such an approach is that it permits a closer and more detailed observation of the developmental life cycle apart from the particular interesting phenomenon of Chinese company acquiring a major agribusiness company. Moreover, the case study observations of this sort are well suited to topics where the phenomena are poorly understood and characterized (Thomas et al., 2012; Yin, 1994) or tools are rather restricted. Also, according to Meredith (1998), the explanation of quantitative findings and the construction of theory based on those findings will ultimately have to be based on qualitative understanding and hence case research is appropriate and significant. While considering the case of ChemChina it was rather difficult to specify a research question in advance and the research was initiated with the thought that the work would enrich personally, and theory as well if feasible. The interviews conducted with two senior managers from the company have been expressed in the case as descriptive text. A similar reflection finds mention in Voss et al. (2002) treatise that suggests, "...when conducting case-based research it is not uncommon for the research question to evolve over time and for the constructs to be modified, developed or abandoned during the course of the research. This can be strength as it can allow the development of more knowledge than if there were just a fixed research question..." Apparently, the approach has limitations especially with a single case, the main limitation being the generalizability of inferences.

4. Case Study:

ChemChina has propelled forward on an inorganic growth trajectory fuelled by the ambitions of little known Chief Ren Jianxin dubbed as the dealmaker, along with the dreams of over 1.3 billion Chinese people. ChemChina started its modest journey about three decades back and later on established an empire following Ren Jianxin's takeover of over hundred troubled chemical companies in China. Today, ChemChina or China National Chemical Corporation is a Chinese state-owned company headquartered in Beijing and operating in chemicals space that spans agrochemicals, specialty chemicals, more than 16000 kinds of electronic chemicals, chemical equipment, and rubber products. The company has several production facilities and research centres, and figures prominently in the Fortune 500 List. During 2015, ChemChina was able to buy a controlling stake in the 143 year old Italian tyre manufacturer Pirelli and now in 2016, the \$43 billion bid for the Swiss agribusiness group Syngenta marks the pinnacle. Syngenta as a proud European company formed by merger of Novartis Agribusiness and Zeneca Agrochemicals, indeed has a strong portfolio in crop protection, seeds and seed treatment, and aims to make growing crops simpler and more productive.

However, rational theorists would wonder whether these decisions have really stemmed from or taken into account and linked the corporate actions with operations strategy, and further effectively enmeshed strategies at different levels in the organization. Evidence as such insinuates that organizations that know how to develop a concerted framework for formulation of strategies and agree on a common set of priorities are more competitive in the global marketplace (Yaprak, 2011; Hada et al., 2013). Although there are divergent views on assessing operations strategy alignment and no unanimity in describing operations strategy, a more popular perspective suggests that an operations strategy must reflect the decisions taken at the top of the organization and which set the overall strategic direction of the organization. The corporate strategy should be reflected in the strategies of each business unit which should in turn inform the strategy of each business function, particularly operations. Furthermore, business strategy, operations strategy and technology strategy should be linked mutually. Then, operations strategy is a set of goals, policies and self-imposed restrictions that together describe how the organization proposes to direct and develop all the resources invested in operations so as to best fulfil its mission (see e.g. Slack and Lewis, 2015).

European proponents air other views as well mostly related to increasing globalization and innovation necessity triggered by the rise of China and India as international players. Typically, firms in conservative European industries exposed to increased competition from China respond by enhancing their innovation and information technology intensity (Autor et al., 2016). In this decade, the advent of technological changes and transformation of operations and supply chain management with e-business have given rise to speculations about re-conceptualizing business. Nevertheless it must be realized that with evolving industry dynamics, a short-term match between operations capabilities and current markets is unlikely to result in a sustainable competitive advantage. Therefore, arguments deem it worthwhile to assess the operations strategy alignment in major companies especially those in developing countries as defined by the World Bank, focused on acquisition in shifting markets trends, the proposed ChemChina acquisition of Syngenta being a case in point.

Syngenta brings to the table its technological prowess, agronomic expertise and ability to bring strong new products to market combining genetics and chemistry to create new solutions. Its 'Good Growth Plan' commits to help grow more food using fewer resources while protecting nature and helping people in rural communities live better lives. Already Syngenta has established a foundation with fungicide technology, corn enzyme technology, water optimization technology to enable rice farmers improve productivity, biological control of cyst nematodes, and weed resistance solutions. However, the current decade is not about firms that just build upon foundations of product technology excellence rather it is about management, integration and

development of assets and opportunities around the globe (Ortega et al., 2012; Kinyanjui et al., 2014). The prudent acceptance of the ChemChina bid by the Syngenta's top management indicates that focusing entirely on technological development without effective strategy for exploiting the technology in a timely manner would have resulted in Syngenta being unable to sustain profitability. The challenge is now for ChemChina to percolate strategy and ensure a clear vision for the future by integrating the technology strategy with business strategy and operations strategy. ChemChina has undergone process reengineering and breaking down of traditional silo structures however they are yet to master the integration of operations over time to effectively manage the dynamic environment. The markets seem to demand operations to be both flexible and low cost and ChemChina will have to deal with technology adoption in developing countries and simultaneous value chain pressures in developed countries. Thus, the operations strategy would need to be realigned accordingly with the traditional flexibility/cost trade-off inherent in the scale, automation and integration dimensions of process technology and also the product/process matrix obviously under pressure.

Flexibility

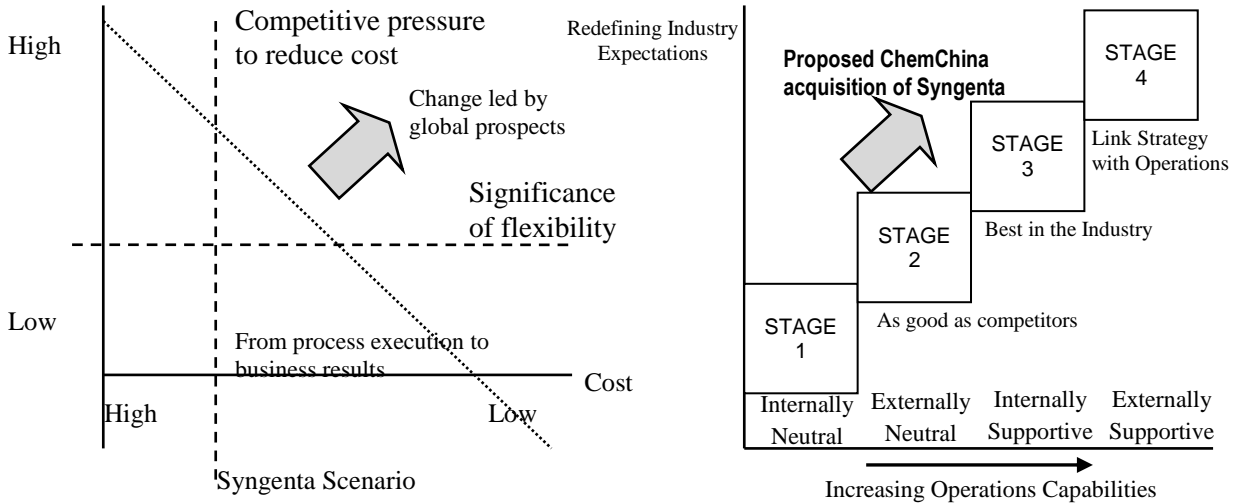
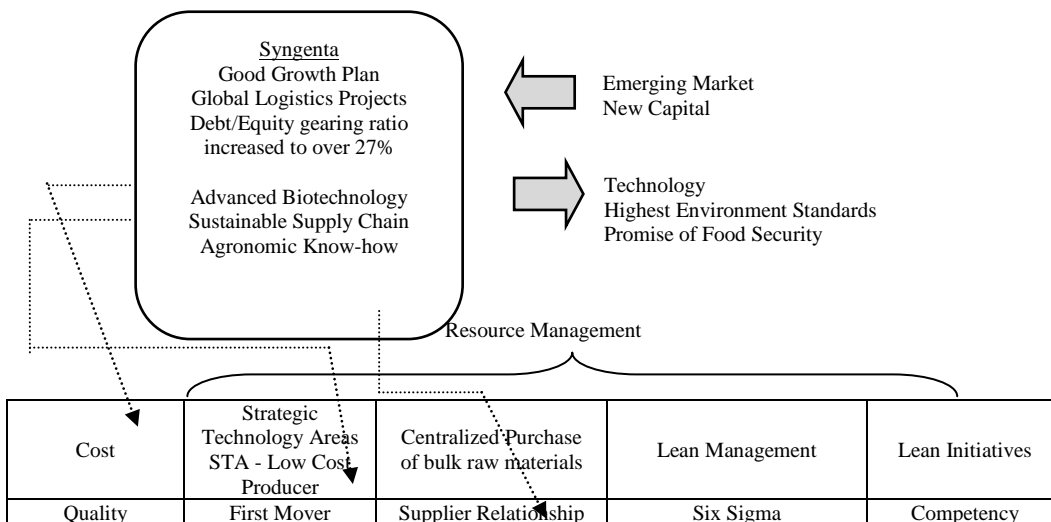


Figure 1: Model to Comprehend Opportunity for ChemChina Operations

If successful, the proposed bid would open opportunities for ChemChina to transform itself from an externally neutral stage to being the best in the industry with a largely positive internally supportive operations role (Figure 1). However, ChemChina operations would have to actively develop resources from a long-term perspective with realization that Syngenta supplement is unlikely to produce the business results customarily. The initial step is to shift the focus from just technology base to a more service led service focus. ChemChina would have to then move away from the asset-based production-oriented manufacturing model. According to ChemChina General Manager, the e-commerce platform launched in November 2015, could herald the transformation. Also, since this acquisition is driven primarily by growth strategy, rather than cost cutting the focus is to strengthen the business portfolio, achieve world class operations status and actually add jobs for the wider society. The proposed format of ChemChina after acquiring Syngenta can be mapped as shown in the Figure 2 below so as to describe the operations strategy and emphasize what is required from the operations function and how attempt can be made with a set of choices in each decision area.



		Management; Transparent Procurement		Development; EMS	<ul style="list-style-type: none"> ▪ Market Demand ▪ Competitiveness ▪ Creation of Wealth ▪ Productivity ▪ Knowledge Building ▪ Sustainability
On-time Delivery	R&D as Investment Building R&D Team	Logistics System; Vendor Managed Inventory VMI	Capacity Expansion developing countries base, Lead Strategy	Cross Cultural Management; Team Rewards	
Flexibility	Localization of key equipment	Dynamic Scheduling; Tracking	Digital Factory	Linking salary to achievement	
	Acquiring Technology; Innovation; Patents(20%↑)	Supplier Audits; Green Purchasing	ERP System; E-Commerce; Zero Emissions; Green Development	Local Employment; SHE measures	
Competitive Priorities	Technology Strategy	Purchasing and Supply Chain Strategy	Structure and Infrastructural Factors	Strategic Performance Management	

Figure 2: Proposed Configuration to Portray ChemChina Operations Strategy

Syngenta brings advanced biotechnology to ChemChina and would enable ChemChina to quickly introduce leading edge technology ahead of competitors. If reputation is established early on then the company would only need to maintain the lead and benefit as first mover.

Nevertheless, ChemChina needs to review the strategic technology areas (STA) after a period, that is, the areas of functional technology expertise in the firm's operations which give the firm an advantage in the marketplace for serving particular customer needs. As such the firm's current and desired STAs are the basic building blocks that form the targets of technology investments. At the same time it is noteworthy that a well-executed localization strategy can go a long way in gaining foothold in the Chinese market.

The other areas more directly linked with operations strategy at ChemChina are the lean initiatives, e-commerce and environmental management. Syngenta would again add value by introducing concepts like supply chain sustainability and vendor managed inventory (VMI). Furthermore, the electronic platform enhances the prospects of direct selling that would result in large-scale disintermediation or elimination of middle-men in supply chain thus affording the possibility of gauging customers directly and making the organization more customer-oriented. The matrix indicates implications for operations strategy when the supply chain dimension is superimposed with the Syngenta acquisition. For example, the ongoing Chem China logistics systems projects have to be accelerated to improve on-time delivery and consequently gain market competitiveness. Purchasing has to be strengthened by centralization of bulk raw materials and the six sigma and lean practices stimulated to next level as they play an important role in efficiency increase, energy conservation, emission reduction and quality improvement. Also, in order to gain flexibility, Chem China can implement dynamic scheduling and digital factory models that are more effective. For instance, dynamic scheduling with real time response enables quick, feasible changes to schedule with due consideration to equipment constraints, material availability and batch dependencies.

The agronomic know-how of Syngenta permits capacity expansion with lead strategy and it would ensure that the company has adequate capacity to meet all demand. The operations resources comprehended with market requirements would lead to sustainable creation of wealth and assure food for the most populous nation in the world. However, the Chem China deal is not only about China's demand for food security but also about aspirations to become a global player and therefore aligning the operations strategy is paramount.

5. Concluding Remarks:

The case of Syngenta acquisition by ChemChina has certainly brought to fore the ambitions of China to become a business leader in multiple segments. However, whether these ambitions actually materialize in ChemChina Company depend to a large extent on whether the operations strategy is aligned systematically and decisive steps are taken by operations managers in clearly identified dimensions. The infused fresh capital and emerging market promise are truly irresistible for Syngenta and at the same time reassuring for the developing world. This case is currently at a critical juncture and success leads are still indistinct, even so, the purpose could be deemed served if the case can be utilized for MBA class discussion and the learning really fathomed.

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