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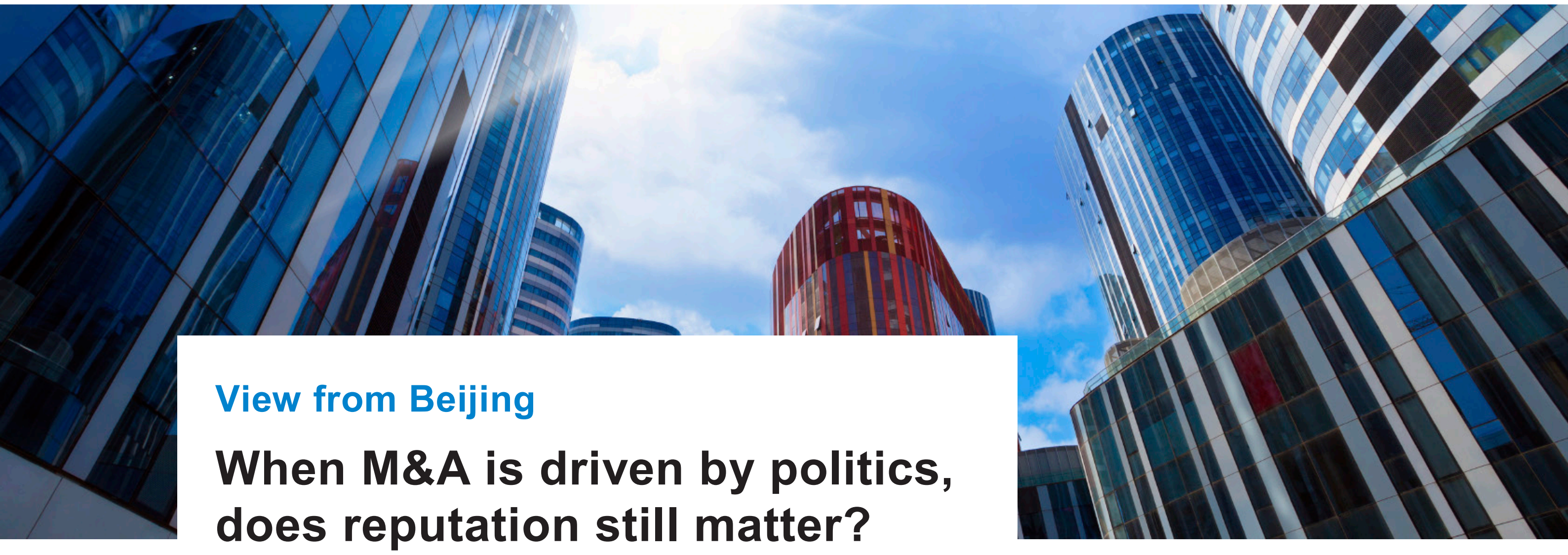

View from Beijing

When M&A is driven by politics, does reputation still matter?

Last week, the Financial Times broke the news that ChemChina and Sinochem, two giant Chinese state owned enterprises (SOEs) intend to merge and create the world's largest chemicals group with $100bn in revenues. Concerns have been raised by international media and commentators about the drivers for this deal being purely political rather than economic – but is that really the case? And, if the deal is being supported by the Chinese government, does reputation really matter?

The identifiers of M&A success

Getting a deal done depends on a number of factors: the right structure, pricing, financing, industry fit and regulatory and shareholder approval. Yet successful M&A communications comes down to one thing: getting the story right and telling it to the people that matter.

In the case of ChemChina and Sinochem, Western media and financial commentators view the deal as politically driven, but they also recognize that there may be advantageous synergies. That said, it is difficult for them not to regard the whole affair as troubling due to a lack of communication from the companies themselves.

Our experience working with companies in China informs us that many parties underestimate the strategic aspects of communications and could benefit from defining the rationale and building positive support for the deal prior to a merger. For this reason a cohesive communications campaign to manage reputation throughout the process and beyond is key.

One Belt One Road and SOE reform is putting China's reputation on the line

The potential move for SOE reform is part of the Chinese government's efforts to enhance the competitiveness of the market and improve the way that state capital is used, especially when it comes to international projects. One of the first successful SOE mergers was CRRC, the world's largest supplier of rail transit equipment, which was created by combining CNR and CSR in 2015, and was supervised by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC).

However, it is important to remember that the reform of the SOE sector does not mean that the government is prepared to give up controlling power over industries that are crucial to its national economy and security. The SOEs, especially those directly supervised by the SASAC, are expected to perform a key role in leading the economy in the right direction towards internationalisation. Particularly now, as the Belt and Road Initiative has become a key pillar of President Xi Jinping's strategy for championing China's economic diplomacy, the success of SOE reform tests not just the reputation of Chinese companies, but the reputation of China itself.

This international perspective is important for ChemChina who, in addition to its merger with Sinochem, is also in the process of securing shareholder backing for its acquisition of Swiss agrochemicals group Syngenta. There are many in the industry who believe that the ChemChina-Sinochem deal is less about improving efficiency in China's market and more about improving ChinaChem's debt ratio, leaving the business in a better financial position to absorb Syngenta's business.

While this may not be something that needs to be addressed now – as the Syngenta deal has sailed through EU approval – a longterm story for ChemChina that sets out the drivers behind Sinochem and its strategy is crucial, particularly when a future international IPO of Syngenta assets is on the cards. This requires potential international investors to start buying into the ChemChina-Sinochem-Syngenta rationale now – but this is a story that has not yet begun to be told.

The message is clear. All M&A deals – even those with SOEs and government organisations – need to tell a compelling story, not just to get through the merger process but also to future-proof the business in the event of further activity and for long-term growth.

So how can companies manage their reputation through M&A and beyond?

In our experience, all companies undergoing M&A should ensure that they are adopting a proactive strategy and identifying advocates in advance and engaging with international media and other key stakeholders to influence opinion.

The first step is to know in advance who matters. Companies should prepare a comprehensive map of all opinion formers and decision makers and understand their varied views. From a China SOE point of view, this means considering how this deal will play out on a global stage and the perspectives of international audiences. If possible, identify interests both domestically and internationally who will be friendly to the deal and will be effective advocates if approached for an opinion. Encourage them to go public with their views and use this to help the campaign.

Anticipating those likely to oppose, of course, and devising an effective strategy to manage them is just as important as lining up allies. This requires in-depth research to identify potential naysayers, anticipate what their concerns may be and devise a strategy of engagement.

The merger of ChemChina and Sinochem is the first giant deal we have seen in the chemicals sector in Asia. This puts the success of a potential deal firmly in the spotlight of the media.

However, there is a lack of information that comes through in these deals and frustration from journalists who are not able to get relevant information from companies. International journalists have long said it inhibits them when trying to write balanced commentary about a deal and, in the case of ChemChina-Sinochem, the only leading coverage has come from the Financial Times. In these instances, good relationships with the media can go sour and companies can lose goodwill fast.

In summary

Communication and transparency are important to tackling the widespread misunderstandings and misperceptions of China's SOEs, and can result in a more nuanced understanding by all relevant stakeholders. This can include internal and external communications around details of the transaction and articulating the rationale for the deal and future plans for both sides, thereby resulting in a level of transparency and education that focuses on spotlighting the positive effects of the deal. Being transparent and ensuring a clear understanding not only helps the current deal, but also future ones, especially when China and Chinese companies are going big and going global.

ABOUT FINSBURY

Finsbury is a global leader in strategic communications. It is a trusted advisers to boards, senior executives and legal counsel of many of the world's most successful companies, institutions and organizations and has managed some of the most complex communications challenges of the last three decades. It consistently ranks at the top of global M&A league tables and has won multiple awards. The Holmes Report named Finsbury the Best Financial Consultancy in the World for 2014 and Financial Agency of the Year in North America in 2015.

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