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FOXCONN TECHNOLOGY GROUP: ACQUIRING SHARP TO MOVE UP THE VALUE CHAIN[[1]](#endnote-1)

Wiboon Kittilaksanawong and Teeta Erikate wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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I’m not going to sugarcoat the challenges. I have a clear roadmap in my heart. If we cannot drive changes in Sharp, our global competitors will eat us alive.[[2]](#endnote-2)

Terry Guo, founder and chairperson, Foxconn Technology Group

In February 2017, Sharp Corporation (Sharp) raised its full-year profit forecast after posting its first quarterly net profit (October–December 2016) in more than two years and the first full quarter under the new Taiwanese owner, Foxconn Technology Group (Foxconn).[[3]](#endnote-3) In August 2016, Foxconn, the trading name of Hon Hai Precision Industry Co., Ltd., a Taiwanese multinational electronics contract manufacturer, agreed to acquire a stake of 66 per cent in Sharp, a renowned Japanese multinational company that designed and manufactured electronic products, for US$3.8 billion.[[4]](#endnote-4) Sharp had over 100 years of history but was on the verge of bankruptcy. In addition to gaining more liquid crystal display (LCD) capacity, Foxconn was combining Sharp’s advanced technology and marketing resources with its own to expand and move up the value chain in both research and development (R&D) and brand building. However, the post-acquisition integration to realize such value-creation potentials was facing several challenges.[[5]](#endnote-5)

Sharp’s hierarchical, bureaucratic style of Japanese management might not assimilate well within Foxconn’s organization, which strongly emphasized efficiency and an agile response to fast-changing market needs. To effect a turnaround in Sharp, Foxconn would first need to address Sharp’s operational efficiency and costs while keeping and strengthening its innovative capabilities. Given the levels of organizational flexibility versus rigidity at each company, and the short- versus long-term perspectives regarding their organizational outcomes, the initial alliance approach taken by the two companies might not have warranted a successful post-acquisition integration. Resistant and self-sufficient mind sets, along with national pride, might also have been barriers to the transition. Now in 2018, what should Foxconn do to integrate the two entities seamlessly to achieve Foxconn’s efficiency, cost, and innovation goals while moving up the value chain both to become the technology leader and to successfully create its own global brand? Should Foxconn have continued its prior strategic partnership with Sharp instead of acquiring a majority stake in the company?

**HON HAI PRECISION INDUSTRY CO., LTD.**

Foxconn Technology Group was the trading name of Hon Hai Precision Industry Co., Ltd, headquartered in New Taipei, Taiwan. It was a multinational electronics contract manufacturer founded in 1974 by Terry Gou. Foxconn first started by producing television turning knobs with initial funds of only $7,500. In 1983, it entered the computer industry by developing personal computer (PC) connectors. In 1988, Foxconn achieved revenues of over NT$1 billion[[6]](#endnote-6) and established its main factory in Shenzhen, China. It was listed on the Taiwan Stock Exchange in 1991.[[7]](#endnote-7)

Holding over 55,000 patents worldwide in 2012, Foxconn was recognized as an innovation leader by *MIT Technology Review* and ipIQ, Inc. It ranked 25th in *Fortune* magazine’s Global 500 in 2016, with revenues of over $140 billion. Its factories in Asia, Europe, Mexico, and South America together accounted for over 40 per cent of all consumer electronics sold worldwide and employed over 800,000 people around the world (see Exhibit 1).[[8]](#endnote-8) A dominant presence in the global manufacturing supply chain, Foxconn was best known for making iPhones and other Apple Inc. (Apple) devices, but its long list of customers included Sony Corporation, Dell Technologies Inc. (Dell), and BlackBerry Limited.[[9]](#endnote-9)

**Corporate Strategy and Business Model**

Foxconn was guided by three “Foxconnian” visions including (1) implementing the most efficient cost advantages to make products affordable for everyone; (2) using its proprietary vertically integrated one-stop eCMMS[[10]](#endnote-10) model to revolutionize inefficient traditional electronics outsourcing, and (3) maintaining a devotion to social harmony and ethical standards for all stakeholders. The company defined itself as a service company, delivering speed, quality, engineering services, flexibility, and cost savings. The eCMMS model, which was formed by integrating mechanical, electrical, and optical capabilities, had made Foxconn the world’s largest computer, communication, and consumer electronics (3C) manufacturing base with the shortest supply chain. Foxconn was the largest exporter in China and the second-largest exporter in the Czech Republic.[[11]](#endnote-11)

Committed to investing in people, education, and global localization through collaboration with leading higher-learning institutions, Foxconn believed that its competitive advantages stemmed from a strong cultural work ethic and its eCMMS model and unique Foxconnian culture, which emphasized the customer’s long-term satisfaction. In line with its vertically integrated business model, Foxconn’s first acquisition was the Motorola Chihuahua factory in Mexico in 2003, followed by Eimo Oyj of Finland in 2004. In 2004, it also merged with the Taiwanese Ambit Microsystems Company, becoming the world’s largest 3C original equipment manufacturer (OEM). In 2006, Foxconn merged with Taiwanese company Premier Image Technology Corp. and established factories and subsidiaries in Asia, Europe, and South America.[[12]](#endnote-12)

**Suicides and Child Labour**

Since 2010, Foxconn had faced negative reactions from both international media and the general public amid a suicide crisis and child labour scandals at its main Shenzhen factories and other Foxconn-owned facilities in mainland China. It was blamed for a lack of flexibility and low responses to operational risk and changes and was characterized as a make-and-sell rather than as a sense-and-response type of organization.[[13]](#endnote-13) In collaboration with its major client Apple, Foxconn took preventive measures to improve working conditions while improving overall management to enhance flexibility and agility.[[14]](#endnote-14)

One of the critical factors that had enabled Foxconn’s past success was an efficiency-driven culture based on Confucian dynamism, which placed importance on persistence and perseverance, ordering and observing relationships by status, thrift, and a sense of shame.[[15]](#endnote-15) It was argued that such a cultural orientation focused so much on productivity and low costs that working conditions were almost ignored. To mitigate its bad reputation, Foxconn took steps to fulfill the interests of shareholders while meeting the demands of employees and other stakeholders.[[16]](#endnote-16)

**Challenges in the Home Market and Abroad**

Apple’s growth had been slowing down, largely due to flat iPhone unit sales for several years. The product had become less competitive, particularly when taking trade tariffs into consideration.[[17]](#endnote-17) Besides, Apple was also looking for new suppliers to reduce supply risks. By broadening its number of suppliers, Apple could increase bargaining power to keep prices competitive and to mitigate supply-and-demand issues, which had sometimes cost Apple sales in the early days of new devices.[[18]](#endnote-18) This slowdown in sales and diversification in suppliers inevitably affected Foxconn’s bottom line and prompted the company to look ahead to diversify its operation, expanding its range of products and customers and decreasing reliance on its largest clients, such as Apple (see Exhibit 2).

To address rising labour costs in China, Foxconn hoped to relocate some production to India and Southeast Asian countries while gradually introducing more automation into its production. The company had acquired a stake in the robotics subsidiary of the Japanese SoftBank Group Corp.[[19]](#endnote-19) It was also shifting away from making products that other companies designed and was aggressively moving into design and manufacturing, especially of large flat-screen televisions. According to an analyst at the research firm Gartner, Inc., “Foxconn senses that the Apple aura isn’t as invincible as before. So they are worried that they need something besides Apple’s business that will allow them to grow.”[[20]](#endnote-20)

**SHARP CORPORATION**

Sharp was founded in 1912 in Tokyo, Japan, by Tokuji Hayakawa as a metal workshop that made belt buckles. A few years later, Hayakawa started making mechanical pencils, called “Ever Ready Sharp Pencils,” from which the company drew its name. In 1953, it began mass production of the first TV sets made in Japan. Sharp’s leadership continued to change over the decades after Hayakawa’s retirement in 1970. In 1972, it started selling copiers. The company launched an LCD division in 1986. In 1990, it emerged as the leader of the LCD industry and revolutionized calculators, computer screens, home appliances, and handset devices. Although 65 per cent of its sales were generated in Japan, it had subsidiaries around the world. In 2000–2006, it became the world’s largest manufacturer of solar cells. In 2009, it started operating a new LCD plant in Sakai (near Osaka), which was regarded as the world’s most advanced LCD plant.[[21]](#endnote-21)

In 2012, Sharp was short of financial liquidity due to massive investments in its Kameyama and Sakai plants, while competition, particularly from South Korean rivals such as Samsung Electronics Co., Ltd. (Samsung) had intensified. Foxconn had agreed to take a stake in Sharp, but the company walked away after being warned of losses. Sharp then sought its first bailout from its main lenders, Mizuho Financial Group Inc. and Mitsubishi UFJ Financial Group Inc. In 2015, it sought a second rescue, as Asian rivals had battered its smartphone display business. The company held investment talks with the state-backed Innovation Network Corporation of Japan and also received an offer from Foxconn. In 2016, it chose Foxconn as the preferred bidder.[[22]](#endnote-22)

**Corporate Strategy and Business Model**

Since its establishment, Sharp had been driven by the beliefs of its founder and a working spirit that embraced sincerity and creativity. Its corporate mission involved striving to become a one-of-a-kind company that created lifestyles of the 21st century, taking customers and partners beyond individual products and capabilities through original inspirations and innovative solutions.[[23]](#endnote-23) Sharp’s development activities were conducted from the customer’s perspective, while, according to Hayakawa’s famous words, Sharp sought to “make products that others want to imitate.”[[24]](#endnote-24)

Key aspects of Sharp’s business model were its “one and only” and “spiral” strategies. With the former, Sharp sought to develop products in-house using its proprietary technology. These products were then further developed to be enjoyable and user-friendly. With the “spiral” strategy, any customer problems or additional needs would be fed back into the technology development stage to create a new product. These two strategies supported the company’s vision of realizing “a true and ubiquitous network society with the world’s best LCDs . . . [and contributing] to society through environment and health-related businesses with energy-saving and energy-creating equipment as the core.”[[25]](#endnote-25) Employing more than 50,000 people worldwide, Sharp engaged in the manufacturing and selling of electronic components and consumer electronics in several segments, including smart homes, smart business solutions, Internet of things (IoT)[[26]](#endnote-26) electronic devices, and advanced display systems.[[27]](#endnote-27)

**Challenges in the Home Market and Abroad**

The growing demand for consumer electronics from first-time buyers, particularly in emerging economies (such as China, India, and Vietnam), had presented opportunities for Sharp to explore and grow its market share. However, such opportunities inevitably came with intense competition from latecomers to LCD technology and televisions, like Samsung and LG Electronics Inc. (LG), which both had stronger international marketing and sales capabilities.[[28]](#endnote-28)

In fiscal year (FY) 2008, Sharp’s net sales declined 16.7 per cent from the previous year, with an operating loss of ¥55.4 billion.[[29]](#endnote-29) Such poor performance was mainly caused by intensified competition, particularly from emerging Asian consumer electronic and digital companies, which targeted the low-end market of price-sensitive customers. The global financial crisis and the appreciation of the Japanese yen resulted in rapidly declining demand and deteriorated Sharp’s earnings due to higher levels of LCD inventories. Internally, its older LCD plants had lost competitiveness, and the LCD TV and mobile sectors had experienced falling prices and slower growth.[[30]](#endnote-30) Sharp’s management realized an urgent need for a recovery plan that would implement a new business model. In particular, the company wanted to overhaul its management with two initiatives: first, creating and streamlining its corporate structure, and, second, developing a new business model to promote localization and cost reduction (see Exhibit 3).

In FY 2011 and FY 2012, Sharp was on the verge of bankruptcy, posting combined net losses of over ¥900.0 billion. Again, after an attempt of major restructuring, it still recorded net losses of ¥222.3 billion in FY 2014. There were two main reasons for the continuing losses: First, Sharp was too confident in its own technology, thinking that rivals could not match it; hence, it developed its technology at its own pace, neglecting rapidly changing market demands as well as the social, political, and economic environment. Second, it could not find top managers who were capable of managing a large organization of such increasing diversity and complexity.[[31]](#endnote-31)

Sharp’s competitive and financial positions were, therefore, under threat, and its ability to effectively manage the LCD and solar cell businesses with limited financial capitals—in a market where it was increasingly difficult to gain a competitive edge—came into question. Sharp needed to decide whether to keep its core business while selling other divisions where it could not maintain growth or make profits, or open up for potential mergers and acquisitions.[[32]](#endnote-32)

**ACQUISITION OF SHARP CORPORATION**

Chinese enterprises had been known to acquire companies in advanced economies such as Japan to catch up technologically and managerially and to compete effectively with their global counterparts. For example, in 2011, the Chinese Lenovo Group Ltd. (Lenovo), acquired a 51 per cent stake in the Japanese NEC Corporation (NEC) to form the largest PC group in Japan.[[33]](#endnote-33) The new joint venture combined NEC’s market reputation, product development capabilities, well-recognized customer service, and knowledge of Japanese customer needs with Lenovo’s technology expertise, global business momentum, and global supply chain. In that same year, the Chinese Haier Group Corporation (Haier) acquired the electric washing machine and refrigerator units of the Japanese Sanyo Electric Co., Ltd. in Japan and Southeast Asia to better access to the world’s third-largest economy.[[34]](#endnote-34)

In February 2016, Foxconn announced its intention to acquire a controlling stake of 66 per cent in Sharp for JP¥700 billion ($6.24 billion).[[35]](#endnote-35) However, the finalization of the deal was delayed due to Sharp’s financial liabilities, which were not disclosed during the initial negotiations.[[36]](#endnote-36) Later, Foxconn announced that it had instead agreed to pay only $3.8 billion for the two-thirds controlling stake. The deal would still have to meet all legal requirements, including approval from the Chinese antimonopoly authority.[[37]](#endnote-37) Unlike the acquisitions by Lenovo and Haier, Foxconn was more interested in Sharp’s advanced LCD technology and factories that it could use to expand Foxconn’s contract manufacturing business and move up the value chain.[[38]](#endnote-38)

**The Prior Strategic Partnership**

Before the acquisition, in March 2012, for $806 million, Foxconn acquired a 10 per cent stake in Sharp and up to 50 per cent of the LCD displays manufactured at Sharp’s plant in Sakai, Japan. The deal concluded later, in July, when Foxconn paid cash for the Sakai plant and owned 50 per cent of it. For Foxconn, the deal further marked its dominance in global manufacturing. According to Guo, “Sharp is one of the most recognized brands worldwide and is also the leader in R&D. Hon Hai, well, it’s not a brand, but has an excellent manufacturing record. This is truly a winning alliance.”[[39]](#endnote-39)

According to some analysts, Sharp had no choice but to turn to the Taiwanese group for its survival, as the once-mighty electronics giant had desperately lost to Korean Samsung and LG.[[40]](#endnote-40) In a country, like Japan, with such high-cost manufacturing, Sharp’s business model of vertical integration was strangling its profitability. In March 2012, Takashi Okuda, president of Sharp, said, “Sharp can no longer do everything on its own from R&D, design, production, procurement, sales and service. Sharp’s vertically integrated model has reached its limit. We would like to build a global integrated model with Hon Hai.”[[41]](#endnote-41) This statement came just two weeks after the resignation of the previous president, Mikio Katayama, over the poor performance of the company’s mainstay TV business, which resulted in Sharp selling its stake of nearly 11 per cent to Foxconn.[[42]](#endnote-42)

Under the new partnership, Foxconn would jointly manage Sharp’s large, high-tech LCD plant in Sakai, Osaka Prefecture, and buy up to 50 per cent of its production output. Following Foxconn’s effort to expand its higher-margin TV-manufacturing business, in the fourth quarter of 2012, the company announced that its net profit had risen 66 per cent from the same quarter a year ago to NT$35 billion, even in the face of uncertainties in the European market.[[43]](#endnote-43) However, despite the partnership deal, investors were still unconvinced. Sharp’s share price continued to decline to JP¥192 in October 2012—the lowest level in 36 years—while its market capitalization was reduced by more than $1 billion to $2.72 billion.[[44]](#endnote-44)

**The Complementarities**

For Foxconn, acquiring a bigger stake in Sharp marked a significant step toward moving up the value chain from contract manufacturing (e.g., as an OEM and original design manufacturer [ODM]) for big brand names like Apple, Dell, and Hewlett Packard Enterprise Company) to building its own brand name (e.g., as an original brand manufacturer). While losing money, Sharp had cut the production capacity of its LCD plant in Sakai in half.[[45]](#endnote-45) Through forward integration, Foxconn could therefore use such underutilized capacity. Although Foxconn was one of the biggest contract manufacturers of LCD TVs, it lacked its own panel technology. By acquiring a stake in Sharp, which owned such advanced display technology, Foxconn could target customers of high-end products.[[46]](#endnote-46)

For Sharp, although cash injection was its major motivation for joining the Taiwanese group, it was also hoping that such a tie-up would help the company compete against Samsung and LG.[[47]](#endnote-47) The acquisition was a lifeline at a time when Japan’s technology companies, once leaders in cutting-edge electronics, were being circumvented by emerging Asian rivals, especially from China.[[48]](#endnote-48) By merging with a panel supplier, Sharp could rationalize its business—focusing on its competitive edge in leading technology—to compete with other brands. In essence, through the vertical integration, Sharp had changed its strategic orientation from in-house manufacturing to subcontract manufacturing of LCD TVs.[[49]](#endnote-49)

Additionally, Sharp might win new customers through Foxconn’s extensive supply chain of contract manufacturing for many different products, such as PCs, laptops, and tablets, and for several different companies. Yet, such an alliance provided no guarantee that Sharp could regain its status as a leading LCD TV manufacturer. Sharp was still facing a lot of challenges in selling its own brand due to high costs, including overheads that were a result of the stronger Japanese yen, as well as a lack of marketing strategies compared to its Korean counterparts.[[50]](#endnote-50) It was likely that Sharp would have to downsize its TV and LCD factories, selling them to Foxconn and focusing more on advanced, higher-value-added activities.

**Post-Acquisition**

**Restructuring**

Foxconn had planned for the acquisition deal to be completed in June 2016, with new management in charge of Sharp on July 1, and for the restructuring to begin right away. The new management would first replace Sharp’s president with Foxconn’s vice-president, Jeng-wu Tai. Tai, who had also assisted in the negotiation of the acquisition deal, was a 30-year veteran of Foxconn and a close aide to the company’s founder, Gou. The company planned to close Sharp’s redundant and costly overseas operations. According to Gou, “Those improper, high-cost joint ventures overseas, we will close them to reduce a lot of the operational cost, which will lead to lower (product) sales prices.”[[51]](#endnote-51) These comments implied that Foxconn sought to build on Sharp’s technology and branding to strengthen its pricing power with major clients, such as Apple.

The initial restructuring included speeding up the transformation of Sharp’s valuable patents into technologies that yielded commercially viable products, as well as implementing a metrics-based review of all Sharp staff. As part of this restructuring, Foxconn informed Sharp’s employees that although layoffs were a must, they would be implemented “responsibly and sensitively.”[[52]](#endnote-52) It was believed that the cuts could affect 3,000 employees in Japan—and even more when including its global operations.

As he was working to expand sales channels, Gou saw growth potential in Sharp’s home appliances business—especially in the United States. He also planned to rebuild Sharp’s semiconductor business—an area in which the company had once owned many patents, some of which it had sold to allocate resources to invest in the display technology.

Another immediate task, according to Gou, was to streamline Sharp’s financial management with methods used at Foxconn, such as Foxconn’s biannual review of its accounts, personnel, and materials using conservative accounting principles. Unlike Japanese companies, which mostly employed top-down financial management, Foxconn’s accounts were checked from the bottom up.[[53]](#endnote-53)

However, due to the prolonged Chinese antitrust review, the company was unable to complete all planned transactions. The delay had raised concerns among investors that the deal might not be approved, which caused Sharp’s share price to move down to below the planned acquisition price of JP¥88. The acquisition deal was eventually approved by the Chinese authorities in August 2016, paving the way for the world’s largest contract electronics manufacturer to seal its $3.8 billion deal.[[54]](#endnote-54)

**The Performance**

In February 2017, Sharp posted a net profit of JP¥4.2 billion ($37.14 million) for the fourth quarter in the last year—the first full quarter under the Taiwanese management—compared to a loss of JP¥24.7 billion during the same period a year earlier (see Exhibit 4). For the first time in two years, this also marked a turnaround to profit for its core display unit. As a result, the company raised its FY 2016 operating profit forecast to JP¥37.3 billion from an earlier forecast of JP¥25.7 billion.[[55]](#endnote-55)

In particular, this successful turnaround was the result of the Japanese LCD maker pressing ahead with stringent cost-cutting measures under its new Taiwanese owner, reflecting Gou’s trademark style of a laser-like focus on costs. Sharp, a major supplier of LCD panels to Apple, had consolidated its production lines, streamlining distribution networks and leveraging Foxconn’s globally recognized parts procurement power to achieve the turnaround. According to Sharp’s executive vice-president, Katsuaki Nomura, praising Foxconn’s swift decision-making style at an earnings briefing, “Speedy management is the biggest contributor to the turnaround.” In addition, Sharp benefited from South Korean rivals’ production cutbacks of LCD panels, which had led to a shortage of supply and thus increased market prices.[[56]](#endnote-56)

In response to this successful turnaround and positive financial performance, Sharp’s shares reached a near three-year high of JP¥348 in January 2017. Its share price had already rallied since Foxconn had taken charge in 2016 and had soared 300 per cent since the completion of capital injection by Foxconn in August 2016.[[57]](#endnote-57)

**FROM light-emitting diode (LED) TO organic light-emitting diode (OLED) DISPLAYS**

Foxconn planned to integrate its own LCD factories with Foxconn’s LCD production into one umbrella. While this integration would make Foxconn the LCD manufacturer with the largest capacity in the world and a market share of 21 per cent, Foxconn would have to deal with different business models and technologies, at the very least, for each entity’s LCD facility.[[58]](#endnote-58) However, key to the acquisition was the investment in a new OLED panel display fab.[[59]](#endnote-59) Before the acquisition, Sharp’s OLED displays did not support the growing smartphone market, as the company lacked financial support to build a new fab.[[60]](#endnote-60)

Through Foxconn’s monetary support, Sharp planned to invest $1.85 billion in a new OLED fab, which would potentially generate about $4 billion in revenues per year.[[61]](#endnote-61) For Foxconn, such an investment seemed not only to make financial sense but also to fulfill its goals of moving beyond contract manufacturing to building its own brands and pursuing advanced technologies. In particular, Foxconn had already created InFocus Corporation, which manufactured its own brand of Android-based smartphones, primarily for the Asian market.[[62]](#endnote-62) The acquisition would also allow Foxconn to offer component manufacturing and smart-system integration for smart homes, robotics, the IoT, and smart cars.[[63]](#endnote-63)

Apple, one of the world’s largest smartphone vendors and Foxconn’s most powerful customer, might support the acquisition of Sharp because it would allow Foxconn, its major contract manufacturer, to additionally supply OLED displays. Apple was using low-temperature polycrystalline silicon LCDs—which were supplied by Japan Display Inc., LG Display, and Sharp, but not by its major smartphone rival, Samsung—in all of its iPhones. Although these LCDs provided good power consumption and higher resolution, Apple would eventually switch to an even better OLED display. By then, Apple would need Samsung to supply OLED displays, as none of its existing suppliers were skilled at such technology. Only good LCD suppliers were able to make good OLEDs; however, not all good LCD suppliers were able to handle OLED well. Therefore, to nourish multiple suppliers, Apple would very likely encourage Foxconn to invest more resources into OLED. The penetration of OLED would be hastened if Apple were to adopt the technology in its next iPhone.[[64]](#endnote-64)

**CHALLENGES AND GOING FORWARD**

Foxconn was garnering advanced technology and marketing resources, gaining more LCD capacity from the acquired Sharp, and combining its own resources to continue to innovate, expand, and move up the value chain in terms of R&D—particularly in regard to OLED displays and brand building. However, there were several challenges ahead.[[65]](#endnote-65)

Sharp had historically been recognized as a very large, well-established enterprise with an old, traditional, and slow-moving Japanese culture, whereas Foxconn was globally famous for its efficiency orientation and agile response to fast-changing market needs;[[66]](#endnote-66) the hierarchical, bureaucratic style of Japanese management might not assimilate well within Foxconn’s organization. A cultural clash during post-acquisition integration might be inevitable, especially considering the differences between Taiwanese and Japanese lifestyles and mind sets. Foxconn had a track record of reshuffling management after an acquisition, as evidenced when it acquired the Taiwanese screen maker Chi Mei Corporation in 2010.[[67]](#endnote-67)

Besides, Sharp still had financial and organizational issues. While Foxconn could solve its short-term liquidity and heavy deficit issues with immediate cash injection, in order to reverse Sharp’s businesses to profitability in the long term, Foxconn would first need to address the operational efficiency and costs within Sharp’s organization and management while keeping and strengthening Sharp’s innovative capabilities.[[68]](#endnote-68)

Given that Foxconn and Sharp had different levels of organizational flexibility and time horizon for organizational outcome, their initial alliance approach might not result in successful post-acquisition integration. In particular, Foxconn’s restructuring of the Japanese company, with the immediate replacement of top executives and the implementation of a tight, top-down budget control system, would be time-consuming for the Japanese employees from the division to mid-management levels to adapt to. The resistance to change and self-sufficient mind sets, along with national pride, might be barriers to the transition. As a typical, traditional, large Japanese enterprise, Sharp had a culture that was more long-term and innovation oriented than Foxconn, which had a more aggressive, efficient, and cost-conscious culture.[[69]](#endnote-69) What should Foxconn do to integrate the two entities seamlessly to achieve its efficiency, cost, and innovation goals? How could Foxconn achieve these goals while moving up the value chain on both ends, working toward becoming the technology leader and successfully creating its own global brand?

**Exhibit 1: Foxconn’s revenue worldwide, 2005–2017**

|  |  |  |
| --- | --- | --- |
| **Year** | **(NT$ trillion\*)** | **(US$ billion)** |
| 2005 | 0.71 | 21.54 |
| 2006 | 0.91 | 27.83 |
| 2007 | 1.24 | 38.11 |
| 2008 | 1.47 | 44.81 |
| 2009 | 1.42 | 43.23 |
| 2010 | 2.31 | 79.38 |
| 2011 | 2.77 | 91.59 |
| 2012 | 3.22 | 110.70 |
| 2013 | 3.95 | 132.25 |
| 2014 | 4.21 | 133.04 |
| 2015 | 4.48 | 135.60 |
| 2016 | 4.36 | 140.55 |
| 2017 | 4.71 | 158.15 |

Note: \* NT$ = TWD = New Taiwan dollar.

Source: Created by the case authors based on “Foxconn Technology Group’s Revenue (Hon Hai Precision Industry) Worldwide from 2005 to 2017 (in Trillion New Taiwan/Billion U.S. Dollars),” Statista, accessed November 24, 2018, https://www.statista.com/statistics/277582/revenue-of-foxconn-electronics-since-2005/.

**Exhibit 2: FOXCONN’s Financial Performance at end of december 2013–2017 (US$ million, except where indicated)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Dec-13** | **Dec-14** | **Dec-15** | **Dec-16** | **Dec-17** |
| **Revenue** | 133,159 | 139,034 | 141,152 | 135,151 | 154,711 |
| **Gross Profit** | 8,581 | 9,634 | 10,096 | 9,971 | 9,960 |
| **Operating Income** | 3,683 | 4,725 | 5,173 | 5,424 | 3,700 |
| **Income Before Tax** | 4,429 | 5,648 | 6,114 | 6,112 | 5,656 |
| **Net Income** | 3,595 | 4,308 | 4,625 | 4,610 | 4,560 |
| **EBITDA** | 6,163 | 7,043 | 7,404 | 7,373 | 5,687 |
| **Diluted EPS (US$)** | 0.26 | 0.31 | 0.33 | 0.33 | 0.32 |
| **Dividends per Share (US$)** | 0.05 | 0.13 | 0.14 | 0.17 | 0.08 |
| **Total Assets** | 77,590 | 77,929 | 70,274 | 80,426 | 114,496 |
| **Total Liabilities** | 50,435 | 46,645 | 37,857 | 45,131 | 75,033 |
| **Total Equity** | 25,657 | 29,436 | 30,676 | 33,471 | 36,397 |
| **Operating Cash Flow** | 5,997 | 6,691 | 8,162 | 5,913 | (619) |

Note = EBITDA = earnings before interest, taxes, depreciation, and amortization; EPS = earnings per share.

Source: Created by the case authors based on “Hon Hai Precision Industry Co., Ltd., Nikkei Asian Review, accessed November 24, 2018, https://asia.nikkei.com/Companies/Hon-Hai-Precision-Industry-Co.-Ltd.

**Exhibit 3: SHARP’S INITIATIVES IN RESPONSE TO CHALLENGES PRIOR TO THE ACQUISITION**

|  |  |
| --- | --- |
| **Changes in External Environment**  • Declining demand from rapid economic slowdown  • Worsening trade conditions caused by appreciation of the Japanese yen  • Falling prices for digital products  • Emergence of economic blocs  • Rapid changes in the European solar market | **Changes in Internal Environment**  • Older LCD plants becoming less competitive  • Falling prices and slower growth for LCD televisions and mobile phones  • Deterioration of financial position |
| **Recovery Plan** | |
| **Implementation of New Business Model** | |

Note: LCD = liquid crystal display.

Source: Created by the case authors based on Sharp Corporation, *Opening New Frontiers: Annual Report 2009*, 7, November 24, 2018, http://www.sharp-world.com/corporate/ir/library/annual/pdf/annual\_2009.pdf.

**Exhibit 4: SHARP FINANCIAL PERFORMANCE at end of march 2014–2018**

**(US$ million, except where indicated)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Mar-14** | **Mar-15** | **Mar-16** | **Mar-17** | **Mar-18** |
| **Revenue** | 29,222 | 25,363 | 20,499 | 18,937 | 21,900 |
| **Gross Profit** | 6,286 | 4,486 | 2,776 | 4,297 | 4,350 |
| **Operating Income** | 1,084 | (438) | (1,349) | 577 | 813 |
| **Income Before Tax** | 459 | (1,719) | (1,925) | (5) | 807 |
| **Net Income** | 115 | (2,024) | (2,132) | (230) | 634 |
| **EBITDA** | 2,361 | 581 | (695) | 1,207 | 1,500 |
| **Diluted EPS (US$)** | 0.78 | (11.97) | (12.87) | (0.63) | 0.77 |
| **Dividends per Share (US$)** | 0.00 | 0.00 | 0.00 | 0.00 | 0.09 |
| **Total Assets** | 21,184 | 16,359 | 13,975 | 15,917 | 17,947 |
| **Total Liabilities** | 19,173 | 15,988 | 14,252 | 13,155 | 14,170 |
| **Total Equity** | 1,895 | 252 | (383) | 2,640 | 3,559 |
| **Operating Cash Flow** | 1,986 | 158 | (157) | 1,175 | 950 |

Note = EBITDA = earnings before interest, taxes, depreciation, and amortization; EPS = earnings per share.

Source: Created by the case authors based on “Sharp Corp.,” *Nikkei Asian Review*, accessed November 24, 2018, http://asia.nikkei.com/Companies/Sharp-Corp.

ENDNOTES

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