

**Key Success Factors in the Management of Post-acquisition  
Integration in the Outward Mergers and Acquisitions of Chinese  
Firms**

By

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## **Declaration of Authorship**

I certify that the thesis presented by me for examination of the PhD degree is solely my own work other than where I have clearly indicated that is the work of others, and that the extent of any work carried out jointly by me and any other person is clearly identified in it.

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## **Abstract**

Mergers and acquisitions (M&A) have long been an important source of corporate external growth and renewal. As a major entry mode of their globalisation strategy, the outward M&A of Chinese firms is still little understood by both scholars and practitioners. Little research has been done to explain the success and failure of the outward M&A of Chinese firms and, in particular, the post-acquisition integration process, which is a central part of M&A value creation.

This research intends to fill the research gap by exploring the key success factors in the management of the post-acquisition integration process of the outward M&A of Chinese firms in developed economies. Three research questions are proposed:

- What are the key factors in the management of post-acquisition integration by Chinese firms?
- How and why do these factors impact on the post-acquisition integration process and on M&A performance?
- How do the explanations of identified key success factors contribute to the theory building of post-acquisition integration in the outward M&A of Chinese firms and of those from other emerging economies?

This study addresses these questions from an integrative perspective and raises research propositions by combining the process, organisational behaviour and strategic management schools of thought. A multiple-case study method is applied to

answer the research questions.

By comparatively examining four outward M&A deals completed by leading Chinese firms from the manufacturing industry sector, this research contributes to the knowledge construct of the outward M&A of Chinese firms by identifying and explaining nine key success factors for the management of the post-acquisition integration process. The final integrative model indicates that the examination of the determinants of M&A integration should incorporate both the post- and pre-acquisition factors which influence the integration process by means of their impact on the formation of the integration approach.

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# **Chapter 1 Introduction**

## **1.1 Introduction**

The purpose of this opening chapter is to provide an overview of this research project that explores a series of significant questions in the fascinating area of mergers and acquisitions. It starts with a presentation of the research background and then moves on to the research objectives and questions of this PhD. The theoretical framework and propositions used are then presented, followed by a general description of the research methodology. Finally, after a short explanation of the main terminology used in this thesis, this chapter ends with an overview of the structure of the whole thesis.

## **1.2 Research background and rationale**

### **1.2.1 M&A phenomenon**

Mergers and acquisitions (M&A) have long been an important source of corporate external growth and renewal. The past five M&A waves since the end of the 19th century provide witness to the increasing prevalence of this unique business phenomenon for firms to grow and gain new capabilities (Haspeslagh and Jemission, 1991; Cartwright and Schoenberg, 2006). Despite the recent economic turndown having attacked the global economy severely and pulled the M&A volume down from

its 2007 peak of over four trillion US Dollars (Bloomberg, 2011), there is strong evidence that a sixth M&A wave has already started (Kolev et al., 2012; Bauer and Matzler, 2013). According to Dealogic, in 2013, the global M&A volume reached 2.91trillion, 9% up on 2012 and the highest annual total volume since 2008 (Dealogic, 2013). So far in 2014, global M&A has reached about 1.2 trillion by the end of April: the highest level since 2007 and 42% up on the previous year (Financial Times, 2014).

While the majority of M&A involves firms within the same country, around one third of the M&A transactions completed in recent decades has involved firms with headquarters in different countries (Shimizu et al., 2004; Dealogic, 2013). Cross-border M&A (CBMA), or international M&A, which is widely used by multinational enterprises (MNEs) as a growth strategy and a mode of entry into foreign markets (Bresman et al., 1999; Zander and Zander, 2010). It accounts for nearly 70% of foreign direct investment (FDI) worldwide and therefore constitutes the main channel through which MNEs undertake outward FDI (OFDI) (Peng, 2009; UNCTD, 2000; Zander and Zander, 2010).

In recent years, MNEs from emerging economies (EMNEs), such as China and India, have increasingly undertaken outward M&A activities as the main strategy for their international expansion (Luo and Tung, 2007; Sun et al., 2012). As the largest emerging economy, China has achieved a dramatic increase on its outward foreign direct investment (OFDI) in the past decade along with its booming economy,

climbing to US \$ 87.8 billion, which has made China the third largest OFDI source country around the world (United Nations Conference on Trade and Development – UNCTAD, 2013). Among its increasing OFDI, China's outward mergers and acquisitions took the larger proportion of 49.4% and reached a new peak of USD 43.4 billion (Xinhua, 2013). The 2011 Government Work Report pointed out that China will encourage firms of all types to expand their global presence, facilitate brands and enhance technological competitiveness through M&A in the manufacturing, services, infrastructure and energy sectors (China Daily, 2013). Anecdotal evidence suggests that outward M&A has become the dominant internationalisation strategy of Chinese firms (Deng, 2012; Tan and Ai, 2010). Therefore, China represents an interesting setting for the exploration of the characteristics of the outward M&A of EMNEs. Moreover, the international M&A strategy adopted by Chinese acquirers is under the close scrutiny of other EMNEs (Child and Rodrigues, 2005).

### **1.2.2 M&A success factors---the main unsolved puzzle in previous M&A research**

However, as a paradox of the popularity of M&A in general, in international context, and in emerging economies, about two thirds of the M&A do not manage to show the positive effects anticipated pre-acquisition (Schoenberg, 2006; Cartwright and Schoenberg, 2006). In the cross-border context, it has been suggested that the majority of CBMA transactions are unsuccessful (Moeller et al., 2004). Cartwright and Schoenberg (2006) argued that the most likely reason for the lack of abatement of the



high rate of failure of M&A over the past two decades is that current research on M&A remains in some way incomplete. On the basis of a meta-analysis of 93 prior empirical studies on the determinants of M&A performance, King et al. (2004) concluded that the “...existing empirical research has not clearly and repeatedly identified those variables that impact on an acquiring firm’s performance... (p.196) ...post-acquisition performance is moderated by variables unspecified in existing research... (p.188)”. Another meta-analysis conducted by Stahl and Voigt (2004) on the impact of cultural differences on M&A performance also reached a similar conclusion, arguing that “a huge portion of variance remains unexplained”. Despite the M&A phenomenon having encouraged substantial academic endeavours over the last half century, which have produced a substantial body of literature from different disciplines (Gomes et al., 2013), the key success factors and the reasons for the high failure rate of M&A transactions are still poorly understood (Stahl et al., 2013).

While previous attempts to explain the performance of M&A have mostly focused on financial and strategic factors, King et al. (2004) claimed that researchers may not have been looking at the ‘right’ set of variables linked to M&A success, and suggested paying more attention to non-financial factors that are currently underrepresented in both theory and empirical research. In fact, both meta-analyses called for a greater recognition of the process and socio-cultural dimensions of M&A, so as to explore any unrevealed factors critical for M&A success (Cartwright and Schoenberg, 2006;

Gomes et al., 2013; Stahl et al., 2013).

Following these arguments, recent research aimed at explaining M&A success or failure focus more upon the combination of the process and socio-cultural dimensions (Stahl et al., 2013). The process perspective argues that, while factors such as strategic, organisational and cultural fit determine the synergy potential, the value of M&A is created in the post-acquisition integration phase because the extent to which that synergy potential is realised depends on the ability of the acquirer to effectively manage the integration process (Haspeslagh and Jemission, 1991; Stahl et al., 2011). Therefore, the post-acquisition integration process is deemed to represent the greatest hurdle in the pursuit of M&A success (Larsson and Finkelstein, 1999 ). Accordingly, M&A researchers have more recently directed their focus upon the central part of M&A, which had been left adrift for years: the management of post-acquisition integration (Very et al., 2012; Weber and Tarba, 2013; Stahl et al., 2013). This stream of research responds to the suggestion made by King et al. (2004) and Stahl and Voigt (2004), that more organisational and socio-cultural dimensions should be involved into a process perspective, and seeks to explain M&A performance in terms of the impact that key factors have on the post-acquisition integration process. These factors include national and corporate cultural differences (Stahl and Voigt, 2008; Ahammad and Glaister, 2011; Teerikangas and Very, 2006; Sarala and Varra, 2010; Varra et al., 2012; Weber 1996; Weber et al., 2009, 2011), the levels of trust between the parties involved (Stahl et al., 2011; Stahl et al., 2012), the speed of integration (Angwin, 2004;

Homburg & Bucerius, 2005), the post M&A leadership (Kavanagh and Ashkanasy, 2006; Nemanich & Keller, 2007; Vasilaki, 2011), human resource management practices (Ahammad et al., 2012; Gomes et al., 2012; Weber and Fried, 2011; Weber et al., 2012), the integration approach (Gomes et al., 2011; Almor et al., 2009; Ellis et al., 2012; Weber et al., 2011; Weber & Tarba, 2011; Weber et al., 2012), knowledge transfer (Junni, 2011; Junni and Sarala, 2013; Sarala and Varra, 2010; Varra et al., 2012), and so on. Despite these advances, important research gaps and paradoxes remain that leave many unresolved questions – such as the roles played by culture, prior M&A experience and pre- and post-acquisition linkage – and under-researched areas – such as the roles played by power differences, integration speeds and levels of trust (Stahl et al., 2013).

### **1.2.3 The outward M&A of Chinese firms – previous work and research gaps**

The increasing number of cases of EMNEs buying firms from developed countries has added a new layer of complexity of the CBMA puzzle. EMNEs use international M&A as a springboard to acquire strategic resources and reduce the institutional and market constraints at home (Luo and Tung, 2007). However, their post-springboard and post-acquisition phase can be strewn with difficulties generated by different obstacles such as lack of international experience, managerial competence or professional expertise (Luo and Tung, 2007). In other words, their unique characteristics, as acquirers from emerging economies, exacerbate the unsolved

difficulties in managing the post-acquisition integration phase. Therefore, it is significant to explore how EMNEs manage the post-acquisition integration process to create value in their outward M&A in developed countries. The existing research has produced little, if any, systematic evidence in this area, prompting calls for more relevant research (Birkinshaw et al., 2010).

As a representative emerging economy, China has drawn global attention with many high-profile CBMA cases, especially those involving western developed countries, such as Lenovo's acquisition of IBM's PC division, Geely's acquisition of Volvo, etc. Amongst China's OFDI in 2012, outward M&A contributed USD 43.4 billion (MOFCOM, 2013). Based on the figures of 2012, China can claim to be the third largest source country in the global outward M&A league table (Statistical Bulletin of China's Outward Foreign Direct Investment, 2013). In contrast with the booming M&A activities of Chinese firms, the research on their outward M&A is still in its infancy, mostly concentrating on pre-acquisition decision-making issues, such as the motivation (Deng, 2007; Boateng et al., 2008) and underlying rationale (Deng, 2009; Rui and Yip, 2008) behind the international expansion of Chinese acquirers, as well as governmental level institutional facilitators and constraints (Luo et al., 2010; Tan and Ai, 2010; Yang, 2009; Chen and Young, 2010). In a recent study based on data collected from Chinese and Indian firms, Sun et al. (2012) developed a comparative ownership advantage framework to account for the internationalisation strategies of EMNEs in international M&A and explained their motivations, location choices, and

modes.

Recently, several studies on the outward M&A of Chinese firms have been built to catch up with mainstream M&A research, placing their focus on the post-acquisition value creation phase. By comparatively examining two cases, Deng (2010) found that the acquiring firms' absorptive capacity in multiple dimensions is an important determinant of the outward M&A performance of Chinese firms. Based upon interview data collected from acquired firms, Liu and Woywode (2013) explore the Chinese light-touch integration approach to outward M&A in Germany and identify the reasons for this approach from both the cultural influence and learning perspectives. It is not surprising that, given the limited extent of the knowledge of the post-acquisition integration process of the outward M&A of Chinese acquirers, both studies are inductive research which adopts a case study strategy based upon interview-generated primary data. These studies have taken the first step towards revealing the key determinants of the post-acquisition integration and performance of the outward M&A of Chinese firms, and have drawn strategic implications for other EMNEs. Nevertheless, both studies have a limited construct, which fails to explore the EMNEs' M&A success enigma comprehensively. On the one hand, it is vital to explore whether mainstream theories and empirical findings are also applicable to the case of Chinese acquirers and, hence, whether they can provide implications for acquirers from other emerging economies (Child and Rodrigues, 2005). On the other hand, an exploration of the key success factors of the outward M&A of Chinese

acquirers may provide implications for mainstream research, which is still incomplete in this area (Birkinshaw et al., 2010; Stahl et al., 2013). Consequently, there is an urgent need to develop theories functional to the exploration of the key factors in the management of the post-acquisition integration phase of the outward M&A of Chinese firms.

### **1.3 Research objectives and research questions**

In order to fill the research gap in relation to the post-acquisition value creation of the outward M&A of Chinese firms, the main objective of this research is to explore the key success factors in the management of the post-acquisition integration process in the outward M&A of Chinese firms in developed economies. Specifically, this main objective can be further divided into three sub-objectives. The first is to identify the key factors that can influence the post-acquisition integration process, and hence performance, of the outward M&A of Chinese acquirers. This objective will be reached by examining whether the propositions set up in accordance with the existing literature are appropriate for this research, and identifying the emerging factors drawn from a cross-case analysis. The second sub-objective is to examine how and why the key factors identified influence integration process and M&A performance of the Chinese acquirers. This objective will be achieved by a single and cross case data analysis of processes and results. The third sub-objective is to develop a model that can comprehensively explain the key success factors that influence the

post-acquisition integration process and performance of the outward M&A of Chinese firms. This model is also expected to generate implications for acquirers from other emerging economies and for mainstream M&A research, which is still waiting for the exploration of new determinants of M&A performance. This objective will be achieved in the concluding part of the discussion chapter, after the results have been presented.

In accordance with the above research sub-objectives, the research question of this study also consists of three layers:

1. What are the key factors in the management of post-acquisition integration by Chinese firms?
2. How and why do these factors impact on the post-acquisition integration process and M&A performance?
3. How does the explanation of the identified key success factors contribute to the theory building relating to post-acquisition integration in outward M&A by Chinese firms and by those from other emerging economies?

#### **1.4 Research methodology**

Given the research aims and research questions, this study adopted an inductive research approach to build theory from an underdeveloped research area. A multiple-case study method was applied and four representative cases were chosen following a replication logic; these are: the YTO Group and Mc Cormick (France); the Nanyang CIJIAN Group and Way Assauto (Italy); CITIC HIC and Gadara Censa (Spain) and the TCL Group and Thomson (France). Semi-structured interviews with senior executives from both acquiring and acquired firms were conducted as the primary source of data collection, which were triangulated by a myriad of secondary data drawn from corporate annual reports, press releases, memoirs, internal memos and other documents. Most of the data were originally in Chinese. The data were transcribed and analysed in Chinese, but presented in English. The data analysis moved from single case analysis based on propositions to cross-case analysis following a pattern matching logic. The validity and reliability of the research are built into its design and analysis process, such as the use of multiple data sources to achieve construct validity, adopting a replication logic multiple-case study design to gain external validity and applying a pattern matching data analysis logic to achieve internal validity.

## **1.5 Contributions**

This study contributes to the existing M&A literature and managerial practices in several ways. These contributions can be generally divided into three streams,



namely:

- theoretical contributions to Chinese outward M&A research;
- theoretical contributions to mainstream M&A research;
- managerial contributions.

First, this study contributes to the knowledge construct of the outward M&A of Chinese firms by exploring and explaining the key success factors in the management of the post-acquisition integration process, which is thought of as being the central part of the M&A value creation mechanism. Nine key factors were identified, and were constructed into an integrative model which can be used to explain key issues and processes in managing the post-acquisition integration of Chinese acquirers in developed economies. Not only do these efforts enrich the understanding of Chinese outward M&A by amplifying the existing research, but they also provide implications for acquirers from other emerging economies.

Second, in addition to exploring whether mainstream theories and empirical findings can also be applied to the case of Chinese acquirers, this study also draws important findings that can provide implications for mainstream research. On the one hand, this study's results contribute to the existing knowledge of M&A scholars by revealing the outward M&A of EMNEs in developed economies. This research project finds that Chinese acquirers adopt a unique integration approach to help manage their post-acquisition integration process. This integration approach is generally consistent

with, but actually different from, the researchers' current perception and understanding of EMNEs' integration strategies. Within the scope of this novel integration approach, a unique cultural integration strategy is derived that can contribute to the current understanding of the cultural differences and cultural integration in EMNEs' outward M&A. On the other hand, the final model of this study indicates that, despite the value created in the post-acquisition integration process, the examination of the determinants of M&A integration should also incorporate those pre-acquisition factors which influence the integration process by means of their impact on the formation of the integration approach. The relationships between pre- and post-acquisition factors and the integration approach have never been clearly identified. The further exploitation of these relationships benefits our current understanding of the determinants of M&A performance. Finally, some emerging factors, such as acquirer attractiveness and home country advantage, may provide implications for mainstream research to identify new determinants of M&A success.

Third, this study provides managerial contributions in several ways. Generally speaking, it identifies the key factors that potential Chinese acquirers should take into account in their post-acquisition integration process. Chinese acquirers ought to choose a suitable integration approach based on M&A motivations and specific pre-acquisition key factors, and consider post-acquisition key factors during their integration implementation process.

## 1.6 Terminology

In this study, **M&A** refers to mergers and acquisitions. Very few M&A journal articles and books give a clear definition of this term. This thesis adopts the definition provided in Peng's (2009) *Global Strategy*. **Acquisition** refers to the transfer of assets, operations and management from one firm (the acquired firm or target) to another (the acquiring firm or acquirer), the former becoming a unit of the latter. **Merger** is the combination of the assets, operations and management of two firms to establish a new legal entity. **Cross-border M&A (CBMA)** is defined as M&A which involve an acquirer and a target firm whose headquarters are located in different home countries (Shimizu et al., 2004). The terms **CBMA**, **international M&A** and **outward M&A** are also used interchangeably throughout this thesis. In reality, less than 5% of all CBMA are mergers, so that M&A basically means acquisitions (UNCTAD, 2000). Consequently, akin to most mainstream M&A literature, the terms acquisition and M&A are used interchangeably in this study (Cartwright and Schoenberg, 2006; Haleblan et al., 2009).

## 1.7 Structure of the thesis

This thesis is organised into seven chapters.

Chapter 2 develops the theoretical framework and propositions based upon the review of the relevant existing literature, so as to support the answer to the research questions and objectives outlined in Chapter 1. Specifically, this chapter reviews the main research streams in the M&A area from a multidisciplinary perspective – the assessment of M&A performance, the existing literature relating to capability transfer and M&A performance, post-acquisition integration and integration approach – and then presents a review of the key success factors in the management of the post-acquisition integration process. Based on previous relevant work, a proposed framework is built and six propositions are generated based on that integrated framework.

Chapter 3 presents the background to this research and reviews the existing literature relating to the outward M&A of Chinese firms. The background introduction starts from the economic changes that have taken place in China in recent decades and concludes with the current status of China's outward FDI and M&A. Based on archival evidence, chapter 2 presents an overall picture of China's outward M&A in the 21<sup>st</sup> century and uncovers the crucial role played by the Chinese government in orchestrating its internationalisation activities and the long term implications of the competitiveness of Chinese acquirers in the global marketplace. It ends with a critical review of the current literature on the outward M&A of Chinese firms.

Chapter 4 provides the methodology adopted for this research. It starts by identifying

the research philosophy and the inductive research approach. The research design involves selecting the multiple case study research strategy, selecting four cases from the manufacturing industry with a replication logic, building up a case study protocol, collecting the primary data by means of semi-structured interviews with senior and mid-level executives and collecting secondary data from documentation. The data analysis strategy, process and procedures are followed up. Finally, the validity and reliability of the research is justified and followed by a discussion of the author's experience in the conduct of a case study research on Chinese MNEs.

Chapter 5 covers the single case study. Each section involves an in-depth single case report, which relies on theoretical propositions. Pattern matching is selected as the data analysis technique employed to analyse the interview data. Before explaining the propositions, a brief introduction to both the acquiring and acquired firms and to the transaction is presented, followed by an analysis of the motivations and rationale behind the M&A deal to support the data analysis.

Chapter 6 provides the cross-case analysis and presents the results. The cross-case data analysis is mainly based on the propositions analysed in the single case study chapter. Nine key success factors, including three emerging factors, are identified in the cross-case analysis. The nine key success factors are divided into status and process factors. The unique integration approach adopted by Chinese acquirers is summarised based on the data analysis results. Finally, the relationship between the

integration approach and the nine key success factors is discussed and a newly developed model is introduced to explain the key factors influencing the post-acquisition integration process of the outward M&A of Chinese firms in developed economies.

Chapter 7 concludes this thesis. The discussion section relates the results of this study to the previous literature. Both the theoretical and managerial contributions and implications are presented. After suggesting future research agenda, the final conclusions are drawn.

## **Chapter 2 Literature review and theoretical framework**

### **Introduction**

This chapter will develop the theoretical foundation and propositions based on a review of the relevant existing literature to support the answers to the research questions and objectives outlined in Chapter 1.

The first section of this chapter will generally review the main research streams in the M&A field from a multidisciplinary perspective and identify the main research gaps. In the second section, based on the existing literature, the assessment criterion for M&A performance in the research will be identified. Based upon the selected performance assessment criterion, which is resource and capability transfer, the

literature regarding capability transfer and M&A performance will be reviewed in section three. Section four will review the literature on post-acquisition integration and explain the research gaps in the relevant area. The existing research in relation to the integration approach will be reviewed in section five. Section six will review the key success factors for the management of the post-acquisition integration process and build a proposed framework. Section six will set up propositions to guide the research. Section seven presents the chapter conclusions.

## **2.1 M&A as a multidiscipline area**

M&A is of great practical significance in strategic management, financial economics and social terms. As a unique source of company renewal and growth, M&A is considered to be a multi-phase, multi-level and multi-disciplinary phenomenon (Larsson and Finkelstein, 1999; Gomes et al., 2013). In the last half century, the amount of research in M&A has seen a tremendous increase in various disciplines. This section is aimed at providing the bigger picture of M&A research through multiple theoretical lenses.

There are different typologies of M&A in terms of research disciplines. In the first vital paper synthesising different theoretical perspectives, Larsson and Finkelstein (1999) argued that M&A had hitherto been studied through five theoretical lenses, i.e.: strategic management, economics, finance, organisational research, and human resource management. They built their integrative model on three of these five

theoretical lenses. Similarly, Birkinshaw et al. (2000) and Bauer and Matzler (2013) argue for four schools of thought on M&A, namely: financial economic, strategic management, organisational behaviour, and process. The former research built its conceptual framework on both organisational behaviour and process perspectives, while the latter's integrative and holistic model was developed by connecting the last three schools of M&A. Haleblian et al. (2009) reviewed M&A antecedents and moderating factors in determining different acquisition outcomes to provide a comprehensive review of the previous empirical research. They controlled the scope of their review through five disciplines, i.e.: accounting, economics, finance, management and sociology. It is worth noting that most of the multi-disciplinary research argues that the different research streams are not mutually exclusive, although they are only marginally informed by each other (Larsson and Finkelstein, 1999; Bauer and Matzler, 2013). Based on the existing literature, this study considers M&A research to have been developed through three main disciplinary lines, namely: finance and economics, strategy, and process. This reduces the complexity of the theoretical lenses of the previous typologies (Cartwright and Schoenberg, 2006; Bauer and Matzler, 2013).

According to the review of M&A literature on leading journals from 1992 to 2008 carried out by Haleblian et al. (2009), the finance field has generated the largest proportion of empirical research on M&A in that period. It is clear that the financial economic literature has represented the most prominent stream in M&A research in



the past few decades (Bauer and Matzler, 2013). Finance scholars primarily focused on whether acquisitions created value to shareholders. They typically assessed the relationship between M&A activities and firm performance through changes in shareholder value, relying on stock market-based measures (Carper, 1990; Jensen and Ruback, 1983; Datta, 1991). The event study methodology is widely used in this field by investigating the share prices of the acquiring and acquired firms in a specific time frame focused around discrete events, such as announcement dates (Brown and Warner, 1985; Aktas, et al., 2007).

Strategic management researchers have largely focused on the effects of pre-acquisition relatedness, including similarity and complementarity. They tried to find a link between the both parties' strategic attributes, or 'strategic fit', and M&A performance, concentrating in particular upon the extent to which the business of the acquired firm could be related to that of the acquiring one (Datta and Puia, 1995; Larsson and Finkelstein, 1999; Cartwright and Schoenberg, 2006; Chatterjee et al., 2009). Studies on CBMA also looked at the relationship between cultural distance, or 'cultural fit', and M&A success (Teerikangas and Very, 2006; Stahl and Voigt, 2008). Recent developments and extensions of this perspective also provided insights into M&A value creation mechanisms through the transfer of knowledge and other resources (Ahuja and Katila, 2001; Capron and Piste, 2002; Bjorkman et al. 2007).

The process school emphasises the important role played by the choice of

post-acquisition integration approach and by the acquisition integration process itself (Haspeslagh and Jemison, 1991). Scholars of the process perspective believe that, while factors such as strategic, organisational, and cultural fit determine the synergy potential of M&A, the extent to which that potential is realised depends on the ability of the acquiring firm to effectively manage the integration process. They believe that an efficient and effective post-acquisition integration phase is decisive for the success of M&A deals (Haspeslagh and Jemison, 1991; Jemison and Sitkin, 1986). While strategic scholars also argue that unsuitable decision-making during the pre-acquisition negotiation and post-acquisition integration processes can lead to inferior M&A performance, process scholars emphasise the role played by the integration process and approach. One key contribution made by the process perspective is its understanding of how different integration approaches may impact the realisation of synergy and M&A performance (Child et al., 1999; Cartwright and Schoenberg, 2006; Weber et al., 2011). In recent years, the research done in this area has been directed at the socio-cultural and human resources issues involved in the post-acquisition integration phase (Stahl et al., 2013; Gomes et al., 2012; Teerikangas and Very, 2006; Weber et al, 2009, 2011).

Despite M&A having been studied through multidisciplinary means over several decades, comprehensive literature reviews of M&A are very limited. Halebian et al. (2009) reviewed recent empirical studies of M&A by developing a framework which involved the antecedents, moderators and outcomes of M&A activities. Although their

review was based on multidisciplinary literature, the comprehensiveness of their study was limited by the constraints imposed by a narrow time frame, a limited set of journals, and the availability of quantitative empirical papers only. Being vital in exploring key success factors in the M&A process, the last point (focusing on quantitative papers only) particularly hindered the explanatory power of this review (King et al., 2004; Cartwright and Schoenberg, 2006; Stahl and Voigt, 2008). In a recent review of the critical success factors of the M&A process, Gomes et al. (2013) built a holistic explanatory framework which reflects the multidisciplinary nature of M&A. The comprehensiveness of this review was strengthened by broadening the time frame to cover two decades, and by using the Association of Business Schools' (ABS) Academic Journal Quality Guide to select the journals in which the reviewed papers had been published. In addition, this study also included some books which had had a significant impact on the M&A field, and which have received a large number of citations.

Apart from the two recent works above, the interdisciplinary reviews of the M&A literature are mostly restricted to a specific theme, such as the impact of M&A on firm performance (Tuch and O'Sullivan, 2007; Meglio, 2009), research methods adopted by previous M&A studies (Meglio and Risberg, 2010), theoretical perspectives and research findings on CBMA as a new market entry mode and diversification strategy (Shimizu et al., 2004), and how firms learn to carry out M&A (Barkema and Schijven, 2008). It is clear that a comprehensive interdisciplinary review of the M&A literature

is a vast project that bewilders M&A scholars due to the complexity and multidisciplinary nature of the M&A activity. Instead of pursuing such a challenging achievement, the aim of this section is to provide an overall picture of past research on M&A as a multidisciplinary field.

Despite M&A research having been conducted for near a half century through the development of different schools of thought, the empirical data reveals that there has been little variation in the failure rate of M&A over the time period of the research (Cartwright and Schoenberg, 2006). Cartwright and Schoenberg (2006) argue that, in some ways, M&A research remains incomplete, which is supported by the two meta-analyses conducted by King et al. (2004) and Stahl and Voigt (2004). Both argue that post-acquisition performance is moderated by variables unspecified in the existing literature and call for a greater recognition of the process and organisational dimensions of M&A (Cartwright and Schoenberg, 2006)<sup>1</sup>. Responding to this call, this thesis adopts the process perspective and explores the key factors in the management of the post-acquisition integration process. In the next section, the assessment of M&A performance will be reviewed and discussed, before reviewing the literature related to the post-acquisition integration process.

## **2.2 M&A performance assessment**

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<sup>1</sup>According to very recent literature, such incompleteness in there searches on M&A success factors still exists, especially regarding lack of process and socio-cultural understanding (e.g. Weber and Tarba, 2013; Gomes, et al., 2013; Stahl et al., 2013).

The multidisciplinary characteristics of M&A lead to there being little, if any, agreement on how to measure M&A performance, both within and across disciplines (Cartwright and Schoenberg, 2006; Tuch and O'Sullivan, 2007; Zollo and Meier, 2008; Stahl, et al., 2013). The choice of an appropriate acquisition performance assessment measure often differs between research. Finance and economics scholars use objective measurement methodologies that involve looking at stock market data and accounting figures from the short- to long-term time horizon (Datta 1991; Andrade et al., 2001). Strategic management and organisational behaviour scholars mostly use more subjective performance indicators, such as the degree of achievement of synergy, integration process efficiency, knowledge and capability transfer, and employee trust and attrition (Larsson and Finkelstein, 1999; Schoenberg, 2006; Stahl, et al., 2013).

In their defining paper that brought the M&A scholars' attention back to the performance measurement, Zollo and Meier (2008) review the empirical studies on M&A published in top management and finance journals between 1970 and 2006, and find that the largest proportion of researchers used the short-term event study method. They also found that the two most widely used subjective measurements of M&A performance were overall M&A performance (which represents synergy realisation or strategic objective realisation), and integration process performance. In recent years, it has gradually been accepted that empirical studies on M&A performance measurement need to be discriminated based upon the kind of performance that is

actually being measured (Tuch and O’Sullivan, 2007; Zollo and Meier, 2008; Meglio& Risberg, 2010; Stahl, et al., 2013). Based on the level of analysis and the time horizon, Zollo and Meier (2008) construct a theoretical framework of the conceptual linkages between different performance measurement constructs. As is shown in Table 2.1, there are three levels of analysis. The first is the task level, which examines “the degree to which the targeted level of integration between the two organisations has been achieved across all of its task dimensions in a satisfactory manner” (Zollo and Meier, 2008, p.56). The second is the transaction (acquisition) level, in which the measurement of performance is defined by the value generated by the complete transaction process. It encompasses all phases of the acquisition process and emphasises the creation of value. The third is the firm level, which focuses on the performance of the combined organisation, defined as “the variation in firm performance that occurred during the period of relevance for the execution of the business plan connected to the acquisition”(Zollo and Meier, 2008, p.59). The time horizon is categorised in short to medium term measurement, which covers the time from the completion of the deal to the initial impacts caused by the integration process, and long term measurement, which refers to the whole period of the post-acquisition implementation and the consequent creation or destruction of value. It is suggested that M&A research aimed at assessing the impact of any factor on M&A performance should specify the level of its performance analysis (Zollo and Meier, 2008; Stahl, et al., 2013)

Table 2.1 The classification of M&A performance measurement

	Time Horizon	
	Short-Term	Long-Term
Level of analysis		
Task	<ul style="list-style-type: none"> <li>● Integration process performance</li> <li>● Knowledge transfer</li> <li>● Systems conversion</li> </ul>	<ul style="list-style-type: none"> <li>● Customer retention</li> <li>● Employee retention</li> </ul>
Acquisition	<ul style="list-style-type: none"> <li>● <i>Short-term financial performance (event study)</i></li> </ul>	<ul style="list-style-type: none"> <li>● Overall acquisition performance</li> <li>● Acquisition survival</li> </ul>
Firm		<ul style="list-style-type: none"> <li>● Accounting performance</li> <li>● Long-term financial performance</li> <li>● Innovation performance</li> <li>● Variation in market share</li> </ul>

Source: Zollo and Meier (2008),p.59.

“The measurement of M&A performance should be dependent on the rationale of M&A” (King et al., 2004, p.197). Different types of M&A rationale can lead to different M&A performance constructs. Chinese acquirers widely use outward M&A to gain resources and capabilities from developed countries (Deng, 2007, 2009; Luo and Tung, 2007; Rui and Yip, 2008). Therefore, in this study, a short- to mid-term integration process performance, which primarily takes the form of resource and capability transfer, will be mainly used to assess M&A performance at the task level. Stahl et al. (2013) argue that it is necessary to consider multiple levels of analysis when measuring M&A performance, so as to understand the value creation mechanism throughout the M&A process. Zollo and Meier (2008) suggest that there is a path linking integration process performance to long-term firm performance via the

overall synergy realisation, which indicates that the resource and capability transfer could lead to the realisation of post-acquisition synergy and M&A success. Following this logic, this study will assess M&A performance at the task level (post-acquisition integration performance), acquisition level (synergy creation) and firm level (specifically the performance of the acquiring firm). In addition, according to Haspeslagh and Jemison (1991), “The heart of integration is the transfer and application of strategic capabilities” (Haspeslagh and Jemison, 1991, p.106). Therefore, in this study, the assessment of the key success factors will be based upon the criteria of whether their impact can facilitate the resource and capability transfer and whether such transfer of resources and capabilities can lead to the creation of synergy and the future positive overall performance of the combined entity. In the next section, a review of the existing literature concerning the relationship between resource and capability transfer and M&A integration will be presented.

## **2.3 Resource and capability transfer in M&A**

### **2.3.1 Process perspective of M&A– A resource-based view of value creation**

The resource-based view derives from Penrose’s paper (1959), which first raised the conceptual idea of the firm as a combination of resources and capabilities embodied in an administrative framework. After this seminal work, the resource-based view of firm was put forward by Wernerfelt (1984) and subsequently developed and



popularised by Barney (1991). Porter (1985) encourage a focus upon the importance of the competitive advantage as the basis of firm performance. The essence of the resource-based view lies in its emphasis on resources and capabilities as the genesis of a firm's competitive advantage, because resources are valuable, rare, inimitable, and non-substitutable, and heterogeneously distributed across firms (Barney, 1991; Wernerfelt, 1984; Wang and Ahamed, 2007).

Building upon the resource-based view, Haspeslagh and Jemison (1991) contribute to how M&A can create value by suggesting a process perspective of M&A, which considers that the objective of M&A is to improve the competitive position of one or both parties by transferring resources and capabilities between them. They argued that, while the pre-acquisition analysis of strategic fit and organisational fit is important, it only indicates the value creation potential of an acquisition and its anticipated implementation difficulties. The value of M&A is created after the transaction, and it is the product of managerial actions over time. Following the process perspective of value creation in M&A, this study also considers that the value of an acquisition is created after the deal, in the post-acquisition integration phase, by transferring resources and capabilities between firms.

According to Haspeslagh and Jemison (1991), the object of the process perspective is the vast majority of strategic M&A, which are intended to create value, as opposed to financial M&A, which concentrate on financial value capture and diversification.

Following this line of argument, this research also narrows down the outward M&A objectives of Chinese firms by focusing only on strategic asset seeking, while neglecting those firms that use outward M&A to seek diversification (as is the case of most financial institutions), and to meet the imperatives of the government (such as most natural resource seeking acquisitions).

The existing literature uses terms such as ‘capability transfer’ and ‘knowledge transfer’ to convey the same meaning. In this research project, the term ‘resource and capability transfer’ is used. It denotes the use of one party’s resources (capabilities) by the other one (Bjorkman et al., 2007). These resources include both tools and processes, and mainly take the form of tacit or explicit knowledge-based resources. Following the conceptual framework of Bjorkman et al. (2007), this research does not propose that the transfer of resources and capabilities entails their perfect replication in the receiving party, but that it leads to a transformation and/or exploitation of resources by the recipient, which combines them with its existing resources.

### **2.3.2 Literature review of resource and capability transfer in M&A**

The existing literature provides an insight into a number of important issues regarding capability transfer in international M&A, such as the relationship between capability transfer and M&A performance, how capability transfer contributes to the post-acquisition value creation process, how facilitators and obstructers impact

capability transfer, etc.

The prior literature built a connection between the outcome of the resource and capability transfer and M&A success and emphasised knowledge/resources as key prerequisites for the successful completion of complex M&A endeavours. Capron et al. (1998) claims that resource redeployment happens frequently between M&A parties and is related to market failure of combined entities. Moreover, Capron (1999) finds that the extent of resource redeployment and capability transfer between the acquiring and acquired units is related and significantly influences a firm's performance. In another paper, Capron and Pistre (2002) find that the transfer of resources and capabilities from the acquiring to the acquired firm is associated with abnormal returns, while the reverse transfer of resources does not create value. These studies by Capron suggest that the transfer of resources and capabilities is generally crucial for M&A performance. Zollo and Singh (2004) suggest that knowledge codification, which is crucial for a successful knowledge transfer, strongly and positively influence the performance of M&A. These empirical studies emphasise the influence of knowledge transfer on acquisition performance. In a paper regarding the M&A performance measurement, Zollo and Meier (2008) consider knowledge transfer to be one of the important task level M&A performance measurements, exerting both a direct and an indirect influence on the overall M&A performance.

Haspeslagh and Jemison (1991) claim that the value creation of M&A lies in the

transfer of knowledge and capabilities, which contributes to the improvement of the firms' competitive advantage. Their arguments emphasise the unification of the post-acquisition integration process and the value creation process of M&A. This process perspective suggests that, while static factors – such as strategic and organisational fit – determine the synergy potential of M&As, the extent to which such potential can be realised relies on how effectively firms manage the post-acquisition integration process in an effective manner. Therefore, the proponents of the process perspective argue that M&A value creation and a firm's competitive advantage are achieved through capability transfer between the combined units in the post-acquisition integration process (Haspeslagh and Jemison, 1991; Bresman et al., 1999; Larsson and Finkelstein, 1999; Empson, 2001; Ranft and Lord, 2002; Westphal and Shaw, 2005; Sarala and Vaara, 2010; Reus, 2012). For example, Ranft and Lord (2002) examine the capability transfer between and within the acquisition units and highlight the significance of both knowledge-based resources and knowledge transfer process for value creation in acquisitions. Bresman et al. (1999) identify facilitators and patterns of international knowledge transfer during the post-acquisition integration process. Similarly, Westphal and Shaw (2005) consider knowledge and capability transfer to be a key source of acquisition value creation, and developed a comprehensive model of both facilitators of and impediments to the post-acquisition knowledge transfer.

There has been a recently emerging field of research on capability transfer in M&A

that focuses on socio-cultural and human related issues. These studies focus more on the link between socio-cultural/human resource factors and post-acquisition resource and capability transfer. Bresman et al. (1999) suggest that communication, visits and meetings are important predictors of knowledge transfer in international M&A. They also argued that the knowledge transfer patterns in the post-acquisition integration process change due to the emergence of a social community in the combined entity. Moreover, Empson (2001) takes into account the important role played by individuals in the knowledge transfer process and suggest that highly personal and subjective factors, such as employee perceptions, influence the knowledge transfer in M&A. Recently, some scholars made a series of contributions to the explanation of the process and mechanism by which cultural differences and culture integration affect the knowledge transfer in international M&A. Bjorkman et al., (2007) propose that cultural differences influence post-acquisition capability transfer through their impact upon social integration, absorptive capacity, and capability complementarity. Following their framework, Sarala and Vaara (2010) empirically analyse the impact of national and organisational cultural differences and cultural integration on capability transfer in an international M&A setting. Furthermore, in another empirical study, Vaara et al. (2012) find that both the organisational and national cultural differences are positively related with knowledge and capability transfer in international M&A.

In some recent studies, scholars also find that some important characteristics of the actors in the capability transfer process, such as the absorptive capability of the

involved units, contribute to M&A performance. For example, Zaheer et al. (2010) argue that international acquisition with prior alliances perform better than those without alliance experience due to the creation of a partner specific absorptive capacity which can benefit the knowledge and capability transfer. Reus (2012) argue that the exploration and exploitation of knowledge affects M&A success while the exploration depends on the absorptive capacity of both the acquiring and acquired firms. Moreover, Junni and Sarala (2013) consider absorptive capacity to be a significant determinant of M&A knowledge transfer and empirically tested the antecedents of absorptive capacity. The influence of absorptive capacity was also explored in the context of EMNEs, or even Chinese EMNEs' outward M&As. The multiple case study of Deng (2010) suggest that the acquiring firms' absorptive capacity in multiple dimensions influences the performance of Chinese MNEs' outward M&A. Using a similar multiple case study research design, Liu and Woywode (2013) argue that the integration approach used by Chinese MNEs investing in Germany is attributed to contextual characteristics – such as the cultural influences and absorptive capacity – of the acquiring firm. However, these studies only focussed upon the impact of facilitators of capability transfer from an organisational learning perspective instead of exploring the key factors affecting the overall capability transfer process.

To sum up, the existing literature provides insights into various issues in relation to resource and capability transfer in international M&A. However, these studies are

mostly built on empirical data drawn from cases conducted by MNEs from developed economies. Recent high-profile cases of Chinese firms acquiring companies from around the world – and specifically from developed economies – attracted the interest of both practitioners and scholars and called for more research and evidence in this area (Birkinshaw et al., 2010). Despite that firms may develop resources and capabilities endogenously, seeking crucial knowledge external is quicker and less costly because the process of internal resource development is a complex and slow one (Barney, 1991). This is particularly true for firms from China and other emerging economies, which are latecomers to the global market and wish to acquire and transfer resources and capabilities across borders by means of outward M&A (Luo and Tung, 2007; Liu et al., 2010). They may use international M&A as a swift way to gain access to new knowledge unobtainable in the domestic markets, and hence broaden their resource base and decrease inertia so as to enhance their competitive advantages (Capron, 1999; Vermeulen and Barkema, 2001; Zollo and Singh, 2004; Deng, 2009). The existing research on the Chinese firms' outward M&A mainly focuses on their motivations and underlying rationales (Child and Rodrigues, 2005; Deng 2007, 2009; Hemerling et al., 2006; Rui and Yip, 2008; Wang and Boateng, 2007). To promote M&A research in China and other emerging economies, more research needs to be done to uncover the M&A performance determinants (Deng, 2010). Luo and Tung (2007) believe that post-acquisition integration is one of the biggest challenges faced by EMNEs in their international acquisitions. While some difficulties are common to all MNEs, the EMNEs' post-acquisition difficulties can be exacerbated due to their

lack of international experience and organisational expertise in handling these issues (Luo and Tung, 2007). To deal with these aspects and overcome the post-acquisition challenges, Chinese acquirers and other EMNEs have to be aware of what they need to focus on to manage the post-acquisition integration process, and plan ahead with clear objectives. Therefore, the following significant question is worth exploring: What are the key success factors that can influence Chinese firms' outward M&A to developed countries by transferring resources and capabilities in the post-acquisition integration process? This is one of the main questions that this research wishes to explore. It needs to be answered not only because of its practical importance, but also because of the theoretical significance linked to the uncovering of the value creation mechanism and variables moderating the Chinese and other EMNEs' outward M&A performance. This would fill the research gap which exists in the understanding of EMNEs' outward M&A, especially those towards developed countries (Birkinshaw et al., 2010), and may provide insights into underrepresented variables in the current theory and empirical research (King et al., 2004; Stahl and Voigt, 2008; Cartwright and Schoenberg, 2006). It is worth noting that this study only focuses on the post-acquisition integration process because this is where value is created (Haspeslagh and Jemison, 1991). The key factors influencing the pre-acquisition decision making process are not considered in this research. In the next section, the literature relating to post-acquisition integration will be critically reviewed.

#### **2.4 Post-acquisition integration**



### **2.4.1 M&A process**

To lay a foundation on the process perspective of M&A, the way in which the process aspects of acquisition are conceived of in the M&A literature needs to be considered (Gomes et al., 2013). To do so, a general review of the existing research concerning M&A phases is presented in this section.

Researchers divide the M&A process into various phases (Calipha et al., 2010). A two-phase classification, which includes a pre-and a post-M&A phase, is most commonly used (Boland, 1970; Schweger and Weber, 1992; Gomes et al., 2013). Scholars adopting a three phase method usually divide the process of M&A into the phases of pre-M&A decision making, during M&A negotiation and post-M&A integration (Shimizu et al., 2004). Some studies divide the M&A process into more than three phases. For example, Carpenter and Sanders (2007) consider four phases for a M&A activity; these are idea, justification, integration and result appraisal. Parenteau and Weston (2003) define their four stages of the M&A process as strategy planning, candidate screening, due diligence and execution, and integration. Fery et al. (1969) attach four colourful names to their classification of the M&A phases, which are the courtship, the wedding ceremony, the honeymoon, and the post-honeymoon. Moreover, Farley and Schwallie (1982) considered a six-phase process and Kazemek and Grauman (1989) divided the M&A process into seven phases. Calipha et al. (2010)

provided a general review of the M&A phases and pointed out that the effort towards integration in the post-acquisition integration phase is critical to M&A performance.

Although there are various classifications of the boundaries between the phases of the M&A process, most of them are not clearly defined (Gomes et al., 2013). This is particularly true for those dividing the M&A process into more than three phases. Even for those classifications that argue for three phases, the boundaries between each phase are not fully specified. In some cases, the sequence of these phases can be reversed (Gomes et al., 2013). For example, the negotiation between the top executives of the acquiring and acquired firms, which is normally informal, often starts even before the pre-acquisition decision-making phase. Therefore, most contemporary M&A research which adopts the process perspective identifies the boundary between the pre-acquisition and post-acquisition integration phases of the M&A process with the official announcement date regulated by law. Although there are always some marginal efforts to attempt to overcome and blur the distinction between these two phases in practice, the fact remains that, if ownership is not achieved, post-acquisition integration cannot really take place in earnest (Gomes et al., 2013).

Therefore, this study follows the trend of mainstream research on M&A integration and divides the acquisition process into two phases separated by the transaction completion date. The research question and research objective of this thesis focus on

the acquisition integration process, which lies in the post M&A phase.

#### **2.4.2 The post-acquisition integration process**

M&A can only create value after the completion of the transaction, which means during the post-acquisition integration process (Haspeslagh and Jemison, 1991; Cartwright and Schoenberg, 2006; Weber et al., 2009). A myriad of research and practical experiences repeatedly inform us that it is the post-acquisition integration process that represents the greatest hurdle to achieving synergies, creating value and attaining M&A success (Shrivastava, 1986; Larsson and Finkelstein, 1999; Almor et al., 2009; Ellis et al., 2009; Ellis et al., 2012; Puranam et al., 2003, 2006, 2009; Very et al., 2012). The post-acquisition integration process is fraught with difficulties, which can mainly be seen as consisting of two parts: one involves achieving the successful resource and capability transfer itself; the other concerns the creation of an atmosphere or of an organisational climate that can support the transfer of resources and capabilities (Haspeslagh and Jemison, 1991). Both domestic and cross-border M&A often lead to an integration process that is more problematic than expected during the pre-acquisition process (Varra, 2003; Bjorkman et al., 2007). Despite there being a growing research interest in post-acquisition integration over the past decade (Ranft, 2006; Angwin, 2004; Homburg and Bucerius, 2006; Zollo and Singh, 2004; Puranam et al. 2006; Puranam and Srikanth 2007), the empirical findings on the relationship between post-acquisition integration and M&A performance are still

inconclusive (King et al., 2004; Almor et al., 2009).

#### **2.4.2.1 Definitions of the post-acquisition integration process**

Post-acquisition integration is generally acknowledged as the process of structurally and socio-culturally combining the acquiring and acquired firms (Haspeslagh and Jemison, 1991; Birkinshaw et al., 2000; Weber et al., 2011; Colman and Grogard, 2013). Few studies have attempted to directly define the term ‘integration’ (Schweiger and Goulet, 2000; Weber et al., 2009), although most M&A scholars believe that the integration process involves combining both the assets and personnel of two organisations (Weber et al., 2009; Viegas-Pires, 2013). Haspeslagh and Jemison (1991) define integration as “an interactive and gradual process in which individuals from two organisations learn to work together and cooperate in the transfer of strategic capabilities” (Haspeslagh and Jemison, 1991, p.106). Their definition has primarily outlined the conceptual idea that integration is a process that involves both human interaction and the transfer of assets.

Birkinshaw, Bresman, and Hakanson (2000) propose a conceptual framework that combines both the process and organisational behaviour perspectives of M&A, arguing that the former is concerned with value creation through the transfer of resources and capabilities while the latter focuses on the employee satisfaction and shared identity of the combined entity. They thus suggest that the post-acquisition

integration process consists of two distinct and intertwined processes called ‘task integration’ and ‘human integration’. Birkinshaw et al. (2000) defined task integration as the ‘identification and realisation of operational synergies’, and human integration as ‘the creation of positive attitudes towards the integration among employees on both sides’ (Birkinshaw et al., 2000, p. 400). They suggested that an effective integration is a function of the two parallel processes of both task and human integration, which are not independent of one another. For example, the improvement of employee satisfaction may facilitate the transfer of resources and capabilities. Correspondingly, a well implemented task integration may foster a shared identity and bring about employee satisfaction.

Before this seminal paper, Bresman, Birkinshaw and Nobel (1999) had already put forward the importance of both task integration and human integration in their Journal of International Business Studies (JIBS) Decade Award Winning paper by identifying the impact of achieving a socio community in the combined organisation on the knowledge transfer of CBMA. After these studies, the consensus among M&A scholars has been that post-acquisition integration has two different dimensions (Viegas-Pires, 2013). However, the terms used were not unified. ‘Human integration’ (Birkinshaw et al., 2000), ‘Social integration’ (Bjorkman et al., 2007), and ‘Socio-cultural integration’ (Stahl and Voigt, 2008; Stahl et al., 2011; Weber and Tarba, 2013) are used to describe similar concepts, while ‘Task integration’ (Birkinshaw et al., 2000), ‘Operational integration’ (Bjorkman et al., 2007), and ‘Structural integration’

(Puranam et al., 2006; Paruchuri et al., 2006; Puranam and Srikanth, 2007; Puranam et al., 2009) are labels used for the same idea. For example, Bjorkman et al. (2007) define social integration as ‘the creation of a shared identity, the establishment of trusting relationships and the absence of divisive conflicts between the members of the combining organisations’ (Bjorkman et al., 2007, p.662). The corresponding term they used is ‘operational integration’. Moreover, they also refer to social integration as informal integration, and consider operational integration as formal integration. Similarly, Stahl et al. (2011) define socio-cultural integration as ‘creating positive attitudes toward the new organization, developing a sense of shared identity and compatible values, and gaining commitment and motivation from acquired personnel’ (Stahl et al., 2011, p. 583). In another vein, structural integration is defined as ‘the combination of formerly distinct organizational units into the same organisational unit following an acquisition’ (Puranam et al., 2009, p.313), which is basically the same as the meaning of task integration and operational integration.

Despite that the definitions above are rather loosely used in the literature (Weber et al., 2009), both concepts are believed as the main element of post-acquisition integration. M&A researchers suggest that integration on both dimensions are needed for a successful integration (Birkinshaw et al., 2000; Bjorkman et al., 2007), although practitioners may focus on either side. In this research, the term “socio-cultural integration” and “operational integration” are used to describe the two parallel processes of post-acquisition integration.

#### **2.4.2.2 Socio-cultural integration and M&A performance**

Socio-cultural integration refers to the combining of groups of people with a shared culture, identity, and compatible values toward the newly formed organisation (Birkinshaw et al., 2000; Shrivastava, 1986; Colman and Groggaard, 2013). It represents an important dimension of acquisition success from an organisational and human resources perspective (Bjorkman et al., 2007; Stahl et al., 2011). In addition to those studies that have focussed broadly on the process of socio-cultural integration (Birkinshaw et al., 2000; Bjorkman et al., 2007), extensive research, especially in recent years, have sought to explain and understand M&A performance based upon the impact of socio-cultural factors. Such a stream of socio-cultural integration research in M&A has sought to explain the performance and under-performance of M&A in terms of the impact of different socio-cultural determinants on the post-acquisition integration process and M&A performance (Stahl et al., 2013). These variables include cultural fit and cultural differences at both the national and corporate levels (Chatterjee et al., 1992; Weber et al., 1996; Weber and Tarba, 2012; Weber et al., 2009; Weber et al., 2011; Reus and Lamont, 2009; Stahl and Voigt, 2008), trust between the acquiring and acquired firms (Stahl and Sitkin, 2010; Stahl et al., 2011; Stahl et al., 2012), human resource management practices (Weber et al., 2011; Weber and Tarba, 2010; Weber and Fried, 2011a, 2011b; Gomes et al., 2012), post M&A leadership (Kavanagh and Ashkanasy, 2006; Nemanich & Keller, 2007; Vasilaki, 2011;

Angwin and Meadows, 2009; Karaevli, 2007), integration speed (Angwin, 2004; Ellis et al., 2009; Ellis et al., 2012), implementation of the post-acquisition integration process (Almor et al., 2009; Weber et al., 2011; Weber and Tarba, 2011; Weber et al., 2012), and knowledge transfer (Junni and Sarala, 2011, 2013; Sarala and Varra, 2010; Varra, et al., 2012).

Despite the recent huge advances in M&A research focusing on socio-cultural issues, important research gaps and paradoxes remain (Weber and Tarba, 2013). Areas such as the roles of power differences, speed, sensemaking and sensegiving processes, and trust remain to be explored further and studied more thoroughly (Stahl et al., 2013). In addition, and more importantly, there may be other underrepresented socio-cultural factors in both the existing theory and empirical research (King et al., 2004; Stahl et al., 2013). Therefore, the factors influencing the socio-cultural integration process require further exploration.

#### **2.4.2.3 Operational integration and M&A performance**

Operational integration refers to formal integration activities aiming at facilitating the effective functioning of the operations of the combined organisation. It is the process of transferring and sharing resources and capabilities that can create value from the M&A (Colman and Groggaard, 2013). The central issue of operational integration are the corresponding managerial decisions made in the post-acquisition phase of the



transaction (Zollo and Singh, 2004). Such decisions are primarily related to the level of integration (or degree of integration). Following previous works (Zollo and Singh, 2004), this study defines the level, or degree, of integration as the extent to which the operational functions of the acquired firms are linked to, aligned with, or centralised in the equivalent functions of the acquiring firms.

The existing empirical literature provides support for the key role played by the level of integration in the acquisition integration process and performance. Pablo (1994) examined how the different characteristics of acquisitions influence decisions relating to the level of integration. In Shanley's (1994) framework regarding the integration process, the organisational structure of the acquired firm changes once the transaction is closed. He finds that the level of such integration activity positively affects M&A performance. Capron (1999) has found that the extent of resource redeployment and knowledge transfer between two firms are significantly related, which suggests that a certain degree of integration is necessary for a successful M&A. In some recent studies published on *Strategic Management Journal*, the level of integration is also proven to be crucial for M&A performance. Using a framework built on knowledge-based view, Zollo and Singh (2004) suggest that an increasing level of post-acquisition integration strengthens the positive effect of knowledge codification, and significantly enhances M&A performance. Bauer and Matzler (2013) develop a comprehensive model of M&A success and argue that the degree of integration is a key variable for the M&A performance function.

It is worth noting that, having realised that a successful M&A integration process includes both operational and socio-cultural integration processes (Birkinshaw et al., 2000), recent studies on the degree of integration have not merely focussed on this factor (Larsson and Finkelstein, 1999; Zollo and Singh, 2004; Bauer and Matziler, 2013). Contemporary M&A researchers usually use the term “integration approach” to indicate how firms manage the post-acquisition integration process by integrating both operational and socio-cultural dimensions (Gomes et al., 2013). Different integration approaches are adopted to balance the degree of operational and socio-cultural integration in post-acquisition integration processes.

Some M&A scholars, such as Gomes et al. (2013), simply consider the integration approach as a key success factor in managing the post-acquisition integration process. However, such viewpoint may underestimate the complexity of the integration approach and its relationship with the other key factors influencing the post-acquisition integration process through their impact on either operational integration or socio-cultural integration. In fact, the integration approach may be determined by an aggregate of key success factors instead of a single factor by itself. For example, in a recent study on the trust dynamics in acquisitions, Stahl et al. (2011) consider integration approach to be the aggregate of all process variables, such as preservation of autonomy, multiculturalism, integration speed and communication quality. Therefore, this study will not consider the integration approach as a single

factor in the framework of key success factors. In section 2.5, a critical review of the literature on the integration approach will be presented, followed by the literature review of other key success factors for the management of post-acquisition integration and corresponding propositions in section 2.6.

## **2.5 Managing the post-acquisition integration process – the integration approach**

There is no clear unified definition given for the term ‘integration approach’. In fact, a considerable number of researchers use the terms ‘integration approach’, ‘integration mode’, and ‘integration strategy’ to convey a similar meaning. This study considers integration approach and integration strategy as two distinct concepts<sup>2</sup>. Their distinction can be expressed by Gomes et al.’s (2013) explanation: “The integration approach therefore seems to matter, but as M&A are undertaken within different contexts and for different reasons, integration strategies need to reflect these differences” (Gomes et al., 2013, p. 22).

A variety of frameworks and typologies of integration approaches have been developed in the past decades (Howell, 1970; Nahavandi and Malekzadeh, 1988; Haspeslagh and Jemison, 1991; Schweiger et al., 1993; Weber et al., 2009; Gomes et al., 2011). The early research on the integration approach only focussed on the extent to which firms integrated their operational functions. For example, Howell (1970)

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<sup>2</sup>In this research, integration mode is the same concept as integration approach.

suggested three integration approaches based on the different synergy potential of different business operational functions. Later work added more socio-cultural issues, such as the culture fit, into the understanding of the integration approach (Gomes et al., 2013). These two streams of thought were then merged together and argued that the term ‘integration approach’ indicated joint operational and socio-cultural integration (Birkinshaw et al., 2000; Larsson and Finkelstein, 1999; Zollo and Singh, 2004).

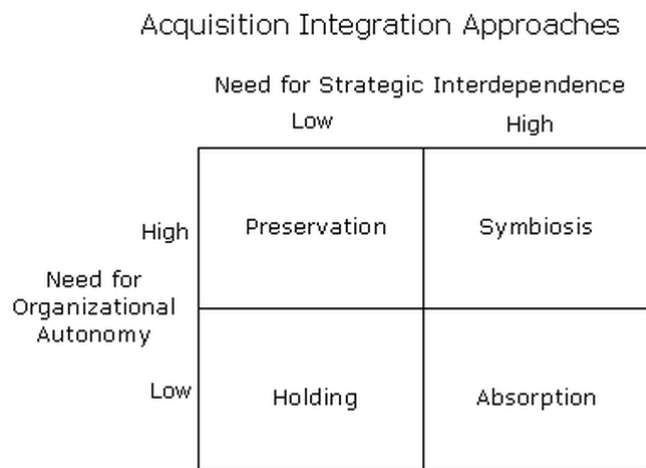


Figure 2.1 Acquisition integration approach types by Haspeslagh and Jemison (1991).

*Source: Haspeslagh and Jemison (1991), p. 145.*

The most famous and widely cited post-acquisition integration framework is Haspeslagh and Jemison’s (1991) four integration approaches, namely Absorption, Symbiotic, Preservation and Holding. This four-type structure was arrived at by considering two dimensions of M&A. The first dimension – the strategic interdependence need – refers to the nature of the interdependence that needs to be established between acquiring and acquired firms to bring about the expected type of

strategic resource and capability transfer. In other words, it is concerned with whether the realisation of potential synergy is the strategic goal of the combined firm or not. The second dimension – organisational autonomy need – relates to the need to preserve the integrity of the acquired strategic resources and capabilities after the transaction. Haspeslagh and Jemison (1991) claim that distinctive needs for strategic interdependence and organisational autonomy can help to suggest specific approaches to be adopted by firms to integrate. Figure 2.1 shows the four acquisition integration approach types and their relationships with the strategic interdependence and organisational autonomy needs.

Haspeslagh and Jemison's (1991) framework has received some empirical support from contemporary M&A scholars (Angwin and Meadows, 2009; Gomes et al., 2013). However, these approaches present shortcomings in relation to socio-cultural integration. For example, they fail to consider the effect of cultural differences at both the national and corporate levels (Weber et al., 2011), which is considered crucial for the success of M&A, and CBMA in particular (Teerikangas and Very, 2006; Stahl and Voigt, 2008). Recent studies have revisited this essential topic and added new elements to the integration approach framework of Haspeslagh and Jemison (1991), such as cultural dimension, synergy potential, cultural differences, etc. (Gomes et al., 2011; Almor et al., 2009; Angwin and Meadows, 2009; Weber et al., 2009). A very recent research on the outward M&A of Chinese firms' towards Germany integrates synergy potential, cultural influences and learning perspective (Liu and Woywode,

2013). They suggest a unique integration approach supported by empirical evidence in the context of Chinese M&A in Germany called light-touch integration. This light-touch approach combines the preservation and symbiotic approaches and is determined by the synergy potential between China and Germany, cultural influences at both the national and organisational levels and the joint learning perspective.

Contemporary M&A scholars believe that post-acquisition management is central to M&A performance (Very et al., 2012; Dagnino and Pisano, 2008). The term integration approach is used to indicate how firms manage the post-acquisition integration process by integrating both operational and socio-cultural dimensions (Gomes et al., 2013). The main objective and key challenge for the management of post-acquisition integration is to strike the right balance between achieving the adequate level of operational integration and minimising disruption to the acquired firms' resources and capabilities (Zollo and Singh, 2004). In other words, managing the post-acquisition integration process means managing both operational and socio-cultural integration at the same time. However, this balance is hard to achieve (Weber et al., 2011; Gomes et al., 2013). In order to achieve an effective post-acquisition integration, the senior management of the acquiring firm needs to intervene, to a certain extent, in the decision-making process of the acquired firm and impose on it rules, standards and routines. A high level of integration and its subsequent interventions may ultimately lead to a loss of autonomy of the acquired firm and affect the commitment and cooperation of the senior management of the

acquired firm with that of the acquiring one (Weber et al., 2011). Consequently, such a loss of autonomy may result in the disruption of the pre-existing resources and routines of both firms and lead to a decline in the performance of the combined entity (Zollo and Singh, 2004; Chatterjee et al., 1992; Very et al., 1997 ). This highlights a dilemma in the post-acquisition integration process: that the degree of operational integration needed to achieve synergies may ultimately result in the destruction of socio-cultural integration by the disruption of the routines, resources and capabilities of both firms, especially those of the acquired one (Puranam et al, 2003, 2006, 2009; Puranam and Srikanth, 2007; Weber et al., 2011; Gomes et al., 2013).

This dilemma is particularly salient in M&A aimed at strategic asset transfer, such as the Chinese manufacturing firms' outward M&A towards developed economies. These acquisitions are usually partially motivated by the need to gain tacit knowledge-based resources, which are embedded and socially complex (Ranft and Lord, 2002; Ranft, 2006; Bjorkman et al., 2007). Close interaction, and thus a high level of integration, would normally be required to transfer these resources and fully realise the potential synergy of the acquisition. However, the extent of integration required may ultimately lead to the destruction of the acquired firm's knowledge-based resources through the disruption of routines, dissolution of social ties and turnover of employees (Gomes et al., 2013).

Therefore, the balance between operational and socio-cultural integration is hard to

strike due to the trade-off between the levels of integration: A high level of integration may cause socio-cultural problems that could destroy the value of the acquired firm and increase costs to an extent that could offset the M&A value (Weber et al., 2011). For example, Lubatkin et al. (1999) found that the level of integration is positively related to the top management turnover of the acquired firm; the loss of these senior executives would finally result in a lower M&A performance. Such a relationship between operational and socio-cultural integration explains the difficulty linked to the management of the post-acquisition integration process, and gives rise to the popularity of contingency approaches to post-acquisition integration that offer various of potential integration approaches and different synergy outcomes that can moderate the effects of the peculiarities of each case (Bjorkman et al., 2007; Gomes et al., 2013). The instances of firms from emerging economies buying firms from developed ones draw the attention of both scholars and practitioners, and call for more systematic theories and evidence in this area (Birkinshaw et al., 2010). The particular existing resources, strategic positions and institutional environments of Chinese firms may lead to distinct integration approaches compared with Haspeslagh and Jemison's (1991) mainstream typologies.

Bjorkman et al. (2007) suggest that an integration approach consists of two elements: design and execution. The execution of a well-designed post-acquisition integration process which will enhance a firm's ability to acquire and assimilate new resources and capabilities while, at the same time, minimising interpersonal and intercultural



friction, is critical to achieving synergies and pursuing M&A success (Birkinshaw et al., 2000; Schweiger and Very, 2003, Bjorkman et al, 2007). Weber et al. (2011) has provided empirical support based on a large sample data on Israel's M&A in the high-tech industry and revealed a significant difference in the extent of the fit between the post-acquisition integration approaches that have been implemented and those that should be used by acquiring firms according to Haspeslagh and Jemison's (1991) integration approach model (Weber and Tarba, 2013). Similarly, in their research which adds national cultural dimensions, cultural differences and synergy potential to Haspeslagh and Jemison's (1991) model, Weber et al. (2009, 2011) suggest that the acquiring firms' failure to adopt and apply the 'right' integration approach required in each particular case can explain their dismal M&A performance. Therefore, to provide guidance for future participants, it is essential to explore the 'right' integration approach to be adopted by Chinese firms' in their outward M&A towards developed countries.

In recent years, the significant role played by the integration approach in the success of the post-acquisition integration process and M&A performance received further emphasis by M&A scholars (Almor et al., 2009; Angwin and Meadows, 2009; Weber et al., 2009, 2011), despite most of these works being still based on the seminal integration approach typology developed by Haspeslagh and Jemison (1991). There is also a very recent paper by Liu and Woywode (2013) which concentrates on the integration approach of Chinese firms' outward M&A to Germany. Following the

advice of Haspeslagh and Jemison (1991), these studies are all based upon contingency approaches. As was stated in the previous section, this study will consider integration approach to be a combination of the key success factors for the management of the post-acquisition integration process, as opposed to a key factor by itself. Therefore, after identifying the key success factors, this study will also explore the characteristics of the Chinese firms' integration approach and its relationship with the other key success factors in the management of the post-acquisition integration process. In the next section, a review of the key success factors in the post-acquisition integration process will be presented and discussed, followed by the propositions of this research.

## **2.6 Managing the post-acquisition integration process – the key success factors**

Historically, M&A scholars have dealt with key success factors separately, either in terms of pre-acquisition factors, which are normally emphasised by strategic researchers, or of post-acquisition factors, which are mostly focused upon by the supporters of process perspective (Weber, 2011; Gomes et al., 2013). Researchers have been looking for an explanation for M&A performance for decades. The disappointing results from their original focus on pre-acquisition variables led them to focus on the previously ignored post-acquisition integration phase, which is also the phase in which value is created (Haspeslagh & Jemison, 1991; Gomes et al., 2013). Although a number of antecedents that appear to determine post M&A performance

have indeed been uncovered, most studies have focused only on a single factor, or on a cluster of related factors, and have followed different theoretical frameworks (Haleblian et al., 2009).

### **2.6.1 Comprehensive research on key success factors**

In order to explore a pluralistic and holistic framework for the key success factors in the management of the post-acquisition integration process, it would be helpful to build a proposed framework upon which research propositions can be set up for the purpose of this study (Siebers, 2011). In addition to empirical research focusing on a single factor, or a single aspect of operational or socio-cultural integration, some M&A scholars do try to provide a holistic view of the key success factors in the post-acquisition integration process through a more comprehensive framework or literature review. To help construct the proposed framework for this research project, these studies are reviewed in this section.

In a recent study, Calipha et al. (2010) present a review of the literature on M&A, including those success factors which focus upon organizational and managerial issues, including criteria of selection, culture, size differences, diversification type/degree, strategic motive, etc. Despite most of the examined factors being in the pre-acquisition phases, post-acquisition success factors are also included, such as human resource management, operating managers and key staff, cultural integration

and avoidance of misunderstanding. Although the authors realised that their review was not comprehensive, and that some factors may still have faced the problem of lacking support, they still attempted to present a variety of literature representing both academic journals and some important practitioner-oriented books and articles (Calipha et al., 2010).

In relation to considering the findings of M&A practitioners, Pautler's work (2003) seems to more closely link industry with academia. Pautler (2003) reviewed past business consulting literatures, which more narrowly concentrated on the M&A success problem, and identified some of the factors that business consultants consider to be key to leading mergers to success. His review also involved both the initial stage factors and those affecting post-acquisition integration. Moreover, he pointed out that integration and implementation should be more highly emphasised than should the initial aim setting. Cultural influences, integration planning, communication, manager incentives, retaining key staff, etc., were all considered to be key success factors based on the business consulting literature since the 1990s.

In addition to the above two studies, which review the previous literature and synthesise the key success factors in the post-acquisition phase, Quah and Young (2005) designed their conceptual framework based upon the interactions of key success factors drawn from the strategic management and organizational behaviour literature, and suggest a phased approach to the exploration of the post-acquisition

management problem. These factors are the level of integration, timing of changes, post-acquisition changes, cultural influences, and employee behaviour. Drawing upon the post-acquisition management of four European M&A, they argued that a better post-acquisition management could be achieved if the integration phase was divided into stages, each with its defined objectives and actions.

Similarly, Dagnino and Pisano (2008) focus on the human side of the integration phase between the acquiring and the acquired firms and build an analytical framework that reveals the main features of the success of M&A deals. They propose the coexistence of a set of distinctive factors, which are: the capability to obtain the full commitment of the integration teams; a leader whose personality is able to guide the changes in the acquiring firm's desired direction; the networking capabilities to enhance or reduce the permeability of the two firms boundaries; the communication skills and relational capabilities necessary to facilitate the interface activity between those individuals who are critical to the integration phase and the knowledge of (and the access to) the power centres necessary to obtain the legitimacy indispensable to all roles and actions.

The existing body of knowledge on M&A research had been fragmented until Gomes et al. (2013) present a comprehensive literature review which synthesise the key success factors in both the pre- and post-acquisition phases by considering different perspectives on M&A. After a critical review of the relevant literature present in

leading journals and key books, they consider their research to be the first work to articulate the connections between the key success factors within the pre-acquisition and post-acquisition M&A stages. By comprehensively reviewing the key factors promoted by different disciplines concerned with M&A, this paper highlights the importance of the M&A process and proposes that connecting the key success factors in both the pre- and post-acquisition phases could better explain the M&A performance conundrum. With respect to the key success factors associated with the post-acquisition integration phase, Gomes et al. (2013) identified and discussed seven factors, which are: the different integration strategies, the post-acquisition leadership, the speed of the integration implementation, the post-acquisition integration team, communication, human resource management practices and the management of national and corporate cultural differences. Table 2.2 presents a summary of the key success factors in the post-acquisition integration phase resulting from the above comprehensive research.

Albeit being still quite deficient and fragmented and not devoid of drawbacks, these studies show the efforts that have been made to synthesise the key success factors for the management of the post-acquisition integration of M&A (Haleblian et al., 2009; Gomes et al., 2013). For example, Calipha et al.'s (2010) work is just a synthesis of the existing research which contains factors that "are generally associated with M&A success" (Calipha et al., 2010, p. 1) and its aim was just 'to present'. Moreover, some of the key factors they presented were only supported by a single piece of literature,

which somewhat results in a lack of persuasiveness. Quah and Young's (2005) theoretical framework of the key factors influencing the post-acquisition management phase seems to lack comprehensiveness. It served their main argument that the subdivision of the post-acquisition management process into several phases, each with defined objectives and actions, could improve the chances of M&A success. Dagnino and Pisano's (2008) factors are specifically drawn from the socio-cultural perspective of the integration process. Pautler's (2003) synthesis covers both the pre- and post-merger phases, but it is merely drawn from the consulting literature, which somewhat limits its comprehensiveness.

Compared with previous relevant works, Gomes et al.'s (2013) research appears to be the most comprehensive so far, although its review of the issues of integration strategy suffers from a degree of confusion as it does not clearly define and distinguish the concepts of integration strategy, integration approach, and level of integration. Therefore, the proposed framework for this research will be mainly based upon the framework of Gomes et al. (2013), with some adjustments made according to other research in relation to the key success factors in the management of the post-acquisition integration process.

Table 2.2 Summary of the success factors in the post-acquisition phase identified in the research discussed above

<b>Calipha, Tarba, and Brock (2010)</b>	<b>Pautler (2003)</b>	<b>Quah and Young (2005)</b>	<b>Dagnino and Pisano (2008)</b>	<b>Gomes, Angwin, Weber, and Tarba (2013)</b>
1.Human resource management	1.Early planning of the integration process	1.Integration level	1.Obtaining the full commitment of the integration teams	1.Different integration strategies
2.Operating managers and key staff	2.Communication	2.Post-acquisition changes	2.A leader whose personality is able to guide the changes in the acquiring firm's desired direction	2.Post-acquisition leadership
3.Cultural integration	3.Manager identification and incentives	3.Timing of changes	3.The networking capabilities to enhance or reduce the permeability of the two firms' boundaries	3.Speed of integration implementation
4.Avoidance of misunderstandings	4.Timing	4.Cultural influences	4.Communication skills to facilitate interface activity	4.Post-acquisition integration team
	5.Cultural sensitivity	5.Employee behaviour in the acquired firm	5.The knowledge of the power centres necessary to obtain the legitimacy indispensable for all roles and actions	5.Communication
	6.Retention of key staff			6.Human resource management practices
	7.Integration of systems			7.Management of national and corporate cultural differences

### 2.6.2 A proposed framework for the key success factors in the management of the post-acquisition integration process



According to the above analysis, Gomes et al.'s (2013) framework, which is based on the process perspective, represents the best synthesis to date of the key success factors in the management of the post-acquisition integration process. Therefore, the framework for this study will be built mainly upon this framework so as to support the research aim. In addition, the factors adopted from the frameworks of the other research discussed above will also be taken into consideration to fine tune the proposed framework for this study. For example, as mentioned in the last section, the integration approach (aka the integration strategy) is considered to be a combination of key factors that will not be listed in the framework. Accordingly, the level of integration, which is the main component of the integration approach, will be included as a key factor. Moreover, the post-acquisition leadership, the post-acquisition integration team, and human resource management practices will be synthesised into a single factor – namely, human resource related problems – so as to increase the exploration potential of the proposition by reducing the number of detailed terms.

However, the framework of Gomes et al. (2013) also has its drawbacks and needs to be adjusted by the addition of extra dimensions. As explained in section 2.5.1, Gomes et al. (2013) subdivided the M&A process into pre-and post-acquisition phases, which is the same as this research. It is worth noting that their 'post-acquisition key success factors' refer to key factors in the post-acquisition **phase** (the time period) whereas, according to the process perspective (Haspeslagh and Jemison, 1991), it is the

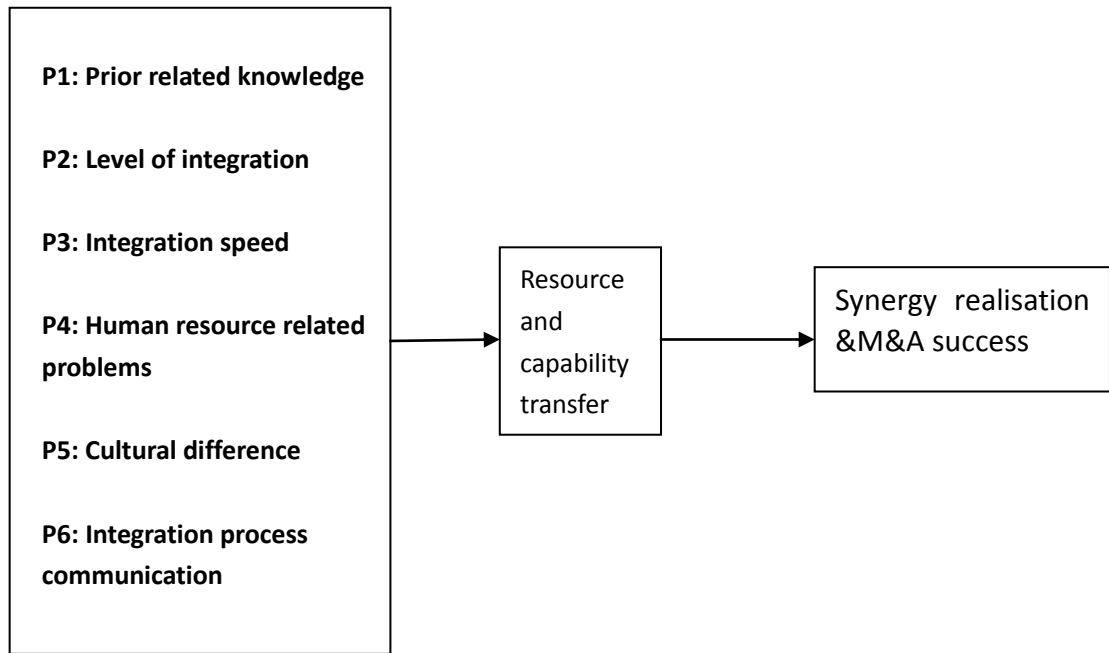
post-acquisition integration **process** that creates value. This implies that researchers should concentrate on all those key success factors that **affect** the process of the management of post-acquisition integration, as opposed to just the key factors that **exist** during the integration process, which can be called ‘process factors’(Stahl et al., 2011). The former can also include ‘status factors’ which exist **before** the M&A deal but also affect the post-acquisition integration process, such as those related to the strategic fit and organisational fit of both parties. Combining status factors into this framework is a big advance on the existing understanding of the key success factors in the management of the post-acquisition integration process. This is also in line with Gomes et al.’s (2013) primary future research suggestion, which was to reveal pre-and post-acquisition connections for the unravelling of the M&A performance riddle.

By including both status and process factors, the framework is built on the combination of the process, organisational behaviour and strategic management schools. In fact, a few recent studies have shown that linking the pre- and post-acquisition stages may yield a better M&A performance (Weber et al., 2011; Weber and Tarba, 2011; Weber et al., 2012). These studies suggest that, if the national and corporate cultural differences are acknowledged by the acquiring firms before the M&A deal, and are taken into account in the choice of integration approach in the post-acquisition phase, the performance of M&A will be superior to those transactions that failed to consider pre-acquisition factors for post acquisition decisions (Weber and Tarba, 2013). Research on the Chinese firms’ outward M&A has also provided

insights into this issue. From an organisational learning perspective, Deng (2010) argue that the Chinese firms' outward M&A are determined by the absorptive capability of the acquiring firm in terms of the effect of its antecedents, which are: the prior related knowledge, combinatory capabilities and implementation of strategy. Among these three antecedents, the prior related knowledge of the acquiring firm is considered to be a status factor of the pre-acquisition phase. Building upon the studies of both Deng (2010), and Weber and his colleagues in recent years, Liu and Woywode (2013) argue that the integration approach of the Chinese firms' outward M&A to Germany is determined by both national and corporate cultural differences and by the weak absorptive capacity of the acquiring firms.

Drawing from the frontier research, this study also includes two pre-acquisition status factors – cultural differences and prior related knowledge – into the proposed framework. A proposed integrative framework is developed to explain the key success factors in the management of the post-acquisition integration process, as shown in Figure 2.2. The research propositions are then set up based on this integrated framework. In the next section, six propositions will be formulated on the basis of the review of the existing literature.

Figure 2.2 The proposed integrative framework (Proposed key success factors to be set up in propositions)



## 2.7 Propositions

In this section, six propositions are formulated based on the framework shown in Figure 2.2. In addition to reviewing the relevant empirical literature, the factors to be explained in the propositions make particular reference to the research context of the Chinese firms' outward M&A to developed countries.

### 2.7.1 Prior related knowledge

The prior related knowledge is often considered to be the main antecedent of the acquiring firm's absorptive capacity. According to Cohen and Levinthal (1990), a firm's absorptive capacity is mainly a "function of the firm's level of prior related knowledge" (p. 128). Although some research argues for a broader conceptualisation

of absorptive capacity, many studies in the related literature consider it to be on an equal standing with a firm's prior related knowledge or R&D spending (Jussi & Sarala, 2013). Minbaeva et al. (2003) and Minbaeva (2007) argue that absorptive capacity includes both prior knowledge and the motivation of the organisational members, which affects the intensity of their effort to absorb knowledge from the partner. This argument is in line with Cohen and Levinthal's (1990) concept of absorptive capacity depending on the intensity of effort. Following this argument, Bjorkman et al. (2007) also define potential absorptive capacity as a combination of both motivation and ability on the receiving party to acquire capabilities from the other party. Considering that the main strategic intent of most Chinese acquirers is acquiring resources and capabilities from the acquired firm, the motivation for seeking and assimilating knowledge from the acquired firm could hardly be lacking. Therefore, the prior related knowledge of the acquiring firm is naturally the main determinant of its absorptive capacity.

A firm's prior related knowledge has been identified as the knowledge base of the firm (Lane et al., 2001). "Accumulated prior knowledge increase both the ability to put new knowledge into memory...and the ability to recall and use it"(Cohen and Levinthal, 1990, p.129). Firms need a certain level of prior related knowledge to understand, absorb and develop external technologies (Cohen and Levinthal, 1990). In the context of M&A, and CBMA in particular, the extent of the prior related knowledge of the acquiring firms may determine the magnitude of the M&A effect on

knowledge acquisition (Deng, 2010). The acquiring firms need to possess and develop knowledge related to the target firms to understand their culture at both the national and corporate levels in order to foster the acquisition of knowledge (Vermeulen and Barkema, 2001). In addition, a high level of prior related knowledge can also help the acquiring firms to assimilate and integrate new knowledge from the acquired ones. Moreover, those acquiring firms with a solid prior related knowledge base are more likely to innovate based upon the knowledge and other resources acquired from their partners (Deng, 2010).

Only a few research has provided insights into the prior related knowledge as a determinant of a firm's absorptive capacity in the context of M&A (Junni and Sarala, 2013). Based on a longitudinal quantitative study, Ahuja and Katila (2001) uncovered a positive relationship between a firm's existing knowledge base and its subsequent innovation output. Bjorkman et al. (2007) proposed that both firms' absorptive capacity, which are determined mainly by the prior related knowledge and motivation of the receiving party, play a mediating role between cultural differences and capability transfer in CBMA. Their paper is a framework building article devoid of empirical data to be applied to their propositions. A recent paper on Chinese firms' CBMA also contributes to our understanding of prior related knowledge as a key success factor in M&A performance. Building on a two-case comparative study, Deng (2010) argues that the prior related knowledge of Chinese acquiring firms' is the main component of their absorptive capacity, and can determine their ability to gain

strategic assets through CBMA and achieve M&A success. Although its theoretical framework is limited in terms of comprehensiveness – e.g. it omits the influence of cultural differences – it provides preliminary empirical evidence to support the key role played by prior related knowledge in Chinese firms' outward M&A.

The mainstream literature on absorptive capacity often measures prior related knowledge as a firm's research and development (R&D) intensity (Cohen and Levinthal, 1990); however, some researchers suggest a broader definition and measurement. Some studies suggest that a firm's prior knowledge should be understood as the combined abilities of its employees in terms of their personal knowledge base, such as individual skills, personal competencies and educational backgrounds (Junni and Sarala, 2013; Minbaeva et al., 2003; Minbaeva, 2007; Szulanski et al., 2004). This study will adopt a broader concept of prior related knowledge by including both arguments.

In addition, past M&A experiences could also be taken into account as a component of a firm's prior related knowledge (Liu and Woywode, 2013). This is particularly true of CBMA because they are more difficult to manage compared with domestic M&A. The extended literature considers past acquisition experiences to be a key variable of CBMA success (Hayward, 2002; Haleblian and Finkelstein, 1999; Chatterjee, 2009), but this result is still not universally accepted. The controversy queries whether past acquisition experience can ensure superior performance. It has been argued that the

experience gained from previous M&A transactions can contribute to the success of subsequent ones (Papadakis, 2005). In spite of the fact that some experienced acquirers over-perform other firms involved in CBMA, the overriding argument put forward by M&A scholars is that acquisition experiences cannot be directly related to M&A performance (Haleblian and Finkelstein, 1999; Zollo and Singh, 2004; Hayward, 2002). Hayward (2002) argue that acquisition experiences have the potential to provide understanding, but that most acquirers fail to realise it by focusing on the quantity instead of quality of acquisition experiences. He believe that superior performance in acquisitions came from the intervals between them and the performance and relatedness of prior ones, instead of from the past experience itself. Haleblian and Finkelstein (1999) posit that not all experience is equally valuable and that only that gained from 'similar' acquisitions matters. Other research suggests that serial acquisitions were more likely to perform better than isolated ones (Laamanen and Kei, 2008). However, Hayward (2002) counter this with highly related serial acquisition propositions. He suggest that the dynamic market changes would render void the benefit drawn from accumulated acquisition experiences, forcing acquirers to explore new skills and opportunities by developing the existing resources obtained from past acquisitions. Chatterjee (2009) also deny the relatedness and narrowness of the measurements of serial acquisitions and suggest an acquisition programme. The acquisition programme is defined as a serial of acquisitions relying on the same business logic. He suggest that M&A as part of an acquisition programme based upon a reasonable business logic had a better chance to succeed. He categorise



identification, negotiation, and integration as three processes that can lead to successful acquisition programmes and emphasis that integration will not become a problem as long as it is closely tied to the programme logic.

In addition to the importance of R&D intensity and past M&A experiences, Colombo et al. (2007) suggest two kinds of knowledge that would be crucial to the acquiring firms. The first is the knowledge of the acquisition process, which comes from past acquisition experiences, as stated in the mainstream literature. The second is the knowledge of the target firm, which is related to the governance relationship with the acquired firm. They believe that, since it would provide opportunities to access inside information and help two firms to build a uniform organisational climate, the second source of prior knowledge, which had been neglected by most scholars, would have a significant impact on the post-acquisition integration process. The result of their empirical work prove that the prior knowledge of the acquired firm would positively affect merger performance through its impact on resource redeployment, as opposed to the building of the organisational climate.

In brief, the existing literature suggests that the prior related knowledge of the acquiring firm in terms of R&D intensity, past M&A experiences and knowledge of the target firm is a key factor affecting M&A performance. Upon this basis, I propose:

*Proposition 1: the Chinese acquirers' prior related knowledge is a key factor that*

*influences the post-acquisition integration process of their outward M&A.*

### **2.7.2 The level of integration**

When a combined organisation is formed through M&A, the well-established sequences, patterns and routines of the operational management of both parties get usually partially or completely changed during the post-acquisition integration phase (Haspeslagh and Jemison, 1991). In this case, the extent to which the operational functions of the acquired firms are linked to, or aligned with, the corresponding functions of the acquiring ones is debatable (Zollo and Singh, 2004). It has been argued that the degree of integration is a mixed blessing (Bauer and Matziler, 2013; Gomes et al., 2013). Some scholars find a positive effect of the level of integration on the realisation of the synergy potential and therefore on M&A success (Larsson and Finkelstein, 1999; Zollo and Singh, 2004). In order to exploit the potential synergies in the post-acquisition phase, a certain level of post-acquisition integration and resource reconfiguration is necessary (Gomes et al., 2013; Schweizer, 2005; Ellis et al., 2009; Ellis et al., 2012). This necessity is likely to be stronger when the acquiring firms need to obtain and transfer tacit knowledge-based resources, which is a challenging operation, to realise the anticipated benefits of M&A (Puranam et al., 2003; Puranam et al., 2006). However, a high level of integration also prove to be very risky due to potential employee resistance and cultural clashes (Bauer and Matziler, 2013), and, in addition, it may also lead to a loss of autonomy of the

acquired firms, which may be detrimental to M&A performance (Chatterjee et al., 1992). Moreover, a high level of integration also requires a substantial engagement of the acquiring firms' managerial resources and prior related knowledge (Gomes et al., 2013). Therefore, the choice of the level of integration exposes a key dilemma in post-acquisition integration, that "the extent of the integration needed to achieve synergies may ultimately result in the destruction of the acquired firm's knowledge-based resources through employee turnover, disruption of organisation routines, and dissolution of embedded ties in the acquired firm" (Gomes et al., 2013, p23).

Despite the difficulty in striking the optimal level of integration, the empirical evidence shows that at least some degree of integration is decisive for M&A success (Chatterjee et al., 1992; Zollo and Singh, 2004; Bauer and Matzler, 2013). The previous literature provides empirical support to illustrate the key role that the level of integration plays in the post-acquisition integration process and M&A performance. Shanley (1994) found that the choice of the level of integration affecting the organisational structure of the acquired firm positively affects M&A performance. Pablo (1994) examined how the different characteristics of acquisitions influence the choice of integration level. Capron (1999) found that the extent of resource redeployment and of knowledge transfer that take place between two firms are significantly related, which suggests that a certain degree of integration is necessary for a successful M&A. In some recent empirical studies published in leading journals,

the level of integration is also proven to be critical for M&A performance. Based on the knowledge based view, Zollo and Singh (2004) suggest that increased levels of post-acquisition integration significantly enhance M&A performance through its impact on strengthening the positive effect of knowledge codification. In a recent paper relating an empirical test carried out on a sample of 106 SME transactions in three industries in Central Europe, Bauer and Matzler (2013) develop a comprehensive model of M&A success which combines both pre- and post-acquisition factors and argue that the degree of integration is a key variable of the M&A performance function.

In brief, although the relationship between level of integration and M&A performance is not conclusive, it is generally accepted that the level of integration is a key factor influencing post-acquisition integration process and hence M&A success; thus, a certain level of integration is necessary. Therefore, this study proposes:

*Proposition 2: the level of integration is a key factor that influences the post-acquisition integration process of the Chinese firms' outward M&A<sup>3</sup>.*

### **2.7.3 The speed of integration**

Although the time frame is an important dimension in corporate strategy and in

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<sup>3</sup> Quantitative scholars normally use scales to measure the level of integration (Cording et al., 2008; Bauer and Matzler, 2013). Due to the qualitative nature of this research, the measurement of the level of integration will be based on the interviewees' cognition.

company competitive advantage, the speed of integration has not been studied much in the M&A context (Angwin, 2004; Homburg and Bucerius, 2005, 2006; Vester, 2002; Ranft and Lord, 2002). The speed of integration refers to the time frame between closing the M&A transaction and achieving the desired degree of integration (Homburg and Bucerius, 2006). In recent years, the speed of integration has begun to gain standing as a key factor that can affect and determine M&A performance outcomes. However, whether a high speed of integration is generally beneficial to M&A integration and performance remains controversial (Stahl et al., 2013; Gomes et al., 2013).

Vester (2002) claims that the speed of integration is a success factor in the post-acquisition integration process of the M&A of high-tech firms. He concludes that a rapidly and consistently moving integration is essential to the whole process and to M&A success. Some scholars have argued that a fast speed of integration would normally lead to a quick exploitation of potential synergies and to faster returns on investment (Angwin, 2004; Bauer and Matziler, 2013). A rapid integration can benefit from a business's momentum and from the early enthusiasm phase immediately following the transaction (Angwin, 2004). Furthermore, from an organisational behaviour perspective, a high speed of integration is more likely to keep in check the uncertainty among employees, especially those of the acquired firms (Angwin, 2004; Homburg and Bucerius, 2005, 2006). Recently, Homburg and Bucerius (2006) empirically tested the speed of marketing integration and suggest that it can influence

M&A performance by increasing the firms' marketing related performance because a high speed of integration tends to lower customer uncertainty. <sup>4</sup>Using a case survey approach, Stahl et al. (2011) suggest that the speed of integration, as an integration process variable, is a major factor influencing the trust of the acquired firm's employees, which, in turn, will influence the socio-cultural integration outcomes and the post-acquisition performance.

However, some scholars argue that the speed of integration may also represent a problem (Olie, 1994; Ranft and Lord, 2002). In a qualitative case study research, Olie (1994) suggest that a slow integration process may minimise the possibility of conflicts between the acquiring and acquired firms. Similarly, Ranft and Lord (2002) conclude that a slow speed of integration can help to build trust among employees and thus influence M&A performance. Other scholars argue for a moderate speed of integration or for the adoption of a contingency perspective to integration speed (Angwin, 2004). The contingency perspective suggests that, although speed of integration matters, it provides both costs and benefits only under specific conditions. There is no 'right' speed at which to perform an integration process, but there may be times when a certain speed of action could be more suitable than others in the post-acquisition integration process (Gomes et al., 2013). For example, some advocates of the contingency approach argue for the influence of cultural fit (Bragado, 1992) and the magnitude of internal and external relatedness between both parties

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<sup>4</sup> However, this study is limited to marketing and sales integration, which limits its generalisability.

prior to the M&A (Homburg and Bucerius, 2005) to define the context for the setting of an appropriate integration speed (Stahl et al., 2013).

Despite it being hard to find empirical evidence in support of the effect of different integration speeds at different times (Angwin, 2004), the key role played by such speed in the post-acquisition integration process has received support from a variety of M&A researchers in recent years. Although no relevant research has currently been done in the context of Chinese firms' CBMA, or even of EMNE's international M&A, it is still reasonable to make this proposition:

*Proposition 3: the speed of integration is a key factor that influences the post-acquisition integration process of Chinese firms' outward M&A<sup>5</sup>.*

#### **2.7.4 Human resource related issues**

In recent years, human resource issues arising during the post M&A integration process have become a focal research topic among both M&A and HR researchers (Weber and Tarba, 2010; Gomes et al., 2013). Some crucial human resource related issues, such as top management team and post-acquisition integration team appointment, and key staff resistance and turnover, may prevent the combined

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<sup>5</sup> Quantitative scholars normally use scales to measure the speed of integration (Cording et al., 2008; Bauer and Matzler, 2013). Some studies suggest a 90-day or 100-day intense planning for a fast integration (Ashkenas and Francis, 2000; Angwin, 2004; Inkpen et al., 2000). Due to the qualitative nature of this research, the measurement of the speed of integration will be based on the interviewees' cognition.

organisation to manage the post-acquisition integration process in terms of the assimilation and exploitation of resources and capabilities.

In the instance of M&A, the top management team has received sustained confirmation as a key factor for post-acquisition integration and M&A success (Angwin and Meadows, 2009; Schweiger et al., 1993; Vasilaki, 2011). The combined organisation needs to appoint a top management team capable of identifying and enacting the necessary and appropriate post-acquisition changes (Angwin and Meadows, 2009; Schweiger et al., 1993). Some major changes that normally take place in the post-acquisition integration process are: the elimination of those business units that have become redundant or economically less competitive, the combination of similar operational departments and the creation of new organisational ties (Schweiger et al., 1993; Gomes et al., 2013). Therefore, the acquiring firms need an adequate top management team to handle these organisational and cultural changes in the combined entity and achieve a successful implementation of the M&A process (Angwin and Meadows, 2009; Vermeulen and Barkema, 2001; Vasilaki, 2011). A lack of decisions and actions on the part of the top level of the acquiring firms in managing post-acquisition changes and establishing strategic directions will eventually lead to a dismal M&A performance (Schweiger et al., 1993; Kavanagh and Ashkanasy, 2006; Nemanich and Keller, 2007; Gomes et al., 2013).

The empirical studies related to the consequences of top management change have



produced mixed results (Karaevli, 2007). Some studies have suggested a positive relationship between top management turnover and M&A performance (Anslinger et al., 1996) while have advocated the exact opposite (Hambrick and Canella, 1993; Krishnan et al., 1997). Although the empirical studies on how the turnover of the top management team of the acquired firms affects M&A integration and performance did not deliver consistent results, it is generally accepted that top management team change or prevention is both strategically and operationally significant for the post-acquisition integration phase (Krug and Hegarty, 1997; Krug and Nigh, 2001; Zollo and Singh, 2004; Gomes et al., 2013).

Besides the top management team, which embodies the leadership in the M&A integration process, the attention of scholars has also extended to include the building of specific integration teams and the appointment of integration managers (Ashkenas and Francis, 2000; Gomes et al., 2013). Being a multi-dimensional and socio-cultural embedded activity, the post-acquisition integration process is so complex that it requires the utmost attention of the top management team. Consequently, the top management's focus on the day to day operational business activities may be diverted. Such neglect of internal growth in the development stages of external growth may result in negative consequences (Vermeulen and Barkema, 2001). Therefore, some scholars suggest the appointment of a specific integration implementation team for the post-acquisition integration phase (Dagnino and Pisano, 2008; Inkpen et al, 2000; Schweiger et al, 1993). Schweiger et al. (1993) suggest that such an integration

implementation team should be appointed before the end of the transaction. Inkpen et al. (2000) claim that the activation of an integration implementation team could contribute to the success of the post-acquisition integration process. Dagnino and Pisano (2008) suggest the involvement of operating managers and key staff in the post-acquisition team because this personnel is in possession of the day-to-day knowledge the firm needs to operate. Despite the importance of integration teams being acknowledged, there is still no empirical research pointing at who should be included in and who should lead the post-acquisition integration team (Dagnino and Pisano, 2008).

In addition to the top management team building, the turnover and withdrawal of key staff is also a determining factor that may affect the transfer of knowledge in international M&A, especially when the main motive behind the M&A is the pursuit of technology (Zander and Zander, 2010). The existing literature suggests that identifying and retaining key staff is almost always significant for the preservation of the knowledge base of the acquired firm and for the creation of value from the M&A deal (Ranft and Lord, 2002; Ahammad et al., 2012). For example, a recent empirical study by Junni and Sarala (2013) argue that employee withdrawal harms the knowledge base and knowledge transfer within the combined entity by reducing the absorptive capacity in both the acquiring and acquired firm.

These human resource related issues are particularly challenging for the transfer of

resources and capabilities in outward M&A conducted by EMNEs, and Chinese MNEs in particular. As they wish to maintain their identity and are subject to personnel changes, the employees of the acquired firms may have a relatively more negative reaction to the acquisitions than will those of the acquiring firms (Junni and Sarala, 2013). This could present tremendous post-acquisition integration challenges to acquiring firms from emerging economies as they normally lack sufficient experience and knowledge to handle these management predicaments (Luo and Tung, 2007). The liabilities of foreignness also aggravate their difficulties. Some of the talents of the acquired firm may choose to leave due to stress, anxiety, uncertainty, absenteeism, socio-cultural conflict, or even lack of motivation (Stahl et al., 2013). Moreover, most EMNEs are still in their early stage of internationalisation and possess a relatively meagre talent pool compared with that of MNEs from developed economies. EMNEs could also find it hard to garner sufficient support from their home country's talent base, which leaves them in a situation of talent insufficiency (Luo and Tung, 2007).

However, some scholars argue that the accelerated pace of cross-border human mobility is changing the traditional thinking with regard to the immobility of labour (Liu et al., 2010; Gao et al., 2013). Emerging economies such as China and India are experiencing a substantial level of international human mobility in terms of the return of well-educated and highly skilled migrants. Compared with domestic talents, these returning migrants have benefited from higher education in developed countries and

possess both adequate knowledge and appropriate language and cross cultural communication skills. Therefore, they hold an inherent advantage to compensate the potential drawbacks brought by the turnover and withdrawal of top management team and key staff and are more likely to augment the knowledge base of the acquiring firm and facilitate the process of resource and capability transfer in the post M&A integration stage. Following these arguments, it is reasonable to suggest that human resource related issues, such as potential top management team and key staff turnover and withdrawal, post-acquisition integration team building and the growing trend of returning migrants, may affect the post-acquisition integration process in the Chinese firms' outward M&A to developed countries.

*Proposition 4: Human resource related issues in the integration phase are a key factor that influences the post-acquisition integration process of Chinese firms' outward M&A.*

### **2.7.5 Cultural difference**

In order to fully explain the poor fit between strategic variables and M&A performance, researchers have started to look at the role of culture in post-acquisition integration. The cultural distance hypothesis suggests that communication and coordination between organisations and groups tend to become more problematic when the cultural distance between them increases (Kogut and Singh, 1988).

Accordingly, a poor cultural fit between acquiring and acquired firms may impair post-acquisition integration and M&A performance (Chatterjee et al., 1992; Weber, 1996; Morosini et al., 1998; Chakrabarti et al., 2009; Weber et al., 2012; Weber and Tarba, 2012). Some recent studies suggest the use of cultural friction as a substitute metaphor of cultural distance (Shenka et al., 2008; Shenka, 2012). Compared with cultural distance, cultural friction focuses on the actual encounter of cultural systems within a power relations context, and emphasises the interaction and potential conflicts between entities (Shenka et al., 2008). This study adopts the organisational dimension of culture and defines culture as a set of beliefs, values and assumptions shared by the members of an organisation (Bjorkman et al., 2007; Sarala and Vaara, 2010; Bauer and Matzler, 2013). Based upon this conceptualisation of culture, this study considers MNEs as “cultural systems where beliefs, values and practices form specific configurations in particular parts of the corporation” (Sarala and Vaara, 2010, pp 1367).

Cultural differences have been identified at multiple levels, such as national, industrial, organisational, and professional levels (Gomes et al., 2012). In M&A research, cultural differences are mostly treated at the national and corporate levels (Morosini et al., 1998; Chakrabarti et al., 2009; Stahl et al., 2013). At the national level, research mostly looks at the detrimental effect on the performance of CBMA of the national cultural differences which exist between the acquiring and acquired units (Webber, 1996; Barkema et al., 1996). At the organisational level, scholars normally probe into

issues related to organisational cultural differences shared and integrated in the combined entity (Chatterjee et al., 1992; Very et al., 1996). At both the national and organisational levels, it is generally believed that similarities in values and norms can build trust and facilitate the knowledge transfer between units, benefiting post-acquisition integration and performance (Weber et al., 2011; Bjorkman et al., 2007; Sarala and Vaara, 2010).

Although it is generally accepted that cultural differences at both the national and organisational levels have a relevant impact on M&A, and on international M&A in particular, the empirical research on the effects of cultural differences on M&A performance has produced mixed results. Some scholars argue that cultural differences are negatively associated with M&A performance (Datta, 1991; Chatterjee et al., 1992; Datta and Puia, 1995; Very et al., 1997; Lubatkin et al., 1998), while others have postulated the positive effect of national cultural differences (Weber et al., 1996; Krishnan et al., 1997; Morosini et al., 1998; Vaara and Sarala, 2010; Vaara et al., 2012; Junni and Sarala, 2013). The former position is mostly based upon the ground that cultural differences can lead to cultural collisions, which will hinder CBMA performance by increasing the integration cost. The latter can be explained by the synergies created by cultural differences. Such differences make it possible for the two parties to learn from each other and create value.

The empirical results produced by research specifically linking cultural differences to

post-acquisition capability transfer also mixed. Some scholars argue that cultural differences may add value to international M&A by increasing the knowledge base of the acquiring firms, since acquired firms from more culturally distant countries are more likely to possess knowledge and resources different from those of the acquiring firms (Morosini et al., 1998; Vermeulen and Barkema, 2001). On the other hand, other researchers claim that cultural differences may hinder knowledge transfer because of the language barrier and of communication problems, thus increasing the likelihood of cultural incompatibility and decreasing the potential absorptive capacity of both parties (Bjorkman et al., 2007; Van Wijk et al., 2008; Vaara et al., 2012). This is particularly relevant to the transfer of tacit knowledge as the effective interpretation and assimilation of tacit knowledge require both parties to share common socio-cultural institutions (Li et al., 2013).

In recent years, researchers in this field have been criticised for not paying sufficient attention to those factors that explain how cultural differences affect M&A (Stahl and Voigt, 2005; Teerikangas and Very, 2006; Sarala and Vaara, 2010). Moreover, some aspects of institution and context specific features may also affect the socio-cultural dynamics of international M&A. This is particularly crucial to the understanding of how cultural factors affect knowledge transfer in EMNEs' outward M&A to developed economies. Luo and Tung (2007) considered the reconciliation of national and organisational cultural differences to be one of the toughest challenges faced by EMNEs in the post-acquisition stage. On the one hand, other institutional

environment may become additional obstacles on top of national and organisational cultural differences. On the other hand, any sudden and radical foray into highly developed markets often exacerbates the difficulties for those EMNEs that lack the international experience and organisational expertise to handle these issues (Luo and Tung, 2007). Therefore, although cultural differences are generally believed to be a key factor in the management of the post-acquisition integration process of Chinese firms' outward M&A, it is also vital to explore how they affect capability transfer in the integration phase and what cultural integration strategy is adopted by Chinese acquirers

*Proposition 5: The management of cultural differences at multiple levels in the integration phase is a key factor that influences the post-acquisition integration process of Chinese firms' outward M&A.*

### **2.7.6 Integration process communication**

Integration process communication is widely considered to be essential for a successful post-acquisition integration. The accuracy and intensity of communication play an overriding role in the integration process, especially in the early stages of the post-acquisition phase (Dagnino and Pisano, 2008), enabling the staff of the acquired firms to better understand the strategic intent and directions of the acquiring firms (Inkpen et al., 2000; Morosini, 1998; Schweiger and DeNisi, 1991; Weber and



Tarba,2010). An ineffective and inefficient communication can undermine the commitment required for a successful post-acquisition integration (Schweiger and DeNisi, 1991). In addition, appropriate means of communication are critical to bridge the cultural differences between the acquiring and acquired firms (Papadakis, 2005).

To ensure satisfactory integration in the post-acquisition phase, both the timing and frequency of the communication needs to be emphasised (Papadakis, 2005). From a human resource management perspective, the post-acquisition stakeholder uncertainty and anxiety needs to be adequately addressed immediately after the M&A by means of a variety of communication channels (Schweiger and DeNisi, 1991; Weber et al., 2012; Gomes et al., 2013).A lack of timely communication with the employees of the acquired firms may result in the spreading of rumours and an increase in staff resistance (Papadakis, 2005). Moreover, increasing communication frequency could benefit post-acquisition integration by easing fears and creating a better workplace climate, mutual trust and an understanding of cultural differences (Nikandrou et al., 2000; Appelbaum et al., 2000). For example, Bresman et al. (1999) find that the post-acquisition integration process is positively affected by the frequency of multiple-channel communication (taking the form, for instance, of technical meetings, extended visits and joint training programmes) through its effect on the knowledge transfer between firms. Their study also emphasise that communication effectiveness is also linked to the variety of communication methods (Weber and Tarba, 2010).

Some recent research has also suggested that over-communication should be avoided (Weber et al., 2012). Generally speaking, the M&A literature has confirmed the important role played by post-acquisition communication in managing the integration process. However, its relationship to the overall M&A performance has only recently been investigated (Weber and Tarba, 2010; Gomes et al., 2013).

In a CBMA setting, integration process communication needs to be handled with particular care as national cultural differences, such as the language barrier, may add an extra degree of complexity to the communication process (Schweiger et al., 1993). Some scholars have argued that national cultural differences may affect the level of communication and its relationship with post-acquisition integration and with the overall M&A performance (Weber and Tarba, 2010). Although there is currently no research specifically exploring the role of communication in EMNEs' international M&A, and Chinese firms' outward M&A in particular, mainstream M&A literature supports considering integration process communication to be one of the key factors influencing the performance of CBMA conducted by Chinese acquirers. Therefore, this study proposes:

*Proposition 6: Communication in the integration phase is a key factor that influences the post-acquisition integration process of Chinese firms' outward M&A.*

## **2.8 Conclusion**

In this chapter, the existing literature was reviewed, the research gaps were identified, a theoretical framework was constructed and some propositions were set up. In the first part of this chapter, the main research streams in the field of M&A were reviewed from a multidisciplinary perspective. Building on the gaps in the existing research, this thesis has adopted the process perspective to explore the key factors affecting Chinese firms' outward M&A. In the second part of this chapter, different assessments of M&A performance were reviewed. The assessment of the key success factors made in this study is based on the criteria of whether their impact can facilitate resource and capability transfer. In section three, the existing literature concerning resource and capability transfer in M&A was reviewed. M&A scholars have provided insights into various issues related to resource and capability transfer in international M&As, while very little research has been conducted on firms from emerging economies, such as China. This highlights another potential theoretical contribution of this thesis. According to the process perspective, M&A create value in the post-acquisition integration phase. Therefore, in the fourth section of this chapter, the literature on the post-acquisition integration process was reviewed. This revealed that the current research on post-acquisition integration places the integration approach on a different dimension from those of the other variables in the integration process because it can balance the degree of operational integration and socio-cultural integration. In part five, the literature on integration approach was reviewed. In part six, a holistic theoretical framework of the key success factors in the management of

the Chinese firms' post-acquisition integration was built. Six key factors were proposed, which are: prior related knowledge, level of integration, integration speed, human resource related issues, cultural difference management and integration process communication. Based on these factors, six propositions were set up.

With regard to the following chapters, this study will present the background of this research in Chapter 3 and discuss the research methodology in Chapter 4. Then this study will identify the key success factors in the management of the post-acquisition integration process in Chinese firm's outward M&A in developed countries, and then examine how and why these factors influence this process and hence M&A success. The integration approach of Chinese acquirers will also be disclosed and linked with other key success factors. Finally, a new theoretical model will be developed.

## **Chapter 3 Research background**

### **Introduction**

Based on the research questions and propositions that have been set up, this chapter describes and discusses the background of the research, and reviews the literature related to the Chinese firms' outward M&A. It includes both the macro and micro context of this research; the former involves the economic changes that have taken place in China in recent decades, whereas the latter comprises the current status of

China's outward FDI and M&A. By examining the recent archival evidence of Chinese outward M&A, this chapter reviews the main motivations underpinning outward M&A among state-owned enterprises (SOEs) and non-state-owned ones and presents an overall picture of China's outward M&A in the last decade. In doing so, this chapter explores the crucial role played by the Chinese government in orchestrating internationalization activities and its long term implications on the competitiveness of Chinese firms in the global marketplace.

A large proportion of this chapter is taken from a paper published by the author in *Advances in Merger and Acquisitions* (Tan and Ai, 2010). In addition to its main role of providing a research background for this whole project, this chapter makes its own contributions to M&A literature. These lie in its focus on the unique institutional context of China's outward M&A; in particular, on the role of the Chinese government. From an institutional perspective, this chapter argues that informal institutions and rules have contributed to the current fast expansion of M&A by China. However, this could have a detrimental effect on the long-term competitiveness of China as a nation and of Chinese firms as sustainable competitors.

This chapter is structured as follows: after a description of the status of China's inward FDI, outward FDI and outward M&A, I will then explore the M&A activities conducted in the last ten years and analyse the administrative process involved in managing outward M&A in China, hence highlighting the crucial role played by the

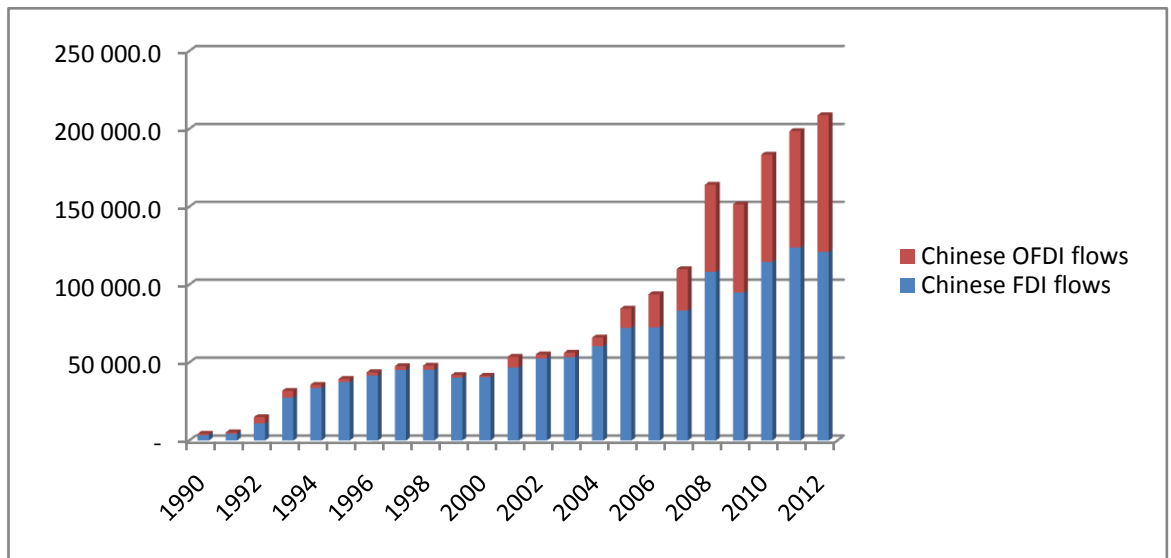
Chinese government. Finally, a critical review of the current literature on the M&A of Chinese firms will be presented.

### **3.1 China's inward FDI, outward FDI and M&A: An overview**

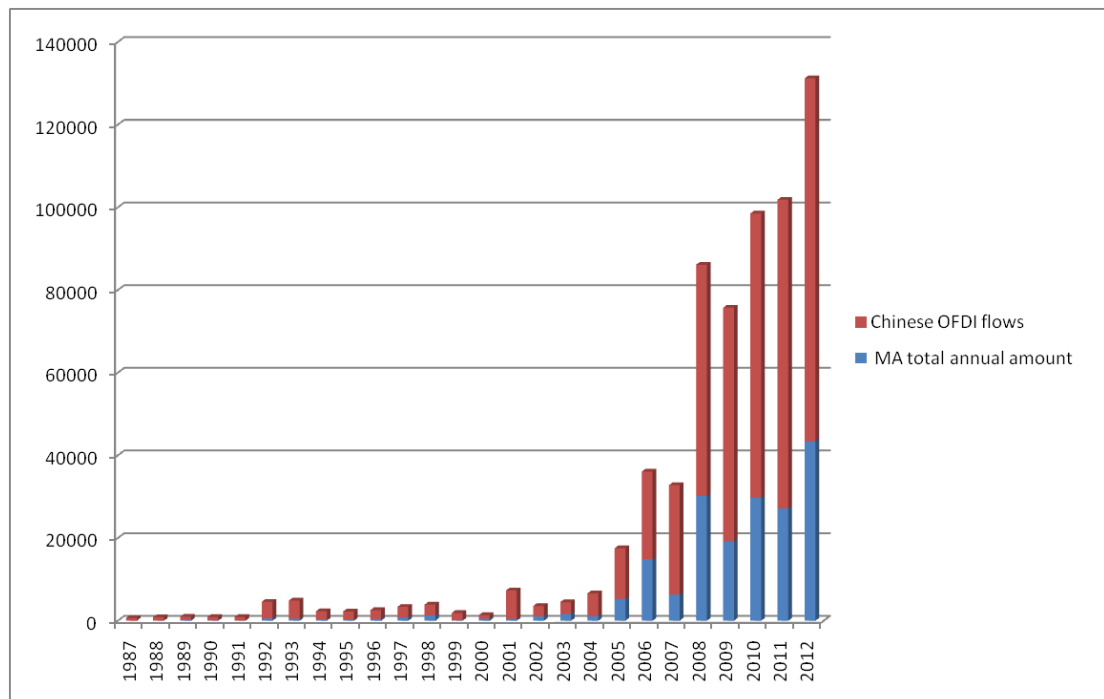
The encouragement of FDI has constituted a significant part of China's economic reform process. With its rise over the last three decades, China's economy has attracted more FDI than those of all other developing countries. In 2012, China attracted FDI of USD 121 billion, second only to the US, establishing its total accumulated inward FDI stock at around USD 830 billion (IFLR, 2014). During the last decade, China's outward foreign direct investment (OFDI) has also flourished. Its total accumulated OFDI has reached USD 531.94 billion, placing China in 13th position in the world (Statistical Bulletin of China's Outward Foreign Direct Investment, 2013). In 2009, when global recession negatively impacted on the world economy and reduced overall OFDI, China's OFDI totalled USD 48 billion, making it the 6<sup>th</sup> largest OFDI source country worldwide (UNCAT, 2010). In 2012, China's OFDI climbed to USD 87.8 billion, scattered over 179 countries and areas, and engaged with around 20,000 enterprises overseas (MOFCOM, 2013). Of all the accumulated Chinese OFDI, an increasing amount was the result of outward M&A, totalling USD 42.6 billion at the end of 2009 (Thomson Reuters, 2010). Amongst its OFDI in 2012, outward M&A contributed USD 43.4 billion (MOFCOM, 2013). Based on the figures of 2012, China can claim to be the third largest source country in

the global outward M&A league table (Statistical Bulletin of China's Outward Foreign Direct Investment, 2013).

Figure 3.1 China's inward FDI, outward FDI flows, and outward M&A total annual value (in million USD)



Source: UNCTAD (2008); UNCTAD (2014).



Source: UNCTAD (2008); Statistical Bulletin of China's Outward Foreign Direct Investment (2007, 2008, 2009, 2010, 2011, 2012, 2013).

### **3.2 China's outward M&A in the 21st Century**

Given that China has been characterised as a market system with socialist characteristics, it is obviously significant – and also represents a research gap – how the Chinese government (central and local) impacts on China's outward M&A (Tan and Ai, 2010). Drawing from an institutional perspective and based on archival data, section 3.3 and 3.4 intend to provide a detailed look at the way in which the Chinese government regulates the outward M&A activities conducted by Chinese firms and to establish the long term impact this may have on firm competitiveness.

China's outward M&A has experienced a dramatic change over the last ten years. We can divide this into two periods as follows:

*1999- 2004: Initial development as a result of China's "Zou Chu Qu" (Go Global) policy*

China's "Zou Chu Qu" (go global) policy was first declared in 1999 and then formalized in the 10<sup>th</sup> Five-Year Plan in 2001 as an official endorsement of active OFDI and outbound M&A (Voss et al., 2008). 2001 was also the year in which China joined the World Trade Organisation (WTO), which gave China the chance for a closer integration with the global economy. At this stage, the amount of M&A transactions was initially rather low, indicating that Chinese firms were not going all out to engage



in outward M&A. Instead, following the policy direction of the Chinese government, they started to consider the global market to be a part of their business marketplace. The China Merger and Acquisitions Yearbook (2003) referred to 2002 as the “Yuan Nian” (the first year of an era) of China’s M&A. As a result of the “Zou Chu Qu” (go global) policy and of China’s accession to the WTO, significant changes took place in both the domestic and overseas markets. Several liberalisation steps were taken by the Chinese government to help companies invest abroad, such as removing the repatriation requirement for overseas profits made by Chinese acquirers and simplifying the approval process of outward M&A (See Appendix 2 for details). Against this background, the total annual value of outward M&A increased from less than USD 500 million in 2000 and 2001 to more than USD 1,000 million in the next three years (See Table 3.1).

**Table 3.1:** China’s outward M&A in annual value and number of deals

YEARS	ANNUAL VALUE IN MILLION USD	NUMBER OF DEALS
1987	0	1
1988	16.5	4
1989	202.1	6
1990	60.3	3
1991	3.2	2
1992	572.7	12
1993	484.7	28
1994	307	19
1995	249.1	13
1996	451.4	17
1997	798.8	30
1998	1276.2	23
1999	101	13
2000	470	35

2001	452.435	22
2002	1046.51511	35
2003	1646.524	73
2004	1125.11	59
2005	5278.97	58
2006	14904.291	61

Source: UNCTAD (2008)

Among the instances of China's outward M&A during this period, TCL's acquisition of Thomson's Television Division and SAIC's acquisition of Ssangyong, both taking place in 2004, gained wide attention. The TCL-Thomson case was initially considered as a market- and technology-seeking M&A. However, it turned out that TCL did not obtain Thomson's market channels in Europe and North America as planned, and that the acquired old generation technology was deemed to be no longer valuable due to the technological upgrades occurring in the TV sector, i.e. the replacement of cathode tube TVs by the new generation of flat screen ones (Deng, 2010). In the SAIC-Ssangyong Motor's case (worth USD 500 million), the Chinese acquirer overestimated the brand value of the target and wrongly predicted the direction of the global automotive market. The large air displacement SUVs, which were Ssangyong's mainstay product, were not well received by the market in an increasingly energy-saving conscious era. On top of this, SAIC was not well prepared to deal with the South Korean trade unions. It had to withdraw from Ssangyong in 2009 after suffering huge losses over the years. Therefore, 2004 was nicknamed the year of "Da Yue Jin" (the giant leap) of Chinese overseas M&A (Zheng, 2009).

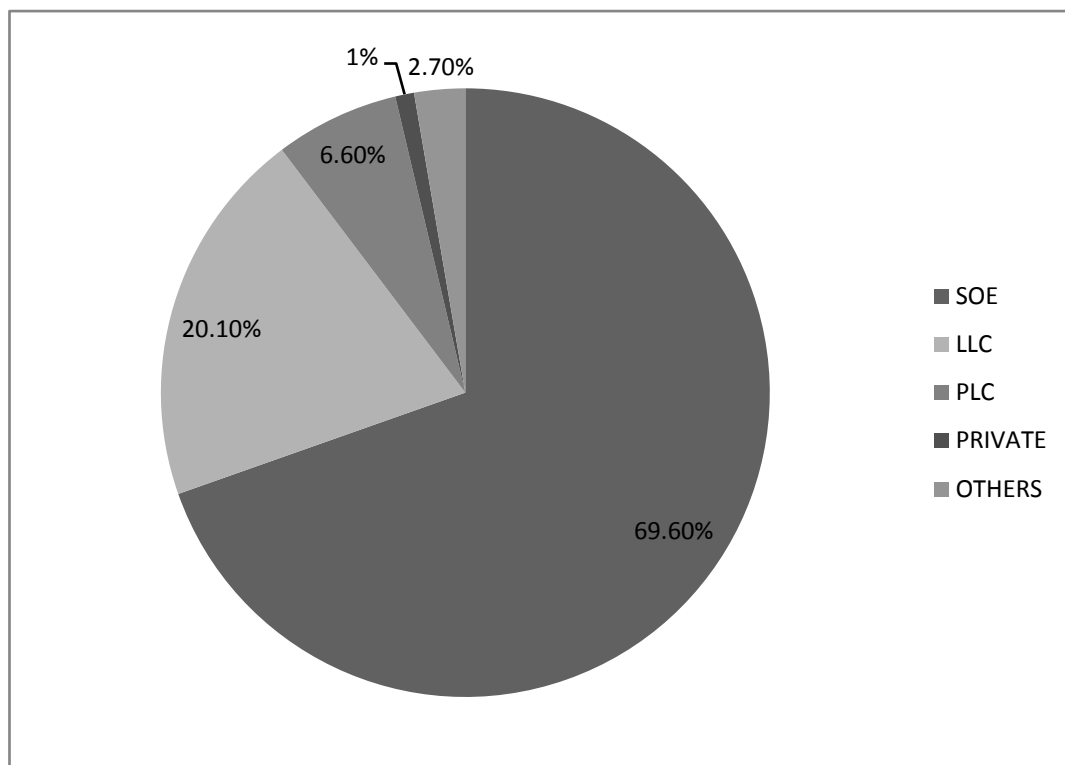
*2005-present: The blossoming of China's outward M&A*

Lenovo's acquisition of IBM's PC division ushered in a breath-taking period of Chinese outward M&A with global implications. Administratively, the examination and approval procedures of outward M&A activities were further simplified, more supporting policies were developed, with some powers being transferred to provincial authorities. The total annual value of outward M&A jumped to USD 5 billion in 2005 and never dropped below this threshold thereafter. Despite the challenging economic environment resulting from the global recession, Chinese acquirers still completed 298 instances of overseas M&A in 2009, the highest annual number by then (Thomson Reuters, 2010). That year ended with the largest M&A by a Chinese automotive manufacturer: Geely's acquisition of Volvo from Ford, totalling USD 1.8 billion.

There are two reasons behind the fast expansion of China's outward M&A since 2005. First, the 'visible hand' of the government. In addition to direct financial support from the government, the further easing of administrative control over the process of outward M&A played a significant role. For example, in the first half of 2009, two regulations were published that further simplified the approval process of overseas M&A. Second, the pressure to go international consequent to China's opening of its domestic market. Removing entry barriers to foreign investors in accordance with WTO rules meant a fiercer competition for Chinese indigenous firms. Chinese

enterprises, especially non-SOEs, which “lack domestic political protection” (Voss, et al. 2008, page 16), speeded up their outward M&A to improve their competitive advantage both at home and abroad. Limited liability companies contributed 32% of outward M&A in 2005 and the percentage of SOEs dropped (Investment in China, 2007). This picture was reversed a couple of years later due to the effect of the 2008 global financial crisis. Non-SOEs were strongly influenced by the financial tsunami while SOEs stayed firm thanks to state support. The Statistical Bulletin of China’s Outward Foreign Direct Investment (MOFCOM, 2009) showed that SOEs accounted for 69.6% of the Chinese OFDI stock at the end of 2008 (See Figure 3.2) and nine out of the ten acquirers in the influential outward M&A by Chinese enterprises were SOEs (See Table 3.2).

**Figure 3.2:** Chinese OFDI stock distribution at the end of 2008



Sources: 2008 Statistical Bulletin of China's Outward Foreign Direct Investment (By MOFCOM)

**Table 3.2:** Ten largest outward M&A by Chinese companies from 2008 to 2010

<b>Date</b>	<b>Bid Value in 100millionUSD</b>	<b>Chinese Bidder</b>	<b>Target Name</b>	<b>Target Nation</b>
12/12/2007	39.5	National Grid	National Transmission Corp	Philippines
01/02/2008	145	CHINALCO	Rio Tinto Plc	UK
21/08/2008	20	Sinopec& PetroChina	Petro-Tech Peruana	US
07/07/2008	25	CNOOC	Awilco Offshore ASA	Norway
Sept 26 2008	20	Sinopec	Tanganyika Oil	Canada
June 11 2009	13.86	China Minmetals Corporation	OZ Minerals	Australia
June 22 2009	10.2	PetroChina	SPC	Singapore
June 24 2009	66	SUNING	LAOX	Japan
June 25 2009	72.4	Sinopec	Addax	Swiss
July 19 2009	13	CNOOC& Sinopec	Angola Oil	US

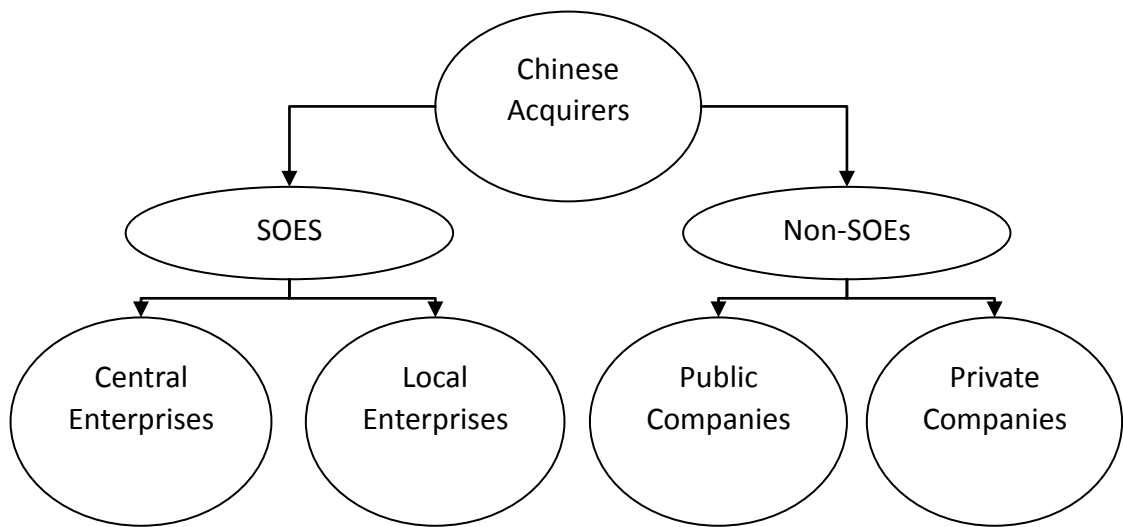
Source: China Mergers and Acquisitions Yearbook (2008, 2009, and 2010)

### **3.3 The role of the government in China's outward M&A**

The Chinese government manages China's outward M&A through varying policies and approval procedures applied to different types of enterprises. In this chapter, we have divided Chinese companies into the following categories as a function of their ownership and administration authority: state-owned enterprises (SOEs), and non-state owned ones (non-SOEs), comprising share-issuing public companies and private companies. SOEs include central enterprises (owned directly by the central

government) and local ones (owned by provincial and metropolitan governments) (see Figure 3.3).

**Figure 3.3:** Categories of Chinese companies based on ownership and level of administration authority



#### *Approval procedures and supporting policies*

In a typical outward M&A case, Chinese investors need to register with and get approval from three governmental authorities: The National Development and Reform Commission (NDRC), which is in charge of the planning, supervision and harmonization of China's economy; The Ministry of Commerce (MOFCOM), which examines the merit of the proposed M&A, and the State Administration of Foreign Exchange (SAFE), which is responsible for the examination of the sources and the remittance of foreign exchange involved. Chinese acquirers should firstly register with and get approval from the SAFE, then apply for ratification from the relevant

National Development and Reform Commission (at the national or provincial level) and finally apply to the MOFCOM (at the national or provincial level) for certification before they are allowed to remit overseas. Investors also need to obtain ratification from the State-owned Assets Supervision and Administration Commission (SASAC) if the proposed acquisition involves state-owned properties (including SOEs and those non-SOEs in which government holds a certain percentage of shares). The detailed approval procedures are stated in Appendix 1.

The role of the Chinese government in outward M&A is based on the socialist ideology that affirms that the State should macro-control the economy and grab the lifeline of each industry by exerting its control over large SOEs (Schüller and Turner, 2007). Thus the government established a series of bureaucratic hurdles in the last century. Although those regulatory barriers were gradually removed following the “Zou Chu Qu” (go global) policy and China’s accession to the WTO, the approval procedures are still complex and unclear to many.

However, this interventionist policy also has its merits. Since every overseas acquisition has to be recorded by the NDRC and individual enterprises are not allowed to sign any legally binding documents before the approval of the NDRC, the Chinese government can supervise these proposed M&A cases in light of some ‘hidden rules’ which may be beneficial to investors. For example, competition among Chinese acquirers is not encouraged and a situation in which two Chinese enterprises

bid against each other to acquire the same target never occurs (People's Daily, 2010). This kind of protectionism lessened the competition between Chinese firms. Having said that, discrimination does exist between SOEs and Non-SOEs in the form of 'hidden rules'. As stated above, Chinese investors need to get approval from the SAFE, NDRC and MOFCOM before they are allowed to remit funds overseas. There are indeed written regulations and policies for these examinations but the relevant factors for examination are not clear to all. Whether an overseas M&A project can be approved or not depend on the subjective judgment of corresponding government officers to a certain extent. Moreover, the protocol to be followed for approval is time-consuming. A few months are a very good result for private enterprises that have no strong governmental relationships (i.e., "Guanxi" in Chinese). Acquirers from other countries may have already concluded the acquisition before their Chinese competitors have even qualified to dispatch fund abroad. Faced with such disadvantages due to administrative burdens, some enterprises have chosen to keep their foreign exchange overseas and, in turn, use them in outward M&A. This kind of 'illegal' operation may lead to the imposition of penalties from the governmental authorities, but investors are ready to risk paying these penalties as they are often much less costly than those arising from the complex approval and administrative procedures (China Economic Weekly, 2007).

Things become much easier for large SOEs. Not only can they usually pass the examination quickly and smoothly, but also benefit from specifically designated



policies. For example, according to one government policy, most SOEs can receive special loans from state owned non-commercial banks, such as the Export-Import Bank of China, to help them accomplish outbound M&A that are in line with state targets. Another example is the risk management and investment consultancy that the CECIC provides to key overseas projects encouraged by the state. By contrast, non-SOEs do not benefit from this kind of preferential policies.

The influence of the Chinese government on outward M&A can also be reflected in the issue of corporate governance and in the outcome of outward M&A. Since the state is the largest shareholder of publicly listed share-issuing enterprises, it is possible for these SOEs to conduct outward M&A in accordance with the state need and infringe against the interests of minority shareholders, which gives rise to a principal-principal conflict (Su, et al, 2008). Chen and Young (2009) confirm the existence of principal-principal conflicts in the Chinese SOEs based on an empirical study using event study methodology. They find that the outcomes of cross-border M&A are negatively related to the government ownership. Su et al. (2008) also suggests that the increase of government ownership positively relates to the ineffectiveness of acquirers' corporate governance.

In addition to the Chinese government's influence, outward M&A by Chinese acquirers may also be affected by the governments of the host countries. Zhang et al. (2011) suggested that the likelihood of Chinese acquirers' M&A completion is higher

if the host country is a developed economy and has a better institutional quality. They also claimed that Chinese acquirers are less likely to complete outward M&A if they are SOEs. However, whether the ownership structure of a Chinese acquirer can affect the outcome of a completed M&A deal is still not clear.

### **3.4 Discussion about the current status of China's outward M&A**

The phenomenal rise of China's outward M&A in the 21st century is a fascinating story for a developing country with a per-capita GDP that is less than one tenth that of its more industrialised counterparts. While China is currently going through a stage of fast industrialization with huge demands for capital injection and is still a large recipient of inward FDI, the speeding up of its outward M&A of recent years has been intriguing. There are many different views on China's massive outward M&A (e.g., Chen and Young, 2009; Hirt and Orr, 2006; Wang and Boateng, 2007). Based on the above description of the government's key role in orchestrating China's outward M&A activities, we argue that the reason for China to fast forward and become a significant capital source country (while other emerging economies, such as the other BRICs, are not at a comparable stage) lies in China's unique institutional context. The discriminatory policy adopted by the Chinese government to support SOEs in pursuit of key M&A targets overseas testifies to the inseparable relationship between government and SOEs in this country. It highlights the important role played by informal rules (such as those 'hidden rules' mentioned earlier) and informal

institutions in a society where formal rules and formal institutions are experiencing modernization and internationalization as part of China's integration into the global market. While formal rules and formal institutions are supposed to be inherently better than informal ones (North, 1990), what happened in China raises serious issues of increased transaction cost for business and its negative implication to the sustainable competitiveness of Chinese SOEs in the global market in the long term. More efficient business organizations such as non-SOEs could also suffer due to the fact there is no level playing field created along China's increasing internationalization. Put simply, China's long term national competitiveness could be in jeopardy should such discriminatory policies and informal institutions continue to function at the expense of formal ones.

While principal-principal conflict has been identified as an issue for Chinese acquirers (Su, et al, 2008), there is a lack of recognition of the principal-agent conflict given the close relationship between the state and SOEs. Managers, as agents of state assets, can be replaced or transferred by government bureaucrats as they see fit. Thus managers are motivated to pursue short-term results at the expense of the firm's long term interest to keep their jobs and seek promotion. This short- vs long-termism can contribute to the failure of China's outward M&A activities.

To conclude, the increasing number of cases that sees developing country multinational enterprises (MNEs) buying assets from developed countries through

M&A calls for more systematic evidence in this area. As a typical and representative developing country, China has already drawn the world's attention with several high-profile cross-border M&As in recent years. Supported by the largest foreign exchange reserve of the world, Chinese state-controlled companies are well positioned to buy up ailing Western companies or strategic assets in resource-rich countries as part of its drive to expand its outward foreign direct investment (OFDI). By examining the recent evidence of Chinese outward M&A, this chapter argues that the crucial role played by the Chinese government is behind the extraordinary expansion of China's outward M&A activities over recent years. However, China's long term competitiveness is at stake if the informal rules and institutions continue to overshadow the proper working of the formal institutions.

In fact, according to the statistics of Chinese government, the overall OFDI and outward M&A performed rather negatively (Beijing News, 2010). The top biggest outward M&A deals were accomplished by large state owned enterprises (SOEs), which represent state owned assets. The continuous overseas losses in SOEs' OFDI caused dissatisfaction among the public as well as in the Chinese government. After years of deliberation, the importance of overseas assets has been confirmed by the central government. To this end, the <Interim Administrative Measures for the Supervision and Administration of the Overseas Assets of Central Enterprises> was formally promulgated by the State-owned Assets Supervision and Administration Commission (SASAC) on 29<sup>th</sup> June 2011. This regulation encompassed the

supervision of the decision-making of SOEs' OFDI, the administration of the enterprises abroad, the administration of the major events of enterprises abroad, the monitoring of overseas state-owned assets, and the legal responsibility of the persons in charge. Most media paid attention to this regulation due to its provisions for the accountability of the responsible persons. However, the author was attracted by its emphasis on the administration of the enterprises abroad. It considers 11 categories of rules, which is the largest number among these issues. Although these rules, most focus on finance and accounting aspects, such as internal control and risk management, they still seem to indicate that the Chinese government was also worried about the management of overseas units and realized the significant role that the post-acquisition phase played in the performance of the Chinese firms' CBMA.

The problematic practitioner's performance calls for more systematic academic research in this field, which is still quite lacking. A detailed literature review of the outward M&A of Chinese firms will be presented in the next section.

### **3.5 Literature review on China's outward M&A**

Despite there being an increasing academic interest in China's OFDI in recent years (Alon and McIntyre, 2008; Buckley et al., 2008; Deng, 2004 and 2007; Morck et al., 2008; Voss et al., 2008), including its outward M&A (Chen and Young, 2009; Deng, 2009 and 2010; Hirt and Orr, 2006; Luedi, 2008; Schüller and Turner, 2007; Woodard

and Wang, 2004), research on this subject is still in its early stages. The existing research on China's outward M&A has mostly focussed upon its strategic motivations and underlying rationale (Child and Rodrigues, 2005; Deng 2007, 2009; Hemerling et al., 2006; Rui and Yip, 2008; Wang and Boateng, 2007). What is lacking or absent from the existing research is an examination of the other issues with respect to China's outward M&A, such as valuation, post-M&A integration, knowledge transfer and organisational learning, and, performance appraisal (Birkinshaw et al., 2010). This section concentrates on the literature review of the Chinese firms' outward M&A.

Dunning (1977 and 2006) put forward two main drivers for companies involved in outward M&A: asset augmentation and exploitation. Extensive literature argues that several issues motivate MNEs to invest abroad by means of various entry modes, including M&A: the pursuit of natural resources, markets, strategic assets and technology, diversification, efficiency theory and so on (Dunning, 1993; Buckley and Ghauri, 2002; Hopkins, 1999). Whatever drove a firm initially, its ultimate aim is to enhance its competitive advantage (Deng, 2004, 2007; Luo and Tung, 2007; Chen and Young, 2009).

The motivations of Chinese acquirers' are proved to be generally in line with those listed above, yet present several distinctive features (Deng, 2004; Buckley et al., 2008). First, the pursuit of natural resources is the primary motivation for many of

China's outward M&As. Although China is known to be a large country with abundant natural resources, it still needs to source energy and resources from other countries due to its enormous consumption and high growth rate. Therefore, it has long been a critical plan of the Chinese government to source a stable supply of natural resources by means of outward M&A activities, notably undertaken by SOEs (Taylor, 2002). More recently, its rapidly growing GDP and its huge foreign exchange reserve have helped Chinese firms to invest in natural resources overseas. Luedi (2008) assesses China's outward M&A from 1995 to 2007 and finds that the natural resources seeking M&A take the largest proportion in both the number of deals and the total deal value. Deng (2007) also argues that the reason why Chinese MNEs have acquired foreign assets through outward M&A lies in its need for strategic resources. There are eight deals in the category of natural resources seeking among the ten largest Chinese outward M&A in recent years, including the largest case so far: CHINALCO's acquisition of part of Rio Tinto Plc for a total value of USD 14.5 billion.

Second, strategic asset seeking is becoming ever more important. Strategic assets are identified as such resources and capabilities which are unique and valuable for a company, and are able to contribute to the company's competitive advantage and superior performance (Amit and Schoemaker, 1993). These specialised resources and capabilities are hard to create and imitate. Strategic asset seeking FDI has grown rapidly over the last three decades (Dunning, 1998; Deng, 2007, 2012) and M&A are

considered to be the most effective way to gain fast access to strategic assets (Homburg and Bucerius, 2005; Wesson, 2004). This is particularly true for Chinese MNEs, which are newcomers to the international market and control very limited strategic assets. They have to seek superior resources and capabilities overseas, mostly from developed countries, due to the backwardness of indigenous companies (Nolan, 2001; Luo and Tung, 2007; Deng, 2009). In order to enhance their competitive advantage both at home and abroad, Chinese firms need to engage in strategic asset seeking FDI by way of M&A (Deng, 2007). Some research categorises this type of motivations as a strategic intent perspective to interpret the rationale behind the motivation of Chinese MNEs (Rui and Yip, 2008). The Chinese government has been particularly keen to improve the international competitiveness of Chinese SOEs and turn them into global players (Schüller and Turner, 2007). For example, the Shanghai Automotive Industrial Corporation (SAIC) acquired Ssangyong Motors in July 2004 in a deal roughly worth USD 500 million. This is the first overseas M&A by a Chinese automotive manufacturer, which provided other Chinese firms with a good learning base for the acquisition of manufacturing skills, in-house design capabilities and the establishment of an internationally recognised brand. Shortly after, Nanjing Automotive's acquisition of the British Rover company was regarded to have further strengthened the Chinese automotive industry's competitiveness in car manufacturing (Tan and Ai, 2010).

Third, diversification also plays an important role in the drive for outward M&A.



Mainstream financial theory postulates that non-systematic risk can be eliminated through diversification (Treynor, 1961; Sharpe, 1964). Outward M&A is an effective way to reduce financial and operational risks through geographical diversification (Seth, 1990). This is because outward M&A can diversify non-systematic risk by arbitrage on different exchange rates, tax regimes, etc. On this front, some Chinese banks and insurance companies, such as the China Investment Corporation (CIC) and the China International Capital Corporation (CICC), have already invested in overseas financial institutions and markets to diversify their product portfolios and contain risk (Luedi, 2008).

Other motivations are also believed to be behind the outward M&A activities of Chinese MNEs, such as seeking market expansion, access to Western brands, or an effect of globalization (Martin, et al 1998; UNCTAD 2000). For example, companies such as ZTE, Huawei and Haier invested overseas through M&A to gain access to new international markets. Similarly, TCL's purchase of Schneider Electronics was also aimed at penetrating the European market and avoiding possible charges of dumping (Buckley et al., 2008). Another good example is Lenovo's acquisition of IBM's PC Division, which extended Lenovo's brand awareness worldwide.

Table 3.3 Differences in the main motivations of outward M&A of Chinese SOEs and Non-SOEs

SOEs	Non-SOEs
<ul style="list-style-type: none"> <li>● Natural resource seeking</li> <li>● Increasing international competitiveness</li> <li>● Maintaining domestic leading positions</li> </ul>	<ul style="list-style-type: none"> <li>● Strategic asset seeking</li> <li>● Access to new markets</li> <li>● Seeking technologies</li> </ul>

	<ul style="list-style-type: none"> <li>● Diversification</li> <li>● Seeking efficiency</li> </ul>
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Source: Deng (2004), Schüller and Turner (2007)

However, when examining any actual cases, the distinction between the above motivations is not always clear-cut (Deng, 2004) or, putting it another way, there may be multiple motivations behind any individual M&A decision. Despite various M&A aims having been pursued by Chinese firms, their primary motivation for those who do not have to meet the need of the state is the acquisition of strategic assets (UNCTAD, 2006; Deng, 2009; Rui and Yip, 2008; Child and Rodrigues, 2005). This study follows Deng's (2009) idea of strategic assets by using Amit and Schoemaker's (1993) definition: "the set of difficult to trade and imitate, scarce, appropriable and specialized resources and capabilities that bestow the firm's competitive advantage" (Amit and Schoemaker, 1993, p. 36). According to the resource-based view, a firm's strategic assets determine its competitive advantage and performance (Barney, 1991). Most Chinese firms use outward M&A to access and source strategic assets to improve their competitive advantage and compensate their competitive disadvantage (Child and Rodrigues, 2005; Rui and Yip, 2008; Deng, 2007, 2009). In this research, the term 'strategic assets' will be used with the same meaning of 'resources' and 'capabilities', which determine a firm's competitive advantage and performance (Barney, 1991). Moreover, this study divides resources into tangible and intangible ones; in turn, intangible resources can be divided into tacit-knowledge based resources and explicit-knowledge based ones (Kogut and Zander, 1992; Grant, 1996).

Given that the pioneers and the majority of China's outward M&A are conducted by Chinese SOEs, which are incentivised and managed differently from the typical firms in a market economy (Child, 1994), it is doubtful whether the mainstream theories and empirical findings from Western countries can be applied to the case of Chinese firms. It is clear that the current state of research on the outward M&A activities of Chinese firms is primarily focused on its motivations. Nevertheless, the central theme of M&A, the value creation riddle, is still left adrift (Very et al., 2012). Mainstream M&A researchers believe that the value of M&A is created in the post-acquisition integration phase because the extent to which that synergy potential is realised depends on the ability of the acquirer to effectively manage the post-acquisition integration process (Haspeslagh and Jemission, 1991; Stahl et al., 2011). For Chinese acquirers, post-acquisition integration can be particularly difficult due to their lack of international experience, managerial competency and professional expertise (Luo and Tung, 2007). Despite the theoretical importance and practical difficulties, very little research has placed its focus on the Chinese acquirers' post-acquisition integration process (Deng, 2011; Liu and Woywode, 2013), leaving an important research gap. This study will fill this gap by exploring and explaining the key success factors in the management of post-acquisition integration in the outward M&A of Chinese firms.

### **3.6 Conclusion**

This chapter achieves two aims. First, it provides the background to the research by analysing the current status of China's outward M&A, with a particular focus on the role of the government as the most significant institutional factor. Second, it reviews the current literature on Chinese firms' outward M&A and points out the research gaps for future studies. This study will fill some of these gaps. In the next chapter, the methodology of this research will be presented.

## **Chapter 4 Methodology**

### **4.1 Introduction**

The aim of this chapter is to discuss the research methodology. After identifying the research gaps and setting up the research propositions, this chapter follows the sequence of Saunders et al.'s (2009) 'research onion' (Figure 4.1) and starts by identifying the research philosophy and explaining the research approach used in this thesis. Then the research design is explained and justified. The research design involves choosing a multiple case study research strategy, selecting the cases, building the case study protocol, collecting the primary data by means of semi-structured interviews and collecting secondary data from documentation. The data analysis strategy, process and procedures follow. Finally, the validity and reliability of the research is justified, followed by a discussion of the author's experience in conducting a case study research on Chinese MNEs.

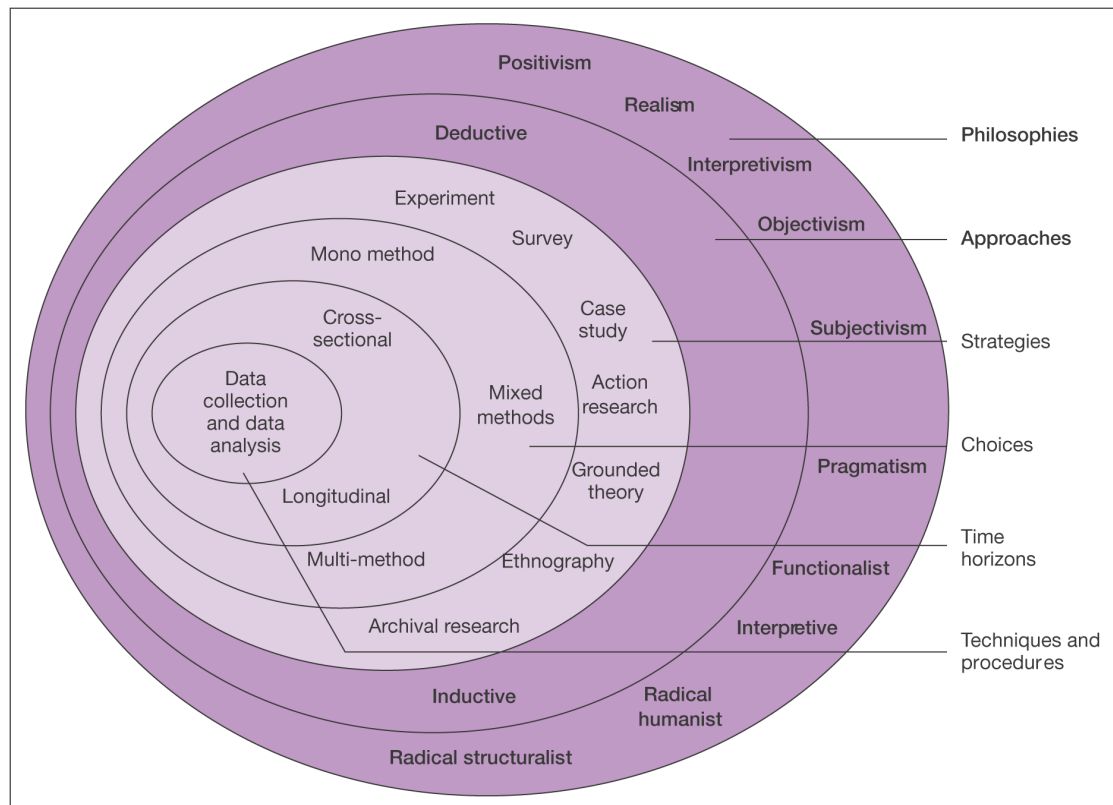


Figure 4.1 The research ‘onion’

Source: Saunders, M., Lewis, P., and Thornhill, A., 2009 (p.108)

## 4.2 The Research Philosophy

The research philosophy provides the underpinning of the whole research; from the research approach and strategy to the methods chosen as part of the research strategy. It includes relevant assumptions about how the author views the world. The philosophical attitude of a researcher determines his/her knowledge perception and the process of knowledge creation. For example, a researcher who is concerned with facts, such as the resources needed in a manufacturing process, is likely to have a view on the way research should be conducted different from that of a researcher who

is concerned with the feelings and attitudes of workers towards their managers in that same manufacturing process. These two researchers may adopt considerably different research strategies and methods, as well as different views on the relative relevance of the pieces of evidence collected. Saunders et al. (2009) suggest that the important issue is not whether a research should be philosophically informed, but how the researcher applies the research philosophy in practice and reflects on the philosophical choices.

#### **4.2.1 Ontology and Epistemology**

Two major ways of considering a research philosophy are its ontological and epistemological foundations. It is necessary to explicitly state both since the differences in these two philosophical concepts have a great impact on the way in which a researcher views the whole research process.

Ontology refers to a researcher's view of the nature of reality or beings. It is concerned with the structure of existence and reflects how researchers make sense of the world (Crotty, 1998). There are two ontological positions: objectivism and subjectivism. Objectivism holds the position that social entities exist in a reality external to the social actors that are concerned with their existence. This view emphasises the structural aspects of management and assumes management to be similar in all organisations. The aspects of the structure in which management

operates may differ, but the essence of the function is very much the same in all organisations. Insofar as management does differ in organisations, it does so as a function of its different objective aspects. Conversely, subjectivism holds that social phenomena are shaped by the perceptions and consequent actions of the social actors that are concerned with their existence. What is more, this is a continuous process in that, through the process of social interaction, social phenomena are in a constant state of revision.

Epistemology is concerned with a researcher's view of what should be accepted as knowledge in a field of study. The central debate of epistemology lies in the nature of knowledge and focuses on whether the social context should be studied according to the same principles (Bryman, 2012). The epistemological stance affirms the importance of the use of an appropriate research methodology to generate and build new knowledge. There are two major different researcher stances on epistemological positions, which embrace either positivism or interpretivism. Positivism is an epistemological view that considers the world to exist objectively and externally, independent of social actors; thus, its properties should be measured through objective, empirical and analytic methods, instead of placing any great reliance on human feelings (Easterby-Smith et al., 2008; Bryman, 2012). Those researchers who take the positivist stance prefer to use observable social reality and, from their research, tend to produce results based upon causality and law-like generalisations, such as those sought by natural scientists (Remenyi et al., 1998; Saunders et al., 2009). Conversely,

interpretivism advocates that the world exists internally and should be subjectively viewed and measured. It emphasises the human beings' roles of social actors and distinguishes between research conducted on human objectives and that involving other ones. Interpretivism requires researchers to grasp and understand subjective realities and meanings of social actions. Interpretivists view the subject meaning in social science as people and institutions are varied from one to another. The multiple faces of reality require a different logic of research procedure. When taking the interpretative philosophy stand, it is impossible to replicate or generalise research findings, but the researcher can provide interesting examples, coming up with surprising new findings (Bryman, 2012).

#### **4.2.2 Philosophical underpinning: Positivism**

The main aim of this research is to uncover key factors in the management of the post-acquisition integration of Chinese firms' outward M&A and explain how these factors impact on post-acquisition capability transfer. As stated in the last chapter, although previous research has developed various key success factors of M&A, the variables most commonly used in empirical research to predict acquisition performance still fail to explain the variance in post-acquisition performance. In this case, it is clear that more theoretical development is needed to shed light on those factors that may contribute to post-acquisition performance (King et al., 2004; Bjorkman et al., 2007; Gomes et al., 2013). This need for the development of a new



theory or for the verification of existing theory becomes particularly urgent when considering the outward M&A of Chinese firms. Therefore, the main objective of this research is to develop a new theory relating to the key success factors in the management of the post-acquisition integration of Chinese firms' outward M&A.

Despite CBMA being a complex and socially constructed phenomenon, building a theory regarding its key success factors requires the author to remain external to the data collection process in order to minimise any alteration of the substance of the collected data (Saunders et al., 2009). Although contextual description can serve as a necessary first step of the research, it cannot lead to a generalisable theory on its own (Welch et al., 2011). In order to define a new theory or verify the existing ones in this field, a highly structured methodology will be used to facilitate replication. Researchers should use the observable social reality and aim at producing results linked to causality and law-like generalizations, akin to those produced by natural scientists. The theorising process in this research requires objectivity in the ontological position and independence from the social actors. Therefore, positivism fits the nature of this research. Table 4.1 shows the details of the philosophical orientation of this research.

Table 4.1 Detailed philosophical orientation in this research

Dimension	Positivism
Ontology	External, objective and

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	independent of social actors
Epistemology	Only observable phenomena can provide credible data and evidence. Focus on causality and law-like generalizations. Reduce phenomena to simplest elements
Axiology	Research is undertaken in a value-free way. The researcher is independent of the data and maintains an objective stance
Nature of the research process	Objective search for generalities or causal links
Study outcome	Explanation in the form of testable propositions and cause-effect relations

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### 4.3 The research approach

Before designing a research, a research approach needs to be identified and justified. There is the deductive approach, which is characterised by the testing of hypotheses drawn from theory, and the inductive approach, by which researchers develop a theory based upon the results of data analysis (Saunders et al., 2009). Identifying a research approach is an important component of the research design, and a crucial antecedent for the selection of a research strategy (Easterby-Smith et al., 2008).

This study adopts the inductive approach since it intends to address the research question by building a theory for an undeveloped research field instead of testing an

existing theory. Eisenhardt and Graebner (2007) advocated that researchers using theory building should justify their research approaches because of the implicit assumption that "theory building from cases is less precise, objective, and rigorous than large-scale hypothesis testing" (Eisenhardt and Graebner, 2007, p.26). Based on their arguments, the inductive approach adopted in this research is justified by the importance of the research question and by the fact that no existing research has addressed it before, as stated in detail in the first chapter. In this case, it is clear that more theoretical development is needed to shed light on the factors that contribute to the post-acquisition performance of the Chinese firms' outward M&A in developed economies.

However, it should be noted that the inductive approach adopted in this research is combined with some elements of the deductive approach, as a proposed theoretical framework and propositions are developed by reviewing the existing literature. Then, the applicability of these propositions is tested by means of the data collection and analysis process. Therefore, this research can be viewed as a combination of elements from both the inductive and deductive approaches (Saunders et al., 2009). Following the suggestion made by Child et al. (2012), this study also takes to heart Langley's (1999) insistence that "we should not have to be shy about mobilizing both inductive (data-driven) and deductive (theory-driven) approaches iteratively or simultaneously as inspiration guides us"(p. 708). Therefore, this research uses both theory and data to build theory.

#### **4.4 The research design**

The research design helps researchers to turn their research questions into research projects (Robson, 2002). It is influenced by the author's research philosophy and approach. Saunders et al. (2009) considered the research design to be a combination of three layers of the 'research onion', i.e. the research strategy, research choices and time horizons. Based on the research question, objective, philosophy, and approach, a qualitative multiple-case study with a strong explanatory element is applied in this study.

##### **4.4.1 The case study strategy**

The research strategy is guided by the research question and objective (Saunders, et al., 2009). The case study strategy provides a rich and empirical description of a particular contemporary phenomenon within a real life context by using a variety of data sources (Yin, 2002; Robson, 2002). It is also the prevailing research strategy for the undertaking of qualitative research in international business (Marschan and Welch, 2004). This study adopts case study as its research strategy for the following reasons. First, case study is an increasingly popular research strategy for theory building as it can create propositions and theoretical constructs from empirical data sources. Theories can be developed by recognising patterns in the relationships identified within and across cases, or the rationale underlying these relationships. Moreover,

theory building from cases is considered to be one of the best bridges connecting qualitative data and deductive research as it concentrates on building constructs and theoretical propositions. Building a theory from a case study can be viewed as being complementary to mainstream deductive research since it provides accurate propositions and theories based upon ample empirical data. These theories can be tested by deductive researchers using quantitative data. In other words, inductive researchers build a theory from cases and deductive researchers test that theory by using data (Eisenhardt and Graebner, 2007). Therefore, building a theory from a case study is the most popular and appropriate strategy in management studies (Yin, 2002; Eisenhardt, 1989; Eisenhardt and Graebner, 2007). This research is intended to build a theory (a mid-range theory) in an under-developed research field in cross-border M&A (King et al., 2004); thus, the case study strategy is the most appropriate to answer the research question and achieve the research objective.

The second reason of choosing a case study as the research strategy is the importance of the research context in this study. One of the main contributions of this research is its emphasis on context, since it concentrates on the CBMA phenomenon involving acquirers from a representative emerging economy and, moreover, involving their M&A activities in developed economies. Case studies can provide in-depth insights into organizational knowledge and practice, especially when cross-cultural and cross-border issues are involved (Flick, 2009; Ghauri, 2004). Yin (2002) suggests case studies to be the preferred research strategy in those instances in which the focus is on

contemporary phenomena within their social context. He believes the boundary between the focal phenomenon and the real life context not to be clearly evident within case studies. Therefore, it is an appropriate strategy to get a rich understanding of the research context and of the processes being enacted. Haleblan et al., (2009) suggest using in-depth interview and case study techniques to develop a deeper understanding of the cognitive and behavioural decision-making processes that form the basis of M&A and affect M&A outcomes. In recent years, the value of a case study strategy based on qualitative evidence in research on Chinese firms' outward M&A has been increasingly recognised. A considerable proportion of the most influential studies in this area have relied on this strategy (Rui and Yip, 2008; Deng 2007; Deng 2009; Deng 2011). The case study strategy is deemed to be the most appropriate for this study not only because of its ability to provide in-depth insights into the phenomenon, but also for its potential to achieve a rich understanding of the cross-border and cross-cultural context.

Moreover, case studies are usually used in exploratory and explanatory research since they have a considerable ability to generate answers to questions of 'how', 'why' and 'what' (Yin, 2002; Saunders, et al., 2009). This is in line with this study's research questions. Consequently, an explanatory case study is suited as this research's strategy. Besides, case study is preferred when the researcher has little control over the actual behavioural events, as is the situation in this research.

To sum up, the case study research strategy, which provides a rich description of contemporary phenomena within a real life context, is suitable for this study not only because of its strong aptitude in theory construction, but also due to its status of highly preferred strategy when ‘how’, ‘why’, and ‘what’ questions are posed, when the research concentrates on a contemporary phenomenon within a real life context, and when the researcher has little control over events.

#### **4.4.2 Multiple case study design**

This study takes an embedded view which considers the specific M&A event in a case as the unit of analysis, without paying special attention to any subunit. This research adopts a multiple-case study design instead of single case study. Single case studies are usually employed to observe and analyse a significant phenomenon under extreme or unique circumstances. The rationale for conducting a single case study implies the case being critical, unique, representative, or revelatory (Yin, 2002). Although single case studies can provide substantial richness and depth, multiple-case studies are often seen to unearth more compelling evidence and produce more robust results since they enable comparisons that clarify whether an emergent finding is simply idiosyncratic to a single case or consistently replicated in several ones (Eisenhardt and Graebner, 2007). Propositions in multiple-case studies can be investigated based on ample empirical data, which can build more precise relationships and constructs. Pauwels and Matthyssens (2004) suggest that only switching from single to multiple-case

studies can create more theory driven variance and divergence in the data.

Although multiple-case studies are likely to deliver more robust overall results and generate more compelling theories, their theoretical sampling is considered to be more complicated. The logic behind theoretical sampling is different from that used in surveys. Eisenhardt and Graebner (2007) consider theoretical sampling similar to multiple experiment sampling, which involves choosing samples based upon how likely they are to provide theoretical insights, instead of selecting them randomly from a given population. In this case, cases are selected based upon theoretical considerations such as replication, rival replication, extension of theory, etc. This is in line with Yin's explanation of the 'replication' logic. Yin (2002) argue that the underlying logic behind the use of multiple-case studies is the same as the one used in multiple experiments. In a multiple-case study, each case must be carefully selected to serve a specific purpose, which is either predicting a similar result, namely literal replication, or predicting a contrasting result for predictable reasons, namely theoretical replication. Based on Yin's (2002) arguments, literal replication logic is used in the design of this research. If all cases generate similar results, as predicted, they will have provided compelling support for the theoretical propositions. Each individual case study consists of a whole study in which convergent evidence is sought regarding the facts and conclusions of the case. Conclusions of each cases are then used as the information that needs replication in other individual cases. Summary reports of both individual cases and multiple cases should be produced based on the



results. For each individual case, the report should indicate how and why a particular proposition was demonstrated or not. The cross-case report should indicate the extent of the replication logic and why certain cases were predicted to yield specific results, whereas other cases, if any, were predicted to yield contrasting ones (Yin, 2002).

#### **4.4.3 Case selection**

Following the replication logic of a multiple-case study, this research focuses upon four cases. The number of cases is a reflection of the number of case replications needed in this research (Yin, 2002) and of the need to also take into account theoretical saturation (Glaser and Strauss, 1967). Taking further cases has a low marginal utility since the marginal contribution of each additional case is decreasing. On the other hand, the cost of conducting case studies should be considered as well, not only in terms of finances, but also of time. Additionally, securing access is also a kind of cost involved in the conduction of case studies. This is particularly true in this research, for contextual reasons that will be stated in detail in the data collection section<sup>6</sup>. Given the comprehensiveness of a CBMA integration process, the time required and the costs involves in a qualitative case study, four cases are considered to be an adequate number and the highest that could be handled.

Yin (2002) suggests that prior knowledge of the outcome is a prerequisite in the

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<sup>6</sup>To the best knowledge of the author, there is currently no internationally academic publication on Chinese firms' outward M&A using more than three cases in the research.

selection of cases. Having performed research on Chinese firms' outward M&A in the past few years, the author had accumulated some prior related knowledge in this field<sup>7</sup>; this aided his judgment on the potential exemplary outcomes and on the likeliness of achieving literal replications across cases.

The four cases selected for this research projects are: the YTO Group's M&A with McCormick in France, the Nanyang CIJIAN Group's M&A with Way Assauto in Italy, CITIC Heavy Industries' M&A with Gandara Censa in Spain and TCL's M&A with Thomson in France. The rationale and criteria behind the selection of these cases were borne out of the following considerations: Firstly, although there are distinct motivations for Chinese firms' outward M&A, the pursuit of strategic resources is considered to be the most important, apart from meeting government driven imperatives (Deng 2007, 2009; Rui and Yip, 2008). In line with the mainstream literature regarding the rationale of Chinese firms' outward M&A, the four cases were selected because the main rationale behind all their M&A was the pursuit of strategic resources and capabilities. However, M&A made by SOEs cannot be simply reduced to deals made to meet government objectives. As discussed in Chapter three and compared with non-SOEs, SOEs could avail themselves of both financial and administrative support by the Chinese government in the pre-acquisition phase through a variety of discriminatory policies. However, the differences between SOEs and Non-SOEs in the post-acquisition phase are still not clear. In order to enhance the

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<sup>7</sup>Tan and Ai, 2010; Ai and Tan, 2012; Sang et al., 2014.

potential for generalisation, both SOEs, such as CITIC Heavy Industries and the YTO Group, and Non-SOEs, such as TCL and the Nanyang Cijian Group, are included in this study. Moreover, all the acquiring firms selected are high-profile and leading firms in their respective industries, which can effectively dismiss the notion of conducting M&A for opportunistic reasons while announcing a strategic intent motive (Rui and Yip, 2008). Secondly, based on Birkinshaw et al.'s (2010) suggestion, concentrating only on cases involving acquired firms from developed economies is deemed to be part of the potential contribution of this research. Accordingly, the home countries of the acquired firms in the selected cases are all developed western ones. Thirdly, all four cases made their M&A deals at least one year before the first interview data collection, which allows that sufficient time had elapsed for the implementation of their post-acquisition integration strategies (Angwin, 2004; Gomes et al., 2013). Finally, the basic underlying rationale for the case selection was replication logic. All cases were chosen due to the prior expectation of analogous outcomes. After collecting and analysing the data, if literal replication were to be found in all cases, sound overall results could be expected. Table 4.2 shows the similarities and differences between cases with regards to the case selection criteria.

Table 4.2 Case selection criteria and variance of cases based on theoretical sampling

	<b>YTO and McCormick</b>	<b>TCL and Thomson</b>	<b>Cijian and Way Assauto</b>	<b>CITIC and Gandara Censa</b>
Time of M&A	07/03/2011	01/2004	31/03/2011	23/02/2011
Status of the acquiring	First tractor manufacturer in	The biggest Consumer	One of the biggest	One of the biggest players in the

firm within the industry	China. Number one in market share.	electronics company in China. Number one in the TV industry for years.	vehicle shock absorber producers in China. Number one in market share.	heavy equipment manufacturing industry; Number one mining machinery and cement equipment manufacturer
Motivation of M&A	Strategic intent. Seeking technology, market, and brand.	Strategic intent. Seeking technology, market, and brand.	Strategic intent. Seeking technology and market.	Strategic intent. Seeking technology, market, and geographical positioning.
Location of acquired firm	France	France	Italy	Spain
Ownership structure	SOE	Non-SOE	Non-SOE	SOE

#### 4.4.4 The case study protocol

Yin (2002) suggests that researchers develop a case study protocol before conducting their case study research; this is particularly essential in multiple-case studies. A case study protocol is much more than a questionnaire. It provides researchers with guidelines for the collection of data from each case and is considered to be a significant tool to increase the reliability of a case study research. According to Yin (2002), a generic case study protocol contains an overview of the project, covering: both the research objective and questions; the theoretical framework, propositions, etc.; the data collection procedures, including the field work plan, site visit details, preparation and procedural reminders, etc.; the detailed case study questions and the

case report guide. A case study protocol not only helps researchers to stay on the right path during the data collection process in a complex multiple-case study, but also forces them to consider some issues beforehand – such as how to complete the case study report – which helps them avoid disastrous outcomes in the long run (Yin, 2002). The detailed case study protocol for this research is shown in Table 4.3.

Table 4.3 Case study protocol

<p><b>1. Introduction to the case study and purpose of protocol</b></p> <p><b>1.1 Research questions:</b></p> <ol style="list-style-type: none"><li>1. What are the key factors in the management of post-acquisition integration by Chinese firms?</li><li>2. How and why do these factors impact on the post-acquisition integration process and M&amp;A performance?</li><li>3. How do the explanations of the identified key success factors contribute to the theory building for the post-acquisition integration in outward M&amp;A by Chinese firms and by firms from other emerging economies?</li></ol> <p><b>1.2 Propositions:</b></p> <p><i>Proposition 1: The Chinese acquirers' prior related knowledge is a key factor that influences the post-acquisition integration process of their outward M&amp;A.</i></p> <p><i>Proposition 2: The level of integration is a key factor that influences the post-acquisition integration process of the Chinese firms' outward M&amp;A.</i></p> <p><i>Proposition 3: The speed of integration is a key factor that influences the post-acquisition integration process of Chinese firms' outward M&amp;A.</i></p> <p><i>Proposition 4: Human resource related issues in the integration phase are a key factor that influences the post-acquisition integration process of Chinese firms' outward M&amp;A.</i></p> <p><i>Proposition 5: The management of cultural differences at multiple levels in the integration phase is a key factor that influences the post-acquisition integration process of Chinese firms' outward M&amp;A.</i></p> <p><i>Proposition 6: Communication in the integration phase is a key factor that influences</i></p>
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## **2. Data collection procedures**

### **2.1 Name of firms to be contacted and contact persons**

YTO-Mr Zheng(Director of executive office);

CITIC-Mr Luo (Director of executive office);

Nanyang CIJIAN-Mr Zhao (CEO and President);

TCL-Mr. Li (Vice-CEO)

### **2.2 Data collection plan**

Time period and length of each interview (See table 4.6)

### **2.3 Preparation prior to interview**

Documents to be reviewed (See table 4.5)

## **3. Case study questions**

Background questions; Questions by propositions; Supplementary questions (See table 4.4)

## **4. Outline of the individual case study report**

### **4.1 Brief background of the case**

### **4.2 M&A deal descriptions**

### **4.3 Factors influencing the integration process of M&A by propositions**

## **4.5 Data collection**

The data collection overlapping with the data analysis is considered to be a main feature and advantage of a case study strategy (Eisenhardt, 1989). Unlike other research strategies, such as experiments and surveys, case studies present the opportunity to use different data sources that can cover a wide range of evidence. Using multiple sources of evidence, which is often referred to as 'triangulation', can lead to more convincing and accurate findings; hence, it is the main principle underlying the data collection method of this study (Miles and Huberman, 1994; Yin, 2002). The triangulation of data sources can help to increase the validity and reliability of the research design, as well as to avoid internal and external bias (Eisenhardt, 1989; Pauwels and Matthyssens, 2004).

Different sources of evidence – such as interviews, documents, observation, archival data, questionnaire, etc. – can be tapped in the data collection process of case studies (Eisenhardt, 1989; Patton, 1990; Yin, 2002; Saunders et al., 2009). Although not all of these sources of evidence will be relevant to all case studies, the combination of different sources of data should be pursued due to their high complementarity. This research relies mainly on two sources of evidence: interviews and documentary data. Semi-structured interviews are considered to be the main means for the collection of the primary data of this research, while documentation is the major source of secondary data. The details about the data collection will be presented in the sub-sections below.

Collecting data from multiple sources is important in this research not only for triangulation purposes, but also due to the imbalance which exists in the different types of data available for each respective case. For example, while there is a high degree of saturation with regard to interview data, there is only a moderate amount of external documentary data pertaining to the Nanyang Cijian Group's M&A with Way Assauto. The main reason for this is because the price of the deal was not divulged as the industry is unpopular to the public and media. Besides, the Nanyang Cijian Group is neither a listed company nor an SOE. Therefore, the attention it received from the public and the media was relatively low. On the contrary, TCL's M&A with Thomson features only a moderate level of interview saturation, while the availability of

external documentation is very high. This is mainly because the deal is over ten years old and a large proportion of the parties involved have since left the firm. Moreover, since it was a failed M&A, some of the senior executives did not wish to talk too much about this unsuccessful affair. However, TCL's case was very high-profile, and has been explored by many scholars in China, so there is an ample availability of secondary data in relation to it. Therefore, the combination of these different sources of data not only helps to cross-check the validity of the findings but is also a prerequisite for the establishment of a sound comparison across different dimensions under the constraints of limited financial resources and data access.

#### **4.5.1 Primary data: the semi-structured interviews**

Interviews are one of the most significant data collection techniques in social science, and are particularly important as a source of information in case studies (Easterby et al., 2008; Yin, 2002). The nature of the interviews should be consistent with the research questions, objectives and strategy. Interviews are a highly efficient way to gather rich empirical data when the phenomenon under scrutiny is infrequent and embedded in a real life context. Eisenhardt and Graebner (2007) suggest that, when case study research incorporates multiple cases and move away from everyday phenomenon to intermittent strategic phenomenon such as M&A, interviews usually became the prevailing primary data source.



According to the most prevailing typologies, interviews can be categorised as unstructured (or in-depth), semi-structured, and structured interview (Saunders, et al, 2009). Structured interviews are also referred to as ‘quantitative research interviews’ since they are often used to collect quantitative data. Conversely, semi-structured and unstructured interviews are also called ‘qualitative research interviews’ (King et al., 2004). Based on the research questions and objectives of this study, qualitative research interviews were employed. In unstructured interviews, there is no predetermined list of questions to follow, although the interviewer needs to have a clear idea of the aspects to be explored. The main purpose of an unstructured interview is to explore relevant issues in a broad manner, so that the interviewees are given the opportunity to talk freely about events, and the conversations are often very flexible. Semi-structured interviews require the researchers to prepare a list of questions to be covered, although the order of such questions may vary depending on the flow of the conversation. The specific questions may vary as a function of the specific firm context and of the roles of the interviewees. On the other hand, complementary questions may also be required if the discussion shifts to relevant related areas that the interviewer had not previously considered (Ghauri and Grønhaug, 2002; Easterby-Smith et al., 2008; Saunders et al., 2009).

Compared to unstructured ones, semi-structured interviews occupy a methodological middle ground by providing a line of questions to follow while allowing the interviewees to talk freely. By providing a guideline, the set of questions helps the

interviewer to steer the conversation towards the main objectives of the research. Open-ended questions have the potential to provide a large volume of rich data, and to create an open conversation framework which can be enriched by a two-way communication based on a set of questions. In a semi-structured interview, the interviewees are often encouraged to feel free to share relative opinions, which helps the researchers to explore the interviewees' response to different issues in an interactive and flexible fashion.

Considering that the research topic of this study is CBMA, an extremely complex and multi-phase event, unstructured interviews would have provided ample opportunities to conduct meandering conversations. However, semi-structured interviews would not only afford the freedom to open up the complexity of events and research questions, but would make it possible to steer the conversations within the scope of the key themes. Therefore, semi-structured interviews were considered to be the most appropriate data collection technique for this study.

The specific context of each case was also another significant reason behind the selection of semi-structured interviews to be the data collection technique for this research. As stated earlier in this chapter, the acquiring firms in this study are all leaders in their respective industry sectors. Top executives in such high-profile companies hold a high social status, and often follow extremely hectic schedules. The people at the top of the 'pyramid', have some common characteristics that point at

semi-structured interviews as the most suitable means for extracting reliable evidence from them. Chinese top executives are good at making public speeches since they have been exercising this skill in their careers leading up to their current positions. Nevertheless, their being expert public speakers does not imply that they are good at freely sharing their personal opinions in front of strangers. In most cases, their speeches are drafted by secretaries and they always express views that are in accordance with these documents or even closely follow the speech drafts. This is mainly because of the traditional Chinese philosophy of ‘circumspection’, which makes people in top positions very cautious about everything, including making mistakes. Consequently, if unstructured interviews were to be used to collect evidence from top executives, it would be very difficult to ensure that the information provided reflected their personal opinions instead of just echoing the themes of their public speeches, as they would be able to talk freely and easily switch to ‘speech mode’. Conversely, in semi-structured interviews, the executives’ speech patterns can be disrupted by questions raised by interviewers, forcing them to reorganise their thoughts to answer specific questions and themes. Under these circumstances, the information provided will most likely represent their true opinions and the data collected will be more reliable.

On the other hand, it would have been highly problematic to ask the top executives of these leading Chinese firms to dedicate several hours to in-depth interviews, particularly with PhD students and junior faculty members. Semi-structured

interviews offset this issue by adjusting the question lists and steering the conversation to key themes. Therefore, this research employed semi-structured interviews for the collection of its primary data.

#### **4.5.1.1 Interviews conducted**

As shown in the case study protocol, the main aim of the interviews was to gather information on the key factors in the management of the post-acquisition integration of Chinese firms' outward M&A and on how these factors impact on the post-acquisition capability transfer. In this instance, the ideal interviewees would be the persons who had been in charge of the formulation of the post-acquisition integration strategies, such as the top executives in both the acquiring and acquired units, and those who had been involved in the implementation of such strategies, such as senior managers in specific positions. Some middle level staff, which had been involved in most integration processes or had played important roles in the post-acquisition integration, were also included as potential interviewees. This interview strategy has been proven to be appropriate for research conducted in China (Adler et al., 1989)

To gather evidence from top executives and middle managers in both acquiring and acquired firms, 24 interviews were conducted. Tapping numerous highly knowledgeable informants from various hierarchical levels and viewing the

phenomenon from different perspectives can mitigate the potential for bias of impression management (Eisenhardt and Graebner, 2007)<sup>8</sup>. At least two top executives were interviewed for each firm, including some CEOs/presidents, who had been the main architects of the post-acquisition integration strategies. Most of the interviews were conducted face to face while others were conducted by telephone<sup>9</sup>. The interview data were mainly collected at the headquarters of the four firms during two research trips in China between the 25<sup>th</sup> of May and the 26<sup>th</sup> of June 2012, and between the 12<sup>th</sup> August and the 27<sup>th</sup> of September 2012. After some site visits and initial data analysis, the telephone interviews were conducted, between May and July 2013, to verify the original data and collect additional information. The interviews were all conducted individually. For each of the interviewees, the face to face interviews lasted one to two hours. Additional open-ended conversations were also conducted to contextualise and verify the formal interviews. A ‘cascade’ interview technique was used: working up from the middle management to the senior managers, then to the vice CEOs, and finally to the CEOs and presidents of the acquiring firms. Such a sequence of interviews helped to generate holistic maps of cases in a limited time period (Xiao et al., 2013). Due to location constraints, the CEOs of two of the acquired firms were interviewed by telephone. It was not possible to approach the Spanish CEO of the acquired CITIC HIC company, whereas his interpreter and

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<sup>8</sup>Impression management is a goal-directed conscious or unconscious process in which people attempt to influence the perceptions of other people about a person, object or event; they do so by regulating and controlling information in social interaction (Pwinger and Ebert 2001, pp. 1–2).

<sup>9</sup> Most interviews with the personnel of the acquired firms were conducted by telephone because it would have been very costly in time and money to travel to the various countries to conduct face to face interviews. This would have been particularly challenging for a Chinese researcher who needs different visas to enter into different countries.

secretary were both interviewed face to face. All interviewees were given the option of individual anonymity, but some chose not to avail themselves of it. All interviews were conducted in Chinese, and the specific interview dates and interviewees are summarised in Table 4.7. In order to verify the accuracy of the interview data, some of the interviewees were asked to check the written interview reports. Feedback was provided where it was considered feasible to do so. The specific information regarding interviewees is summarised in Table 4.4.

Table 4.4 Details of interviewees

<b>Firm</b>	<b>Management level</b>	<b>Job titles of interviews</b>
<i>Firm A</i>	<b>Top management</b>	General manager; General manager (Acquired firm) <sup>a</sup> ; Chief technology officer (Acquired firm) <sup>a</sup> ; Secretary of the Board <sup>b</sup> .
	<b>Middle management</b>	Director of the General office; Anonymous (A department manager); Assistant to General manager <sup>b</sup> .
<i>Firm B</i>	<b>Top management</b>	General manager <sup>b</sup> ; Vice general manager; General manager (Acquired firm) <sup>a</sup> .
	<b>Middle management</b>	Anonymous; Secretary of the general manager; Director of the General office (Acquired firm) <sup>a</sup> .
<i>Firm C</i>	<b>Top management</b>	General manager; Vice general manager; Anonymous.
	<b>Middle management</b>	Director of the General office <sup>b</sup> ; Anonymous; International affairs secretary; The secretary of the general manager of the acquired firm.
<i>Firm D</i>	<b>Top management</b>	Vice CEO <sup>b</sup> ; Anonymous (Acquired firm).
	<b>Middle management</b>	Secretary of general office; Executive office director <sup>a</sup> .

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<sup>a</sup>Interviewed through telephone calls in 2013.

<sup>b</sup>Interviewed again through telephone calls.

The list of interview questions was based on the propositions set up in Chapter two, with the addition of some background and factual data gathering questions. There were also some optional supplementary questions which could be asked at the end of each interview depending on the information gathered. The sequence of questions could be customised; adjusted sets of questions were put to the informants according to their roles. A detailed interview question guide is shown in Table 4.5 in both Chinese and English. The wording and phrasing of the Chinese version was deliberately crafted so that the questions could be thoroughly understood by the interviewees while not leading their responses (Yin, 2002). Back translation is the technique most commonly used to check the accuracy of translation in survey and interview questionnaires. All interview questions were back translated by my supervisor, a bilingual speaker of Chinese and English, to ensure the accuracy of translation of the interview questions (Brislin, 1970).

Table 4.5 Open-ended questions in Semi-structured interviews

**Background questions:**

1. Please elaborate your position and role in this company. How long have you been in this position and has it changed before?
2. Can you please list and elaborate on your company's recent major cross-border M&A activities?
3. What are the motivations and aims of this M&A?
4. According to the current situation, have these aims been fulfilled? Or was the company on course to achieving its aims before the M&A?
5. How do you perceive the overall performance in the acquisition as well as in any other dimensions? (You may answer this question from the point of view that you consider to be significant. e.g., sales volumes, market share or profits, knowledge acquisition, strategic objectives)

**General questions:**

6. What do you think of the importance of the post-acquisition integration phase? Why?
7. How do you perceive the management of the post-acquisition integration? Have you even been involved in it in your daily work? How?
8. What do you think are the key success factors in the management of the post-acquisition integration?

**Questions by propositions:**

9. What do you think of the importance of prior related knowledge (e.g. knowledge about the related industry/firms, acquired firms, and some of the resources and capabilities within the acquiring firm.) in the management of the post-acquisition integration? Please elaborate and explain why (PROPOSITION1).
10. What do you think of the integration (implementation) speed and level of integration? (Integration here includes market/sales information system, sales force structure, product/brand portfolio, etc.) Please elaborate and explain why (PROPOSITION 2&3).
11. What do you think of the role played by senior/middle managers in handling the post-acquisition integration? Was there any top management team turnover (retainment) and employee resistance? Please elaborate and explain why (PROPOSITION4)
12. Did your company put together a specific integration team organised by top managers for the management of the post-acquisition integration? Please elaborate and explain why. (PROPOSITION4)
13. What do you think of the relevance of communication between acquiring and acquired companies during the integration process? Please explain your answer (with examples). (PROPOSITION6)
14. What do you think of the relevance of cultural differences between the acquiring and acquired companies? Please elaborate and explain why. (PROPOSITION5)
15. Has your company even been subjected to interventions by government authorities from either the home or host countries in the post-acquisition integration phase? Please



elaborate and explain the reasons. (PROPOSITION5)

16. What do you think of the importance of the degree of social integration in the combined organisation? Please elaborate and explain the reasons. (PROPOSITION5)

**Supplementary questions:**

17. What do you think are the other aims of the management of the post-acquisition integration in the achievement of a successful M&A?

18. What other factors do you think should be considered in the management of the post-acquisition integration phase? Why?

19. Have you ever been faced with any problems or difficulties after the M&A deals? Please elaborate and explain why.

### Background:

1. 请问你在贵公司的工作经历是怎样的？目前担任什么职务，具体承担的工作任务是什么？
2. 你能简要的介绍一下贵公司所进行的海外并购活动吗？
3. 当初要进行这项并购的动机和目的是什么？
4. 就目前的情况来讲，这些目的达到了吗？或着正在逐渐的达到吗？
5. 你觉得此次并购的效果如何？成功了吗？可以从你看重的角度来理解成功与否，比如销售额，利润，市场占有率，获取的无形资产，或者是公司战略计划的执行等。

### General questions:

6. 你觉得并购交易达成后，母公司针对两个公司的融合所需要进行的管理工作对于并购成功与否是否重要？
7. 你是如何理解并购完成后对企业的整合和管理工作的？在你的实际操作中有没有进行这方面的工作？是如何来进行的？
8. 你觉得在并购后整合和管理方面，有哪些关键因素是对整个并购的成败有影响的？为什么？

### Questions by propositions:

9. 你是否在整合过程中发现公司有一部分已有的知识（例如对相关行业的了解，对被收购的公司业务的了解，或公司已有的一些管理能力等）对于此次并购整合有帮助？如果有，请详细说明，并解释原因。(PROPOSITION1)
10. 你认为是否应该在完成并购后马上进行整合？（还是说应该等一段时间来让双方互相了解。）为什么？整合的程度如何？(PROPOSITION2&3)
11. 你们对被并购公司的员工是怎么处理的？对中层经理以及高级经理呢？这样做是出于什么样的考虑？(PROPOSITION4)
12. 你们是否有建立一个专门负责并购后整合的管理团队？请详细解释并说明原因。(PROPOSITION4)
13. 你觉得并购后两个公司在各个方面的沟通是否对整个企业的整合起到关键的影响呢？请详细解释并说明原因。(PROPOSITION6)
14. 在整合过程中是否遇到一些因为文化差异而产生的问题呢？比如语言，国外的法律制度，外国人不同的文化，等等。你们又是如何处理的呢？(PROPOSITION5)
15. 整合过程中是否有受到两国政府机构不同程度的影响？如果有，是如何影响的？(PROPOSITION5)
16. 公司是否有意识的试图在并购后建立一个和谐的融洽的企业氛围，试图加强与被收购企业的沟通，使得双方能够在结构和氛围上都融为一体？如果没有，你觉得这样做会对并购的成功有帮助吗？有哪些行为可以促进融洽企业氛围的构建？(PROPOSITION5)

### Supplementary questions:

17. 你认为还有那些东西是并购后整合所需要追求的？为什么？
18. 你认为还有哪些因素是整合过程中需要考虑的？为什么？
19. 企业并购后整合过程中还出现过哪些问题？或者说困难。

#### **4.5.1.2 Recording interview data**

Recording interview data soon after it has been gathered is deemed essential to control bias and produce data reliable for research. Whenever permission is granted, the use of an audio recorder is the prevailing way in which interview data are recorded. It provides a more accurate interview rendition than other methods (Yin, 2002). The interview data collected by audio recorder can be played back by the researchers and it allows for the use of direct quotes in the case reports. Recording verbal information instead of taking notes allow the interviewers to concentrate on the content and context of the interview. This is particularly helpful for researchers conducting semi-structured interviews since it gives them time to think about what is being said and raise specific questions related to the information provided by the interviewees. Moreover, non-verbal cues, such as facial expressions and postures, can also be picked up by interviewers who do not need to record all the information by taking written notes (Ghauri, 2005; Easterby-Smith et al., 2008; Saunders et al., 2009). Therefore, the interviews conducted in this research were mainly documented by means of an audio recorder. Specifically, a digital audio recorder was adopted to partly compensate for one of the most serious drawbacks linked to the use of recorders in interviews, i.e. interviewees ‘focusing’ on the recorder instead of concentrating on the interview itself. Compared to traditional tape recorders, digital one are much smaller, and tend to ‘attract’ interviewees attention less, effectively reducing the potential stress caused to interviewees by talking into a relatively big

machine. During most interviews, a digital audio recorder and an audio recorder application on the interviewer's mobile phone were used simultaneously so as to largely counteract another disadvantage of audio recorders: the risk of technical problems. In addition, compared with using two digital audio recorders, using a smart phone as a secondary recorder can also reduce the pressure on interviewees, as mobile phones are a common commodity in most people's daily lives and they are used to talking into them. It should be noted that audio recording is rather frowned upon in Chinese culture (Xiao et al., 2013). The interviewees were asked whether they would agree to it. Although some interviewees were reluctant, most did, which largely increased the reliability of the collected interview data<sup>10</sup>.

Although this research adopted digital audio recording as the main way of documenting the interview data, note taking was also used as a complementary recording method. Some scholars suggest that taking notes during interviews and compiling a full interview record immediately after the interview can be used as a back-up if an audio recorder fails to work (Robson, 2002; Saunders et al., 2009); however, this researcher considers note taking to be an important complementary approach to interview documentation. Although audio recorders capture all verbal information, including tones and hesitations, some significant non-verbal cues, such as facial expressions and postures, may be missed without the aid of note taking during interviews. Contextual data, such as the time and location of the interview,

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<sup>10</sup>The reason of such a high rate of acceptance for audio recording could be attributed to the way in which the author obtained access to the interviewees, which was by being introduced to the CEOs/presidents of the firms by high local government officials.

were also recorded by note taking. Moreover, taking notes during the listening process can help interviewers to maintain their concentration (Ghauri, 2005). In those cases in which interviewees refused to be audio recorded, notes were taken during the interviews and a record was written up immediately after.

A small proportion of the interviews were conducted by telephone. Telephone interviews provide researchers with the opportunity to contact participants with whom it would be impractical to conduct face to face interviews due to their locations. In this research, telephone interviews were mainly used to collect interview data from some of the participants from the acquired firms. These interviewees were spread among different countries, so it would have been expensive and time consuming to conduct face to face interviews, especially for a Chinese researcher who would have needed different visas to enter into these countries. Therefore, although there are a number of difficulties associated with collecting qualitative interview data by telephone, such as establishing trust and controlling the interview pace, telephone interviews were still a helpful way in which to enrich the interview data of this research. In addition, efforts were made to compensate for the disadvantages of the telephone interviews. For example, telephone interviews have been criticised for providing unreliable data when the interviewees were less willing to engage in discussion due to the lack of establishment of trust and personal contact (Saunders et al., 2009). In this study, all telephone interviews were conducted during the very late stages of the data collection, when the credibility of the interviewer had been already

established with these interviewees by means of recommendations and introductions by their colleagues who had previously been involved in face to face interviews; thus, personal contact and trust had been established before the interviews even took place.

#### **4.5.1.3 Interviewing competency and data quality issues**

Saunders et al. (2009) suggest that, in semi-structured interviews, interviewers need to develop and demonstrate competencies in some areas so as to enhance the quality of the data collected. These areas include the use of appropriate language, listening and questioning skills, location selection, etc. Building a sound interviewing competency and paying special attention to relevant interview issues can help researchers to improve the reliability of the interview data as well as the validity of the research.

The value and reliability of the information collected through semi-structured interviews may be limited should the researcher fail to gain the trust of the interviewees or be unable to build sufficient personal credibility (Easterby-Smith et al., 2008; Saunders et al., 2009). The credibility of the interviewer and the trust of the participants were firmly established at the beginning of or even before the interviews since all firms in this study were accessed from the top down. In other words, both the access and the establishment of trust started from the top executive level so that all the other interviewees were introduced by or under the permission of the top executives of their respective firms. Therefore, an implied trust was established between

interviewer and interviewees based on that of the top executives. Additionally, before each interview, the interviewees were guaranteed anonymity and were informed that the data collected would only be used for the research linked to the author's PhD project and academic publications (and mostly in English), so that their wariness and anxiety could be effectively appeased. This was particularly relevant for the top executives of these leading Chinese firms, to increase their sense of security and enable them to provide accurate information and genuine perceptions in a way they could or would not if, for instance, they were talking to the press.

A researcher should be able to read between the lines and understand not only what is said but also what is meant (Siebers, 2011). In fact, the latter is widely considered to be more significant (Ghauri, 2005). In the Chinese context, real meanings are usually hidden deep among the words, especially in conversations with top executives. In this case, it was essential that the researcher immediately understand the true meanings expressed by the interviewee, to be able to formulate further pertinent questions about the issues mentioned. These abilities were already well developed and possessed by the author due to his work experience as an officer in Chinese local government. Having previously been in contact with many top managers and government officers, the author was able to capture and interpret the meanings behind the words of the people in this social hierarchy, which strongly increased the reliability of the data acquired through the interviews.

Attentive listening skills are another essential element of interview competency. Although the exploration and probing of explanations and meanings is necessary for conducting semi-structured interviews, the interviewer should also be a very good listener, giving the interviewees sufficient time to develop their responses. Possessing good listening skills also requires the interviewers to avoid projecting their personal views into the conversation, while not implying that they should be passive (Robson, 2002; Ghauri, 2005; Saunders et al., 2009). During the interviews, the author tried to acknowledge what was being conveyed by the interviewees by means of both eye contact and body language, such as nodding. This has been proven to be very useful to help make the interviewees feel more at ease because it instils the impression of the interviewer listening attentively and showing approval. It is considered to be particularly useful in interviewing Chinese middle managers who have seldom been involved in academic interviews and may, to a certain extent, be lacking in confidence.

The suitability of the location may also affect an interview or even influence the data quality. An convenient and comfortable interview location which can insulate interviewees from distractions can help them to relax and to concentrate on delivering their information (Siebers, 2011). In this study, most face to face interviews were conducted in the meeting rooms of the acquiring firms or in the interviewees' offices. The atmosphere deriving from 'talking in their personal space' provided the participants with an adequate sense of safety and alleviated any feelings of stress.



Special attention was also paid to the sequence of the interviews in any specific case in this research. Generally speaking, middle managers were interviewed before top executives. This was mainly because top executives could only allocate a limited amount of time to their interviews. The Presidents and/or CEOs of large Chinese firms are not only in charge of the operation of the whole company, but also take on certain political roles or political duties, which makes their schedules very busy. The interviews conducted with these people needed to be highly efficient due to the limited interview time allocated. In the meantime, the evidence and arguments of top executives were extremely valuable and insightful. They were able to answer most ‘why’ questions that could not be answered by the middle managers. Therefore, the interviewer needed get the most out of the conversations with the top executives in a limited time frame. In this case, the author started by interviewing the middle managers. On the one hand, the practice honed the interviewer’s ability to probe the questions and reconstruct what had been said. On the other hand, some issues which could not be deeply dissected by middle managers due to their positions, such as some ‘why’ questions and strategic issues, were specifically emphasised in the conversations with the top executives.

#### **4.5.2 Secondary data**

Secondary data can be either qualitative or quantitative and is widely used as part of

case studies in management and business research. Research that uses secondary data usually has an inherent advantage over that that only gathers primary data (Saunders et al., 2009). The secondary data in this study were mainly of a qualitative documentary nature and were collected from numerous internal and external sources which covered both the background to the CBMAs and the whole acquisition process, from the pre-to the post-acquisition stage. Qualitative data can provide great insight into complex social processes that quantitative data cannot easily reveal and are in line with the aim and design of this research (Eisenhardt and Graebner, 2007). Some secondary quantitative data were also obtained, but only for qualitative research purposes.

The collection of the documentary data lasted practically throughout the whole research, from March 2010 to October 2013. This implies that the data collection overlapped the data analysis, which is a key element and an advantage of case study based research (Eisenhardt, 1989).

Documentary data are significant to almost all case study topics for corroborating and augmenting the evidence obtained from other sources. If the documentary data from different sources contradicts or is not consistent with the primary data collected through the interviews, further inquiries need to be made. Moreover, documentary data can not only provide researchers with background and prior related knowledge relating to the cases, but can also enable the researcher to make inferences from the

documentation. These inferences can be further corroborated and explored by means of interviews and may bring about interesting emerging findings. However, over-reliance on documentary data should be avoided in case study based research. Researchers need to bear in mind that all documentation is written for specific purposes and specific audiences (Yin, 2002).

The documentary data in this research include both printed materials – such as books, journals, newspapers, top managers’ memos, important speeches by CEOs, strategic, annual and media reports, government reports and websites, and case studies on these firms –and non-printed materials – such as video-biographies, TV programmes, etc. Some internal documentation data collected from the headquarters of firms, such as the companies’ strategic and acquisition reports, are valuable and are not accessible by the public. Such documentation was carefully studied by the author before moving on to the next interview so that some detailed information was also adopted and explored to enrich the data set. Government policies, reports, and websites provided reliable data on the firms’ external institutions, while corporate annual reports, websites, and newsletters proved valuable to analyse the firms’ internal institutions. Books, journals, newspapers, portals and major business websites were also crucial sources of documentary data. These sources included the China Mergers and Acquisitions Yearbook, China Daily, China Business Weekly, Sina Finance, Netease Finance, Tencent Finance, Wall Street Journal, Xinhua net, etc. The relevant documentation obtained through these sources required systematic searches. Moreover, these

documentary data were collected based on the awareness that all documents, especially materials from the media, were written for specific purposes and audiences other than those of the case studies (Yin, 2002). To prevent the author to be misled by false information, all the relevant information obtained from portals and major business websites was carefully cross-checked for reliability. In addition, previous academic and practical studies in Chinese relevant to the cases in this study were also collected as important secondary documentation. The main source of these data were the Wanfang DATA and CNKI databases. Although most of the documentary data mentioned above was derived from printed sources, there were also non-printed materials, such as the video biography of TCL and of its president Mr Li, as well as some TV news items about acquisition activities and interviews with CEOs. Table 4.6 summarises the relevant secondary data used in this study.

In addition to documentary data, site observations also provided useful information for the case study, especially relating to context. Between June and September 2012, the author visited the headquarters of three of the acquiring firms. Specific date and other information is listed in table 4.7.

Table 4.6 Main secondary data

1. Central and local governmental reports, studies, and statistical data, rules on the examination of the outward M&A of Chinese firms, and regulations and policies on outward FDI and M&A.
2. Studies and reports by institutions and departments such as the Central Bureau of Statistics, MOFCOM, SAFE, World Bank, and WTO.
3. Company websites, company documents and reports such as M&A and strategy reports.
4. Press interviews, official websites, portal websites, and major business websites such as Sina Finance, Netease Finance, Tencent Finance, Wall Street Journal, etc.
5. Books, journals, newspapers such as the China Mergers and Acquisitions Yearbook, China Daily, China Business Weekly.
6. Textbooks, journals, theses and other published materials directly or indirectly related to the research field.
7. Non-printed materials, such as video biographies, interviews, special TV programmes on relevant persons and activities.

#### **4.5.3 Summary of the data collection**

The data collection of this study rested on two pillars. Multiple sources of data and data collection methods were applied. The primary data was collected through semi-structured interviews. The secondary data was sourced from copious internal and external documentation. One of the major contributions of this research rests in the data collection part, which gained access to the senior executives of the acquiring firms. At least two top executives of each firm were interviewed, including several CEOs/Presidents, who were the main designers of the CBMA deals and of the post-acquisition integration strategies. The ample interview data from these leaders helped the researcher gain an in-depth insight into the strategic and organisational knowledge of the firms, and fully answer the relevant ‘how’ and ‘why’ questions

(Adler et al., 1989; Yin, 2002). Table 4.7 summarises the data collection details including interview number, site visit time, documentation collection and research period.

Table 4.7 Data collection summary

	<b>YTO and McCormick</b>	<b>TCL and Thomson</b>	<b>Cijian and Way Assauto</b>	<b>CITIC and Gandara Censa</b>
<b>Research period</b>	Mainly between February 2012 and June 2013	Mainly between February 2012 and June 2013	Mainly between February 2012 and June 2013	Mainly between February 2012 and June 2013
<b>Document collection</b>	Books, journals, newspapers, press interviews, company websites, portal websites, company documents and reports, and some non-printed materials	Books, journals, newspapers, press interviews, company websites, portal websites, company documents and reports, and some non-printed materials	Books, journals, newspapers, press interviews, company websites, portal websites, company documents and reports, and some non-printed materials	Books, journals, newspapers, press interviews, company websites, portal websites, company documents and reports.
<b>Site visit</b>	Tour of headquarters on 07/06/2012 and 08/06/2012	Face to face interviews conducted in the Beijing Branch on 27/08/2012	Tour of headquarters in Nanyang on 27/06/2012	Tour of headquarters on 11/06/2012
<b>Interviews conducted</b>	Five face to face interviews conducted in	Three face to face interviews	Four face to face interviews	Seven face to face interviews conducted in

	June 2012 and two telephone interviews conducted in June 2013	conducted in August 2012 and one telephone interview conducted in June 2013	conducted in June 2012 and two telephone interviews conducted in June 2013	June 2012
<b>Interview length (each)</b>	One to two hours	One to two hours	One to two hours	One to two hours
<b>Total Interviews</b>	24			

#### 4.6 Data analysis

Yin (2002) defines data analysis as “examining, categorising, tabulating, testing, or otherwise recombining both quantitative and qualitative evidence to address the initial propositions of a study”. Being the heart of theory building from case studies, the analysis of case study evidence is one of the most difficult and least codified parts of the case study process. Most academic publications that use the case study strategy place more emphasis on the research design and data collection methods, while allocating little space to the discussion of analysis. This leaves a huge chasm separating the data from the results and findings (Eisenhardt, 1989; Yin, 2002). However, several key features of data analysis can be identified and are discussed in the following sections.

##### 4.6.1 Data analysis strategies: relying on theoretical propositions

Before selecting an analytical tool, the first priority is to adopt a general analytic strategy. This strategy can help researchers to more efficiently and effectively manipulate and use tools to analyse the data fairly and produce compelling analytical conclusions. Yin (2002) introduced three general analytic strategies: relying on theoretical propositions, setting up frameworks based on rival explanations, and developing case descriptions. This study adopted the first and most preferred strategy proposed by Yin, namely relying on theoretical propositions.

The main rationale for choosing this analytic strategy is because propositions are reflections of the research questions and objectives, and the original design of the case studies in this research was based on theoretical propositions. On the one hand, propositions can help researchers to concentrate on the crucial data in the massive data set. This is particularly significant in the research of complex, contextual and process-based CBMA phenomena. On the other hand, propositions can help to organise the entire case study and encourage alternative explanations and emerging themes. In case studies answering “how” and “why” questions, theoretical propositions are considered particularly useful in guiding the case study analysis (Yin, 2002).

#### **4.6.2 Analytical technique: Pattern matching**

The chosen data analysis involves a number of specific analytical techniques that Yin



(2002) suggested to be applicable to qualitative analysis. These analytical techniques reflect how the deductive perspective that underpins them influences the processes for analysing qualitative data (Saunders et al., 2009). Among them, this study adopts the pattern matching analytical technique.

Pattern matching refers to predicting a pattern of outcomes based on theoretical propositions to explain some expected findings (Yin, 2002; Saunders et al., 2009). In the use of this technique, the researcher should develop a framework before collecting and analysing the data, and then test the adequacy of this framework as a means to explain the findings (Yin, 2002; Saunders et al., 2009). To explain a phenomenon is to stipulate a presumed set of causal links, which may reflect critical insights into existing theories or lead to the building of new theories (Yin, 2002).

Six propositions were set up in Chapter 2 based on previous relevant literature. The four cases will be individually analysed following each proposition. If the pattern of the data matches the prediction of the proposed framework, the explanation will be validated; If one or more outcomes that have not been predicted by the propositions will be arrived at, an alternative explanation will be sought (Yin, 2002; Saunders et al., 2009). In addition, this study will also follow Eisenhardt's (1989) suggestion of moving from case to cross-case analysis. After analysing each individual case, the analysis of each proposition will be undertaken across all four cases. The single case reports are in Chapter 5. Chapter 6 presents the cross case analysis and the results of

the study.

#### **4.6.3 Analytical processes and procedures**

The data analysis process starts with the transcription of the raw data. The process of transcribing audio recorded interview data is time consuming since both the words spoken by the interviewee and the way in which they were articulated are significant for the research. Some non-verbal information, such as facial expressions and gestures, were recorded by hand during the interview while others, such as tones and pauses, need to be noted in the transcription. Due to the nature of semi-structured interviews, the questions asked by the interviewer were also transcribed. In order to ensure the accuracy of the data transcribed, all the audio files were played back three times. Transcription and understanding errors were corrected through this process, which is also known as data cleaning (Saunders et al., 2009). The recorded interview data were originally in Chinese. The huge differences that exist between the written and spoken Chinese language made the transcription process even more difficult. The data were transcribed and analysed in Chinese.

Once the interview data has been transcribed, it is generally considered to be an unreduced form of display, which is hard to analyse due to its massive amount and downright disorder. In this case, Miles and Huberman (1994) suggested that the process of doing analysis start with summarising and simplifying the collected data,

also called data reduction, and follow with data display, conclusion drawing and verification. Their arguments are in accord with those of Saunders et al.'s (2009) typology of the qualitative data analysis process, which consists in the summarising, categorisation and structuring of meanings through the use of narrative. The logic underlying their data analysis processes emphasise the researcher's interaction with the data in order to comprehend, summarise and integrate the data drawn from different sources, identify key patterns or themes, develop theories based on those patterns and draw and verify conclusions (Miles and Huberman, 1994; Saunders et al., 2009).

As an analytical procedure widely used to deal with textual material ranging from interview to documentary data, content analysis by means of the thematic analysis of text is applied in the data analysis process (Bryman, 2012). In order to minimise participant observation biases (Xiao et al., 2013), all primary data was collected and firstly analysed by the author, while the supervisor played the role of "devil's advocate" in the data analysis process so that he could remain more objective with regard to the evidence instead of becoming immersed in case details (Eisenhardt, 1989). Both the interview and documentary data in this research were analysed through the application of thematic text analysis. The documentary data were used to support and triangulate the interview data. Specifically, on the one hand, the documentary data played an important role in setting up the research context and providing the background for this research with relevant figures and textual materials.

On the other hand, the documentary data can support and justify the interview data by means of triangulation to achieve more accurate answers to the research questions. As the collection of the documentary data covered the whole research period, it provided the author with related knowledge prior to conducting the interviews; thus, the triangulation process could even be implemented prior to the data analysis process.

In addition to undertaking the data analysis manually, researchers can also use computer aided qualitative data analysis software (CAQDAS), such as Nvivo, to code and categorise the large amount of data collected from both open-ended interviews and documentation. Nowadays, some researchers use such software as an aid in the content analysis process. The author chose not to use Nvivo for this research for two main reasons. First, most of the data collected in this study were in Chinese. Many Chinese expressions have the same or similar meanings; thus, the author would have had to go through them one by one to revise them before using Nvivo to code or categorise. However, the process of distinguishing expressions with similar meanings is, to a certain extent, akin to the actual coding process, which made the use of Nvivo virtually redundant. Second, the greatest benefit linked to the use of CAQDAS is usually derived in empirical studies that are aimed at achieving insights from the word usage and frequency patterns in the data, which is not the case of this research. Therefore, all the data in this study were analysed manually.

Based on the above discussion of the data analysis process and in accordance with

Eisenhardt's (1989) suggestion of moving from within case analysis to cross case analysis, this study first saw the individual case analyses being performed based on the theoretical propositions; in this process, each case was considered as a stand-alone entity. The author followed Yin's (2002) data analysis procedure, starting from the transcription of raw data. All primary data were transcribed and analysed in Chinese because the interview data were originally collected in Chinese. The transcribed data was then content-analysed through the summarising, categorising, and structuring of meanings using narrative. Next, individual cases were analysed based on the theoretical propositions; according to these, the first order coding was structured based on both relevance and frequency<sup>11</sup>. The findings for each case were compared with the propositions. These propositions were then revised if needed. For example, "cultural differences" was revised to become "cultural differences and cultural integration". Individual case analyses typically produce individual case reports; thus, through the process of data comprehension, summarising, integration, categorisation and structuring, individual case reports were written based on the theoretical propositions.

After finishing the individual case analyses, the cross-case analysis was conducted to search for patterns. The search for patterns in data is considered to be the key theme of data analysis in case studies. Patton and Appelbaum (2003) claim that the ultimate goal of case studies is to build theory by uncovering patterns, determining meanings

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<sup>11</sup>The first order codes are broad conceptual categories driving the research. They were coded according to their Chinese meanings.

and constructing conclusions. This study follows Yin's (2002) pattern matching logic: if the predicted patterns of outcomes based on theoretical propositions coincide with empirically built patterns, the results can help to strengthen the internal validity of this study (Yin, 2002; Saunders et al., 2009). Following pattern matching logic, the author iteratively sought patterns across cases by a cyclical reading and re-reading of empirical data to come to the findings, with representative quotations drawn from the interview data provided to support the analysis. These quotations were translated by the second author before being back translated by a bilingual native English speaker to ensure consistency. A careful review and equivalence check was conducted by the author (Douglas & Craig, 2007).

Although this study adopted a data analysis strategy of reliance on theoretical propositions, it still valued the unique patterns and emerging themes of each case before seeking common patterns across cases (Yin, 2002). Some general and supplementary interview questions were deliberately designed to explore emerging themes, such as "8. what do you think are the key success factors in the management of the post-acquisition integration", "18. what other factors do you think should be considered in the management of the post-acquisition integration phase? Why?", "19. have you even been faced with any problems or difficulties after the M&A deals? Please elaborate and explain why". In the data analysis process, emerging key issues and themes were coded based on both relevance and frequency. In addition, this study also adopted Eisenhardt's (1989) suggestion of finding emerging patterns in the cross

case analysis. All emerging patterns drawn from individual case studies were prepared for pattern matching in the cross-case analysis; after this, the identified emerging patterns were included in the final model. Patton and Appelbaum (2003) argue that tying emerging patterns to the existing literature can enhance the internal validity and the theoretical level of the theories built by means of case studies. In this case, the themes emerging from the data were compared with the existing literature. The comparison of emerging concepts or themes with the extant literature involved identifying similarities and divergences (Eisenhardt, 1989).

Explaining the post-acquisition value creation process and the relationships between these key success factors is even more difficult than identifying the key factors and patterns. The author relied on both deductive and inductive reasoning processes to explain and structure the final model (Patriotta et al., 2013). For example, during the analytical process, the author tried to take an absorptive capacity perspective as an intermediary to explain the transfer of capabilities from the acquired firms to the Chinese acquirers. Two scanned sketches are provided in appendix 3 to demonstrate the iteratively analytical process.

Finally and based on the themes and relationships emerged from the data, the theoretical framework was illustrated and informed by discussing the four cases with the purpose of obtaining insights into the key factors in the management of the post-acquisition integration of Chinese firms' outward M&As and into how these

factors affect the post-acquisition integration process and M&A performance. This study developed very precise patterns, which helped to reduce the possibility of over-leniency in confirming pattern matches (Yin, 2002).

#### **4.6.4 The quality of the data analysis**

In order to achieve a high quality of data analysis, the data were analysed based on the following principles: First, all the evidence was given attention. The analysis showed that it sought as much relevant evidence as was available and that the interpretations covered all of this evidence. Second, the most relevant aspects of the case studies were emphasised and given the most attention. Finally, the expert knowledge of the author in this study field was provided for the readers.

#### **4.7 Research design justification**

The quality and creditability of a qualitative research cannot simply be ensured by output control. “All you can do is reduce the possibility of getting the answer wrong” (Saunders et al., 2009, p. 156). Therefore, validity and reliability have to be built into the research design and analysis process. Pauwels and Matthyssens (2004) suggest that the validity of a research can be achieved by carefully crafting the research design, data collecting methods, data analysis strategy and procedures. This was done in this research and stated throughout this chapter.



Yin (2002) believes that the criteria for judging the quality of research designs deserves more explicit attention and suggests performing more complex tests than the standard ones that deal with the concepts of validity and reliability. In this case, he recommends four tests for establishing the quality of empirical social research: construct, internal and external validity, and reliability. Table 4.8 summarises the case study tactics used in this study to enhance the validity and reliability of the research.

Table 4.8 Case study tactics for research design justification

Tests	Case study tactic
Construct validity	Using multiple sources of evidence; Establishing a chain of evidence; Having key informants review draft case study reports
Internal validity	Performing pattern matching; Addressing rival explanations
External validity	Using replication logic in multiple-case studies
Reliability	Using a case study protocol; Developing a case study database

*Source: Yin (2002)*

Construct validity refers to the establishment of correct operational measures for the research. The construct validity problem in case studies can be identified in the

criticism levelled at researchers conducting case studies of always failing to develop sufficiently operational measures and using subjective judgments to collect data (Yin, 2002). This issue was counteracted by using multiple sources of evidence and sending individual case reports to key participants for reviewing and checking.

Internal validity should be addressed in explanatory case studies due to the question of whether a relationship is of causal or just of a spurious nature. This study used different means to increase the internal validity of the various research processes. For example, in the data collection phase, both face-to-face interview and documentary data were collected to allow for triangulation and, in the data analysis process, a pattern matching logic was applied. These approaches were all helpful in dealing with the overall problem of making inferences and in substantially improving the internal validity of the research (Yin, 2002).

External validity is also called generalisation, which refers to whether and to what extent the research results can be generalised beyond the immediate case study (Saunders, et al, 2009). Although case studies cannot provide statistical generalisation as can survey-based research, they can provide analytical generalisation, by which the research can generalise a particular set of results to a broader theory (Yin, 2002; Pauwels and Matthyssens, 2004). By using replication logic in its cross-case analysis, this study can, to a certain extent, provide generalisation within the research context. A lack of statistical generalisability does not preclude case studies from having a

strong explanatory contribution to offer (Welch, et al., 2011).

Reliability refers to the extent to which a research can arrive at the same findings if conducted by different scholars following the same data collection techniques and analysis procedures (Easterby-Smith, et al., 2008; Saunders, et al, 2009). This study addressed reliability issues through the whole research design and data analysis processes. In addition, a case study database was developed to allow other investigators to repeat this research or conduct others based on the evidence. Setting up a case study database which combines both interview and documentation data can significantly increase the reliability of a case study (Yin, 2002).

#### **4.8 Role of the researcher**

Researcher reflexivity is the process whereby researchers report on the personal beliefs, values, and biases that may shape their inquiry during the research (Creswell and Millier, 2000). In a qualitative study, researchers should acknowledge and describe any entry beliefs and biases and suspend them as the study proceeds. This is an important way in which the validity of a research can be improved (Creswell and Millier, 2000).

Human values are the guiding motive of all human action (Heron, 1996). The role that a researcher's own values play in all stages of the research process is fundamental to

its credibility and reliability (Saunders et al., 2009). Axiology refers to a study's judgements about value. The philosophy adopted in this research was positivism. Accordingly, the axiology used suggests that the research was undertaken in a value-free way, and that the researcher was independent of the data and maintained an objective stance. For example, the primary data was mainly collected by means of interviews, rather than questionnaires, because the former method was more in tune with the research design, and not because the researcher valued personal interaction with the respondents more highly than the views they would have expressed through questionnaires. Similarly, during the data analysis process, the researcher attended to all the evidence, and the interpretations accounted for all of this evidence. In the writing up stage, sufficient evidence was displayed without researcher bias.

#### **4.9 Chapter Conclusion**

This chapter introduced the methodology of the study. A multiple case study method was applied and four representative cases were chosen following a replication logic. Semi-structured interviews were selected and conducted to be the source of the primary data, which was triangulated against a myriad of documentary data. The data analysis moved from individual case analyses based on theoretical propositions to a cross-case analysis following a pattern matching logic. Validity and reliability were built into the research design and analysis process. The triangulation of multiple data sources helped to achieve construct validity. External validity was achieved by

adopting a replication logic design in the various case studies; internal validity was achieved by applying pattern matching and the development of a case study database enhanced the reliability of the study. China's unique institutional context required the author to have special abilities in conducting the case study research and helped him to gain experience in interviewing senior executives of Chinese MNEs.

## **Chapter 5 – Individual case reports**

### **Introduction**

This chapter introduces four individual case study reports. Each single case analysis takes up one section and is organised based on the propositions set up in Chapter 3. Each section starts with an introduction to both the acquiring and acquired firms and then moves on to a brief description of the transaction. Next, the strategic intents of the Chinese acquirers are discussed before moving on to the analysis of the key success factors for the management of the post-acquisition integration process.

### **5.1 Individual case report: YTO Group's acquisition of McCormick**

#### **5.1.1 Introduction and background**

##### **5.1.1.1 Introduction to the YTO Group**

The YTO Group Corporation, also known as the China Yituo Group Corporation, is a leading Chinese agricultural and construction machinery manufacturer. It was established in 1955 and was previously called the China First Tractor & Construction Machinery Corporation. It is located in Luo Yang city, Henan province, which is in the centre of China and well-known for its agriculture, total population, total cultivated area and Shaolin Temple. On the 23<sup>rd</sup> of March 2008, the state-owned Luoyang Asset Management Company transferred 67% of the YTO Group's shares to the China National Machinery Industry Corporation (also known as Sinomach) for free. As atypical SOE, the YTO Group became a subsidiary of Sinomach, the largest machinery manufacturer in China, following the guidance, support, and directives of the Chinese government (YTO official website, 2013).

Since its founding in 1955, the YTO Group has evolved into a comprehensive enterprise dealing with manufactured goods and the supply of agricultural, construction and power machinery, vehicles, and parts. It produced the first tractors, road rollers, and cross-country trucks in China. Its best-known products, such as the 'Dong fang hong' series crawler tractors, have become iconic for most Chinese, who perceive them to represent the old era. The YTO brand has won the Chinese Top Brand and Recommended Export Brand awards. A considerable proportion of its main production portfolio – high power wheel tractors, crawler tractors, agricultural construction machinery and so on – occupies the number one slot in the domestic

market. The primary products of the YTO Group are also popular with customers from around the world. Through its international marketing network, the YTO Group's products are sold in over one hundred countries and regions globally (YTO official website, 2013). In 2010, before the acquisition, the YTO Group's annual sales revenue totalled 14.5 billion CNY, 19.8% higher than the 12.1 billion CNY it had achieved in 2009 (Xinhua, 2011). For convenience of analysis, Table 5.1 lists the YTO Group's profile and some details about its M&A activity.

Table 5.1 The acquiring firm's profile and M&A activities

	<b>YTO Group Corporation</b>
<i>Time of M&amp;A</i>	07/03/2011
<i>Core business</i>	Agricultural, construction and power machinery, vehicles, and parts.
<i>Industry status</i>	First tractor manufacturer in China. Number one slot in the internal market.
<i>Motivation of M&amp;A</i>	Strategic intent. Seeking technology, markets, and brands.
<i>Name and location of acquired firm</i>	McCormick France Corporation (France)
<i>Ownership structure</i>	SOE
<i>Annual revenue before the M&amp;A in CNY</i>	14.5 billion
<i>Price of M&amp;A in CNY</i>	70million(roughly)

*Sources: Annual reports, corporate documents and interview data.*

### **5.1.1.2 Introduction to McCormick**

The McCormick France Corporation was a professional manufacturer of transmission

systems for tractors founded in the 1950s and located in Saint Dizier in the north-eastern Champagne Province of France. Before being acquired by the YTO Group, McCormick was a subsidiary of the Italian ARGO Group. McCormick's main production was transmission systems for tractors ranging from 90 to 230 HP and in three varieties: synchronizer, partial power and full power gearboxes. McCormick's production technology met the prevailing mainstream international standards (McCormick, 2013).

Since 2003, for various reasons, McCormick had been gradually going downhill. By 2009, its accumulated losses amounted to over 15 million Euros. In 2005, the company had implemented a plan to reduce its workforce from 712 to 250. On the 7<sup>th</sup> of December 2010, McCormick announced bankruptcy liquidation. Two Chinese agricultural machinery producers, the YTO Group and Foton Lovol International Heavy Industry Co. Ltd, made a bid for McCormick in the French Chaumont commerce court; YTO placed the winning bid with an investment volume of 8million Euros.

#### **5.1.1.3 The M&A activity**

On the 7<sup>th</sup> of March 2011, the YTO Group Corporation successfully completed its acquisition of McCormick France S.A.S.. The deal was worth 8 million Euros (11.19 million US dollars). From 8am on the 8<sup>th</sup> of March 2011, McCormick France was



formally renamed YTO France SAS. The new company had an equity capital of 20million Euros and was the wholly owned subsidiary of First Tractor, the listed part of the YTO Group Corporation<sup>12</sup>. YTO France SAS occupied 20 hectares, 60,000 square metres of which was built up area. It would produce hydraulic transmission systems for the Chinese market and enlarge its production scope by setting up a new assembly line which would produce tractors for the European market. A new European-based R&D centre was also to be established at YTO France SAS in the near future (Sinamach, 2013).

This was the first time a Chinese agricultural machinery firm had acquired a world-class agricultural machinery company. As part of the contractual agreement, the YTO Group would retain McCormick's erstwhile 206-strong workforce and expand its production scale in France to create 400 more jobs by 2015 (ChinaDaily, 2011). This acquisition saw the YTO Group inheriting not only all of McCormick's tangible assets, including industrial buildings, processing and IT equipment, R&D labs, etc., but also its intangible assets, such as the transmission system technology. The YTO Group aimed to build "one base and two centres" in France, namely; a European manufacturing base, a European R&D centre and a European regional marketing management centre.

### **5.1.2 A strategic intent M&A**

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<sup>12</sup>The FIRST TRACTOR COMPANY LIMITED was established on May8<sup>th</sup>, 1997 and was listed on the Hong Kong Limited Stock Exchange on June 23<sup>rd</sup>, 1995.

This acquisition was not only in line with the “Go Global” strategy of the Chinese government, but was also a significant step in the implementation of the YTO Group’s internationalisation strategy. In other words, the underlying rationale of the motivations behind the acquisition was the YTO Group’s strategic intent.

Specifically, there were two main motivations for this acquisition. The first and most important one was to obtain advanced technology. At the time of the acquisition, most Chinese produced wheeled tractors were equipped with mechanical transmission systems, which severely limited their power output. Although a few of the leading companies in the industry were capable of producing high-powered power-shift tractors, all power-shift gearboxes were imported from abroad. In September 2010, the YTO Group produced the first partial power-shift tractor, the “Dong fang hong 2004”, to generate over 200 HP. This was the first power-shift tractor completely manufactured by a Chinese firm, despite the technology being used still not being the most advanced, compared with global market leaders. McCormick had an edge in the technical aspects of its transmission systems for high-powered tractors and the technological standards of its products met global mainstream standards. In this case, on one hand, the acquisition of McCormick enriched the YTO Group’s production line and, on the other hand, provided the acquiring firm with the advanced technology it needed to upgrade and update its production methods and know-how (Cnfol, 2013). Moreover, the deal could also help the YTO Group to attain a larger share of China’s

high-end tractor market. It is much more cost-efficient to acquire a company that holds a technological advantage than it is to develop said technology endogenously, considering the innovative capacity of most Chinese firms (Fu & Gong, 2011).

The second main motive behind this acquisition descended from the YTO Group's regional strategic layout. According to Mr Zhao, the YTO Group's president and CEO, the McCormick acquisition was seen as a 'bridgehead' into the European market. Following the "one base and two centres" strategy, the YTO Group could assemble and manufacture tractors under its "Dong fang hong" brand in France. In addition, the products of this French subsidiary could be distributed directly in the European market, which would bypass some of the trade barriers set up by the EU trade laws. This would provide the YTO Group with an important inroad into the European market.

Therefore, on the one hand, through its acquisition of advanced technology, the YTO Group could expand its share of the domestic high-end tractor market. On the other hand, the French subsidiary's 'bridgehead' position could help the acquiring firm to circumvent various trade obstacles in the European market.

### **5.1.3 Factors influencing the integration process**

#### **5.1.3.1 Prior related knowledge**

Although the YTO Group did not have any experience of outward M&A before the McCormick deal, its previous international exposure had helped this Chinese agricultural machinery giant to accumulate useful knowledge that played an important role in its post-acquisition integration. For example, the Yituo International Economic and Trade Co., LTD (YTO IET) is a subsidiary of the YTO Group which is in charge of all export and import businesses and runs overseas construction projects. Most of the middle managers involved in the acquisition had had working experience in this subsidiary, which provided the YTO Group, and especially the management staff involved in these businesses, with useful knowledge on doing business with people from different socio-cultural backgrounds. The staff members in possession of this knowledge played an important role in the M&A. For example, one informant, who was on the board that took charge of the management of foreign subsidiaries, had previously been the manager of YTO IET's European department No. 4. Moreover, the YTO Group had overseas offices, spare parts centres and assembly factories in America, Asia and Africa, which underpinned its production sales in over 100 countries and regions throughout the world, which helped the YTO brand win the Chinese government's Recommended Export Brand award. This background provided the YTO Group with the knowledge of how to use different resources to support its overseas operations. Therefore, although the YTO Group lacked acquisition experience, as do most Chinese acquirers, its accumulated experience and knowledge of international business provided it with a strong support base for the management of

this international M&A, besides its integration with foreign partners.

In addition to the knowledge gained through previous international ventures, the YTO Group achieved competency through its cooperation with well-established MNEs around the world. At the end of the 1980s, the YTO Group bought and assimilated FIAT's medium-high power wheeled tractor technology and platform, which became the technological source for the products of most Chinese wheeled tractor manufacturers. In the next 20 years, the YTO Group developed a variety of products and know-how based on technology from Italy and held its position as the industry leader among Chinese agricultural and construction machinery manufacturers. In recent years, YTO has also consistently bought advanced equipment from western countries such as Switzerland and Germany to broaden and deepen its production lines. The knowledge gained from global giants helped the YTO Group to build its competence and potential capacity to compete in foreign markets.

YTO's prior related knowledge was not only derived from its cooperation with leading MNEs around the world, but was also evident in its R&D capability. YTO currently employs a R&D team made up of over 2,000 professionals and experts in a state-of-the-art technology R&D centre consisting of 11 advanced laboratories. As China's first and leading agricultural and construction machinery manufacturer, YTO has been the domestic industry's forerunner in terms of R&D capabilities. Since the establishment of the Chinese National Tractor Research Institute (CNTRI) in 1994,

the R&D capabilities of the YTO Group have been further strengthened<sup>13</sup>. The ratio of R&D spending/revenue has remained above 3% since 2009 (Finance and Investment, 2012).

Its domestic led R&D capability has provided the YTO Group with sufficient ability to assimilate and integrate advanced technology from target firms. McCormick's main technology and products were power-shift transmission systems able to meet prevailing mainstream international standards; however, its products were designed specifically for its previous parent company, Argo, and could not be installed in tractors produced by other firms. This required any acquiring firm who wished to assimilate their products and technology to possess adequate R&D capabilities. By the time of the acquisition, most Chinese wheeled tractors were still equipped with mechanical or hydraulic transmission systems, which severely limited their power. The YTO Group was the only Chinese tractor producer that owned endogenously developed power-shift transmission technology<sup>14</sup>. In this case, the YTO Group was the only firm that had sufficient R&D capability to assimilate McCormick's technology and products. One YTO Group senior executive stated:

“Although there were other firms which could have afforded to acquire the French target, they would have found themselves in trouble afterwards, as

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<sup>13</sup>CNTRI is also the state level quality control laboratory. All tractors made in China need to pass the CNTRI examination to get onto the market.

<sup>14</sup> However, YTO's independently developed power-shift transmission technology was less competitive than the mainstream average in the global market.

they did not possess the capabilities necessary to assimilate the technology and carry on with the R&D. If we hadn't possessed our own power-shift transmission technology, McCormick would have been useless to us even if we had bought it".

After the acquisition announcement, two tractor models manufactured by the YTO Group were delivered to France to evaluate how the French power-shift transmission and the Chinese tractors could be combined. Supported by its strong R&D capabilities, the YTO Group had already assimilated McCormick's advanced technology on certain key components and applied it to its main products, which had a yearly sales volume in the tens of thousands. The CTO of YTO France SAS stated:

"The level of our products has been highly improved by combining our existing technology with McCormick's advanced technology on transmissions. The first batch of products using transmissions from our French subsidiary will gradually come onto the market in 2013. There is also another line of products based on two party technology which is currently in the debugging phase and will come onto the market next year".

In addition to its prior knowledge at the organisational level, the accumulated individual knowledge and experience were also significant for the integration of the YTO Group's outward M&A. The prior related individual knowledge did not simply

develop out of the accumulation of past experiences, but also by investing time and effort in activities aimed at improving the potential absorptive capability of individuals and the firm accordingly (Stahl et al., 2013). The YTO Group paid special attention to both selecting employees with strong prior related knowledge and improving the potential related knowledge of key staff. Due to his professional knowledge in the overall technological process of the French subsidiary, the former general technologist of First Tractor was appointed as the first president of YTO France SAS. Similarly, the position of CTO of YTO France SAS was occupied by a state level engineer who had successfully assimilated the advanced technology and integrated it within existing products. Furthermore, all Chinese senior managers of the French subsidiary were fluent English speakers and used English as their working language. However,

“Only being able to speak English is not sufficient to work with the French as their English abilities are even weaker than ours, especially for lower level employees and some middle managers. Translators could hardly convey all your meanings to them. Therefore, we are now studying primary French to help communication”. (The general manager of YTO France SAS)

To sum up, there was no doubt that the acquiring firm’s prior related knowledge at both the organisational and individual levels was an important factor influencing the integration of the outward M&A by the YTO Group.



### **5.1.3.2 Degree/Level of integration**

The degree of integration, which refers to the extent to which firms will integrate their operations, is deemed to be a crucial factor in the post-acquisition success of the YTO Group's M&A of McCormick. In order to maintain a harmonious organisational climate so as to gradually and smoothly assimilate, combine and exploit the technology of the acquired firm, the YTO Group opted for a low degree of operational integration and paid special attention to socio-cultural integration.

Accordingly, the organisational structure and operational system of the combined entity were built on the original system of the acquired firm. All middle managers and a vice president were French employees retained from McCormick. French managers were given autonomy in most aspects of the day to day operational management. Formal functional integration was very limited. Although a certain degree of formal integration was necessary, changes in the formal structure of the acquired firm were carefully controlled within a certain range. This was evidenced by a series of integration motives made by the YTO Group, including retaining the French management team, keeping the French based information system, reserving the former performance appraisal system, recovering the previous management control system<sup>15</sup>, persisting in the old compensation system, avoiding the recruitment of

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<sup>15</sup>This management control system had been used by Mc Cormick for years but had been abandoned before the acquisition. After the acquisition, the YTO Group decided to reuse this system.

Chinese workers in the French subsidiary, etc. Moreover, the Chinese executive expatriates did not proactively involve themselves in the day to day operation of the firm. One of the senior executives of YTO France SAS said:

‘We are not involved in (the day to day operation) that much. We use the French ERP system to help the production and management. We are not experts in either this system or managing the French staff. The day to day production management is mainly handled by the French vice general manager. Most production operations follow pre-existent rules and routines. They deal with the production while we mainly focus on decision-making and R&D.’

Nevertheless, delegating the day to day management power to French staff did not imply that the Chinese acquirer failed to assert its control over the acquired firm. In fact, Chinese executives took charge of the decision-making on strategic issues and certain major operational activities, such as procurement and R&D. Although the Chinese top executives reserved the power to make these decisions, they were relatively cautious and always showed respect towards French culture when a problem involved socio-cultural issues. Their decisions and decision-making processes were largely affected by the overall integration strategy of the firm, which was to maintain a harmonious organisational climate. Mr. Zhao stated:

“We’ve been making a great effort to encourage a harmonious climate in the acquired firm, such as trying to adapt to the “French style” in terms of operational management. For example, we didn’t take the liberty to ask French employees for overtime work as we do in China. When there was the need to work overtime, we would inform the trade union in advance. Even then, some workers might still refuse our request for overtime work. This is fine, but it is completely different to the situation in China.”

### **5.1.3.3 Integration implementation speed**

The integration speed of this acquisition can be generally described as “fast entry, slow change” and “step by step”<sup>16</sup>. Different business units experienced distinct modes and speeds of integration based upon their particular strategy positions and specific circumstances.

Since McCormick was a bankrupt company prior to being acquired by the YTO Group, a rapid organisational change was essential to restart the production lines. A senior executive of the YTO Group explains:

“This was a bankrupt company that urgently needed our help. We needed to inject money to save it before it reached a dead end.”

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<sup>16</sup>This is in line with Angwin's (2004) argument for a contingency approach of integration speed.

Immediately after the deal had been announced, the YTO Group sent 5 senior executives to help its French subsidiary to resume production by using the YTO Group's purchasing advantage both at home and abroad. Under these circumstances, proceeding slowly could have caused operational uncertainty and given rise to rumours. For example, during the process of production resumption, YTO France SAS faced some challenges with regard to its supply chain. Although this was to be expected when restarting a bankrupt company over a short period of time, some employees from the acquired firm still complained about the limited workload. A YTO Group top executive shared his thoughts:

“Some employees came to complain about the bad situation due to such low levels of workload, even with full payment. We then had to explain to them about the supply chain difficulties and promise to solve them as quickly as possible.”

Despite the need for a fast entry in the very early stages of the acquisition, the pace of the organisational change and business unit integration slowed down along with the business operation of the acquired firm. In this phase, operational integration was controlled at a relatively low pace. The YTO Group did not wish to impose control over the target firm through an array of formal integration mechanisms, such as management style, processes and routines. The operational management change in the

target firm was more akin to a renewal of its own past management system. Chinese senior executives aimed at maintaining a steady operation of the French subsidiary and integrate the two organisations 'step by step' (as stated by the general manager of YTO France SAS). The reason for this integration speed control can be explained in two ways:

First, based on the company's strategy, the most critical issue in this stage was R&D integration. R&D integration was swift and consistent from the very beginning of the post-acquisition integration phase. Among the top executives of the French subsidiary appointed by the YTO Group, three out of five were R&D and technology specialists. These included the current CTO and former CEO of YTO France SAS. Mr. Wang. Mr Wang had been involved in the whole acquisition process and had been stationed in France from the negotiation phase. After the acquisition, five technical engineers came to join Mr. Wang's team, working on the integration of R&D. The technology assimilation and R&D integration made significant progress in a relatively short period. The advanced technology of McCormick in certain key components of power-shift transmissions had been applied to the main YTO products within one year from the acquisition. In addition, a new product line based on the integrated technology of both the Chinese and French systems would come on the market on 2014.

Second, when considering socio-cultural issues, a rapidly imposed operational

integration might result in acculturation stress, which could have led to hostility and resistance from the French employees. In order to create conditions more favourable to R&D integration, the Chinese acquirer chose to implement the operational integration gradually to minimise integration problems and culture related challenges. For example, the YTO Group planned to transfer the production line of some low value-added components of transmissions from France to China in the future, so as to significantly reduce the labour cost. This plan was listed in the strategy report of YTO Group in the early phase, but it had still not been implemented two years after the acquisition. The main consideration was to avoid generating stress and distrust in French employees, who may have worried about losing their jobs.

The speed of integration could be affected by socio-cultural contexts. Accordingly, socio-cultural integration itself also proceeded moderately. The underlying rationale was similar: a slow socio-cultural integration would help build trust among employees and solve culture-related problems in a relaxed atmosphere. Therefore, although the speed of the implementation of integration was crucial, an 'adequate speed' could not be defined simply. The speed of the YTO Group's acquisition of McCormick could be categorised into fast entry, rapid R&D integration, modest operational integration and slow socio-cultural integration. However, integration speed issues were also embedded in distinct contexts and influenced by different issues such as the host institution and integration strategy of the acquirer. One of the top executives of YTO Group related:

“Integration speed is important, but the adequate speed may be different in different cases.”

#### **5.1.3.4 Key staff turnover and management team building**

The turnover of key staff had always been considered to be a key factor in the management of acquisition integration in this case. The YTO Group was aware of the significance of the turnover of the acquired firm’s employees and other potential human resource related problems – such as employee resistance, stress and uncertainty related to job security, etc. – after the M&A. A series of steps were taken to avoid and solve these problems. As agreed in the contract, all previous French employees were retained, including general employees, middle managers and senior managers. The YTO Group did not post any Chinese workers to its French subsidiary, which helped to reduce the potential anxiety and uncertainty among local workers. One YTO Group senior executive explained:

“We sent around ten staff members there, five were at the executive level and the rest were all technical engineers. No Chinese workers were sent over to work with the local employees. This was aimed at containing any distrust towards us on the part of the French workers, because they knew that China had an advantage in terms of labour cost and feared being replaced by

Chinese workers. In the tractor assembling stage, we may deploy Chinese labour to help but this would not happen during the first three years from the M&A.”

Management team building was also emphasised in the integration phase. Immediately after the takeover, the YTO Group created a powerful executive team for its French subsidiary headed by a former vice president, who was in the top hierarchy of the parent firm. One senior manager from the YTO Group explained:

“He was from the very top level and had extensive power. Hence he would have the ability to utilise YTO Group resources to support the operation of the French subsidiary. This appointment was based on strategic considerations.”

With such a top level president, the executive committee played a major role in managing day to day operations and formulating strategies. Mr. Zhao, the YTO Group president emphasised the authority and independence of the French subsidiary’s executive committee:

“Executives from the parent firm are not allowed to directly make requests to and command the French subsidiary. All directives must be conveyed through the French Project Office. Otherwise, several different requests from different



parent firm vice presidents might cause confusion. With the help of a high level president, this structure helps to maintain the French subsidiary's independence.”

Before being acquired by the YTO Group, McCormick was the subsidiary of the Italian company Argo; consequently, all former top executives had been Italian. After the takeover, a French former senior manager was appointed as vice president of the subsidiary. He took charge of purchasing, inventory, production and of the day to day operational management of each department. Placing French people in executive positions gave this firm an even more French “colour” than it had had operating under the Italians. All middle managers, including the heads of departments, were now French. This helped to maintain the face and routines of the day to day operation and management familiar of local employees, which effectively contributed to reduce the potential stress of French employees.

The retention of key general staff was also important to acquisition integration, and especially to knowledge and R&D integration. Some employees, especially skilful technologists, had already left McCormick when it had gone bankrupt. Their individual skills and know-how were no longer available to the acquired firm, which meant that there were holes in the firm's overall knowledge base. The CTO of YTO France SAS explained:

“The technology transfer from people was very limited. When this firm had

gone bankrupt, most technologists and research staff had chosen to look for other jobs. When we acquired the firm, there were only few technologists left, which made the transfer of knowledge from previous employees extremely difficult. Fortunately, the French are very good at filing. We have clear archival data and a computer database containing all variety of project development details. With the strong foundation of our own R&D knowledge, it was not difficult to assimilate this. Nevertheless, I have to say it would have been much better if more of the former technologists and research staff could have been retained”.

In addition to the crucial role played by French employees, Mr. Zhao particularly emphasised the importance of the Chinese staff working in the French subsidiary:

“They are the “carriers” of YTO’s culture, as well as of Chinese culture; they work on the frontline of integration; they are the disseminators of YTO’s spirit and have an important contribution to make in ensuring that the firm operates in a harmonious climate and at a steady pace.”

#### **5.1.3.5 Cultural differences and cultural integration**

In the case of CBMA, cultural differences had always been considered to be one of the most crucial and critical factors for acquisition integration and performance. Most

executives of the YTO Group realise the important role of cultural issues. Mr. Zhao said:

“The true essence of integration is cultural integration. All others are secondary.”

The nature of the outward M&A by Chinese firms into Western developed countries involves the existence of huge cultural distances. For example, most Chinese are used to working overtime. Working overtime without payment and complaining is a part of Chinese national culture, which is a kind of embodiment of the diligent character of Chinese people. This is particularly true in SOEs such as the YTO Group. The organisational culture of SOEs intensifies this phenomenon: Working overtime is considered to be a sign of a good attitude, which is an incentive for most employees to not leave work on time, even when they are not actually required or do not need to work overtime. There is also another unwritten rule that makes most SOE employees not leave work earlier than their supervisors. The author’s face to face interview with Mr. Zhao was initially scheduled for a Saturday afternoon, but was finally conducted on a Sunday morning in his office, which is evidence of this strong cultural influence. Conversely, the French are known for their love of holidays and leisure time, and the number of French annual holidays is also the envy of people from countries all around the world. Accordingly, most French employees are not generally in favour of working overtime. One senior manager of the YTO Group stated:

“We respect their culture and habits, including the length of daily working hours and their attitude towards working overtime, which is completely different from that of Chinese employees. Chinese employees, including us, work overtime unconditionally and consider work to be the first priority. You cannot expect a similar attitude from the French, since they work for a better life and care about their personal feelings. Working is always considered secondary. Sometimes, French engineers can take over two months to finish a job that would take Chinese ones two weeks.”

Differences in values and norms may result in further difficulties in the development of trust. Confronted with such huge cultural differences, the YTO Group chose to take an attitude of great tolerance when dealing with culture related issues and the Chinese staff kept an understanding, forbearing, and open-minded attitude. One of the YTO Group’s senior executives revealed:

“We should compromise. We need to follow local regulations and respect their culture. There can be many culture clashes during the integration phase. For example, over the last year, some YTO Group senior managers came to visit the French subsidiary while the French employees were on vacation and were not received properly. In China, we would all consider this unacceptable, but it is fine over here.”

By adopting such an attitude, most cultural problems were solved by the Chinese acquirers' great cultural tolerance. In China, a request for a pay rise often implies that the employee is very dissatisfied with the salary. In SOEs such as the YTO Group, pay rise requests cannot even be made because everyone knows that the government has a sophisticated wage system. With their open-minded attitude, Chinese executives in the French subsidiary understand pay rise requests by French employees and can handle them properly. One senior manager in YTO France SAS said:

“They do it regularly. It’s part of the culture. Every French company has to deal with this problem. It doesn’t mean we did anything wrong.”

The CTO of the French subsidiary stated:

“We respect their culture and customs. When we find that they do something outside of our expectations, the first response is to understand whether it’s a cultural issue. For example, sometimes they spend half an hour taking coffee during working hours. This is unusual in China, while the French do it regularly at work, regardless of whether their boss is Chinese or Italian, which means that it is a part of the culture.”

In addition to taking a modest and open-minded attitude and adopting a high level of cultural tolerance, the YTO Group also took measures to ease cultural differences

from the perspective of the French employees. Most common staff members in France are not familiar with the Chinese parent firm, Chinese culture or even China's current socio-economic status. The YTO Group believes that good communication and a mutual cultural understanding are essential to minimise potential cultural barriers, thus they took steps to improve the quality of communication and change the French people's perception of both Chinese culture and the acquiring firm. In March 2012, the France-2 television channel came to the YTO Group's headquarters to shoot a documentary. This provided the French employees with a good opportunity to appreciate the current situation of China and of their Chinese parent firm. One of the senior managers in YTO France SAS shared his thoughts:

“The reception of this film was very good. Most French people did not expect their parent firm to be so big and powerful, with so many plants, equipment and laboratories.”

Moreover, the YTO Group's top executives employed some social integration mechanisms to express their regard and care for their French employees so as to bring the two parties closer. For example, over Christmas, Mr. Zhao sent electronic greeting cards to the French employees on behalf of the parent firm. When some of the French employees retired, the executive staff invited them to dinner at French restaurants and gave them gifts from China. One of the executives in the French subsidiary stated:

“They were moved, and they really liked this facet of the Chinese culture.”

Despite the obstacles raised by cultural distance, in some aspects, cultural differences can have a positive effect on the acquisition integration. Mr. Zhao said:

“Since the launch of the “Open Up” policy, we have already learned a lot from western countries, including most management theories and systems. However, we didn’t get to the heart of the knowledge acquired. This is mostly because of cultural differences. After the acquisition, we tried to learn the rules and regulations, mechanisms, etc. from the French subsidiary’s management system. We found that what they used was also based on mainstream western management systems, while they gave it a French twist... such as an emphasis on being dedicated, earnest, rule-following. Learning from their management system requires us to learn from the French culture. Integration of management also means integration of culture.”

The Chinese employees also became acquainted with the positive aspects of French culture on their short visits and joint training programmes in France. In their reports, most highlighted the positive influence of some aspects of French culture and stated that they were deeply impressed. One of the senior managers said:

“The French staff are very professional. They fight for their basic rights and

interests such as pay rises and holidays, but they also work seriously and passionately. I was impressed by their passion for work and life.”

Another senior manager stated:

“Although they don’t work as efficiently as we do, their attitude towards work is very positive. Their methodical approach impressed me very much.”

Symmetrically, the positive aspects of Chinese culture, such as its emphasis on efficiency and diligence, also influenced the French employees. They were also interested in learning more about Chinese culture. Some of the French staff learned to write Chinese characters and spent the Chinese Spring Festival with their Asian colleagues. The high cultural tolerance upheld by the YTO Group and the efforts made by the Chinese staff in cultural integration helped to create a harmonious organisational climate in the French subsidiary. One French manager said:

“We are very well coordinated with our Chinese boss. Although we need more time to improve communication and inter-cultural understanding, so far so good. I am very satisfied with working here.” (YTO, 2013)

### **5.1.3.6 Communication during integration**



The YTO Group realised the key role played by good communication with its French partners even before the deal was made. They believed that good communication could provide their French employees with a better understanding of China and of their new Chinese owner. Educational videos were used to help target firm employees to understand the past and current status of this historically rich SOE. One senior manager in the YTO Group said:

“They showed a keen interest in our history because they also had a history of more than 100 years... Most common people in most countries have one common feature, which is that they are not really aware of other countries’ conditions and cultures. Therefore, it is relevant for us to make them aware of our past and current status, show our goodwill and express our attitude and our willingness to be responsible for the future of the firm.”

Another executive of YTO France SAS stated:

“Like common people from other countries, most French employees are good, honest and genuine. They don’t usually think that their company will short-change them. However, they may be easily affected by opinions and views from the media or other channels. For example, they may become stressed and anxious if the media implies that Chinese firms will erode their job opportunities.”

Under these circumstances, the YTO Group had to take a series of steps to facilitate communication and improve its quality during the integration phase. An important way of communicating with employees is through the trade unions, which present many features distinct from those found in China. The trade unions in the French subsidiary participate in both the day to day operational management and in the firm's strategic decisions. They have the right to ask questions to the general manager on a monthly basis. This is a good opportunity to expand the communication between Chinese executives and common employees. One YTO Group top executive said:

“I think it (i.e. letting the trade unions participate in the day to day management and strategic decisions) is good for the firm's future development.”

Although the YTO Group understood the importance of communication during integration and had taken steps to facilitate it, most of their actions were still passive to a certain extent. In the early stages of the post-acquisition integration phase, a small scale demonstration was staged by French employees, who surrounded the office building. The reason behind this demonstration was that they did not know and wished to be informed about the future plan of the firm because of a period of low workload. This situation was easily defused through explanation made directly by the general manager. He recalled:

“That was due to something that had gone wrong with our supply chain: a gear wheel, a component of the transmission, had been in short supply due to the 2011 Japanese earthquake and we had faced some challenges in the process of finding alternative suppliers. They accepted my explanation and we finally resolved the issue.”

Delayed or poor communication may result in information asymmetry and unnecessary misunderstandings. This event caused the YTO Group to realise the importance of communicating in a timely and proactive manner, towards which it took a series of measures. On the one hand, the executive level of the French subsidiary was to hold weekly meetings with the managers of each department and communicate with trade unions representatives on a weekly basis. On the other hand, the executives of the parent firm decided to set up a support department in China to increase the quality and efficiency of communication with and management of the French subsidiary.

In the cross border context, effective communication can be particularly difficult to achieve since the culture, and especially the language issue, adds an extra layer of complexity to communication in the integration process. Either parties could not communicate with the other using its first language, although the Chinese senior managers in the French subsidiary did make an effort to learn French. English was

used as the working language at the managerial level, while communication with most employees could only be achieved with the help of an interpreter. The CTO of the French subsidiary said:

“Their (common employees’) English abilities were very limited, including those of the technologists. We didn’t communicate much except during meetings. Graphs and blueprints helped a lot in communicating with the technologists.”

Even between middle and senior managers, the quality of communication could not be guaranteed due to the variable English language skills among individuals. Language has always been an obstacle to effective communication. One senior executive in the French subsidiary said:

“We were definitely aware of the existence of the language barrier. I recall an interesting incident that took place during a meeting: the French manager’s answer was completely disconnected to the Chinese manager’s question because of the language barrier. Besides improving our English, we sought other ways of solving the communication problem, such as using more PowerPoint and structure charts to break through the language barrier.”

All in all, communication was a key factor and had long been a problem for this

integration process.

## **5.2 Individual case report: the Nanyang CIJIAN Group's M&A with Way Assauto**

### **5.2.1 Introduction and background**

#### **5.2.1.1 Introduction to the CIJIAN Group**

The CIJIAN Group, also known as the NanYang CIJIAN Auto shock absorber Co., Ltd., is the largest automobile shock absorber manufacturer and OEM supplier in China. The company was set up in 1951 and became a specialized shock absorber producer designated by the former National Ministry of Machine Industry in 1982. It produces shock absorbers for high- and mid-range cars as well as passenger carriages and heavy duty vehicles. Its main customers include Chinese car manufacturing giants such as FAW-Volkswagen, SVW, Chery, Geely, etc. In addition, it supplied the shock absorbers for military vehicles used in the Military parade for China's 50<sup>th</sup> National Day. In the three years between 2010 and 2013, the CIJIAN Group has occupied the top slot in the domestic market with the highest sales ratio. Presently, the annual shock absorber output of the CIJIAN Group has reached 30million, which indicates that the company has become the largest automobile shock absorber manufacturing base in Asia. The CIJIAN Group is also one of the leading firms in the industry in

terms of R&D capabilities. It runs a shock absorber academic research centre in Beijing and engages many specialists, including members of the Chinese Academy of Engineering. They annually invest over 5% of their total sales revenue in R&D investment, which enables them to be one of the Chinese National High-tech Enterprises (Nanyang Cijian official website, 2013). Table 5.2 shows the CIJIAN Group's company profile and relevant details about its M&A activities.

Table 5.2 The acquiring firm's profile and M&A activities

	<b>NanYang CIJIAN Auto shock absorber Co., Ltd.</b>
<i>Time of M&amp;A</i>	31/03/2011
<i>Core business</i>	Shock absorbers for high-and mid-range cars, as well as military vehicles.
<i>Industry status</i>	One of the biggest vehicle shock absorber producers in China, holding the largest internal market share.
<i>Motivation of M&amp;A</i>	Strategic intents. Seeking technology and market.
<i>Name and location of acquired firm</i>	Way Assauto (Italy)
<i>Ownership structure</i>	Non-SOE
<i>Annual revenue before the M&amp;A in CNY</i>	0.544 billion
<i>Price of M&amp;A in CNY</i>	150 million

*Sources: Annual reports, corporate documents and interview data.*

### 5.2.1.2 Introduction of Way Assauto

Way Assauto lies in the north-western Italian city of Asti. It has more than 105 years of history and used to be Europe's largest and the world's third car shock absorber

manufacturer. This former giant had high-end customers around the world, including world-class premier car manufacturers such as Ferrari and Mercedes. In the 1980s, it had over 3,000 employees and produced shock absorbers for all the vehicles produced by the Fiat Group. From 1996 to 2006, Way Assauto was the European shock absorber manufacturing base of ArvinMeritor, which was listed in the Fortune Global 500. In its over 100 years of operation, the company had accumulated world-class R&D capabilities and a first-rate distribution network in Europe (HC360, 2011).

However, Way Assauto had concentrated too much of its business in Europe, so it failed to address customers in emerging markets such as those from Asian countries. With the financial crisis, it could not keep up with the pace of the car manufacturers, which led to a severe decline in its business. In 2010, an Italian court declared that Way Assauto would have to be auctioned off (HC360, 2011).

### **5.2.1.3 The M&A activity**

On the 31<sup>st</sup> of March 2011, the CIJIAN Group successfully completed its acquisition of Way Assauto by two round bidding. All assets, including brands, equipment and technology were acquired by CIJIAN for 150 million Yuan. The new company was named 'New Way Assauto' (Rootinhenan, 2013).

According to the CIJIAN Group's acquisition report, its new Italian subsidiary will

focus upon its R&D unit. In the meantime, part of the production lines has also been retained and products made in Italy still use the Way Assauto brand. The rest of the production lines will be shipped to China in order to improve the equipment of the parent company (Dahe.cn, 2011).

### **5.2.2 A strategic intent M&A**

This acquisition is also a strategic intent M&A. The strategic intents of the CIJIAN Group are embedded in the three motivations given for this deal: the seeking of technology, equipment and market. In order to improve its competitiveness and compete with its rivals in both the domestic and overseas markets, the executive level of the CIJIAN Group considered R&D capabilities to be the most significant aspect that needed to be enhanced in the current stage. Although it possessed the highest R&D capabilities with regard to its domestic competitors, the CIJIAN Group felt under intense pressure from foreign competition entering the Chinese market through international joint ventures. Mr. Zhao, the president and CEO of the CIJIAN Group, said:

“Shock absorbers are particular car components which can influence both a vehicle’s comfort level and safety. In this case, shock absorber manufacturers need to pay specific attention to the relevant technology and improve the quality of their products.”



At the strategic level, the CIJIAN Group aims to improve its industry status within the Chinese market and make an inroad into overseas ones. At present, the major competitors of the CIJIAN Group in the domestic market are international joint venture companies with partners from Germany, Japan and Korea. Most of these rivals have accumulated over 100 years of experience in the production of vehicles and components, with strong R&D capabilities as well as advanced equipment. Not just to counter the potential pressure from its home market competitors, but also to maintain its leading position in the Chinese market and to seek opportunities to expand its business in the global market, the CIJIAN Group needs to improve its competitiveness both in terms of R&D capacity and production line equipment. The acquisition of Way Assauto was a good opportunity to compensate its competitive disadvantage, as the Italian company had world class R&D unit and production lines. In addition, a new Italian subsidiary may help to build the CIJIAN Group's European distribution channels and bypass the trade barriers set by the EU. Therefore, Mr. Zhao considers the motivations behind this acquisition to be "first, technology and R&D capability; second, production line equipment; third, market."

### **5.2.3 Factors influencing the integration process**

#### **5.2.3.1 Prior related knowledge**

The CIJIAN Group considers its prior related knowledge to be a key factor which can influence the post-acquisition integration process of its outward M&A activities. Such prior related knowledge is mainly measured in terms of the R&D capacity of the acquiring firm (Cohen & Levinthal, 1990; Tsai, 2001). Before the acquisition, the CIJIAN Group was already one of the leading domestic shock absorber manufacturers in terms the high level of its R&D speed and quality. Its annual R&D expenses have been consistently at over 5% of its total sales revenue, which is a top level ratio in the Chinese car component manufacturing industry (NYDT, 2010). In light of the CIJIAN Group's strategic intent, the chief motivation behind this acquisition lies in the acquisition of the advanced technology and R&D capacity of the target firm. Accordingly, the transfer of knowledge and R&D resources is one of the most important issues to be addressed. The prior related knowledge, in terms of the acquiring firm's R&D strength, has a significant impact on this process. On the one hand, the existing R&D capabilities can influence the knowledge transfer process from the acquired unit to the parent firm through its impact on the identification of resources. On the other hand, the acquiring firm's technology and R&D capabilities can lay solid foundations for the assimilation and integration of the acquired unit's technology. For example, as stipulated in the acquisition contract, part of the Way Assauto's production lines was to be transported to China as resource redeployment. The reassembly and debugging of the equipment was rapidly accomplished based on the solid foundations of the CIJIAN Group's technologists. The redeployment was essential to enable the combined organisation to enlarge its domestic market share

since those production lines represent a powerful asset for the development of the Chinese market. One CIJIAN Group senior executive said:

“We didn’t encounter too many difficulties in the technology transfer. We have almost obtained and assimilated all their core technology just by studying the documentation and blueprints, even without any direct coaching from the Italian engineers.”

In addition to identifying and assimilating key knowledge-based resources, the CIJIAN Group’s R&D capabilities also enabled the combined entity to rapidly apply Way Assauto’s advanced knowledge and facilities to its existing products. This was aimed at improving the competitiveness of these products over a relatively short period. One senior executive from the acquired firm said:

“Our engineers can recognise the technology differences and identify the advantages and drawbacks of the Italian technology.”

Furthermore, the CIJIAN Group’s new R&D centre in Italy was formally put into operation in December 2012 (MOFCOM, 2012). However, by July 2013, several new products had already been launched on the Chinese market mainly thanks to the efforts of the domestic R&D division. The fast release of these new products can partly be attributed to the existing ability of the acquiring firm in terms of R&D and

production capabilities.

In addition to the R&D aspects, the CIJIAN Group's previous international exposure also greatly influenced the post-acquisition integration process of this outward M&A. Although the CIJIAN Group did not have any experience in either international or even domestic M&A, its previous international business experiences had supplied it with useful knowledge to deal with transnational regions and cross cultural issues. Before this M&A deal, the CIJIAN Group's prevailing international business model involved import and export. Most of its equipment, including assembly lines, automatic welding lines, high frequency quenching machines, etc. had been imported from Germany. Although most of its products were sold on the Chinese market, the CIJIAN Group exported to many countries and regions around the world, such as Russia, the United States, Iran and so on. Furthermore, the CIJIAN Group had a wealth of experience in the OEM business, which helped it accumulate experience and knowledge of production and manufacturing techniques, as well as in doing business with foreigners.

#### **5.2.3.2 Degree/level of Integration**

During the post-acquisition integration process, the CIJIAN Group noticed that the degree of integration significantly influenced the M&A performance. The top management of the acquiring firm did not intervene in the decision-making process of

the day-to-day management team. They considered that the local management team would know the acquired firm better than Chinese expatriates in terms of both the day-to-day work routines and the organisational culture. Accordingly, although some employees left Way Assauto after its bankruptcy liquidation, the CIJIAN Group managed to retain the existing Italian management team. In fact, all the departmental managers of the acquired firm are Italian. There is only a limited Chinese staff (including executives) working in Italy. This highly localised management team is given a high degree of autonomy to make the day to day operational management decisions in most departments of the acquired firm. Apart from the vertical management of the financial department, only a small portion of operational management aspects, such as supply chain and market distribution, have been truly integrated at the operational integration level. Despite the CIJIAN Group putting a stronger emphasis on the integration of the supply chain and market distribution, the degree of such integration is still controlled at a relatively modest level. The CEO of New Way Assauto, who is an expatriate from the Chinese headquarters said:

“Strategic decisions are generally made by us (the Chinese top executives), while the day to day operations are all handled by the Italian managers. Any major operational activities, such as the manufacturing input (procurement) and output (marketing) need to have my approval.”

Although the integration of the supply chains and market distribution, through which

synergies are likely to be achieved by reducing costs, is considered to be the most commonly focused functional integration area by Asian acquirers, and by Chinese acquirers in particular (Cogman & Tan, 2010; Liu & Woywode, 2013), the CIJIAN Group does not completely integrate these core units. Instead of a deep integration of supply chains, the CIJIAN Group redeploys its resources by sourcing low cost component and part suppliers for its Italian subsidiary. As a senior executive put it:

“Procurement integration does not equate to the complete integration of the two firms’ supply chains. It is more like the headquarters giving its subsidiary a hand.”

Besides the modest integration of procurement and marketing, a similar degree of integration is also enacted in the R&D units. Despite its strategic emphasis on R&D integration, the CIJIAN Group does not employ formal integration mechanisms, such as changing structures and routines or posting long term expatriates. The integration of the R&D departments is primarily facilitated through various social integration mechanisms, such as short term visits, joint training programmes, meetings, etc. A top executive from the acquired firm said:

“Sending long term expatriates to Italy may cause ‘maladjustment’ among both Chinese and Italian employees.”

His claim hints at part of the rationale behind the CIJIAN Group's various degrees of integration in different departments. A high level of integration usually involves an interactive process in which the employees of both parties need to learn to work together. High degrees of interaction and cooperation of employees with distinct socio-cultural backgrounds naturally increases the potential for conflicts which could be harmful for the climate of the combined organisation and result in a poor acquisition performance. Conversely, without sufficient integration, resource redeployment and exploitation would not be attainable, and synergies could hardly be achieved (Puranam et al., 2009; Gomes et al., 2013). Considering its strategic intent, the CIJIAN Group adopted a relatively modest level of integration in those aspects that had synergy potential, such as procurement, and that were at the core of its strategic intent, such as R&D, while leaving high levels of autonomy to the Italian management for the running of the day to day operations.

### **5.2.3.3 Integration implementation speed**

The significant role played by integration speed is also evident in the CIJIAN Group's acquisition of Way Assauto. Some top executives from both acquiring and acquired firms summarised the characteristics of the integration speed as 'slow and gradual'. Nevertheless, ample evidence suggests that, while the overall pace was relatively restrained, certain key functional aspects of the integration proceeded rapidly.

The significance of the R&D integration was emphasised by almost all interviewees. Accordingly, the integration of technology-based resources and R&D units was initiated immediately after the M&A deal was announced. The fast integration of the R&D units was embodied in two aspects. First, the setting up of a new R&D centre was rapidly implemented. Second, the acquisition and assimilation of Way Assauto's intangible assets also got under way as soon as the acquisition was complete.

The European R&D centre, which is based on Way Assauto's existing department, was launched immediately after all acquisition contracts and procedures had been settled. The swiftness in setting up the R&D centre in Italy was a result of the strategic position of the Italian subsidiary. According to Mr. Zhao, the CEO and president of the CIJIAN Group, the acquired firm was seen as a combination of an R&D centre and a shock absorber manufacturing plant. The information provided by other informants implied that, in the early stages of the acquisition, the major asset of the acquired firm was the European based R&D centre, rather than the plant. This was in line with the acquiring firm's strategic intent: acquiring technology-based strategic resources was their first priority.

Although this R&D centre was not officially put into operation until the end of 2012, R&D integration had been carried out from the very beginning in terms of knowledge transfer and R&D staff interactions. The late announcement of the setup was mainly linked to the tangible part of the R&D centre building as well as some delays in



bureaucratic procedures with the Chinese governmental authorities. There was no doubt that the CIJIAN Group had rapidly sought technology from its Italian subsidiary and had applied it to its existing products in order to improve their competitiveness. In fact, several new products, which benefited from the integration of the technology of the acquiring and acquired entities, had already been launched on the Chinese market by June 2013.

In addition to R&D integration, the other rapidly implemented operational integration was that of the manufacturing units. Immediately after the acquisition announcement, the CIJIAN Group had started to integrate the manufacturing lines by relocating part of the acquired firm's production lines to China. Six full production lines covering from welding to assembling, which is a complete manufacturing process, had been left in Italy to retain the acquired firm's manufacturing capabilities. Such resource redeployment had also been undertaken rapidly. One senior executive explained the fast integration of R&D as well as that of the manufacturing lines:

“(We aimed to acquire advanced manufacturing equipment, technology and R&D capabilities, thus) ...the first two actions we took after the acquisition were to transfer patented technology and build an R&D centre, as well as transfer part of the manufacturing lines to China.”

Apart from the rapidly implemented integration of R&D and manufacturing lines, the

speed of other aspects of operational integration was deliberately kept at a modest pace. In fact, the CIJIAN Group adopted a relatively slow speed for both the operational (formal) and socio-cultural (informal) integration. For example, despite the CIJIAN Group having put a strong emphasis on the integration of the supply chain and market distribution, the speed of the integration had still been relatively low. By March 2013, the acquired firm was still in the preparatory phase of its market distribution. Market integration had been put aside for over a year after the acquisition. In a telephone interview given in April 2013, the CEO of New Way Assauto said:

“We are now still in the preparatory phase of market distribution. The acquired firm’s products had not started selling until half year ago (the end of 2012). The CIJIAN Group put us on life support for over a year. So far, only 30,000 units have been sold. However, we have already taken quite a few orders and are developing a series of new products. I believe that we can gradually increase our sales volume.”

Accordingly, supply chain and marketing integration proceeded slowly as it was not needed until the acquired firm was able to recover its production lines and have its own orders to prepare.

A complete socio-cultural integration could have hardly been achieved in a short period of time (Teerikangas & Very, 2006). Socio-cultural integration was deliberately

kept at a slow pace. Although certain social integration mechanisms, such as visits and joint training programmes, were employed, the CIJIAN Group chose to keep a degree of separation between the two different cultural dimensions in day to day activities by using these mechanisms gradually instead of heavily and rapidly to pursue total cultural integration. The culture related issues are presented and analysed in detail in section 5.2.3.5.

In brief, the CIJIAN Group considered the speed of integration to be one of the key factors in its post-acquisition integration process. Drawing from its acquisition motivations, the CIJIAN Group employed a contingent integration speed. It integrated rapidly in strategically relevant areas such as R&D and manufacture, while adopting a slower speed for general operational and socio-cultural integration.

#### **5.2.3.4 Staff turnover and management team building**

In this acquisition staff turnover in the acquired firm was considered to be a critical factor exerting a decisive influence on post-acquisition performance. On the one hand, any acquisition, and especially one by a firm from an emerging economy, may be a source of uncertainty among local employees, leading to the departure of key staff members who usually possess valuable individual skills and knowledge and have the option to change jobs. This can leave holes in an acquired firm's knowledge base and hamper the exploitation of those synergies which may be achieved by combining and

redeploying resources. Although the CIJIAN Group realised the importance of key personnel, it failed to retain some technicians after the acquisition. Consequently, the Chinese acquirer had to seek new technical experts from Italy and Germany to complement their R&D team. On the other hand, the withdrawal of existing key personnel might damage the organisational climate of an acquired firm by increasing the remaining employees' resistance, stress and uncertainty about their job security. Therefore, the CIJIAN Group took various measures aimed at retaining key employees, such as improving the quality of rewards, publicising its erstwhile performance, promising production expansion, etc.

In addition to the turnover of the acquired firm's key staff, the careful selection of Chinese expatriates was also a concern of the CIJIAN Group. Posting Chinese expatriates to Italy did not only require the selection of personnel with a high level of adaptability to work in a different institutional environment with colleagues from distinct socio-cultural and language backgrounds, but could also lead to increased anxiety and uncertainty about their job security in the local employees, which could harm the organisational climate and be the potential cause of conflicts. In order to minimise this risk, the CIJIAN Group adopted a policy of short or medium term expatriations instead of long term ones. In fact, only a few Chinese executives and translators work in Italy on a day-to-day basis. One CIJIAN Group executive said:

“We periodically swap the work places of specific staff members to enhance

mutual learning. As we have the same manufacturing lines in China and Italy, technicians from either country transfer to the other to work and train every so many months.”

Moreover, the turnover of the existing management team was also crucial for CIJIAN Group’s post-acquisition integration. The strategic decision-making in the acquired firm is controlled by the New Way Assauto board, within which Chinese executives outnumber Italian ones. Despite the Chinese acquirer firmly holding strategic authority, the erstwhile Italian general manager was appointed as vice general manager, the post of second in command, to directly control the day to day operational activities. In addition, all the Italian middle management was retained. By constructing such a management structure, the existing operational management resources and day to day routines were successfully retained in the acquired firm without hampering the organisational climate. At the same time, the CIJIAN Group still holds absolute control over the subsidiary in terms of the redeployment of resources and pursuit of potential synergies. Mr. Zhao related:

“We retained the managers of almost all the important departments, such as marketing, R&D, etc. The existing Italian employees were familiar with the facilities and routines and, more importantly, they were familiar with the management style of their old Italian managers.”

### **5.2.3.5 Cultural differences**

The CIJIAN Group always considered the enormous cultural differences existing between the acquirer and acquired firms to be a key factor that could strongly influence post-acquisition performance. Mr Zhao specially emphasised the role played by cultural differences and integration in the Chinese firms' outward M&A:

“We believe that the first and foremost reasons for the failure of most Chinese MNEs to achieve success in their outward M&As, especially those in developed countries, are cultural differences and integration.”

Being well aware of the relevance of cultural related issues and of the existence of enormous cultural differences, the CIJIAN Group has been dealing with great care with cultural integration within the combined entity. Its cultural integration strategy is based on two aspects: understanding and respect. The CEO of New Way Assauto said:

“We need to face up to the differences between the two cultures. There is no need to deliberately require the Italians to accept our culture, and vice versa. The best way to solve this problem is by means of mutual understanding in the course of day to day work and through communication.”

Any initiator who develops an understanding of his partner and actively invites said

partner to get to know him will effectively promote mutual understanding. The CIJIAN Group, being the acquiring firm and holding a higher position of power in this relationship, chose to deal with culture related problems with a high degree of tolerance even before they could truly understand their partners. Building on this high level of cultural tolerance, the CIJIAN Group implemented measures to further understand Italian culture by taking into consideration its various aspects, such as food, religion, the way of doing things, etc. For example, the Chinese executives have tried to acquaint themselves with Italian culture by visiting the local employees' homes and dining with them, as was highlighted by Mr Zhao.

In addition to striving to learn and understand Italian culture and to reduce the cultural asymmetry, the CIJIAN Group also actively promotes the understanding of the Chinese way of thinking in the Italian employees. One executive of the acquiring firm said:

“In fact, a large proportion of cultural conflicts occur because of misunderstanding.”

The evidence suggests that most Italian employees did not understand Chinese culture at all at the beginning of the acquisition. The CIJIAN Group's active communication policy effectively helped the Italian employees to understand their partner's reasons for doing things, which could reduce the likelihood of conflicts caused by cultural

differences. For example, some Italian staff, who initially disliked and showed resistance against specific stiff rules, understood and accepted the Chinese rationale after being told an ancient story by their Chinese general manager.

An important foundation of mutual understanding is mutual respect. Receiving respect from local employees is much harder than showing respect. This is particularly true for Chinese acquirers buying assets from developed economies as, in most cases, employees from western developed economies are, to a certain extent, prejudiced against Chinese firms. One CIJIAN Group top executive explained:

‘Initially, most of them (the Italian employees) believed Chinese firms to be rich buyers devoid of technology and management skills.’

In this case, the CIJIAN Group chose to allay any misconception of Chinese technical inferiority among Italian employees by demonstrating the competency of their technicians and engineers. During the transfer of the production lines to China, the Chinese engineers executed the installation and trial run procedures without any direct guidance by Italian technicians, which (in the words of a vice CEO of the CIJIAN Group) “greatly impressed” the employees of the acquired firm. When the Italian engineers travelled to China to visit the parent firm, the Chinese R&D staff would pose some technological challenges for them to solve in cooperation with the Chinese team. This was done deliberately to show the Italians the R&D competency of the



Chinese, to change the attitude of the Italian employees towards their acquirers and to enhance the appeal of the acquirer. In turn, this helped the CIJIAN Group to gain a lot of respect and facilitated the establishment of a harmonious organisational climate.

Moreover, the CIJIAN Group also managed to win respect by sensibly vetting the quality of its expatriates. All expatriates were carefully selected taking into account their prior related knowledge and were trained appropriately. Before visiting Italy, Chinese employees received a systematic training, which included English, personal quality, etiquette, local culture, etc. The CIJIAN Group believes the image of a firm to be the aggregate of the images of its employees. One top executive explained:

“If our Chinese employees show their competencies and capabilities, the “superiority complex” of some Italian personnel can be overcome so that they become convinced of your value and respect you from the heart.”

Once the attitudes of some Italian staff towards their Chinese bosses had changed from arrogance to respect, mutual understanding could be much more easily achieved. Accordingly, any potential cultural conflicts could be easily solved and the organisational climate would be naturally improved, which in turn would positively impact the post-acquisition integration of the combined entity.

#### **5.2.3.6 Communication**

A better understanding of cultural differences could be and would need to be supplemented by effective communication during the post-acquisition integration process. The CIJIAN Group has always considered communication to be one of the key factors influencing post-acquisition performance. On the one hand, effective communication allows for the more efficient transfer and processing of organisational resources and knowledge. On the other hand, communication can strengthen socio-cultural connections between partners and build trust and a harmonious organisational climate in the combined firm.

The CIJIAN Group clearly identified the communication problems that could have emerged, and was well aware of the extra degree of communication difficulty added by cultural differences, time zone differences and language problems. One CIJIAN Group executive stated:

“They (the Italian employees) don’t speak English. Most of them don’t know much about the outside world, especially China.”

This information asymmetry caused by cultural or language issues could likely result in misunderstandings and stress among Italian employees who are in a relatively lower hierarchical position and need a greater sense of job security. For example, staff from the acquired firm may resist actively transferring knowledge to their Chinese

colleagues because of fear of losing their jobs.

Due to the significant role played by communication and the potential difficulties it could face, a series of measures were taken by the CIJIAN Group to facilitate the formation of effective intra-unit communication. First, interpreter quality is crucial for communication as it affects the level of articulateness with which information can be transferred and the Italian employees' perception of the parent firm. The interpreter for the Italian subsidiary's CEO has been studying and working in Italy for many years. He was also appointed as the director of the General Affairs department due to his professional skills and Chinese-Italian background.

Moreover, the CIJIAN Group emphasises the role to be played by Chinese executives as mediators between the acquiring firm and its Italian employees, while deliberately restricting communication opportunities between Chinese and Italian lower level employees. The involvement of top executives implies that the headquarters attach great importance to communication with the Italian staff, which could enhance the latter's sense of identity and security. Communication among lower level employees could hardly be effective due to the restrictions imposed by the language barrier. Moreover, over-communication and day-to-day contact may generate a higher potential for cultural conflicts, which could negatively influence the post-acquisition integration process. In this case, despite the CIJIAN Group running the same manufacturing lines in both China and Italy, which would allow technicians to work

together, visits and joint training programmes were chosen to avoid the potential drawbacks brought by over-communication and cultural differences.

In addition, another way in which the CIJIAN Group improves the quality of communication is by publicising the facts and reasons for both strategic and practical issues to reduce Italian employees' confusion, stress, and distrust. On the one hand, the employees' sense of ownership can be stimulated when they are informed about new future plans, task changes, employees' responsibilities, etc.; this lays a strong foundation for the realisation of effective communications. On the other hand, although an acquired firm's staff might hold different views on certain operational issues, and communication maybe hampered by differences, they can be persuaded if reasonable rationales are provided. For example, the trade union representatives of New Way Assauto raised a case in favour of expanding the production scale and increasing the recruitment of local employees. A detailed explanation given by the Chinese CEO and ranging from the current European economic background to the acquiring firm's comparative advantage and detailed future strategy effectively removed the distrust of the Italian employees and facilitated the subsequent communication.

### **5.3 Individual case report: CITIC Heavy Industries Co., Ltd.'s M&A with Gandara Censa**

### **5.3.1 Introduction and background**

#### **5.3.1.1 An introduction to CITIC Heavy Industries Co., Ltd (CITIC HIC)**

CITIC HIC was set up in 1956 under the name of Luoyang Mining Machinery Plant. It was merged with the CITIC Group by initiative of the Chinese government and renamed CITIC Heavy Machinery Company Ltd. After undergoing restructuring in 2008, it finally became CITIC Heavy Industries Co., Ltd. On the 6<sup>th</sup> of July 2012, CITIC HIC was successfully listed on the Shanghai Stock Exchange.

After over 60 years of development, CITIC HIC has become a significant domestic and global supplier of mining, cement and metallurgical equipment. It produces over 200,000 tons of quality equipment annually, including grinding mills, scrubbers, crushers, kilns, coolers, hoists, reducers, steam turbines, and compressors. It is now the largest mining machinery manufacturer and the second largest manufacturing equipment producer in China.

Technological innovation is at the core of CITIC HIC's strategy, thanks to which it has become the State Level Innovative Enterprise and High-tech Enterprise. It holds dozens of technological patents and owns a national level enterprise based technology centre which ranks within the top 10 of 887 centres around the country (CITIC HIC official website, 2013). It also runs a state key laboratory and a post-doctoral research station.

CITIC HIC is also one of the first 50 “international operating enterprises” accredited by the Chinese government. It emphasises a globalisation strategic layout and is building up its global distribution and service network. Apart from the Spanish firm that it acquired, CITIC HIC also has offices in Australia, Brazil, Canada, Chile, India and South Africa. In 2011, CITIC HIC’s overseas order accounted for 10.79% of its total orders, which is a relatively large proportion compared to that of its domestic competitors (China Economy.cn, 2012). Table 5.3 shows the profile of CITIC HIC and relevant details about its acquisition of Gandara Censa.

Table 5.3 The acquiring firm’s profile and M&A activities

	<b>CITIC Heavy Industries Co., Ltd</b>
<i>Time of M&amp;A</i>	23/02/2011
<i>Core business</i>	Produces over 200,000 tons of quality equipment annually, including grinding mills, scrubbers, crushers, kilns, coolers, hoists, reducers, steam turbines, and compressors.
<i>Industry status</i>	One of the biggest players in the heavy equipment manufacture industry; number one mining machinery and cement equipment manufacturer.
<i>Motivation of M&amp;A</i>	Strategic intent. To seek technology, markets and geographical positioning.
<i>Name and location of acquired firm</i>	Gandara Censa (Spain)
<i>Ownership structure</i>	SOE
<i>Annual revenue before the M&amp;A in CNY</i>	65 billion
<i>Price of M&amp;A in CNY</i>	Not disclosed

*Sources: Annual reports, corporate documents, and interview data.*

### **5.3.1.2 An introduction to Gandara Censa**

Gandara Censa was a manufacturer of heavy industrial equipment, catering to the mining, cement and energy (renewable) sectors. As one of the very few global manufacturers producing large mining mills of over 9 meters, over a period of 45 years, Gandara Censa had earned its global reputation through advanced manufacturing technology and quality products. It was a sub-contractor of some of the world's best known mining equipment suppliers such as Metso, FLSmidth, Polysius, etc. It was also one of the global competitors of CITIC HIC in the production of large mill cylinders. The company operated a manufacturing plant in Vigo and exported almost all its products to global customers (CITIC HIC official website, 2013). Affected by the recent global financial crisis, Gandara Censa had experienced a large decrease in its orders. Under these circumstances, its previous shareholders decided to sell the company as a whole (CITIC HIC official website, 2013).

### **5.3.1.3 The M&A activities**

After some interactive site visits in both China and Spain and a year of negotiations and due diligence process, CITIC HIC completed its acquisition of the Spanish-based heavy equipment manufacturer Gandara Censa on the 23<sup>rd</sup> of February 2011. The amount involved in this acquisition was not disclosed. CITIC HIC promised this acquisition would not result in any lay-offs or reductions in salary and welfare (CITIC

HIC official website, 2013). The acquisition of Gandara would provide CITIC HIC with a strong foothold in Europe, which would also give CITIC HIC easier access to customers in Europe, South and North America, and Africa (CITIC HIC official website, 2013).

### **5.3.2 A strategic intent M&A**

In order to improve the firm's competitiveness and compete with its rivals in both the domestic and overseas markets, CITIC HIC has long been devoted to expand its global market. It considers internationalisation as a process of utilising global resources, including marketing, natural and, most importantly, technological resources. Accordingly, CITIC HIC clearly defined this acquisition as a strategic intent M&A. The Chinese acquirer was mainly motivated by the achievement of geographical benefits and market penetration through this outward M&A. Pursuit of technology considerations were also a motivation behind this acquisition.

Gandara Censa's location was an important reason for CITIC HIC wanting to go ahead with the acquisition. The factory is located in an industrial district less than 20 miles from Vigo harbour, a large international shipping port suited for the transportation of heavy machineries. The acquisition of a manufacturing base can not only solve overseas transportation problems by dramatically reducing the related costs, but also open up distribution channels to South America and Africa, with their



abundant natural resources. A European-based manufacturing base also represents a useful supplement for the business expansion of CITIC HIC's overseas subsidiaries and offices.

In addition to geographical strategic layout considerations, this acquisition could also fulfil CITIC HIC's need to enter overseas markets, besides acquiring advanced technology and manufacturing techniques. With a European-based manufacturing centre, CITIC HIC would have a larger comparative advantage when competing for orders which require EU standards. This would help the Chinese acquirer to overcome the technical obstacles to gaining entrance to the European market and dramatically increase its future overseas business potential. Gandara Censa's world leading technology and manufacturing techniques on large mills could also be used to improve the acquirer's production and techniques. Moreover, it would exactly meet CITIC HIC's need to expand its capacity. In this case, Mr Ren, the CEO and president of CITIC HIC, considered the motivations behind this acquisition to be:

“First, to achieve a geographical strategic layout and seek overseas markets; then to seek technology and manufacturing techniques. The rest (of the motivations) are all subordinate.”

### **5.3.3 Factors influencing the integration process**

### **5.3.3.1 Prior related resources**

The CITIC HIC's prior related resources are considered to be a key factor influencing the post-acquisition performance of their foreign acquisition. Such prior resources are clearly evident in its current performance and industrial status, overseas business experiences and R&D intensity.

As the largest mining machinery manufacturer and the second largest manufacturing facility producer in China, CITIC HIC has earned a reputation both at home and abroad over the last 60 years. It was also one of the global competitors of Gandara Censa in the production of large mill cylinders (CITIC HIC official website, 2013). In fact, its comprehensive strength was better than that of the target firm, a situation that differs from some other well-known cases, such as Lenovo's acquisition of IBM PC. When the previous major shareholders of Gandara Censa considered selling off the firm for investment withdrawal, CITIC HIC attracted their interest with its rapid development in recent years, and especially its positive performance in the difficult situation arising after the 2008 financial crisis. Most importantly, this deal was supported by most Gandara Censa stakeholders who are closely related to the post-acquisition integration phase of this acquisition, such as the Spanish management team, general employees, trade unions and local government. They believed that this company could have a better future under the operation of the Chinese acquirer. The trust of these key stakeholders laid a solid foundation for a smooth post-acquisition

integration process and had a positive impact on the future acquisition performance.

Apart from CITIC HIC's performance and industrial status, its past international exposure is also a valuable resource for the post-acquisition management. Despite CITIC HIC not having any outward M&A experience, it had accumulated ample international business knowledge through its prior overseas business. Before the acquisition, CITIC HIC had already started to build its global distribution and service network by setting up subsidiaries in Brazil and Australia. It also had overseas offices in Canada, Chile, India and South Africa. In 2011, CITIC HIC's overseas order portfolio accounted for 10.79% of total orders, which was a relatively large proportion compared to its domestic competitors<sup>17</sup>. Its past international business experience helped CITIC HIC to accumulate relevant knowledge in dealing with cross cultural and cross border problems, which successfully enriched its knowledge base for the management of the post-acquisition integration process.

In addition, its strong R&D capabilities also benefits CITIC HIC in terms of the transfer of technological knowledge and resources. Gaining Gandara Censa's specialised technology and manufacturing techniques on large mills is one of the main motivations behind this acquisition. The strong R&D intensity not only helps CITIC HIC to clearly identify the valuable and complimentary resources of the target firm,

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<sup>17</sup>This figure steadily increased after the acquisition. By mid-2013, CITIC HIC had overseas orders for over 3 billion CNY (China.com, 2013).

but also provides it with the necessary capacity to successfully assimilate and integrate latter's technology. Moreover, the robust prior R&D capabilities also facilitate the learning process, reducing the need for frequent interactions in the transfer of explicit knowledge, which could minimise any potential conflicts caused by the deeper integration of the two parties. One CITIC HIC executive commented:

“It (the knowledge transfer) is not a big problem. Our core technicians have visited the acquired firm several times to learn their advanced techniques and technology. If we find something useful, we can definitely absorb it.”

### **5.3.3.2 Degree/level of integration**

CITIC HIC believes that the level of integration is a crucial issue that greatly influences post-acquisition performance and M&A success. The integration level adopted in the day-to-day operations is very low compared to traditional M&A transactions. In fact, CITIC HIC is not at all involved in the acquired firm's day to day operational management; all existing Gandara Censa management teams were left in place to retain the original management style. There are even no permanent Chinese expatriates working in the acquired firm. The CITIC HIC CFO said:

“We use localisation management and keep their routine way of doing work.”

CITIC HIC realised that Gandara Censa's business and operational model should not be changed after the acquisition. On the one hand, its own operational system and day to day routines had existed for many years and had proved to be suitable for the firm. The decrease in profits in recent years did not really result from issues in the day-to-day operations but had more to do with strategic aspects. On the other hand, it would be unrealistic to significantly intervene in the day to day operations of the acquired firm because the Chinese acquirer not only lacks suitable local talent to appoint as expatriate managers, but is also not confident in handling the potential cultural conflicts which are likely to occur during the day to day interactions between employees from different socio-cultural contexts.

Nevertheless, CITIC HIC also understands that a certain degree of integration is necessary to combine and redeploy resources. Completely no changes at all could also cause uncertainty and rumours to thrive since most employees of the acquired firm actually expect the post-acquisition changes which can be seen in most M&A cases (Gomes et al., 2013). Despite giving local management team a high level of autonomy, CITIC HIC still adopted formal integration on certain functions. Apart from the system integration, such as in accounting, and the financial integration, which can be observed in most M&A, formal integration mainly concentrates on target setting, performance appraisal criteria, purchasing by invitation to bid, etc.

In other words, integration mostly took place between the acquired firm's

management team and their Chinese executives at headquarters. One CITIC HIC executive said:

“There is barely any direct contact between the mid-level management here (at headquarters) and that of the Spanish subsidiary. We (the executives) contact them directly.”

The interaction between the Chinese executives and the acquired firm’s management team mainly focuses on two aspects. First, the strategic decisions are all made by Chinese executives; second, all major operational activities, such as procurement, marketing and investment, need to be authorised by the acquiring firm. For example, the decision-making right to invite for bids lays with the headquarters; all major investments decision are made in China, while the Spanish subsidiary only takes charge of specific projects. Moreover, although the acquired firm has a very high level of autonomy in day to day operations, the headquarters also has in place a strict monitoring mechanism to manage risk and make sure the operation of the subsidiary follows the acquirer’s strategic intent. Therefore, the degree of integration at the management level is kept relatively modest, so that even the executives in both acquiring and acquired firms do not work at the same site. Mr Ren emphasises the importance of consistency in the implementation of the corporate strategy in both the acquiring and the acquired firm. Given that the management team of the acquired firm has not changed, the crucial issue for integration at the management level is to transfer

the strategic intent of the acquiring firm to the acquired firm's management team.

Compared with that at the management level, the degree of integration at the employee level is even lower. Apart from specific short or middle term visits and training programmes for technicians aimed at exchanging technological resources, the Chinese employees have barely any contact with their Spanish colleagues. On the other hand, regular visits are made by particular employees of the acquired firm, such as heads of departments and trade union representatives, to the headquarters in China. These visits and meetings are intended to deepen the Spanish employees' understanding of the acquirer in terms of strength and friendship; this helps to reduce the levels of stress and uncertainty of the acquired firm's employees. The low level of interaction and integration achieved through the visits and joint training programmes controls the relationship between employees of the acquiring and acquired firms at a distance. Keeping such a distance aids in avoiding the potential cultural conflicts that usually arise in highly integrated M&A (Birkinshaw et al., 2000; Gomes et al., 2013) and gives the two parties the space necessary to build a suitable degree of mutual trust prior to them becoming more deeply integrated.

### **5.3.3.3 Speed of integration**

Despite some of the interviewees not having a clear conceptual idea about the influence of integration speed on the acquisition performance, the evidence suggests

that the speed of integration was intentionally controlled by CITIC HIC and was crucial for the post-acquisition integration process.

Integration proceeded with different paces at the various organisational levels (Birkinshaw et al., 2000). Formal functional integrations were implemented rapidly to maintain the acquired firm's business momentum. As CITIC HIC accords a high level of autonomy to the acquired firm's management team, the key aspect of operational integration naturally focuses on the management level. Immediately after the acquisition, CITIC HIC imposed a set of its own top management decision-making systems to the acquired firm. One major change was that the existing Gandara Censa shareholders, who were financial investors, would henceforth entrust all strategic decision-making powers to the professional management level and deal only with accounting and financial duties. By contrast, the Chinese acquirers took the strategic decision-making powers back from the managers of the subsidiary and integrated the performance appraisal criteria of the acquired firm into its own system. This change was implemented promptly within the first 20 days after the acquisition.

Such a fast integration of top management decision-making system is consistent with the main motivation behind this acquisition, which envisaged the Spanish subsidiary becoming a crucial asset of the strategic layout of CITIC HIC's internationalisation strategy. It was important for the Chinese acquirer to make sure that the operation of its Spanish subsidiary would be in line with the headquarters' strategy. This was also a



crucial source of potential synergies: the acquirer would use the resources of the acquired firm to get orders that could not hitherto be bagged due to technological or marketing constrains and feed the acquired firm with more orders and cheaper suppliers by redeploying its global resources. Mr Ren pointed out:

“We started to build a healthy management control mode (at the management level) immediately after the acquisition. We defined what could be dealt with by the Spanish managers and what decisions would have to be made by us. It is strategically vital to have a strong oversight on the management team of the acquired firm. So far, this management control mode has been proven to be very effective.”

In addition to the rapid integration of the strategic management system, the integration of the technology and manufacturing techniques was also implemented within a short period after the acquisition. The complementarity of each firm’s technological resources was a critical source of synergy, so a fast implementation of technology-based knowledge transfers would have a positive impact on the acquisition performance. Since such integration took the form of visits and joint training programmes, instead of employees from different socio-cultural backgrounds working together, the possibility of any potentially uncomfortable feeling arising during the post integration process was dramatically reduced. The Spanish general manager stated:

“Our staff enjoys the trips to China and also welcomes the visits of our Chinese colleagues.”

#### **5.3.3.4 Staff turnover**

CITIC HIC understood the significant role that staff turnover could play in the post-acquisition integration phase. In order to maintain and sustain the business momentum and create a harmonious organisational climate for integration, CITIC HIC retained the entire staff of the acquired firm, including its existing management team. Although the retention of all the employees would mean missing the opportunity to cut labour costs through the acquisition, it helped to reduce the levels of discomfort and distrust among the employees of the acquired firm and greatly boosted their morale. Moreover, the retention of key staff members also ensured the completeness of the acquired firm’s knowledge base. This was particularly true of the tacit knowledge that is embedded in the practices of employees (Kogut & Zander, 1993). The evidence suggests that the Spanish subsidiary performed well and smoothly after the acquisition, which may partially be attributed to the retention of its existing workforce.

Among all retained employees, the crucial role played by the Spanish management team was repeatedly emphasised by all CITIC HIC executives. The CITIC HIC CFO said:

“It would have been impossible for us to either completely change or follow the operational business model of the acquired firm. Therefore, we needed to retain its management team and implement our strategy through it.”

The existing Gandara Censa management team was made up of professional managers, most of whom had doctoral degrees. The fit of this team had been directly reviewed by the Chinese executives during the due diligence and negotiation process of the acquisition. In fact, the management team’s characteristics were one of the key reasons why CITIC HIC judged this acquisition to be feasible. The Chinese acquirer clearly realised it would be almost impossible to find suitable Chinese expatriates competent enough to form the management team of the Spanish subsidiary due to the complexity of a series of required knowledge including in institutions of the host country, language, industrial professional, etc. The only possible adequately suited management team would be the existing one. However, the main motivation behind the acquisition also required the managers of the acquired firm to strictly adhere to the acquirer’s strategic intent and intended global strategic layout. Therefore, the existing Spanish management team would have to prove to be suitable strategy executors for their Chinese bosses. Mr Ren related the crucial role played by the management team in this acquisition:

“The localisation of the management team was vitally important...Had we

not been satisfied with the Spanish management team before the acquisition, we would not have acquired the company.”

#### **5.3.3.5 Cultural differences and cultural integration**

In this case, culture related issues, such as cultural differences and cultural integration, are deemed to be a critical factor which can strongly influence post-acquisition performance. As it is widely accepted that cultural differences at multiple levels have a significant influence on acquisition performance through their impact on the post-acquisition process (Gomes et al., 2012), CITIC HIC had placed great care in dealing with culture related problems by means of specific cultural integration strategies.

At the general employees’ level, potential cultural conflicts were successfully avoided by reducing day to day contact. CITIC HIC did not post any long term expatriates to work in the acquired firm, so as to keep direct contact between Chinese and Spanish employees to a minimal level. Keeping a certain distance and implementing a low degree of interaction can, to a large extent, cut the negative impact of cultural differences and help the combined firm to integrate in a harmonious organisational climate which can smooth out and facilitate the transfer of resources. One CITIC HIC top executive said:

“Cultural conflicts are rarely seen as there are actually no Chinese employees involved in the operation of the Spanish subsidiary. At the general employee level, cultural integration does not exist. For the employees of the acquired firm, it’s little more than a change in the major shareholder.”

Therefore, “It is the employees at the management level that have the maximum exposure to cultural differences” (CFO of CITIC HIC). In fact, the Chinese acquirer’s integration, including cultural integration, with the Spanish management team had begun even before the acquisition had taken place. During the due diligence process, the CITIC HIC executives had carried out a thorough evaluation of the existing Gandara Censa management team, which included an estimation of the cultural integration possibilities and of the optimal degree of cultural integration. Based upon the interaction experiences made during the evaluation process, the CITIC HIC executives found that the Spanish management team showed a good understanding and acceptance of both Chinese culture and of the organisational culture of the acquiring firm. This was also an important prerequisite for CITIC HIC making up its mind to complete the acquisition.

The actual cultural integration process in the post-acquisition phase proved the correctness of the pre-acquisition forecast concerning the cultural fit of the Spanish management team. Despite Chinese executives having reserved to themselves the strategic decision-making rights and having amended the performance appraisal

measures of the management teams of the acquired firm, the Spanish managers, who had been used to a different professional culture, willingly accepted, rather than opposed, the arrangement. In China, there is an ill-defined sense of 'Zhu ren weng' (sense of ownership). Chinese employees are already taught that they are the 'owners of their enterprises' when they are in primary school. This phenomenon can be partially explained by China's socialist (communist) ideology and system. Unlike Chinese staff members, who do not have a clear cut awareness of the roles played by shareholders and employees, the Spanish managers' professional culture allowed them to clearly identify the authority of the majority shareholder. Accordingly, they showed a strong executive ability in the implementation of corporate strategy and would not express any reluctance towards integration mechanisms such as changes in strategic decision-making powers and in performance appraisal criteria.

In addition to the positive effect exerted by the Spanish managers' professional culture on post-acquisition integration, the management level organisational culture of Gandara Censa was also in line with the Chinese acquirer. From the point of view of national cultural specifics, the Chinese generally believe that the Spanish have a lower degree of diligence compared to them. Nevertheless, the organisational culture of the acquired firm endowed its Spanish management team with hard working characteristics similar to those of its Chinese acquirer. For instance, the general manager of the acquired firm is a workaholic who places work over family life. The secretary of the Spanish CEO said:

“He is a true workaholic whose home is located very far from the company’s headquarters. He does not usually go home during the weekdays because he always works overtime. His wife once complained to me about this. This is more typically a Chinese state of affairs than a Spanish one.”

Such an organisational culture consistency greatly facilitated the cultural integration between Chinese and Spanish executives, positively promoting the effective implementation of corporate and integration strategies in the post-acquisition integration process.

Despite the organisational cultural consistency in certain cultural specifics, there were still cultural differences at multiple levels which could cause conflicts during the day to day interactions between executives. CITIC HIC believes that misunderstandings based on cultural differences are quite normal in outward M&A in western developed countries, and adopts a highly tolerant stance in dealing with the relevant problems.

One CITIC HIC executive said:

“Misunderstandings are inevitable. Misunderstandings even occur in our communication with Chinese managers, much less to say foreign managers who have different linguistic and socio-cultural backgrounds. The most significant asset in solving these problems is a tolerant mentality.”

Building on its high cultural tolerance, CITIC HIC adopted a restrained attitude in dealing with all problems that may have involved cultural specifics. Such a tolerant mentality laid a solid foundation for the cultural integration and maintenance of a harmonious organisational climate, thus indirectly benefiting the redeployment of resources within the combined organisation.

CITIC HIC also adopted various socio-cultural integration mechanisms to foster mutual understanding. For instance, every six months, the employee representatives of the acquired firm would travel to China for short term visits and joint training programmes. These cultural integration mechanisms not only promoted quality and effective communications between units, but also helped to build mutual understanding and respect. The Spanish employees' perception of the Chinese acquirer could be easily improved after seeing first hand 'real' Chinese socio-cultural institutions. The general office director of CITIC HIC said:

“The way most Spaniards view China is still based on an impression dating over 20 years. They may be aware of China's economic development in recent decades, but still have no idea of modern China's real socio-cultural environment. Inviting them to visit China helps them to get to know the headquarters, Chinese culture and our organisational culture.”



Another CITIC HIC executive said:

“They (the Spanish visitors) showed great interest in and respect for our culture. They attended the flag-raising ceremony with us and also asked to wear our uniform and company badge. This is a strong signal that they respect and are willing to accept our culture.”

#### **5.3.3.6 Communication**

Communication during the post-acquisition strategy implementation process was a key factor that could influence the M&A performance in CITIC HIC’s acquisition of Gandara Censa. The quality of the communication between Chinese and Spanish employees could be significantly affected by potential socio-cultural barriers, such as language issues and cultural differences. In this case, encouraging communication between general staff members would not be a wise approach to facilitating post-acquisition integration, because improving the communication quality between all employees would be too costly. Accordingly, the acquiring firm’s communication and interactions with its Spanish subsidiary were mostly limited to those between top executives. Even CITIC HIC’s middle management barely had any direct contact with the acquired firm. The reasons for only involving the top management team were twofold: in addition to ensuring a high communication quality to minimise potential misunderstandings, CITIC HIC also wished to preserve the acquired firm’s autonomy

in its day to day operations, where valuable practices and routines lay. Therefore, to act as the main communicators of the acquiring firm, the Chinese executives set up a specialised foreign affairs secretariat and employed high quality interpreters to ensure the reliability and articulateness of the transferred information. These measures could also positively impact the foreign employees' perception of the acquiring firm and, in turn, improve the quality of future communication.

The Spanish managers also played an intermediary role between acquirer and acquired employees. Any information successfully transferred to the acquired firm's managers could be easily transferred to the latter's general employees since they share the same institutional and socio-cultural backgrounds. Most importantly, a trustworthy intermediary can increase the reliability of the information transferred.

However, on certain special occasions, the Chinese executives also directly communicated with the employees of the acquired firm to showcase their attention to important issues. For instance, after the acquisition, there was a decline in the order volume of the acquired firm, caused by uncertainty about the firm's prospects among a proportion of its previous customers. In those months, the Spanish employees were concerned about losing clients and orders, and worried about the potential for decreased workloads and job losses. To solve this problem, Mr Ren chose to visit the Spanish subsidiary and talk face to face with the local employees, instead of communicating via the Spanish managers. This purposeful visit greatly improved the

corporate identity and feelings of job security among the local employees, and eased the tense organisation climate. Therefore, it is very crucial for communication to be validated through actions of the executives, as opposed to just their words (Schweiger et al., 1993). Moreover, it was even more essential for the acquirer's executives to keep the promises that they had made. This was because the trust of the acquired firm's members could have been rapidly built if their new bosses kept their words on issues that they cared about. In the same example stated earlier in this paragraph, Mr Ren promised not to cut salary and job opportunities in a response to decreasing product orders, and asked the employees of the acquired firm to trust that the temporary loss in customers would eventually ease over the following months. His promise about job security was kept and his prediction was proven right: after three months, all customers returned. This instance of successful communication dramatically increased Mr Ren's credibility as well as that of CITIC HIC's executives, laying a solid foundation of trust for future communication.

In addition to using Spanish managers as intermediaries for the communication between the general employees of the acquiring and acquired firms, CITIC HIC also adopted socio-cultural integration mechanisms, such as short term visits, joint training programs, and meetings involving employees of the acquired firm in discussions concerning management issues, etc, to facilitate intra-firm communication. The general employees attending these activities were mostly trade union representatives or technicians who held positions of high prestige among their colleagues. Their

perceptions of China and of the acquiring firm could greatly affect those of other local employees and potentially improve the appeal of the Chinese acquirer. One CITIC HIC executive mentioned:

“Such communication opportunities (the short term visits) were conducted three times. The Spanish trade union representatives would communicate their experiences to their colleagues who had not been to China. Their words were very persuasive.”

These informal integration mechanisms not only improved communication quality, but also helped to preserve a harmonious organisational climate which could facilitate resource transfer, combination and exploitation in the combined entity.

## **5.4 Individual case report: TCL Corporation M&A with Thomson’s TV business**

### **5.4.1 Introduction and background**

#### **5.4.1.1 An introduction to TCL**

TCL stands for ‘The Creative Life’. Having been founded in 1981 in Huizhou, TCL is now one of the largest consumer electronics enterprises in China with a global presence. The TCL Corporation currently boasts four business units in four different segments, namely: TCL Communication Holdings (telecommunications), TCL Home

Appliances Group (home appliances), China Star Optoelectronics Technology (high tech electronics), and TCL Multimedia Holdings (multimedia). The TCL Corporation has three listed companies: TCL Corporation (SZ.000100), TCL Multimedia (HK.1070) and TCL Communication (HK.2618). After 30 years of consistent diligence, TCL has become industry leader in China's electronics information sector. The brand value of TCL has risen from 70<sup>th</sup> with 690 million CNY in 1995 to first TV brand in China in 2006. In 2014, TCL maintained its number one TV brand position in China with a brand value exceeding 63.916 billion CNY (TCL official website, 2013). Its TV division is the number one player in the Chinese market.

TCL is an innovation and technology oriented enterprise who has achieved many 'firsts' in China, such as the first 28 inch colour TV, the first wireless land-line telephone, etc. It has established R&D centres and branches in different countries such as France, Singapore, and USA (TCL official website, 2013).

TCL began to lay out its internationalisation path in 1999 and aggressively promoted its brand internationally from 2000. After years of promoting its brands in emerging markets and conducting M&A with well-established brands in the Western developed markets, TCL became one of the pioneers of Chinese MNEs seeking both domestic and international recognition. Nowadays, the TCL Corporation employs over 60,000 staff and has more than 40 offices around the world. In 2012, the TCL Corporation achieved a global sales volume of 60.834 billion CNY, with global sales of 10.86

million TV sets. It owns 20 global manufacturing bases, in countries which include Poland, Mexico, Vietnam and Thailand (TCL official website, 2013). Table 5.4 shows the profile of TCL and relevant details about its M&A with Thomson.

Table 5.4 The acquiring firm's profile and M&A activities

	<b>TCL Corporation</b>
<i>Time of M&amp;A</i>	28/01/2004
<i>Core business</i>	Colour TV, cellular and mobile phones, DVD players.
<i>Industry status</i>	The largest consumer electronics enterprise; industry leader in China's electronics information sector; industry leader in China's electronics information sector; Number one TV brand in China.
<i>Motivation of M&amp;A</i>	Strategic intent. Seeking technology, markets, brand name, and R&D capabilities.
<i>Name and location of acquired firm</i>	Thomson (France)
<i>Ownership structure</i>	Non-SOE
<i>Annual revenue before the M&amp;A in CNY</i>	25.4.25 billion
<i>Price of M&amp;A in CNY</i>	TCL took a 67% equity share by investing in assets valued at 600 million Euro.

*Sources: Annual reports, corporate documents, and interview data.*

#### **5.4.1.2 An introduction to Thomson**

Thomson S.A was one of world's largest entities in the areas of content creation, broadcasting and network operation. It was also the world biggest manufacturer of high-frequency tuners, the world's number one player in the DVD copier

manufacturing industry, and the world's second largest CRT manufacturer. With over 34,000 patents on TV, CRT, digital technology and image display technology, Thomson is the second largest global patent owner, second only to IBM. The company changed its name several times over the past 100 years. In 2003, Thomson held a 10.9 % share in the U.S.TV market and 8% shares in major European markets (i.e. France, Germany, the United Kingdom, Italy and Spain) (Lanshizi, 2011). In this thesis, the name 'Thomson', which was the one it went under at the time of TCL's M&A activity, is used .

Before the M&A, Thomson had four business divisions: content and networks, components, consumer products, and licensing. Among these four divisions, both components and consumer products suffered great losses due to the pressure of technology innovation and cost controls (Wu & Zhu, 2010). The TV unit suffered the most dramatic loss among Thomson's four divisions in the past few years. In 2003, Thomson's TV market share in the United States decreased from 12.9% in 2002 to 10.9%. The continuous loss suffered by its TV business placed Thomson under great financial pressure. In 2004, Thomson chose to drop its TV business and focus on media and entertainment activities related to the creation, management and delivery of content (Wu & Zhu, 2010).

#### **5.4.1.3 The M&A activity**

In July 2003, the president and CEO of TCL, Mr Li Dongsheng, received the first acquisition offer from Thomson's CEO. After four months of negotiation, on the 28<sup>th</sup> of January 2004, TCL officially decided to merge its multimedia business with that of Thomson by setting up a joint corporation, TCL-Thomson Electronics Co., Ltd (TTE), TCL took a 67% equity share in the resulting venture by investing in assets valued at 600 million Euro. The agreement signing ceremony was attended by both the Chinese president and the prime minister of France (China News, 2012).

Based on the M&A agreement, in 2005, TTE would become a wholly-owned subsidiary of TCL Multimedia, of which Thomson held 29% equity share. All relevant formalities were completed in May 2004. After the M&A, TTE became the world's largest manufacturer of television sets, with ten manufacturing plants and five R&D centres around the world. Thomson would provide exclusive support for TTE's distribution channel in Europe and North America, as well as value added services such as quality certification, after sale services, products design, etc (Lanshizi, 2011).

TTE was officially registered in Hong Kong and started to operate in August 2004. Its headquarters were located in Shenzhen. Mr Li Dongsheng was its first board director. The previous vice president of the TCL Group, Mr Zhao Zhongyao, was appointed as CEO of the new venture.

#### **5.4.2 A strategic intent M&A**



“Chinese enterprises have to go overseas with a well implemented internationalisation strategy. It is the only way in which Chinese enterprises can become great global companies. TCL should be a pioneer in Chinese firms’ internationalisation.”(Mr Li Dongsheng)

The above words clearly demonstrate the strategy-oriented rationale of TCL’s M&A with Thomson. They also imply the personal ambition of Mr Li as a possible rationale for this M&A, which has been criticised by both scholars and practitioners (Rui & Yip, 2008; Deng, 2009). Apart from Mr Li’s personal interest in heading the largest TV manufacturer in the world, the motivations behind this high-profile M&A were mainly twofold. The first was to acquire Thomson’s R&D intensity and patented knowledge. Thomson had accumulated a large number of technology patents on TV manufacturing over the past decades. Its R&D centre in the USA was considered to be the holy grail of TV technology (Lanshizi, 2011). Mr Li was left in awe of this R&D centre the first time he visited:

“I was really overawed. Its technologically infused corporate culture was shaped by a long history of accumulation of technological knowledge”

Through this M&A, TCL would inherit a world class R&D system. The TV manufacturing industry is typically a technologically intensive industry, while

Chinese firms are latecomers lacking advanced technological knowledge. Outward M&A to industrial giants in developed economies area rapid and effective way of improving the technological competence of Chinese TV manufacturers. Therefore, the pursuit of technology was the main motive behind TCL's execution of this M&A deal.

In addition to seeking advanced technological patents and R&D capabilities, TCL also wished to gain access to the European and American markets. After 2001, western countries had gradually applied anti-dumping laws against certain Chinese products, including TV sets. Under these circumstances, the acquisition of Thomson's overseas manufacturing plants in Poland and Mexico could have helped TCL to avoid the trade barriers of Western countries. Moreover, Thomson possessed a complete sales and after-sales service system in the European and American markets. TCL could rapidly gain access to these markets through M&A, which would represent a leap forward in its internationalisation process.

### **5.4.3 A problematic M&A**

This transaction is now widely considered as a typical example of the failure of a Chinese firms' overseas expansion (Deng, 2010). Due to the highly problematic and value-destroying operations of its European subsidiary, TCL suffered huge losses after the M&A deal. The total losses of the TCL Group in 2005 equalled the sum of its profits from 2002 to 2004, which had been a golden period for the firm (Zheng, 2009).

From 2005 to 2007, TCL's total losses amounted to 942 million US dollars. The continuous losses resulted in a star sign being added to TCL's stock symbol, indicating that TCL's stock was at risk of being delisted (Deng, 2010). In November 2007, TCL declared the insolvency liquidation of its European operation unit and decided to massively restructure its TV manufacturing operations (Economist, 2008). After the restructuring, TCL gave up Thomson's original business model, distribution channels and even the Thomson brand (Deng, 2010).

#### **5.4.4 Factors influencing the integration process**

##### **5.4.4.1 Prior related resources**

TCL possessed prior resources related to the internationalisation of its TV business. The first campaign of its 'internationalisation battle' had started in December 1998 in Vietnam. Since 1999, TCL had gradually exported its private brand products to markets in various emerging economies in Southeast Asia, the Middle East, Eastern Europe and South Africa. At its peak, TCL's TV products accounted for 14% of Vietnam's market and 8% of that of the Philippines during that period (Deng, 2010). Through this process, TCL gradually evolved its own overseas market distribution channel. In addition to international trade experiences, TCL also tried to build its competency through collaborations with well-established corporations from developed economies, such as the UK's TTP Communication Plc. Table 5.5 shows

TCL's major internationalisation activities before 2004.

Table 5.5 TCL's major internationalisation activities before 2004

<b>Year</b>	<b>TCL's major internationalisation activities</b>
1999	Acquired the Tongnai electronics corporation in Vietnam
2001	Export of TCL products to India, Indonesia, the Philippines and Russia
2001	Set up a sales office in the Middle East
2002	Partially acquired Schneider (Germany)
2002	Set up a joint venture with Great Wall Cybertech Limited (Hong Kong)
2003	Built a partnership with TTP Communication Plc (UK) for the development of multi-functional handset products
2004	M&A with Alcatel Mobile Phones Limited (France)

*Sources: Annual reports, corporate documents, and interview data.*

However, despite TCL's overseas business running smoothly during that period, the resources and knowledge it had acquired came only from other emerging markets which shared similar characteristics with the Chinese one. When TCL tried to apply these prior related resources to its French M&A, it did not work as expected since it used Chinese logic, or emerging markets logic, to deal with businesses in Europe and North America. In other words, TCL overestimated its capability to manage the integration process, lacking the ability to deal with post-acquisition issues in M&A in developed economies.

The significance of prior related resources is also evidenced by the way in which TCL's lack of knowledge about the target firm negatively affected post-acquisition performance. Only four months passed between TCL starting to consider the M&A and it officially signing the final agreement. A large amount of due diligence and

negotiation work was completed within only several months. The vice president of TCL comments on the 2004 decision-making process:

“Whether we are willing to admit it or not, the decision-making process was too rushed. A great opportunity emerged and we were just too eager to grab it.”

Although TCL hired BCG and Morgan Stanley to perform professional management and financial appraisals, the final decision on the M&A was not fully based on the consulting report. According to the Morgan Stanley report, the financial outlook of this M&A was ‘neutral’. BCG’s even gave a ‘negative’ appraisal report to indicate the risk linked with the deal. Nevertheless, Mr Li chose to follow his personal judgement over that of these professional bodies. In fact, TCL had not accumulated enough related knowledge on Thomson by carefully examining the acquired brands, products, and services (Hirt &Orr, 2006; Deng, 2010). As a result, it overrated the true value of the Thomson brand, especially in the Chinese and North American markets. It also failed to recognise the competence of Thomson’s patents and technology to the TV sets of the future. After years of loss, Mr Li still does not admit his decision was made impulsively. One TCL executive commented:

“Some entrepreneurs in non-SOEs crave greatness and success, and wish to gain attention by acquiring high reputation enterprises from western

countries. It's like a poor boy marrying a rich foreign girl.”

Although this comment was made in respect to another CBMA case by another Chinese acquirer, it resonates with TCL's case.

TCL's lack of prior related resources also lay in its weak R&D capacity in that period. Despite TCL having long been an innovative enterprise in the Chinese market, its R&D intensity was still relatively low compared with that of its global competitors (Lanshizi, 2011). Because of its limited R&D capability, TCL could only passively accept Thomson's technology and patents instead of exploiting the patented knowledge. When Thomson's CRT and Projection TV technology was quickly being replaced by the new market favourites, large screen LCD TVs, TCL failed to react quickly. This was considered by TCL to be a major reason of the acquisition's failure.

#### **5.4.4.2 Degree/level of integration**

Ample evidence has shown that the degree of integration significantly affected TCL's M&A performance. TCL wished to integrate the global operations to achieve synergy. It took a series of steps to integrate its business operations globally. First, integration of R&D resources. After the M&A, TCL set up four R&D centres located in China, Singapore, Germany and the USA. Each centre focused on the R&D of different types of products and technologies so as to build a comparative advantage in various aspects

of TV technologies and meet the specific needs of customers from different regions. Second, integration of procurement. TTE's procurement costs in raw materials and parts could be "dramatically reduced by using TCL's procurement resources" (Mr Li, personal interview, September 2012). Third, integration of the supply chain and distribution channels. In addition to TCL's existing manufacturing plants in China and Vietnam, TTE also owned Thomson's plants in Mexico, Poland, Thailand and France. A robust global integration of the supply chain could greatly improve TTE's competitiveness. Besides these main measures, TCL also restructured five profit centres, namely: China, North America, Europe, Emerging markets, and strategic OEM business centres. It also implemented a multi brand strategy by promoting the Thomson and Schneider brands in Europe, the RCA brand in North American, and the TCL brand in other markets.

However, the initial integration strategy failed to successfully redeploy the combined resources and achieve synergy. The main reason behind this poor performance was the distinct integration levels TCL adopted in the North American and European business centres. Based on the information obtained and the analysis carried out before the M&A, TCL noticed that Thomson's primary weakness was in the North American market. The annual losses in this market in 2003 and 2004 had been 90 million USD and 120 million USD respectively, while the European market losses in these two years amounted to just 1 million USD. In this case, TCL turned most of its attention to the North American market and implemented a series of operational integration

mechanisms. For instance, Mr Zhao Qisong, the former COO (chief operating officer) was expatriated to the USA and Mexico to take charge of the restructuring of the North American manufacturing plants and supply chains. To reduce costs, TCL also used its cheaper domestic parts to replace some RCA product parts in the North American market. The integration and redeployment of resources greatly improved the efficiency of the manufacturing plants and reduced procurement costs. As a result, the annual losses of the North American market dramatically decreased from 120 to 45 million USD.

TCL did not specifically integrate the day-to-day operations of the North American business centre by posting middle and junior level Chinese expatriates. However, the strategic decisions on the integration and redeployment of the combined resources were under the purview of Chinese executives, and so were major operational activities. In other words, the headquarters held the decision-making power on issues that needed to be decided by the acquiring firm. This ‘control over and delegate power’ strategy not only maintained the existing practical routines of the acquired units to minimise potential knowledge destruction, but also ensured that the operation of the subsidiary would follow the acquirer’s strategic intent.

However, TCL did not apply this strategy to its ‘optimistic’ European market. One former TCL senior executive said:



“Considering the performance of the past couple of years, we did not worry too much about the European business.”

The CFO of TTE’s European business centre stated:

“We were too optimistic about the European business after the acquisition. In fact, we did not realise the importance of integration at the time.”

The executive level of TCL did not put much effort in analysing the business and operations of the European unit after the acquisition. Unlike the cautious operation and integration of the North American business centre, TCL chose to give the European unit a free hand. The CEO of the European business centre even openly forecast an expected annual profit of 8 to 10 million USD.

The outcome of both the financial and the integration performance was however much worse than expected. In fact, in addition to giving the European business centre autonomy in its day to day operations, the headquarters did not keep complete control over the European unit in terms of the manufacturing plant, procurement, production and R&D. This was mainly the result of neglecting the strategic matters concerning the post-acquisition integration of this subsidiary. Despite TCL wanting management and hierarchical cultural control of its European subsidiary, it failed to achieve the desired degree of integration.

The European centre used to be the headquarters of Thomson TV. After the M&A, the European unit was supposed to focus more on businesses such as sales, after sale services and marketing channels, and take orders from the headquarters in terms of procurement, product planning, R&D, etc. However, without a thorough integration, both the existing French managers and general employees proved incapable of changing their way of thinking from that of headquarters to that of a subsidiary. The CFO of the TTE European business centre said:

“Frankly speaking, the French staff did not, and did not wish to adapt to their new roles. The orders of the Chinese executives from the headquarters were often only partly followed and implemented in the European business centre.”

Under these circumstances, the integration level was lower than it would have been necessary to combine and redeploy resources to create synergy (Zollo & Singh, 2004). Thus, TCL partly lost control over its European business centre, much less to integrate socio-cultural issues such as cultural differences. For example, the information system used by TCL was different from that of the European business centre, which it had inherited from Thomson. It is not common for an information system not to be unified even as long as one year since acquisition. This resulted in TCL’s failure to control and monitor the business process of its European subsidiary (Lanshizi, 2011).

In brief, the level of integration significantly affected TCL's M&A performance. This is evidenced by the different stories told by the well-integrated North American subsidiary and the problematic European business centre.

#### **5.4.4.3 Speed of integration**

The differences in the way integration took place in the North American subsidiary and in the European business centre also highlighted the key role that the speed of integration implementation played in the post-acquisition performance of TCL's M&A with Thomson. Due to the significant annual losses suffered in the North American market before the M&A, TCL was alarmed even before completing the deal. Immediately after the acquisition, its first and most important task was the integration and restructuring of the North American subsidiary. The CEO of TTE not only assigned his top aide, Mr Zhao Qisong, to take charge of the North American business, but also combined and integrated resources for the first time to facilitate the reform. For example, TCL dramatically decreased the cost of the main product line in the North American market by incorporating its own core TV parts into RCA brand products (Lanshizi, 2011). The whole process of the programme, which covered steps ranging from R&D to operations, was accomplished within only four months. Moreover, the revenue was increased by 8 million USD in just five months, which was a striking speed. In addition to the rapid product integration, TCL also moved fast

in integrating the Mexican manufacturing plants. By improving manufacturing efficiency, reducing procurement costs and cutting staff redundancy, the operating cost of the Mexican manufacturing plants was reduced from 92 million USD in 2003 to 45.67 million USD in 2005. In addition to various operational integration mechanisms, Mr Zhao Qisong and his integration team also adopted some socio-cultural integration mechanisms to smooth out any potential tensions that could arise from the rapidly implemented operational integration. For instance, they lived with the Mexican employees during the first several months after the acquisition and got them involved in discussions over resource redeployment and plant restructuring.

In contrast to the rapid integration of the North American subsidiary, that of the European business centre was to a certain extent neglected due to the Chinese executives' blind optimism towards the European market. Its low integration speed led to serious problems. On one hand, the slow speed of integration caused uncertainty in the French employees about their role in the combined entity. The initial phase of the integration should have provided an opportunity to convert their roles from headquarters to subsidiary staff. But TCL failed to grab this valuable chance. On the other hand, the integration speed was so slow that there was barely any integration actually taking place despite the dramatic market shifts. Since the end of 2004, LCD panel TV sets had gradually become the favourites in Europe's TV market. By contrast, the North American market had shown a much slower acceptance of the

new LCD TV sets because of different household environments<sup>18</sup>. Unfortunately, the European subsidiary had not learned the fast operation system of TCL. Its slow response did not fit the requirement of producing and selling LCD TV products. This led to a product turnover that took two months longer than that of TCL's competitors, resulting in huge losses in the European market between 2005 and 2006

Had the combined entity performed well, smooth operation and good prospects might have defused the acquired firm's employees' potential resistance. However, when the combined organisation continuously suffered unexpected losses before a certain degree of integration had been achieved and an adequate degree of trust had been built, great market pressures would trigger conflicts that might not otherwise have emerged.

A senior management of TCL opined:

“Under the huge pressures of such a loss producing market, our internal management problems and cultural conflicts became acute.”

Socio-cultural integration was in turn hampered by these conflicts. Consequently, both the Chinese employees and French staff worked in a tense atmosphere, which was harmful to operational integration and resource redeployment within the combined firm.

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<sup>18</sup>Normally, European families live in rooms that are smaller than those of their American counterparts. Compared with large screen CRTs and projection TVs, LCD panel TVs have an advantage in image definition over size.

#### **5.4.4.4 Staff turnover**

The crucial influence of staff turnover on the performance of TCL's M&A with Thomson was mainly reflected in the changes in the management teams. TCL attempted to reduce general employee redundancy in specific divisions. However, as the corresponding actions were rather gradual and imperceptible, no resistance was met. This was mainly because the redundancy measures were under the expectations of the acquired firm's employees who were eager for change after years of loss before the M&A and expected a certain number of redundancies to boost the company's performance. For example, during the resource redeployment and restructuring period of the North American subsidiary, some redundancy suggestions were actually proposed by the existing local managers, which made the TCL executives quite 'surprised and relieved' (as was reported by a senior executive).

However, the changes in the TTE management team did not go as smoothly as those in the general staff. In addition to appointing Mr Zhao Zhongyao as the CEO of TTE, TCL made substantial adjustments to the former Thomson management team. Most key positions were taken by new managers appointed by TCL. Although the former Thomson managers were still retained in the new firm, some of them were substantially demoted and placed under the supervision of Chinese managers. The French managers who worked at the Thomson headquarters were highly discontented with their demotions. This created a negative organisational climate in the European

subsidiary. Moreover, the disappointing performance of the European subsidiary caused turbulence in the top management team. A large proportion of the executive level staff, including a couple of TCL Group veterans, had left within a few years of the acquisition. This not only led to gaps in the firm's resource base, but also damaged the momentum and morale of the combined organisation.

In addition to being affected by the management team adjustments, the post-acquisition performance of TCL's M&A with Thomson was also significantly influenced by the lack of managerial talents. Like most other Chinese firms, TCL did not have sufficient domestic middle management resources capable of managing an outward acquisition integration. However, TCL still elected to build its own overseas management team, and especially its middle management team, endogenously instead of recruiting new external talents. In the first few years of its internationalisation, TCL thoroughly trained its prospective expatriates for over three years before sending them to work overseas. Nevertheless, as is shown in table 5.5, it finalised so many cross-border M&A in only four years that its talent reserves just dried up and middle level expatriates, some of them were not even able to communicate fluently in English, would be sent to work in the overseas subsidiaries after just one year of training. Long term expatriates with such low capabilities not only hampered the intra firm resource and knowledge transfer, but also could ignite potential socio-cultural conflicts due to their limited communication skills.

#### **5.4.4.5 Cultural differences and cultural integration**

“The most crucial issue that should be particularly emphasised in the post-acquisition integration phase is cultural integration”(in the words of vice CEO of the TCL Group).

Unfortunately, TCL was not aware of the significance of the cultural differences that existed between the two firms and failed to properly handle the cultural integration issues. In fact, very few measures were taken to accelerate cultural integration or minimise cultural conflicts. For example, TTE’s top management team consisted of four Chinese managers and three foreign ones from Thomson. Such a diverse newly formed management team required particular care in its socio-cultural integration. However, TCL apparently overlooked the significance of culture related issues. The huge cultural differences at both the national and organisational levels resulted in severe conflicts during the post-acquisition integration process, especially in the European subsidiary which was the former Thomson headquarters.

At the level of national culture, Chinese firms are more performance driven players who do not think much of their employees’ free time. Like most Chinese manufacturing firms, TCL was composed of diligent Chinese staff who viewed working overtime and during weekends to be a normal part of the routine. Such firms focus on efficiency and motivate their employees by awarding compensation



packages for performance. Most TCL employees had wages consisting of a small fixed amount and a large reward-based proportion linked to individual or group performance. After the M&A with Thomson, a similar performance measurement and compensation system was applied to TTE. However, Thomson was a typical French company, which was significantly pervaded by a 'life over work' culture. The retained French employees in TTE always paid special attention to their quality of life. They placed much more emphasis on a more leisurely working pace, adequate rest and sufficient holidays. As one TCL executive put it:

“There was this one time when Mr Li Dongsheng, having come to France, wished to hold a meeting on a weekend. However, he failed to do so as all the French managers' mobile phones were turned off. Before this experience, none of us ever thought something like this could happen!”

Moreover, the former compensation structure in Thomson was quite fixed and stable. Even the wages of those employees who worked in the sales department were not closely pegged to their performance. This change in the salary system significantly damaged the satisfaction level of the French employees, especially the general employees. This was because the new compensation system not only increased the volatility of the salary and placed the employees under great stress, but also actually reduced the salary of most staff as TTE had been suffering losses for a long time since it had been established.

In addition to national level cultural differences, cultural dimensions at the organisational level also affected the post-acquisition integration process. Like most Chinese manufacturing firms of that period, TCL occupied a leading position in a labour intensive industry, with a competitive advantage in effective management and cost control. The TCL's corporate culture praised a kind of 'entrepreneurial' spirit, which encouraged the management team to show entrepreneurship, be energetic and effectively seek performance. Under such a corporate culture, the representatives of well-performing departments normally occupied the front row seats in meetings while their colleagues from less competitive departments took up seats in the back of their own initiative. This way of encouraging short term performance seemed to be too aggressive to the French employees. Conversely, Thomson possessed an open culture and was run by a well-educated management team. Accordingly, the French employees were used to scientific managerial methods. Therefore, the aggressive managerial methods adopted by the Chinese managers relocated from TCL could hardly establish their authority on their French employees. One TCL executive recalled:

“Some French staff elected to leave because they did not like our working style and the way in which we issued our orders.”

#### **5.4.4.6 Integration process communication**

In addition to neglecting cultural differences and integration, TCL also suffered from communication issues in the post-acquisition integration process. Socio-cultural barriers, such as language problems and cultural conflicts, significantly affected communication quality between Chinese and French employees. It seems that TCL realised the importance of an effective communication, as evidenced in an interview given by Mr Li Dongsheng in 2005:

“Our toughest challenge, as we go through this integration, is how to communicate effectively...”

(Knowledge Wharton, 2005)

However, the implementation of its integration process communication proved to be problematic.

On the one hand, TCL failed to build an effective communication mechanism. Because of TCL's pursuit of Thomson's technology and R&D capabilities, the communication and integration between R&D and product management employees was believed to be crucial to the post-acquisition synergy creation. However, even the communication between headquarters and R&D employees was not timely and effective. This was mainly because most R&D units were spread around the world, while the headquarters of TCL were located in China. With the barriers of time, space, and language, an effective and high quality communication can hardly be achieved without adequate mechanisms designed to overcome these difficulties. In fact, there

were almost no face-to-face social interactions between Chinese and French employees(Deng, 2010). TCL failed to adopt any socio-cultural integration mechanisms, such as visits and joint training programmes, to improve communication quality. The executives of TCL underestimated the level of socio-cultural integration needed to facilitate integration process communication. They thought that frequent senior management meetings and instructions to Chinese staff members would be enough to improve communication quality between Chinese and French employees. As Mr Li Dongsheng stated in an interview (Knowledge Wharton, 2005):

“To communicate more effectively, we did a lot of training, and our senior management organized a lot of meetings. We believed that, by conducting such projects, it would push forward our integration while generating a lot of synergies.”

On the other hand, a lack of mutual trust also harmed integration process communication, especially between the Chinese and French management teams. A large proportion of previous Thomson executives were retained after the transaction, while TCL chose to use its own executives in most key functions without good communication with the demoted French executives. Similar staff assignments also took place among the middle management. This generated distrust among French employees so that they, in turn, did not wish to communicate their ideas and thoughts to their Chinese colleagues (SASAC, 2008). Without mutual trust between Chinese

and French employees, the quality and effectiveness of communication could hardly be improved and the organisational climate was also hampered, which hindered the resource and capability transfer within the combined entity.

## **5.5 Conclusion**

This chapter presented four individual case study reports. Each report started by providing an introduction and a background for the transactions. Then the motivations of each deal were discussed, as these are vital for their post-acquisition integration strategy formulation and implementation of strategic intent M&As conducted by Chinese acquirers. After analysing the motivations, the data was analysed and presented following the sequence of the research propositions. The results show that the data from these four case studies provide repetitive outcomes that can strongly support the cross case analysis and the results of this research.

This chapter contributes to answering the first and second research objectives and questions. Through the process of individual case analysis, six key success factors were identified and the ways in which and reasons why they influence the Chinese acquirers' integration process were explained. Such identification and explanation will be strengthened in the next chapter by means of the pattern matching process. In addition to the key factors and in accordance with the research propositions, several new factors emerged from the data analysis process. These emerging factors will be

analysed and presented in Chapter 6, which presents the cross case analysis and results. All factors identified through the data analysis will be discussed and presented in the next chapter.

## **Chapter 6 Cross-case analysis and results**

### **Introduction**

The single case analyses detailed in Chapter 5 were followed by the cross-case analysis (Eisenhardt, 1989; Yin, 2002). This chapter will describe the cross-case analysis and present its results. The data analysis was mainly based on the propositions analysed in the single case study chapters. Three emerging themes were identified from the cross-case analysis. For reasons of convenience, the four studied cases, which are YTO-McCormick, CIJIAN-Way Assauto, CITIC HIC-Gandara Censa and TCL-Thomson, were coded as A to D, respectively. In section 6.1, nine key success factors will be identified from the cross-case analysis; which are prior related knowledge, level of integration, speed of integration, key staff turnover and management team building, cultural differences and cultural integration, integration process communication, home country advantages, complementary resources, and acquirer attractiveness. These nine key success factors are divided into status and process factors. The unique integration approach of the Chinese acquirers will be then summarised in section 6.2. In the end, the relationship between the integration

approach and the nine key success factors will be discussed and a newly developed model will be introduced to explain the key factors influencing the post-acquisition integration process of the Chinese firms' outward M&A to developed economies in the final summary part of this chapter

## 6.1 Key factors influencing the integration process

### 6.1.1 Prior related resources/knowledge

The results show that the prior related resources of the acquiring firm played an important role in the post-acquisition integration process in the Chinese firms' outward M&A. They provided the knowledge and capability foundation for the firms' integration activities. These prior related resources included prior international business experience, R&D capability and prior performance and industrial status. A summary of the Chinese acquirers' prior related resources is listed in Table 6.1.

Table 6.1 A summary of Chinese acquirers' prior related resources

Prior related resource	Case A	Case B	Case C	Case D
<i>Prior international business experience</i>	Import and export; overseas construction projects; ownership of overseas offices; spare parts centres and assembly factories.	Import and export; importing equipment from Germany; OEM business experiences for Western firms.	Setting up overseas offices and subsidiaries; Import and export; overseas orders accounting for 10.79% of total orders	Import and export; setting up overseas offices and subsidiaries; overseas acquisition experience; international joint venture experience;

				partnerships with Western firms.
<b><i>Prior R&amp;D capabilities</i></b>	An R&D team of more than 2,000 professionals and experts; a state-level technology R&D centre consisting of 11 advanced laboratories; ownership of the Chinese National Tractor Research Institute (CNTRI).	Annual R&D expenses over 5% of total sales revenues (a top level ratio); ownership of a shock absorber academic research centre with many specialists; including employees of the Chinese Academy of Engineering; ‘National High-tech Enterprise’.	Being both a ‘state level innovative enterprise’ and a ‘high-tech enterprise’, it runs a national level enterprise-based technology centre (ranking among the top 10 of 887 such centres in China); runs a key state laboratory; runs a post-doctoral research station.	An innovation and technology oriented enterprise that had achieved many ‘firsts’ in China; one of China’s innovative enterprises’.
<b><i>Prior performance and industrial status</i></b>	First tractor manufacturer in China. Number one in market share.	One of the biggest vehicle shock absorber producers in China. Number one in market share.	One of the biggest players in the heavy equipment manufacture industry; Number one mining machinery and cement equipment manufacturer.	The largest consumer electronics enterprise; industry leader in China’s electronic information sector; Number one TV brand in China.
<b><i>Prior knowledge about the target</i></b>	Acquired a high level of knowledge on the target by hiring world class professional agencies before M&A.	Acquired a high level of knowledge about the target by hiring world class professional agencies before M&A.	Acquired a high level of knowledge about the target by hiring world class professional agencies before M&A.	Hired world class professional agencies before M&A, but did not take them seriously and did not really heed their advice.

*Sources: Interview data, corporate documents and annual reports.*



### **6.1.1.1 Prior international business experience**

The Chinese firms' prior international exposure is deemed to be a key factor for post-acquisition integration success. With the exception of firm D, the firms did not have past CBMA experience. Nevertheless, they had accumulated useful resources and capabilities through their prior international exposure. These took the form of activities other than CBMA, such as running export/import businesses, setting up overseas offices and subsidiaries, building overseas factories, acquiring advanced equipment from global giants, collaborating with well-established corporations from developed economies and doing OEM business for global industrial leaders. A detailed comparative list of the prior international business experiences of the four acquiring firms can be found in Table 6.1.

Their prior international business experience not only helped the Chinese acquirers in accumulating tangible resources and explicit knowledge-based resources, such as advanced equipment and technology, but also provided these domestic leaders with opportunities to build tacit knowledge-based resources in the process of dealing with cross-regional and cross-cultural issues. These resources and capabilities increased the knowledge base of the acquiring firms and greatly improved their ability to absorb strategic assets from the acquired ones (Deng, 2010). In other words, the absorptive capacity of acquiring firms was improved by their prior international business experiences.

In addition to the firm level absorptive capacity, that at the individual level was also enhanced by operating advanced equipment, doing business or collaborating with foreigners and working in overseas subsidiaries. Although only a small proportion of the Chinese employees and executives who had been directly involved in international business activities benefited from these experiences, their improved absorptive capacity was clearly valuable for the Chinese acquirers in their management of the post-acquisition integration process.

It is worth mentioning that, although prior international exposure was considered to be a key factor in ensuring post-acquisition integration success, more prior international business experience did not always translate into better acquisition integration and performance. In fact, the most experienced firm, firm D, showed the worst post-acquisition integration results. The reason was mainly two-fold. First, firm D was a pioneer in Chinese firm internationalisation and outward M&A that made its acquisition case in early 2004. At that time, firm D could not gain real experience and learn lessons from other Chinese overseas acquirers. As the vice CEO of firm D says:

“In those years, Chinese acquirers did not have any idea on how to go about a real international acquisition...They (the acquired Western firms) approached us and proposed acquisitions. Chinese acquirers, including TCL and Lenovo, knew nothing about how to acquire such giants. They (the executives of the

acquired firms) taught us how to buy them (the acquired firms), to hire internationally renowned agencies, and to take every step... Our understanding of integration was too basic: we thought that, if we combined their technology with our diligence and low cost, synergies would automatically be achieved...We did not expect all those difficulties in the post-acquisition integration phase.”

Similarly, Mr Li Dongsheng (Lanshizi, 2011) mentioned:

“In the beginning (of the integration), we did not even know what our actual mistakes had been.”

Conversely, the other three firms, which made their acquisitions seven years later, could easily glean direct lessons and experiences from precursors such as firm D. These indirect experiences greatly helped late-comers to improve their knowledge base on the management of post-acquisition integration, and to form their own integration strategies. As the CFO of firm C said,

“You (the author) may hear a lot about how Lenovo made great efforts and hit highs and lows during its integration with IBM. However, we were not like them. We chose not to go ahead with too much formal integration...”

Likewise, both firms A and B learned from the experiences of previous high-profile cases made by other Chinese acquirers. These lessons were directly related to Chinese firms or, more specifically, to manufacturing firms' outward M&A to western developed countries with the strategic intent to acquire strategic assets (Rui and Yip, 2008; Deng, 2007). Therefore, such experiences were valuable for subsequent Chinese acquirers to improve their methods for the management of the post-acquisition integration process.

Secondly, although firm D had accumulated some experience in acquiring a Vietnamese manufacturing plant and partially acquiring Schneider, a German electronics firm, this had been completely different from the whole acquisition of a global giant from a developed country. In addition, these past CBMA experiences could even harm Chinese acquirers by instilling in them a false sense of confidence. By contrast to firm D's overconfidence, the other three acquiring firms were more thorough and cautious when they undertook their acquisitions, especially in relation to post-acquisition integration. Most interviewees from both the executive and management levels of firms A, B, and C clearly mentioned the importance of integration, and especially cultural integration, while informants from firm D pointed out that they lacked understanding of post-acquisition integration:

“It was totally different (from the experience before the acquisition of Thomson). We thought that there would not be too many difficulties...We

simply used our Chinese logic (for solving any post-acquisition issues) and did not anticipate many potential problems. We did not expect things in France to be so different from China. After five years, we were still engaged in a lawsuit over labour issues”

Therefore, despite prior international business experience being a key factor in the management of post-acquisition integration, the relationship between their experience and post-acquisition performance still needs to be explored by future research.

#### **6.1.1.2 Prior R&D capabilities**

One of the most significant embodiments of the Chinese acquirers’ prior related resources were their R&D capabilities, which were also a key factor in the management of the post-acquisition integration process. As shown in Table 6.1, all four Chinese acquirers were industry leaders in their respective sectors and possessed top level R&D capabilities in the Chinese market. Their leading R&D capabilities in China provided most of these Chinese acquirers with sufficient ability to identify and understand the advanced technology and other knowledge-based resources of the target firms, assimilate and integrate these valuable resources within their existing knowledge and resource bases, transform them into combined resources and put them to commercial use (Deng, 2010).

Insufficient prior R&D capabilities could hamper the realisation of any potential synergies by constraining the transfer of knowledge from an acquired firm. This can have a particular impact on the transfer of explicit knowledge.

Having an adequate level of prior R&D capabilities, an acquirer can gain explicit knowledge directly through documented patents and filed technology. The evidence shows that all four Chinese acquirers were able to absorb the technology, patents and standards of their acquired firms just by studying their files. In other words, a sufficient level of prior R&D capabilities makes the acquiring firms capable of absorbing explicit knowledge and resources without the need for any direct coaching from the acquired firms. This provided the Chinese acquirers with an opportunity to adopt a low level of integration with their partners because the extent of the integration needed for the transfer of explicit resources was relatively low. A low requirement in terms of the degree of post-acquisition integration can lessen the potential value destruction brought about by key staff turnover, organisational routines disruption, etc. of a highly integrated acquired firm's resources base (Gomes et al., 2013; Puranam et al., 2003; Puranam et al., 2006; Ranft and Lord, 2002). The issues pertaining to the importance of the level of integration will be discussed in section 6.1.2.

Although the transfer of tacit knowledge and resources still requires a certain degree of interaction and integration, that of explicit resources such as patents, production

technology, manufacturing lines and overseas plants was more straightforward and urgently needed by the Chinese acquirers. All four acquiring firms considered the absorption of technology to be one of their most significant M&A motivations. Therefore, a high level of prior R&D capabilities was crucial for Chinese firms' post-acquisition integration success.

However, possessing national top level R&D capabilities may still not be enough for a Chinese acquirer to adequately manage its post-acquisition integration with an acquired firm from a developed Western economy. If the prior R&D capabilities of a Chinese firm were to prove not to be internationally compatible, it might still be confronted with difficulties in absorbing, combining and applying the acquired resources. Occupying a similar R&D leading position in the domestic industry, firm D did not possess the same level of prior R&D capabilities by international standards as firms A, B, and C. For a domestic industry leader before the acquisition, firm D's R&D intensity was still relatively low compared to that of its global competitors. This was also partly in line with the global status of China's economy and manufacturing ability at the time. Due to its limited R&D capabilities, Firm D could only passively accept its acquired firm's technology and patents instead of exploiting and developing them. When those technologies fell into obsolescence due to new market trends, firm D failed to use the acquired R&D resources to develop new technologies and products, which resulted in years of huge losses. Conversely, firm A's R&D capabilities were not far behind those of its global competitors, although it barely had any comparative

technological advantages. Therefore, firm A successfully assimilated its acquired firm's advanced technology on some key components and applied it to its existing main products.

### **6.1.1.3 Prior performance and industrial status**

Before an M&A deal, an acquiring firm's past performance and its current industrial status can also influence the integration process. Most Chinese acquirers capable of successfully completing an outward M&A normally have years of good performance and occupy leading positions in the domestic market (Tan and Ai, 2010). This is mainly because, before any M&A, the overall capabilities of a Chinese acquirer are examined by both the Chinese government, through a number of bureaucratic approval procedures, and the target firm. On the one hand, the Chinese government has set up a series of approval procedures to ensure the health of outward M&A activities<sup>19</sup>. On the other hand, a target firm would also wish to ensure a promising future for itself by selecting a powerful buyer.

A good prior performance and a leading industrial status can help a Chinese acquirer to gain trust from the key stakeholders of their target firm, such as the previous managers, the local general employees, the trade unions, and the local government.

The attitude of these stakeholders towards the acquiring firm plays a crucial role in

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<sup>19</sup>Detailed explanations of the approval procedures required before a Chinese firm's outward M&A can be found in chapter three of this thesis.



the post-acquisition integration process because the acquired employees' trust can lead to a high level of acceptance of the integration changes, intention to stay in the job and willingness to cooperate with the Chinese executives (Stahl, et al., 2011). It can also lead to a harmonious climate in the combined entity, which can facilitate the transfer of resources and knowledge (Haspeslagh and Jemison, 1991; Birkinshaw et al., 2000).

Moreover, the attractiveness of a Chinese acquirer can also be improved by the target firm's employees' having a positive perception of China's economy. China's economic boom of recent years has been gradually acknowledged by western countries, especially after the 2008 global financial crisis and China becoming the world's second largest economy. The employees of a target firm will thus be more likely to believe that their firm could have a better future under the management of Chinese industry leaders, which have achieved dramatic economic growth and have sailed unscathed through the recent financial crisis. The evidence from cases A, B, and C proves that such trust and recognition can easily be observed and greatly helped in the post-acquisition integration process. This effect was relatively weak in case D, because the reputation of the Chinese economy and firms was still not well established at the time.

#### **6.1.1.4 Prior knowledge about the target**

Prior knowledge about the acquired firm is often believed to be a key factor in influencing the post-acquisition integration process (Deng, 2010; Zander and Zander, 2010). Despite the integration process occurring after the deal, a Chinese acquirer must identify the complementary capability that it needs to create synergy, and be aware of the potential difficulties it will be likely to face in the pre-acquisition phase. Managing the integration processes can be seen as an attempt at unpacking a 'grey box' (Zander and Zander, 2010). An acquiring firm cannot know everything about the target firm before the deal. In this case, the pre-acquisition due diligence and negotiation process provides an opportunity for the buyer to make the target firm less obscure. For a Chinese acquirer, it is even more crucial to accumulate prior knowledge about a western target firm before the M&A deal; cultural differences, language problems and other institutional constraints can all give rise to post-acquisition challenges (Luo and Tung, 2007).

The significance of accumulating as much prior knowledge about a target firm is evidenced in all the studied cases. For instance, firm C particularly emphasised the importance of its assessment of the Spanish management team. Without forming an idea about the quality of the management team, firm C would not have conducted the acquisition. Firm B ensured it had in-depth knowledge about the Italian labour system and redundancy regulations before coming to a written agreement on the recruitment of local employees. Having put these terms in writing, firm B could take a reasonable position when facing trade union demands for the employment of more local

personnel. Conversely, firm D's lack of knowledge of its acquired firm's legislation and of the 'unwritten rules' on redundancy resulted in millions of Euros in compensation and years of law-suits. Moreover, firm D also failed to carefully examine the acquired brands, products, and services, which led to an overestimation of the complementary capabilities that could be acquired from the target firm. When an acquiring firm fails to clearly identify the complementary capability and synergy potential before an acquisition, it will encounter more difficulties during the integration phase. This is because things maybe different from what it expected, and any integration strategy based on the knowledge available before the M&A may no longer be appropriate.

#### **6.1.1.5 Conclusion**

In brief, an acquiring firm's prior related resources are a crucial factor influencing the post-acquisition integration process. Accumulating an adequate prior international business experience, a strong R&D capability, a good performance, a leading industrial status, and ample prior knowledge of the target firm would enhance a Chinese acquirer's ability to identify, understand, assimilate, integrate, transform, and apply the acquired firm's resources (especially the complementary ones) and knowledge. The significant role played by these elements suggests that there is the need to prepare well for the post-acquisition integration even before the deal.

### **6.1.2 Degree/level of integration**

Evidence suggests that the level of integration plays a significant role in the post-acquisition integration process of Chinese firms' outward M&A. Post-acquisition integration can be fostered at both the socio-cultural and operational levels. This section mainly focuses on the operational integration aspects, such as production, marketing, procurement, and management system integration. Integration at the socio-cultural level will be discussed in detail in the cultural differences and integration section 6.1.5.

During the post-acquisition integration process, the acquired firm's well-established operational patterns and routines are normally changed partially or completely, as a newly combined entity is being formed (Haspeslagh and Jemison, 1991; Bauer and Matzler, 2013). In order to exploit the potential synergies arising from the combination of the resources of both parties, a certain degree of post-acquisition integration and resource reconfiguration is necessary (Gomez et al., 2013; Larsson and Finkelstein, 1999; Schweizer, 2005; Bauer and Matzler, 2013). The complete absence of integration would eliminate any opportunity for resource combination, redeployment and exploitation, which has a positive effect on synergy realisation and acquisition success. However, a high level of integration could lead to higher coordination costs and more organisational changes, which might result in socio-cultural conflicts and employee resistance (Pablo, 1994; Teerikangas and Very,

2006; Homburg and Bucerius, 2006; Bauer and Matzler, 2013). Based on their specific characteristics and organisational differences, Chinese acquirers have unique ways of dealing with post-acquisition integration level challenges. The data of this research indicates that Chinese acquirers adopt differentiated levels of operational integration, a low level in the day-to-day management and a medium one in strategic issues and in strategically important operational areas. The result shows that the choice of the level of integration is a key factor in pursuing post-acquisition integration success. Table 6.2 is a summary of the levels of integration in day-to-day management, strategic issues, and strategically significant units.

Table 6.2 Level of integration on day-to-day management, strategic issues, and strategic significant units

<b>Level of integration</b>	<b>Case A</b>	<b>Case B</b>	<b>Case C</b>	<b>Case D</b>
<b>Level of integration in general day-to-day management</b>	Low level of formal integration in day-to-day management; very few long-term Chinese expatriates; French managers given autonomy in most parts of the day-to-day operational management; change in the formal structure of the acquired	Low level of formal integration in day-to-day management; only three long-term Chinese expatriates; local managers given a high degree of autonomy in the day-to-day operational management decisions in most departments; very few formal	Very low level of formal integration in day-to-day management (no involvement in the acquired firm's day-to-day operational management at all); no permanent Chinese expatriates; little formal integration in certain functions, such as	Low level of formal integration in day-to-day management; no specific integration in the day-to-day operations of the North American business centre by sending middle and junior level Chinese expatriates; giving the European

	<p>firm was carefully controlled: retainment of the French management team, retainment of the existing information system, retainment of the former performance appraisal system, recovery of the previous management control system; persistence in the old compensation system.</p>	<p>structures and routines, such as the accounting and financial departments, were changed.</p>	<p>accounting and finance system.</p>	<p>business centre autonomy in day-to-day operations; even the information system was not integrated in the European unit.</p>
<p><b>Level of integration in strategic issues and strategic important operational units</b></p>	<p>Medium. Chinese executives still holding the right to make decisions on strategic issues and certain major operational activities, such as procurement and R&amp;D.</p>	<p>Medium. Chinese executives holding the right to make decisions on strategic decision-making; key operational management aspects, such as procurement and market distribution, to be authorised by Chinese executives at the operational integration level; medium level of integration in R&amp;D.</p>	<p>Medium. All strategic decisions made by Chinese executives; major operational activities such as procurement, marketing, and investment, to be authorised by the acquiring firm; monitoring mechanism to manage risks and ensure that the operation of the subsidiary follows the strategic intent of the acquirer.</p>	<p>Different levels of integration in different units. For the North American unit, strategic decisions on integrating and redeploying combined resources under the purview of Chinese executives, together with major operational activities; For the European unit, the headquarters did not have complete control of the manufacturing</p>

				plant, procurement, production and R&D.
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*Sources: Interview data, corporate documents and annual reports.*

### **6.1.2.1 Level of integration on general day-to-day management**

The Chinese acquirers' generally low level of integration in day-to-day operational management was reflected in the following aspects. First, they allocated local managers a high level of autonomy to make day-to-day operational management decisions in most departments. In all four cases, most middle managers and some senior executives were retained local employees. The acquiring firms' top executives did not intervene in the decision-making process of most of the day-to-day management teams. Even in the acquired firms whose CEOs were Chinese expatriates, such as firms A and B, the day-to-day management was overseen by the local vice CEO and middle managers. The underlying reasons were twofold. On the one hand, the leadership knowledge is a vital part of a firm's knowledge base (Angwin and Meadows, 2009). The Chinese acquirers believed that the local management teams, and especially former managers, knew the acquired firms better than expatriates from China in terms of organisational structures, day-to-day work routines, organisational cultures, local institutions, and so on. On the other hand, it would have been unrealistic to greatly intervene in the day-to-day operations of the acquired firms due to limitations in the Chinese acquirers' capability. Most Chinese acquiring firms still

lacked sufficient pools of suitable talents that could be employed as expatriate managers and outperform local ones. A comparably skilled Chinese expatriate could hardly be cultivated in a short time period through receiving systematic training, as firm D did. Moreover, involving Chinese managers in the day-to-day operational management could trigger the potential cultural conflicts which are likely to occur during the day-to-day interactions with employees from a different socio-cultural background.

Second, very few permanent or long-term Chinese expatriates were appointed to work in the acquired firms. For example, firm B only had two permanent expatriates. In case C, there were no Chinese expatriates working in the acquired firm. The Chinese acquirers believed that sending too many long term expatriates to work in the acquired firms could have caused adaptation issues between Chinese and foreign employees, which could have negatively affected the transfer of knowledge-based resources. From the perspective of senior management, involving too many Chinese managers in the day-to-day management process might have led to the disruption of organisational routines and to the dissolution of the ties embedded in the acquired firms (Ranft and Lord, 2002; Puranam et al., 2006; Puranam et al., 2009; Gomez et al., 2013). From the perspective of the local general employees, hiring long term Chinese workers would cause dissatisfaction among those who may have believed their job opportunities to be taken by Chinese workers. This would have resulted in a mistrustful organisational climate which could have hampered the transfer of resources in the integration



process. In addition, appointing too many Chinese expatriates could have led to an increase in integration and coordination costs. The interaction and cooperation between the employees of the two parties, with their distinct socio-cultural backgrounds, would have naturally increased the potential for conflicts linked to cultural differences, the language barrier, communication problems, etc. These conflicts would have harmed the organisational climate of the combined organisation and could have caused a poor acquisition performance.

Third, most of the formal structures and routines of the acquired firms were retained after the acquisitions. The existing operational systems and day-to-day routines of the acquired firms had mostly been in place for years. Changing them might have led to the impairment of the firms' knowledge base. Moreover, although all the acquired firms had been sold to their Chinese acquirers because of their decreasing profits, their recession had had more to do with strategic issues than with problems in their day-to-day operation. However, a complete lack of change could have also caused uncertainty and rumours to thrive among the employees of the acquired firms, because most of them would have actually been expecting the post-acquisition changes which are normally seen in M&A. Moreover, a certain degree of integration is necessary to combine and redeploy resources (Bauer and Matzler, 2013; Chatterjee et al., 1992). Therefore, the Chinese acquirers still enacted the formal operational integration of specific functions, but to a very low degree. Such operational and organisational changes were mainly concentrated in the integration of the accounting and financial

systems. Some acquiring firms, such as C and D, also changed their information systems and made adjustments to their performance appraisal criteria and compensation system at the management level. The above operational integration and organisational changes were mostly a one-off. In addition, the day-to-day operational management of these changed areas still fell under the responsibility of the local managers. Therefore, the level of integration in the general day-to-day management was still considered to be low.

#### **6.1.2.2 Level of integration on strategic issues and strategically important units**

Despite the level of integration in most parts of the general day-to-day management being quite low, there were still some strategically important organisational departments and operational aspects of the acquired firms that were being moderately integrated. The evidence suggests that certain crucial operational activities, such as procurement, market distribution, investment and R&D, should have been and were particularly highlighted and controlled by Chinese executives. Although the day-to-day operational management of these units of the acquired firms was still under the responsibility of local managers, the Chinese executives took charge of the decision-making in their more relevant activities. In fact, the Chinese acquirers developed strict monitoring mechanisms to manage risk and ensure that the operations of the subsidiaries were in adherence to their headquarters' strategic intents.

In cases A, B, and C, key operational activities, such as procurement, marketing and R&D, were all placed under the control of the Chinese acquirers after a medium level of integration. Firm D, however, implemented different levels of integration in two major business centres. On the one hand, the degree of integration in the North American business centre was firmly controlled at a medium level through the restructuring of manufacturing plants, supply chains and market distribution channels. Positive results were achieved following these integration activities. On the other hand, the integration of the European business centre was neglected. A very low level of integration was implemented in all areas of the European subsidiary, including key operational activities such as procurement, production and R&D. A result of such a low level of integration was that firm D partly lost control of its European business centre, making it impossible to even speak of socio-cultural integration issues such as the management of cultural differences. Consequently, constant huge losses in Europe nearly caused firm D's trading in the stock market to be suspended.

Therefore, the vital importance of implementing higher levels of integration in these crucial organisational departments and operational aspects, as opposed to general day-to-day management activities, is highlighted. Their significance stems from their strategic importance, which is reflected in two aspects. First, these business units and activities are linked to the strategic intent of the M&A. All four deals are strategic intent M&A motivated by a quest for advanced technology and equipment resources, as well as overseas market distribution channels. Accordingly, the operations closely

related to these issues should have been particularly emphasised and well integrated to achieve the knowledge and capability transfer. A higher level of integration in market distribution as well as R&D units would have ensured that the operations of the acquired firms were following the strategic intents of the acquirers in terms of these crucial business units. Second, the higher level of integration in these key aspects is linked to their high synergy potential. For example, in the post-acquisition integration phase of a Chinese acquirer's M&A, synergy is likely to be achieved by integrating procurement and reducing costs (Cogman and Tan, 2010; Liu and Woywode, 2013). This was proven to be true in all the cases in this research. Therefore, it is crucial to ensure that the integration level in these synergy-inducing aspects is higher than the required degree of integration necessary to combine and redeploy resources to create synergy (Zollo and Singh, 2004).

Using the same logic, it is not difficult to understand the Chinese acquirers' decision to withhold strategic decision-making rights as a key factor in the pursuit of post-acquisition integration success. Despite local managers being entrusted with the day-to-day general management, the strategic decisions within the acquired firms were all made by Chinese executives<sup>20</sup>. The control of the strategic decision-making rights in the acquired firms ensured that post-acquisition integration adhered to the integration strategies of the Chinese acquirers. Therefore, a higher level of integration was adopted in strategic issues, which enabled the Chinese acquirers to naturally take

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<sup>20</sup>The advice of the employees of the acquired firms was also taken into consideration.

strategic control of the post-acquisition integration process.

It is worth noting that the acquiring firms' emphasis on the integration of these crucial units does not imply that they were highly integrated. The level of integration was still relatively medium. For example, the evidence suggests that firm A integrated procurement mainly by sourcing low cost component and part suppliers for its Italian subsidiary, instead of deeply integrating supply chains by combining the two units or allowing the employees from the two countries to work in conjunction. Similarly, in all four cases, the R&D departments of both the acquiring and acquired organisations were not completely integrated by adopting formal integration mechanisms, such as changing the organisational structures and routines of the R&D centres of the acquired firms or sending long term Chinese R&D expatriates to work overseas. Instead, the integration of the R&D units was mostly facilitated through various social integration mechanisms, such as short term visits, joint training programmes, meetings, etc.

The underlying reason for the medium level of integration in these key areas can be explained by a well-known quandary in post-acquisition integration (Gomes et al., 2013): post-acquisition synergies require a certain extent of integration to transfer, redeploy and reconfigure resources within the combined entity. Compared with tangible resources and explicit knowledge-based resources, tacit knowledge-based resources are more valuable. However, the latter are also more embedded, socially

complex, and personally bound, making it difficult to transfer them between firms. Therefore, understanding, assimilating and transforming tacit knowledge-based resources requires a high level of operational and socio-cultural post-acquisition integration. However, such a high level of integration is likely to harm the acquired firm through key staff turnover, disruption of organisational routines and dissolution of embedded ties, all of which may compromise the firm's resource base. This is particularly true for tacit knowledge-based resources as they are mostly embedded in the employees. In this instance, some scholars suggest using contingency approaches, involving different integration strategies and synergy outcomes to medium organisational differences (Bjorkman et al., 2007; Gomes et al., 2013).

For Chinese acquirers' outward M&A to developed countries, there are two specific aspects that amplify the negative effects of a high level of integration. First, the huge cultural differences increase the difficulty of integration. The higher the level of integration, the more likely that cultural problems will emerge from the interactions. Second, Chinese acquirers do not have sufficient numbers of suitable talents to handle integration issues. Their lack of ability, for instance in communication skills, could nullify the value created through deep integration. Therefore, despite a certain level of integration being necessary for strategically important organisational departments and operational areas, such level needs to be contained by Chinese acquirers to avoid potential value destruction.

The choice of the level of integration is also a part of the integration approach. The detailed findings related to the Chinese acquirers' integration approaches and their underlying rationales will be discussed in section 6.2.

### **6.1.2.3 Section conclusion**

To sum up, the level of integration is a key factor influencing the post-acquisition integration process and M&A performance. The Chinese firms adopted different levels of operational integration in different areas. For the general day-to-day management activities, a low level of integration was adopted, granting local managers a high level of autonomy in making day-to-day operational management decisions, limiting the numbers of permanent or long-term Chinese expatriates and retaining the formal structures and routines of the acquired firms. For strategic issues and in strategically important areas, such as procurement and R&D, the Chinese acquirers applied a medium level of integration to facilitate the potential synergies.

This finding is partly different from that of Liu and Woywode's (2013), who argue that Chinese acquirers adopt very low levels of integration in all areas. They suggest that the acquiring firms should only offer strategic advice while bestowing decision-making autonomy on the management teams of the acquired firms. The possible reasons for such difference will be discussed in the conclusion chapter.

### 6.1.3 Integration implementation speed

All the case studies confirmed integration implementation speed to be vital in the post-acquisition integration process of Chinese acquirers' outward M&A. From an operational integration perspective, a higher speed of integration can lead to faster resource redeployment and exploitation, and quicker synergy realisation. From a socio-cultural integration perspective, a slow integration speed may reduce the likelihood of potential conflicts and build trust among the employees of the combined entity (Olie, 1994; Ranft and Lord, 2002; Homburg and Bucerius, 2005, 2006; Angwin, 2004). Differing findings on the relationship between integration speed and acquisition success led some M&A scholars to call for a contingency approach (Angwin, 2004). The evidence in this study has shown that the integration implementation speed of the Chinese acquirers was affected by their strategic intent: they adopted a fast pace in the functional and operational integration of strategically important areas, and a slow one in the strategically less important operational activities and socio-cultural aspects. Table 6.3 is a summary of the speeds of integrations in the four study cases.

Table 6.3 Speed of integration in the four cases

<b>Speed of integration</b>	<b>Case A</b>	<b>Case B</b>	<b>Case C</b>	<b>Case D</b>
<i>Fast functional and operational integration in strategically</i>	Rapid and consistent R&D and technology integration; A	Fast integration of technology and other knowledge-based	Rapid formal functional integration; fast integration of the	Fast operational integration of the North American subsidiary, for



<i>important areas</i>	quick start in the integration of specific functions to restart the product lines.	resources; Fast integration of R&D units; rapid integration of the manufacturing unit.	strategic decision-making system; fast technology and manufacturing technique integration.	instance in terms of products and manufacturing plants.
<i>Medium/slow speed of integration in strategically less important operational activities and socio-cultural aspects</i>	Slow integration of socio-cultural issues; Slow general operational integration.	Medium operational integration, except for R&D and manufacturing lines; slow socio-cultural integration.	Slow socio-cultural integration.	Slow operational and socio-cultural integration of the European subsidiary.

*Sources: Interview data, corporate documents and annual reports.*

### **6.1.3.1 Fast functional and operational integration in strategically important areas**

The ‘functional integration’ concept used here refers to the one-off operational integration of functional business areas, such as information systems, accounting and financial systems, etc. The importance of a high speed formal functional integration is evidenced by the studied cases. Formal functional integration was implemented rapidly by firms A, B, and C, to maintain the business momentum of their respective acquired firms. Firm D did well in its North American subsidiary, but failed to do so in its European business centre, resulting in the loss of control of this subsidiary and huge losses in the European market within two years of the acquisition.

Generally speaking, fast functional integration can be observed in most M&A deals, thus it is also expected by most employees of the acquired firms. If the acquiring firms do not integrate the functional areas in the post-acquisition phase, rumour and uncertainty may thrive among employees of the acquired firms. This is because “it does not look like an acquisition” (Liu and Woywode, 2013). A rapid integration in functional areas helps to maintain the momentum of the acquired firms’ business operations. When a firm is acquired through a CBMA by a firm from a different institutional context, especially one from an emerging economy, its supply chain and market distribution might be affected by any uncertainty in the M&A (Homburg and Bucerius, 2006). Existing suppliers and buyers might hesitate to confirm their existing cooperation levels. For example, both firms A and C faced some challenges concerning this issue. In such instances, a quick and smooth integration of the functional areas may rebuild the trust of the stakeholders and keep the business of the acquired firms on the right track.

Furthermore, in cases in which Chinese manufacturing firms acquired firms from developed countries, most of the acquired firms, like the four studied firms, failed to operate well or suffered from losses for a long period. Some of them even underwent bankruptcy liquidation. Under these circumstances, a rapid organisational change through the integration of functional areas is essential for the acquired firms to shed their former negative image, and successfully rebrand themselves as new entities.

In addition to a rapid functional integration, the Chinese acquirers also undertook a fast operational integration in strategically important areas. Similar to the approaches used in controlling the degree of integration, the speed of integration in the operational management was also diversified based upon the strategic intent of the acquiring firms. Specifically, activities and departments related to the main acquisition motivations were given top priority in the integration process. Table 6.4 shows the priorities of acquisition motivations collaboratively confirmed by the CEOs and other top executives of all four acquiring firms.

Table 6.4 Priorities of main acquisition motivations<sup>21</sup>

<b>Case</b>	<b>Priorities of main acquisition motivations</b>
<b>Case A</b>	First, technology (to update the acquirer's current products); Second, establishment of a bridgehead to explore the European market.
<b>Case B</b>	First, technology and R&D intensity; Second, equipment and production lines; Third, the opportunity to gain access to the European market.
<b>Case C</b>	First, geographical strategic layout (a European manufacturing base near a port); Second, seeking markets; Third, technology and manufacturing techniques.
<b>Case D</b>	First, seeking R&D capability, patented knowledge, and brand name; Second, gaining access to the European and American markets.

*Source: interview data collected from CEO/Presidents of all cases, and documentary data.*

Based upon firm A's strategy and acquisition motivations, technology integration was

<sup>21</sup>The term 'main motivations' implies that there are other motivations which are considered less important.

implemented rapidly and consistently from the very beginning of the post-acquisition integration phase. Within one year from the acquisition, the advanced technology of the acquired firm in specific key components of power-shift transmissions had been applied to the main products of firm A. Firm B also emphasised the speed of integrating technology-based resources and R&D units. The transfer of technology-based resources from the acquired firm was initiated as soon as the acquisition was done. The setting up of a European based R&D centre was also rapidly implemented. In addition to seeking technology and R&D capability, firm B also rapidly implemented the integration of the manufacturing unit because it considered acquiring advanced equipment and production lines to be its second most significant motivation for the acquisition. Accordingly, immediately after the acquisition announcement, firm B started to integrate the manufacturing lines by transporting part of the production lines of the acquired firm to China. Firm C concentrated on the fast integration of the management decision-making system. After the acquisition, it rapidly took the strategic decision-making power away from the subsidiary managers and integrated the performance appraisal criteria of the acquired firm with its own system. Such a fast integration in the top management decision-making system was consistent with the main motivation of this acquisition, which envisaged the Spanish subsidiary forming a crucial part of the strategic layout of CITIC HIC's internationalisation strategy. Unlike the other three firms, firm D failed to adopt a fast integration approach in areas relating to its primary M&A motivation, which was seeking R&D capabilities and technology-based resources. It

acted quickly on integrating the North American subsidiary, which had accumulated a huge loss before the M&A, but neglected the integration of the European business unit due to the Chinese executives' over-optimism for the European market. The low speed of the R&D and technology integration in the European subsidiary resulted in poor performance when firm D was exposed to a dramatic market change between 2005 and 2006.

It is not hard to understand that those activities and departments that were in line with the strategic intent and main acquisition motivations of the Chinese acquirers were given top priority to be quickly integrated. Chinese firms, especially manufacturing ones, use outward M&A to seek strategic assets from firms in developed economies because they have insufficient resources and capabilities to outperform their competitors both at home and abroad (Deng, 2007, 2009; Luo and Tung, 2007). These are the areas in which potential synergies also lie. The rapidly transfer of resources and capabilities after acquisition can instantly improve the Chinese acquirers' competitiveness and generate synergies in a shorter time period. Therefore, it is essential for Chinese acquirers to rapidly integrate the strategically relevant aspects related to their main M&A motivations.

#### **6.1.3.2 Medium/low speed of integration on strategically less important operational activities and socio-cultural aspects**

In contrast to the rapid integration of strategically important areas, the Chinese acquirers chose to adopt medium or low speeds of integration in other operational management aspects. This was mainly because a rapidly imposed operational integration might result in acculturating stress, which could lead to hostility and resistance from the employees of the acquired firms. A slow integration could help reduce potential conflicts between the two parties involved in the post-acquisition integration process by facilitating the building of trust among staff employees from different cultures (Olie, 1994; Ranft and Lord, 2002; Gomes et al., 2013). Therefore, the Chinese acquirers in this study aimed at maintaining the steady operation of their foreign subsidiaries and gradually integrated with their counterparts. Considering that they had to foster rapid integration in specific strategically important areas to transfer complementary resources and capabilities as quickly as possible, integration in strategically less important aspects had to be controlled at a relatively slower pace. A medium or low speed of integration on these less crucial areas can reduce the adaptation issues for the employees of the acquired firms with regard to the changes in organisational management and day-to-day routines. It can also lessen any culture related challenges that could be exacerbated during the process of operational integration. Controlling and reducing these negative factors can help Chinese acquirers to create a better organisational climate, so as to facilitate integration in strategically important areas and thus create synergies quickly and smoothly.

Similar to the strategy used to medium the pace of operational integration in

strategically less important areas, socio-cultural integration was also deliberately controlled at a slow pace by the Chinese acquirers. Socio-cultural integration itself is deemed to be a complex process that will last much longer than operational integration. Its institutionally embedded nature makes socio-cultural integration hard to be achieved within a short period of time (Bresman et al., 1999; Teerikangas and Very, 2006; Bjorkman et al., 2007; Sarala and Vaara, 2010). This is particularly true for Chinese acquirers who bought firms from developed economies with huge differences in their institutional environments, such as cultural differences at both the national and organisational levels. Due to the complexity of cultural differences between the acquiring and acquired firms, a slow socio-cultural integration pace was adopted to build trust among employees and solve culture-related problems in a sedate atmosphere. Chinese acquirers consider socio-cultural integration to be an aid for the integration of crucial resources and capabilities for synergy creation. They require a harmonious socio-cultural climate within which the combined organisation can operate smoothly and focus on strategically important areas. Therefore, despite various social integration mechanisms, such as visits, meetings and joint training programmes, being adopted by the Chinese acquirers to foster cultural integration, these activities were implemented gradually and slowly. A detailed explanation of the Chinese acquirers' cultural integration strategies and approaches is presented and discussed in section 6.1.5.

### **6.1.3.3 Section conclusion**

In brief, speed is a key factor influencing post-acquisition integration and performance. On the one hand and in order to focus upon achieving synergies through the speedy integration of resources and capabilities in strategically important areas, the Chinese acquirers implemented rapid functional and operational integration processes relating to their main M&A motivations. On the other hand, they integrated slowly and moderately in strategically less important operational activities and socio-cultural aspects, so as to foster a better organisational climate and facilitate integration in strategically important areas, thus generating synergies quickly and smoothly.

The results of this section are in line with the mainstream scholars' argument for a contingency approach to speed of integration (Angwin, 2004; Inkpen et al., 2000; Gomez et al., 2013). Although there is no such thing as the 'right' integration speed in a post-acquisition integration process, the strategic asset seeking nature of the Chinese acquirers' M&A and the huge cultural differences between the two parties determined a unique pattern in the post-acquisition integration speed of their outward M&A to developed economies.

#### **6.1.4 Key staff turnover and management team building**

Human resource related issues in the post-acquisition process, such as the turnover of



key staff and management team building in the acquired firms, were shown to be a crucial factor influencing the post-acquisition integration process and performance. Human resource challenges during the post-acquisition integration process can affect the exploitation of potential synergies which may arise from the inter-unit sharing or transfer of resources and capabilities (Gomes et al., 2013). On the one hand, the turnover of key employees, who possess individual knowledge-based resources and contribute to the overall knowledge base on the firm, has a significant influence on the Chinese firms' outward M&A performance through its impact on resource and capability transfer and organisational climate. On the other hand, the significance of building an adequate management team within the acquired firms results in a sophisticated combination of Chinese and foreign executives at different managerial levels. A summary of management team building and key staff turnover during the integration process is listed in Table 6.5.

Table 6.5 A summary of management team building and key staff turnover during the integration process

<b>Management team and key staff turnover</b>	<b>Case A</b>	<b>Case B</b>	<b>Case C</b>	<b>Case D</b>
<i>General key staff retention and turnover</i>	All previous French employees were retained. Some key staff left the acquired firm before the M&A	Wished to keep all key staff, but still failed to retain a part of the technicians after the acquisition; various measures were adopted to	Successfully retained the entire staff of the acquired firm.	Reduced general employee (not including key staff such as R&D staff and technicians) redundancy in specific divisions and subsidiaries;

		retain key employees, such as improving the quality of remuneration, publicising the acquiring firm's performance, promising production expansion, etc.; sought new technical experts from Italy and Germany to complement the R&D team.		retained most key staff employees.
<b><i>Management team building</i></b>	The French managers were all retained; some of them were even promoted; only a few long term Chinese expatriates were working in France.	Sent only a few long term Chinese expatriates; used short or medium term expatriates instead of long term ones; retained the previous management team; Chinese executives held strategic authority.	Retained previous management team; did not send any long term Chinese expatriates to the Spanish subsidiary.	Made substantial adjustments to Thomson's existing management team. Although the former managers of Thomson were still retained in the firm, some of them were substantially demoted and placed under the supervision of Chinese managers.

*Source: interview data collected from CEO/Presidents of all cases, and documentary data.*

#### **6.1.4.1 Key staff retention and turnover**

Key staff turnover in the acquired firms is considered to be a critical factor that has a decisive influence on post-acquisition performance (Ranft and Lord, 2002; Ahammad et al., 2012). M&A, especially CBMA, may instigate employee turnover before or during the integration process. This is mainly triggered by any organisational changes that may cause in job uncertainty and threaten the identity and status of the employees (Cartwright and Cooper, 1993; Junni and Sarala, 2013). In the case of firms from emerging economies buying firms from developed ones, the departure of key staff employees who have the possibility to change jobs may appear more common, because of the weaker identity associated with working in a foreign subsidiary of a firm from a developing country. These competent employees usually possess valuable individual skills and knowledge-based resources. Their leaving may result in holes in the acquired firm's resource base and hamper the exploitation of synergies which could otherwise have been achieved by transferring and redeploying the resources and capabilities of the acquired firms.

The negative impact that key staff turnover can have on the resource base of an acquired firm is mainly embodied in the influence it has on the inter-unit transfer of tacit knowledge-based resources, as opposed to explicit knowledge transfer (Junni and Sarala, 2013). This is mainly because explicit knowledge-based resources can be transferred through documented patents and filed technology, which is easy for Chinese acquirers as they are normally equipped with a prior related knowledge

adequate to identify, assimilate and transform explicit knowledge-based resources<sup>22</sup>. Conversely, tacit knowledge is embedded in practices, values and norms (Kogut and Zander, 1993), and can only be transferred by interacting with the staff that is in possession of similar tacit knowledge. The turnover of key staff employees thus posed a tremendous challenge to the post-acquisition transfer of knowledge, especially of tacit knowledge, to the Chinese acquirers. All four cases were affected one way or another by this issue. Both firm A and firm B experienced departures of key employees, such as R&D staff and technicians, following the M&A. The CTO of Firm A stated:

“[Regarding the technology transfer from the French subsidiary], we didn’t actually have much interaction with the French R&D staff. On the one hand, our communication skill was not good. On the other hand, most of their technical experts had left [following the M&A].”

Similar to Firm A, Firm B also had to find new technical experts from Italy and Germany to support their headquarters R&D team since some key staff had left the firm before the completion of the acquisition. Such employee turnover does not just impair the R&D division, but also other ones. For example, the overseas market exploration of Firm A ground to a halt because there were not enough marketing talents left in the acquired firm. Accordingly, sufficient marketing related tacit

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<sup>22</sup>For a detailed discussion, please refer to section 6.1.1.

knowledge would not have been transferred to the acquiring firm if most of the existing employees in the marketing department had left the firm.

Although they successfully retained most of the key employees, firms C and D also faced the thorny issue of finding employees of staff suited to handle knowledge transfer and localisation. This can be a big challenge for EMNEs, which normally lack sufficient highly skilled and well educated home country employees (Luo and Tung, 2007). The language issue exacerbates the problem as the communication between the Chinese executives and their foreign counterparts largely relies on interpreters. Although there is an increasing level of international human mobility and many highly skilled talents from developed countries go home as returning migrants (Liu et al., 2010; Gao et al., 2013), the numbers in this talent group are still not big enough to fulfil the needs of most Chinese MNEs, particularly those located outside the top tier cities. Among the four cases, none managed to recruit sufficient numbers of skilled employees to facilitate knowledge transfer and absorption, especially with respect to the transfer of tacit knowledge. This was largely because they suffered from location disadvantage – being located in second and third tier Chinese cities still lacks the appeal to attract returning talents from overseas. In addition, most firms in the manufacturing sector, especially non-SOEs, could not sufficiently incentivise these talents in terms of salary and industry attractiveness when competing with financial institutions or IT firms. Without the support of both retained key staff from the acquired firms and returning overseas talents at home, the transfer of tacit

knowledge-based resources from the acquired unit to the headquarters is arduous.

In addition to its impact on the transfer of tacit knowledge-based resources, key staff turnover can also influence post-acquisition integration by affecting the organisational climate of the combined entity. Key staff turnover is usually triggered by the employees' uncertainty about their job security, identity and status in the firm, which is mainly caused by organisational changes (Cartwright and Cooper, 1993; Junni and Sarala, 2013). The withdrawal and turnover of key staff employees may in turn lead to resistance and stress among the remaining employees. This could hamper the formation of a harmonious organisational climate in the acquired firms, within which resources and capabilities can be transferred smoothly and effectively.

In order to maintain and sustain the momentum of the business and create a harmonious organisational climate for integration, firms A and C retained the entire staff of their acquired firms. Although this meant missing a great opportunity to cut labour costs through the acquisitions, it helped to reduce the discomfort and distrust among the employees of the acquired firm and greatly increased their morale. Firm B took a variety of measures to retain key employees as opposed to keeping all staff employees. The measures it took included improving the quality of rewards, publicising its past performance, promising production expansion, etc. Despite firm D also attempting to reduce general employee redundancy in specific divisions, it adopted gradual and imperceptible actions based upon the permission and suggestions

of local managers.

#### **6.1.4.2 Management team building**

The management level staff employees of an acquired firm are also key staff. In addition to the commonalities they share with other key staff, management team building is also crucial for post-acquisition integration and performance because of senior management's leading roles (Angwin and Meadows, 2009). Being the top tier of a firm, the management team should take decisive actions to establish the integration strategies and manage the necessary organisational changes during the post-acquisition integration process. Moreover, in CBMA, the managers of an acquired firm should place a greater emphasis on the maintenance of a peaceful organisational climate, so as to create a better socio-cultural context for the transfer of resources and capabilities (Bresman et al., 1999; Birkinshaw et al., 2010; Zander and Zander, 2010; Verbeke, 2010). Failing to do so would inevitably result in problematic integration and poor performance (Schweiger et al., 1993; Angwin and Meadows, 2009; Vasilaki, 2001; Gomes et al., 2013).

Accordingly, the Chinese acquirers paid particular attention to management team building in the acquired firms. In all four studied cases, most local managers were retained after the acquisitions. These existing managers possessed a better knowledge of the organisational structures, day-to-day work routines, organisational cultures and

local institutions. Despite the Chinese acquirers adopting a low degree of integration by sending few long term expatriates to work in the acquired firms, these expatriates were crucial for management team building as they were all in the middle management or executive levels<sup>23</sup>. The careful selection of these expatriates is vitally important. On the one hand, they need to possess a strong adaptability to work in a different institutional environment with colleagues from distinct socio-cultural and language backgrounds. On the other hand, they should be equipped with good communication and problem-handling skills to solve the potential socio-cultural conflicts that might emerge during their interaction with the local employees, so as to maintain and sustain a harmonious organisational climate for effective resource and capability transfer. Such demanding requirements result in the Chinese acquirers' being cautious in posting expatriate managers. The words of firm C's CEO, who did not send any long-term Chinese expatriates, constitute a very suitable synthesis of the management team building issues:

“We needed to pay close attention to the local management team [before the acquisition]. You may be able to send one expatriate, or even ten [to do the management work], but you cannot send a hundred. In order to do so, you would need Chinese talent who can speak Spanish, know international conventions, have sufficient managerial experience and have professional background in this industry. We can barely find anyone with all these

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<sup>23</sup>Firm C was the only firm that had no long term expatriates.



capacities in China. Therefore, we have to localise the management team by retaining the existing managers. In the past, many Chinese firms went overseas but [failed to achieve strategic assets and] retained the same status after several years. They established or acquired an overseas subsidiary with Chinese managers. After several years, these expatriates job-hopped, and left nothing to the firm. This is really a normal phenomenon for Chinese firms, especially central-SOEs. Therefore, it is vitally important to use the local management teams.”

Although the Chinese acquirers tended to build localised management teams by granting them the handling of the day-to-day operational management, they did not neglect their risk management and control system, neither did they waive the strategic decision-making powers. This was done to ensure that the Chinese executives in the headquarters would retain absolute control over their subsidiaries to transfer resources and seek potential synergies effectively and smoothly. Therefore, the management team of the acquired firm was mainly a combination of local managers, local vice CEOs<sup>24</sup>, and Chinese CEOs. This combination would not only preserve the existing resource base and maintain a positive organisational climate in the acquired firms, but would also ensure that the process of change was aligned with the firms’ strategies aimed at meeting the need to create synergies.

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<sup>24</sup>In case C, the CEO of the acquired firm had already been a Spanish executive. However, he still needed to report to and follow the instructions of the executives from the headquarters.

#### **6.1.4.3 Section conclusion**

To sum up, key staff turnover and management team building in the acquired firms is a key factor influencing post-acquisition integration and performance. The crucial role played by key staff turnover lies in its impact on the overall knowledge base, and especially on tacit knowledge-based resources, of the acquired firm and on the organisational climate of the combined entity. The Chinese acquirers built their management team by combining foreign middle managers and vice executives with Chinese CEOs and strategic decision-makers. This sophisticated strategy was based on the unique characteristics of the Chinese acquiring firms, such as the lack of local talents.

#### **6.1.5 Cultural differences and cultural integration**

The cultural differences and cultural integration efforts needed during the post-acquisition integration process have been pointed out by many researchers and practitioners as critical factors for M&A performance (Chatterjee et al., 1992; Weber, 1996; Teerikangas and Very, 2006; Weber and Tarba, 2013). The critical role of culture related issues is particularly significant in cases of international M&A (Morosini et al., 1998; Weber et al., 1996, 2009, 2011). When considering outward M&A to developed countries conducted by firms from emerging ones, such as China, the evidence from this study suggests that cultural integration is the most important key factor that influences post-acquisition integration and M&A performance.

Defining insights about the importance of culture related issues were provided by the CEOs and vice CEOs of three of the studied firms:

“The true essence of integration is culture integration. All other aspects are secondary.”(Mr. Zhao, CEO of firm A)

“We believe that the first and foremost reason for most Chinese MNEs failing to achieve success in their outward M&A, especially to developed countries, is because of the cultural differences and the lack of cultural integration.” (Mr. Zhao, CEO of firm B)

“The most crucial issue that should be particularly emphasised in the post-acquisition integration phase is cultural integration.”(Mr. Li, vice CEO of firm D)

Being well aware of the existence of the enormous cultural differences and of the importance of cultural integration, the Chinese acquirers took a series of measures to avoid and reduce culture related issues under their unique cultural integration strategies. Table 6.6 shows the measures that the four acquiring firms under study applied to reduce culture related issues, and their cultural integration strategies.

Table 6.6 A summary of the measures applied to reduce culture related issues, and of the cultural integration strategies

<b>Cultural differences and cultural integration</b>	<b>Case A</b>	<b>Case B</b>	<b>Case C</b>	<b>Case D</b>

<p><b>Measures to reduce culture related issues</b></p>	<p>Maintain high levels of cultural tolerance; respect local culture and keep an open-minded attitude; invite foreign employees to visit China to reduce cultural cognition asymmetry; use local managers; avoid using long term Chinese expatriates to reduce interaction and keep the cultural distance; use social integration mechanisms to express their regard and care for French employees.</p>	<p>Pursue mutual understanding and respect in culture related issues; deal with culture related issues with a high level of tolerance; use local managers; avoid using long term Chinese expatriates to reduce interaction and keep the cultural distance; use social integration mechanisms to achieve mutual understanding and respect, such as visits, joint dinner parties, tours of China and of the Chinese headquarter, etc.</p>	<p>Pursue mutual understanding and respect in cultural issues by using local managers who have a good understanding and acceptance of both the Chinese culture and of the organisational culture of the acquiring firm; avoid using long term Chinese expatriates to reduce interaction and keep the cultural distance; deal with culture related issues with a high level of tolerance; use social integration mechanisms to foster mutual understanding and respect.</p>	<p>Overlooked the significance of culture related issues; very few cultural integration mechanisms were used to facilitate cultural integration; the corporate culture of firm D was simply extended to foreign subsidiaries.</p>
<p><b>Cultural integration strategies</b></p>	<p>Take a step back and keep distance with high cultural tolerance to achieve mutual understanding and respect.</p>	<p>Take a step back and keep distance with high cultural tolerance to achieve mutual understanding and respect.</p>	<p>Take a step back and keep distance with high cultural tolerance to achieve mutual understanding and respect.</p>	<p>A high degree of cultural integration through cultural convergence<sup>25</sup>.</p>

*Source: interview data collected from CEOs/Presidents of all cases, and documentary*

<sup>25</sup>In 2007, after several years of huge losses, firm D restructured its European subsidiary. A cultural crossvergence integration mechanism was used after the restructuring. However, the time period after the restructuring is not covered by this research.

*data.*

#### **6.1.5.1 Cultural integration mechanism**

The evidence suggests that the cultural differences between the Chinese acquirers and their western acquired firms add value to the combined organisations by increasing their resource bases with the transfer of positive knowledge and useful cultural diversity. Nevertheless, the enormous differences in both national and organisational cultures also pose obstacles for the inter-unit resource and capability transfer. The differences in values and norms may result in further difficulties in the development of trust, which, in turn, negatively influences the realisation of synergy in the post-acquisition process (Stahl et al., 2011).

In addition to the strong influence that cultural fit has on post-acquisition performance (Cartwright and Cooper, 1992; Chatterjee et al., 1992), it is paramount for both scholars and practitioners to emphasise the cultural integration process (Shrivastava, 1986; Haspeslagh and Jemison, 1991; Sarala and Vaara, 2010). Sarala and Vaara (2010) point out that organisational cultural convergence, which is understood as the situation where the culture of the acquired firm becomes similar to the that of the acquirer by means of post-acquisition integration efforts, and crossvergence, which is a form of cultural integration that results in a new culture to be created out of the existing cultures of both parties, are the two main mechanisms through which cultural

integration can take place. Both mechanisms can moderate the impact of national cultural differences on knowledge transfer, and have a significant positive impact on the knowledge and capability transfer within the combined entity.

However, the evidence of this research suggests that the Chinese acquirers, such as firms A, B, and C, used neither cultural convergence nor crossvergence as the main cultural integration mechanism. The characteristics of Chinese acquirers' outward M&A of firms from developed economies determine that both the cultural integration mechanisms suggested by Sarala and Vaara (2010) are not practicable. This is mainly because of the authority asymmetry found in Chinese firms' higher formal authority and lower cultural authority (Baker et al., 1999; Aghion and Tirole, 1997). Despite most Chinese acquiring firms being industry leaders in their domestic market and having accumulated a certain prestige overseas, they are still in a weak cultural position compared to their acquired firms which had encountered problems in their operations in previous years. On the one hand, this position stems from the comparative levels of competitiveness between Chinese firms and those from western developed countries; although China has become the second largest economic entity of the world, on average, its firm level competitiveness is still lower than that of western developed countries, especially in the perception of the employees of both the acquiring and acquired firms (Deng, 2007, 2009). On the other hand, Chinese acquirers use outward M&A to seek strategic assets overseas. Western firms are acquired because they possess better resources and capabilities, especially

knowledge-based ones. The comparatively high level of knowledge authority of the acquired firms can naturally lead to a stronger cultural position.

When integrating a strong culture with a weak one, cultural convergence takes place more easily when the weak culture moves more towards the strong one. However, in most cases, after the M&A, the cultures of the acquiring firms should be safeguarded more than those of acquired ones because the former hold a higher formal authority. This causes difficulties and issues when Chinese acquirers try to achieve cultural convergence with firms from developed countries after their M&A. Unlike the other three cases, which made their M&A in more recent years, Firm D adopted a cultural convergence approach to achieve cultural integration. The results were disappointing, with most foreign managers leaving the firm within a few years from the acquisition.

Adopting a crossvergent cultural integration approach is also challenging for Chinese acquirers. If a new culture is formed after the acquisition, the relatively weak cultural position of the Chinese acquirers will probably be perpetuated in this new culture. Moreover, the cultural crossvergence process is difficult and time consuming. It normally lasts years, during which cultural conflicts, lacking proper ways of handling potential culture related issues, can already undermine acquisition performance. Such value destruction is much more likely to take place in contexts in which EMNEs acquire firms from developed countries, where national cultural differences are more significant and acquirers lack the required experience and knowledge to handle these

problems (Luo and Tung, 2007).

Another reason for cultural convergence and crossvergence not being suitable for Chinese acquirers is because both focus on the integration of organisational culture (Sarala and Vaara, 2010). Despite the fact that cultural differences between the Chinese acquirers and their acquired firms also exist at the organisational level, the interview evidence suggests that these are overshadowed and dwarfed by the huge national cultural differences. In other words, national cultural differences are so large that most Chinese acquirers do not bother to distinguish between cultural differences at the national and organisational level. None of the interviewees differentiated between the cultural differences at the two levels, although they all emphasised the “cultural differences” during their interviews. In fact, most equated the organisational culture with the national one. For example, the interviewees from firm A mentioned that their French employees keep the good practice of filing all essential documentations. This may belong to the organisational culture of the acquired firm, but the Chinese acquirer tends to consider it to be a part of the national culture. Therefore, Chinese acquirers need a cultural integration mechanism to help them solve potential cultural conflicts at the national level.

#### **6.1.5.2 Cultural integration strategy**

Unlike mainstream literature, which is based on MNEs from developed countries



arguing on cultural convergence and crossvergence (Sarala and Vaara, 2010; Gomes et al., 2013), our results reveal that most Chinese acquirers, such as firm A, B, and C, chose to deal with cultural differences by keeping their distance and applying a high degree of cultural tolerance for their foreign subsidiaries. Drawing from the experiences of forerunners such as firm D, the Chinese acquirers were aware of the existence of huge cultural differences when undertaking post-acquisition integration, and of lacking the ability to solve the complex cultural integration problems which arise out of the pursuit of cultural convergence or crossvergence. In this case, they followed the ancient Chinese philosophy of “take a step back to create more space to win” so as to reduce potential conflicts and establish trust with the employees of the acquired firm. Generally speaking, most Chinese acquirers adopted a cultural integration strategy which can be described as “taking a step back and keeping their distance by applying a high level of cultural tolerance to achieve mutual understanding and respect”.

Compared with cultural convergence and crossvergence, which entail a high degree of cultural integration, “keeping some distance” basically involves low levels of cultural integration. The outcome of cultural integration does not need to be a unified culture or a closely integrated social community (Bresman et al., 1999; Birkinshawn et al., 2010; Zander and Zander, 2010; Verbeke, 2010). The general aim of cultural integration is to minimise the negative effect of cultural differences and create an atmosphere favourable to resource and capability transfer (Haspeslagh and Jemison,

1991). A light touch cultural integration could also result in a well operating social community with a harmonious organisational climate and very few cultural conflicts. It is true that such a low level of cultural integration would harm the inter-unit transfer of tacit knowledge-based resources. However, the evidence of this research suggests that the Chinese acquirers are constrained by their capabilities to neglect the transfer of tacit and socially embedded knowledge-based resources, and focus more on the transfer of explicit knowledge-based and tangible resources. Such cultural integration strategy can help the Chinese acquirers to maintain a harmonious organisational climate which can facilitate the transfer of these key resources. This is also in line with the integration approach of Chinese firms, which will be discussed and explained in detail in section 6.2.

The modesty and humbleness embedded in the Chinese culture helps Chinese acquirers to easily adopt such a cultural integration strategy of their own initiative, as described by an ancient Chinese proverb: “take a step back to create more space to win”. They always look to get the most out of what they buy (Birkinshawn et al., 2010). Therefore, it is not difficult for Chinese acquirers to take a tolerant and open-minded attitude of their own initiative towards culture related problems. Considering all cultural differences as national culture issues can also increase cultural tolerance, because cultural differences at the national level, which have a higher communality, are much easier to be tolerated compared with more individual ones. Having adopted a stance of high cultural tolerance, the Chinese acquirers took

measures to pursue mutual understanding and respect in order to avoid and smooth out any cultural conflicts

Despite Chinese acquirers having adopted a low level of cultural integration, and having kept a certain cultural distance and a high tolerance to minimise potential culture clashes, they still needed to take measures to reduce and solve any emergent culture related problems during the post-acquisition integration phase. In order to maintain a peaceful and harmonious organisational climate to facilitate inter-unit resource and capability transfer, the Chinese acquirers strived to achieve “mutual understanding and respect” on culture related issues. This concept was mentioned by many informants in the interviews:

“We respect their culture and habits, including the length of the working day and their attitude towards overtime work, which is completely different from that of employees in China.”

“We seek compromise. We need to follow the local regulations and respect their culture.”

(Senior executives of firm A)

“There is no need to deliberately require them to accept our culture, and vice versa. The best way to solve this issue is through mutual understanding in the course of the day-to-day work and communication”

(Mr. Zhao, CEO of firm B).

“They (the Spanish visitors) showed a lot of interest in and respect for our culture. They attended the flag-raising ceremony with us. They also asked to wear our uniform and company badge. This is a strong signal that they respect and are willing to accept our culture.”

“Misunderstandings are inevitable. There are even misunderstandings in our communications with Chinese managers, never mind with foreign managers who have different linguistic and socio-cultural backgrounds. The most significant issue in solving these problems is to adopt a tolerant mentality.”

“Tolerance and understanding can be reflected in, for example, choosing to repeatedly and frankly talking through any issue they (the Spanish employees) do not understand or misunderstand until everything is clear. I think we have done very well in this respect.”

(Senior executives of firm C)

### **6.1.5.3 Measures to reduce culture related problems**

In respect to keeping a low level of cultural integration and a certain cultural distance, the Chinese acquirers deliberately restricted the day-to-day contact between the general employees of the two countries to avoid potential cultural conflicts which might emerge during their interactions. An ancient Chinese philosophy states that

“distance makes for ideal situations”. Avoiding the use of long term expatriates is one effective example of how interactions in the day-to-day work are limited.

Nevertheless, completely avoiding cultural interaction is also impossible. The Chinese acquirers avoided culture related problems by building mutual understanding and respect through the use of a series of socio-cultural integration mechanisms. Considering their high cultural tolerance, it is not difficult for Chinese acquirers to get to actively understand and respect their partners. Most of their attention was concentrated on efforts that could earn the understanding and respect of their foreign partners. For example, employee representatives from the acquired firms were invited to China to deepen their understanding of the headquarters and reduce their cognition symmetry about Chinese culture. To provide all employees of the acquired firms with opportunity to get acquainted with the current situation of China and of their Chinese parent firms, the latter also broadcast promotional videos to foreign employees and invited the foreign media to their headquarters. In order to bring the two parties closer, the top Chinese executives took every opportunity to show their regard and care for their foreign employees by, for instance, sending them electronic greeting cards for Christmas, inviting retirees to dinner and giving them Chinese gifts, etc. These efforts not only demonstrated the Chinese acquirers’ respect for the culture of the acquired firm and their desire to make themselves known by their foreign partners, but also showed the cultural charm of both China and the Chinese acquirers.

### **6.1.5.3 Section conclusion**

The result of the analysis suggests that cultural differences and integration are the most significant factors in the management of post-acquisition integration and in the pursuit of acquisition performance. Despite cultural fit being mostly assessed before M&A deals, its impact on post-acquisition performance can be moderated by cultural integration strategies and efforts (Sarala and Vaara, 2010). Unlike acquirers from developed countries, who normally pursue a high degree of cultural integration through cultural convergence and crossvergence, most Chinese acquirers, such as firms A, B, and C, chose to adopt a low level of cultural integration and a cultural integration strategy described as “step back and keep some distance with high cultural tolerance to achieve mutual understanding and respect”. The primary underlying rationale for such a unique cultural integration strategy lies in the Chinese acquirers’ lower dependency on the transfer of tacit and socially embedded knowledge-based resources and their emphasis on the transfer of explicit knowledge-based and tangible resources. Such an integration strategy can benefit the Chinese acquirers by lessening any potential cultural clashes and creating a harmonious organisational climate to facilitate the transfer of key resources.

The findings on the Chinese acquirers’ integration strategy are coherent with recent research on M&A which suggests that aspects of socio-cultural integration, such as the emergence of a shared identity and of trust, and the building of an atmosphere of

mutual respect can facilitate resource and capability transfers (Birkinshaw et al., 2000; Larsson and Lubatkin, 2001; Stahl et al., 2011) .Taking a step further, the results of this study also provide insights into how these socio-cultural aspects are used by acquirers from emerging economies to medium the effect of the huge cultural differences that exist between the firms.

#### **6.1.6 Integration process communication**

The data highlighted that communication during the integration process was a crucial factor in the management of post-acquisition integration process and the achievement of M&A success. An acquiring firm needs to distribute a large amount of information clearly, effectively, and honestly to achieve efficient communication during the integration implementation process (Haspeslagh and Jemison, 1991; Birkinshaw et al., 2000; Junni and Sarala, 2013). The evidence suggests that the Chinese acquirers were aware of the importance of effective communication. On the one hand, integration process communication is likely to affect socio-cultural integration through its impact on the organisational climate of the combined entity (Bresman et al., 1999). On the other hand, it allows for a more efficient transfer of resources, especially knowledge-based resources, between firms (Gupta and Govindarajan, 2000; Jansen et al., 2005). The quality of the communication is particularly significant for an acquiring firm because it is eager to transfer resources and capabilities from the acquired firm to its headquarters. An effective and efficient communication can

facilitate this resource transfer process. Therefore, the Chinese acquirers took a series of measures aimed at fostering inter-firm communication, although not all aspects were handled well. These measures involved three dimensions, which I have termed communications about the past, the present and the future of the firms. A summary of the facilitating measures for inter-firm communication during the integration process is listed in the Table 6.7.

Table 6.7 A summary of the facilitators of communication during the integration process

<b>Integration process communication</b>	<b>Case A</b>	<b>Case B</b>	<b>Case C</b>	<b>Case D</b>
<i>Past</i>	An educational video was used to help the employees of the acquired firm to become aware of the past of this historically rich SOE.	Information on the past of the acquiring firm was conveyed during the foreign employees' visits to the headquarters.	Information on the past of the acquiring firm was conveyed during the foreign employees' visits to the headquarters.	No specific actions were taken.
<i>present</i>	The Chinese executives communicated with the general foreign employees through trade union representatives and foreign managers; communicated in a timely and proactive	Emphasised the quality of the interpreters to reduce potential misunderstandings caused by cultural and language problems; emphasised the role of the executives as mediators between the acquiring firm and	Set up a specialised foreign affairs secretariat to deal with communication issues; employed high quality interpreters to ensure the reliability and articulateness of the information transferred;	Organised senior management meetings; trained Chinese employees in communication skills.



	manner; set up a supporting department in China to increase the quality and efficiency of communication.	the Italian employees; deliberately limited communication opportunities between Chinese and Italian ordinary employees	Chinese executives also directly communicated with employees of the acquired to show their attention to the important issues on certain special occasions.	
<b><i>Future</i></b>	Made employees of acquired firms aware of the future plans of the firm; involved foreign employees in the strategy formulating process.	Disseminated facts and reasons for both strategic and practical issues.	Chinese executives made promises on key future issues that foreign staff were concerned with, and made sure that these promises were kept.	No specific actions were taken.

*Source: interview data collected from CEO/Presidents of all cases, and documentary data.*

### **6.1.6.1 Communicating about the past**

Communicating about the past mainly refers to informing organisational employees about the acquiring firms' history and organisational culture (Schweiger and Goulet, 2005). Despite the measures used in the four studied cases not being identical, they were all aimed at helping the employees of both the acquiring and acquired firms to build a better understanding about their new partners and create a harmonious organisational climate for the integration implementation process. For example, firm A used educational videos to help the target firm's employees become aware of the

past and current status of this historically rich SOE. Both firms A and C invited overseas TV stations to conduct interviews at and report on the headquarters in China. Firm B even helped to bring about the twinning of the cities of Nanyang and Asti, the respective homes of the acquiring and acquired firms. In addition, all four cases adopted socio-cultural integration mechanisms to facilitate intra-firm communication, such as short term visits, joint training programmes, and meetings in which employees of the acquired firm were involved in discussions concerning management issues, etc. The representatives attending these activities usually enjoyed a high level of prestige among their colleagues. Their perception of the acquiring firm could greatly affect the cognition of other foreign employees, and consequently improve the quality of future communication between the firms.

#### **6.1.6.2 Communicating about the present**

Communicating about the present focuses on how Chinese firms promoted inter-firm communication on current integration practices. Some specific issues in CBMA, such as national cultural differences, the time zone difference, the language barrier, etc. increase communication difficulty. These obstacles may hamper communication between acquiring and acquired firms and result in misunderstandings. Moreover, the employees of the acquired firms can easily feel stressed and confused when faced with ineffective communication, because they are in a relatively lower position of power and require a greater sense of job security. The interview data shows that the

Chinese acquirers adopted various measures to improve their communication skills and mechanisms, such as hiring high-quality interpreters with host country backgrounds, setting up specialised communication support departments and foreign affairs secretariats in China, emphasising the mediating role of the executive level staff between the acquiring firm and its subsidiary employees, deliberately reducing communication opportunities between Chinese and Italian ordinary employees, communicating with foreign general employees through the mediation of trade unions and foreign managers, involving Chinese top executives in communication with employees of the acquired firm to show regard for important issues on certain special occasions, etc.

#### **6.1.6.3 Communicating about the future**

Communicating about the future refers to informing employees about the strategy and future plans of the combined organisation (Schweiger and Goulet, 2005). This is particularly significant for Chinese acquirers who wish to absorb knowledge-based resources from their acquired firms. Despite explicit knowledge-based resources being easily transferrable to the acquiring firms without much support from the employees from the acquired firm, the transfer of tacit knowledge-based resources, which are embedded, context-specific, and personally bound, requires the cooperation and willingness of those persons in whom such knowledge is embedded. However, the staff of an acquired firm may refuse to actively transfer their knowledge to their

Chinese colleagues for fear of losing their jobs. Should the acquiring firms help the employees of the acquired firms realise how important the transfer of knowledge was for the strategy and future of the combined entity, these employees would be motivated and be more willing to transfer the knowledge they possess. In addition, letting the employees of the acquired firms become aware of the future plans of the firm and involving their representatives, such as the trade unions, in the strategy formulation process helped the Chinese acquirers to solve many tough problems arising from insufficient and ineffective communication.

#### **6.1.6.4 Section conclusion**

To sum up, communication during the integration process is a key factor for the management of the post-acquisition integration process and in the pursuit of M&A success. It can foster the transfer of knowledge through its impact on socio-cultural integration. The quality of communication is particularly significant for Chinese acquirers as they consider the sourcing of resources and capabilities to be one of their most important M&A motivations.

#### **6.1.7 Emerging factor: Home country advantage**

After cross-analysing all the data, three emerging factors were identified as key factors in the management of the post-acquisition integration and in the pursuit of

M&A success. One is the home country advantage held by the Chinese acquirers. The term home country advantage here refers to the positive effects and advantages of being a MNE based in the Chinese market.

The existing research generally accepts resource seeking to be one of the most significant motivations of EMNEs' outward FDI and M&A in particular (Buckley et al., 2007; Buckley et al., 2008; Rui and Yip, 2008; Deng, 2004; Deng, 2007). Deng (2009) claims that the Chinese MNEs' strategic asset seeking M&A is the product of the unique Chinese institutional environment at the national and organisational levels. Rui and Yip (2008) also suggest that their home country's institutional incentives and constraints initiate the Chinese firms' CBMA. As an important rationale underlying Chinese firms' outward M&A, their home country institutions could have an impact on the resource and capability transfer after the M&A deals are completed. Luo and Tung (2007) argue that EMNEs' international expansion is linked to their home country. They believe the post internationalisation performance of EMNEs to be still highly dependent on their home market performance, as they would not ignore their fast-growing home market, in which they hold a 'home court advantage'. For EMNEs seeking investment opportunities around the world, their home country institutions allow them to outperform MNEs from developed countries in their home markets, as the latter face liabilities of foreignness.

The evidence suggests that the Chinese firms' resource and knowledge seeking

outward M&A are not only motivated by exploring overseas markets, but are also driven by the opportunity to improve their own competitiveness against foreign entrants in their home market. In fact, for most Chinese acquirers, gaining the resources and capabilities of the acquired firms to enhance their own competitiveness in their home market was the most important reason to initiate outward M&A, at least at the initial post-acquisition stage. A senior manager from Firm A commented:

“Even the overseas R&D centre was not the central point of this acquisition. The key point was to acquire and assimilate advanced technology and combine it with our existing products to upgrade our production line, so that we could improve our competitiveness in the Chinese market.”

Most Chinese MNEs are still highly dependent on their home market performance in sales volumes and reputation, not only due to the difficulties of true internationalisation, but also because the Chinese market is too big to be ignored (Luo and Tung, 2007). Even the first batch of successfully internationalised Chinese firms, such as Lenovo, Haier, and firm D, still enjoy more home market sales than the sum of those in both their European and American markets. For example, the overseas business revenue of firm D accounted for 38% of its total sales in 2012, the highest overseas sales ratio among all Chinese manufacturing firms, including the cases in this study. As a senior executive from Firm A stated:

“Our main aim is to combine their (the acquired firm’s) technology with our products so as to enhance our product lines. To be honest, in terms of sales volume, it is not vital to us whether we own this subsidiary or not. The biggest contribution the acquired firm makes to us is to improve our competitiveness in the home market.”

With the crucial resources and capabilities transferred from the acquired firms, the Chinese firms can improve their competitiveness in the domestic market. Moreover, their home institutional advantages, such as governmental support policies, financial support, distribution channels, and existing tacit knowledge-based resources derived from the Chinese market, help the Chinese acquirers make the most of the transferred resources.

The significant role played by their home country advantage in the post-acquisition integration process is mainly reflected on its impact on the integration strategies of the Chinese acquirers. One of the most important rationales behind the Chinese acquirers’ adoption of such integration strategies is the huge home country advantage they possess. Without this home market advantage, many aspects in the integration process could prove to be problematic. Most Chinese acquirers do not require immediate returns from their acquired firms. They unanimously view outward M&A opportunities as long term investments (Liu and Woywode, 2013), which will provide them with growth potential in the long run. One important foundation that allows

them to adopt such a long term orientation perspective is that they have a strong domestic business performance to support them and have their home country institution advantage for the utilisation of the resources and capabilities acquired from their foreign subsidiaries. Without this home country advantage, Chinese acquirers might not be able to support the operations of their acquired firms by money injections in the first couple of years after the deal. In addition, the sense of security of the employees of the acquired firms and the high cultural tolerance of the Chinese staff employees also partly rely on the good performance of the acquiring firm in the Chinese market. Therefore, the home country advantage not only provides huge institutional support for the utilisation of the acquired resources and capabilities, but also facilitates the building of a harmonious organisational climate.

The key role of the home country advantage was evidenced in all studied cases. For example, the acquired firm in case B sold less than 30 thousands products in the two years after the acquisition, and survived on the investment of the headquarters. However, its operation was still considered to be very successful by both its Chinese shareholders and the Chinese government because it greatly improved the technological capabilities of the acquiring firm and enabled an increase in its product sales. Similarly, although the acquired firm in case C performed well in terms of sales volumes, its biggest contribution was that it had won several big overseas orders for its acquiring firm, which could never have been achieved without the help of the overseas subsidiary. Without the profit earned in the Chinese market, acquiring firm D



could have been delisted from the stock market and gone bankrupt in 2006 based upon the dreadful performance of its European subsidiary.

### **6.1.8 Emerging factor: Resource complementarity**

The results of this cross-case analysis suggest that resource complementarity between acquiring and acquired firms is also one of the key factors in the management of post-acquisition integration and the pursuit of M&A success. The traditional research on the potential of M&A focuses on the relatedness of firms in terms of their similarity of knowledge and operations (Singh and Montgomery, 1987). Recently, a growing argument has been made stating that the complementarity of the firms' resources is more crucial for M&A success (Larsson and Finkelstein, 1999; King et al., 2004; Bauer and Matzler, 2013). Both the resource similarity and complementarity of the acquiring and acquired firms are deemed to be key components of the strategic fit of M&A. Although they both create value through the realisation of synergies, their value creation mechanisms are actually different. Resource similarity normally creates synergies on an efficiency base by achieving economy of scale and scope only, while resource complementarity also provides enhancement based synergies and creates value from mutually supportive differences (Bauer and Matzler, 2013). Larsson and Finkelstein (1999) capture the important role played by resource complementarity and argue that the synergy potential of M&A is affected by both the similarities and complementarities of the two parties. Recently, more and more scholars have

suggested that complementarities outperform similarities as contributors of superior M&A performance (Harrison et al., 2001). Bjorkman et al. (2007) argue that M&A value creation is not based on the cost saving and restructuring potential arising from overlapping resources and activities, but rather on the complementarity of knowledge and capabilities. Makri et al. (2010) extend this further by arguing that both complementary technological knowledge and complementary scientific knowledge contribute to the post M&A performance of highly technological firms. If the two parties involved in M&A have a different knowledge stock, they are more likely to have a high complementarity of knowledge between them, which could increase the potential for post-acquisition knowledge transfer (Shenkar, 2001; Bjorkman et al., 2007; Sarala and Vaara, 2010).

Despite the importance of resource complementarity having been emphasised by M&A scholars in recent years, it is mainly considered only as a static factor in the pre-acquisition phase (Bauer and Matzler, 2013; Gomes et al., 2013). Its importance in relation to the post-acquisition integration process has hitherto been neglected. In addition, the key role of resource complementarity in EMNEs' M&A to developed economies has not yet been explored. Acquiring firms from emerging economies normally have different resources, routines and knowledge from their target firms from advanced economies, which lead to the possession of different resource stocks. Consequently this may result in vaster resource complementarities and increase the potential for resource and capability transfer (Larsson and Finkelstein, 1999;

Bjorkman et al., 2007; Sarala and Vaara, 2010). For example, Chinese firms usually have an advantage in their labour cost and in their knowledge of emerging market institutions, but lack brand reputation, advanced patented technology, R&D capabilities and overseas market distribution channels (Deng, 2004, 2007). Conversely, their target western firms normally fail to grasp the opportunities presented by fast-growing emerging markets and are weak in cost reduction, although they are historic western market competitors equipped with world class technology and mature regional market distribution channels. Being late-comers on the global market, EMNEs normally have weak existing resource bases, which they are eager to swiftly complement with the resources of the firms they bought through CBMA. Therefore, it is reasonable to believe that resource complementarity may be an even more crucial factor in the context of EMNEs' outward M&A to developed countries.

The data from this research clearly evidence the importance of resource complementarity in Chinese acquirers' outward M&A, especially in the post-acquisition integration process. Despite being industry leaders in their domestic market, many manufacturing Chinese MNEs still lack resources and knowledge assets, such as brand, patented technology and advanced manufacturing techniques. This is exactly why most of them consider the pursuit of technology as a key M&A motivation. Acquiring such knowledge-based resources can directly complement their existing assets and improve the competitiveness of their products in both the global and domestic markets. The CEO of Firm A explained:

“The power-shift transmission system of our French subsidiary meets the prevailing mainstream international standards. Although we have a nationally advanced laboratory working on this technology and have made huge progress, we are still far behind our competitors from the West. It is a good complement to our existing product line and can significantly improve our competitiveness in the high power segment when competing with foreign providers in the home market.”

Such knowledge-based resource complementarity is vital to all the studied cases. Loss of complementary resources would directly lead to problematic integration outcomes and failed acquisitions. The acquisition failure of firm D is a good example to demonstrate how the loss of complementary resources destroyed the acquisition. The world leading technological resource of acquired firm D, which laid mainly in CRT and rear-projection TVs, was the major motivation for the M&A. However, CRT and rear-projection TVs were quickly replaced with the flat screen revolution in the global TV market. This meant that a large proportion of complementary resources in terms of technology and production lines simply disappeared. As the vice CEO of firm D said:

“We did not think we would face too many problems in the operation of the M&A itself (pre-acquisition phase)...The main problem was the change in the market...All the technology-based resources of Thomson were in the

rear-projection TVs .’

Another reflection of knowledge complementarity is that all the four acquired firms in this case study owned established manufacturing factories in their home countries, which could help the Chinese acquirers break down technical barriers and enhance their European market distribution channels. Compared with setting up factories by green-field entry mode, M&A area faster and lower risk way to own factories overseas. This was particularly emphasised by the CEO of Firm C, who even estimated the geographical location of the acquired firm’s production base to be the most important motivation for the acquisition.

On the other hand, the Chinese firms’ unique knowledge can also complement the existing knowledge base of the acquired firms by improving their manufacturing efficiency, saving on costs and dealing with institutional barriers in emerging markets. However, these positive effects on the acquired firms are not as strategically significant as is the impact of their complementary resources on the acquiring ones.

To sum up, it is clear that a huge resource complementarity lies in the transfer of explicit knowledge-based and tangible resources. These complementary resources between the Chinese acquirers and their acquired firms led to an enormous synergy potential that could be pursued in the post-acquisition integration process. Such complementary resources are not only ample, but also crucial for the Chinese

acquirers' future strategies, because they are the main key motivations of the strategic intent M&A. Therefore, the Chinese acquirers do not even need to explore the opportunity for further synergies through the transfer of tacit knowledge-based resources, because they can achieve their objectives through the transfer of complementary resources, which are mostly explicit knowledge-based and tangible ones.

Resource complementarity is also the foundation of the Chinese acquirers' home market advantage. Without their huge resource complementarity, the Chinese acquirers could not make full use of their home market advantage to increase the competitiveness of their previous products within a couple of years. Consequently, their current integration strategies would not be practicable. Therefore, resource complementarity between the acquiring and acquired firms is a crucial factor for M&A success not just due to the importance of its "strategic fit", but also because of its impact on the post-acquisition integration process.

#### **6.1.9 Emerging factor: Acquirers' attractiveness**

The results of the cross-case analysis suggest that the Chinese acquirers' attractiveness was also a crucial success factor in the post-acquisition integration phase. Stahl et al. (2004) proposed that the greater the perceived attractiveness of the acquiring firm, the higher the level of social integration following the acquisition. They believed social

integration to be positively associated with the transfer of capabilities from the acquiring firm to the acquired one, thus determining the performance of M&A. Based on their argument, the employees of an acquired firm would welcome the acquisition because of the acquirer's superiority in some key determinants of acquirer attractiveness, such as innovation capability, business model, financial results, history of inter-firm contacts and cooperation, etc. Therefore, the acquiring firms could increase their attractiveness by cultivating these key determinants, so as to facilitate socio-cultural integration in the post-acquisition integration phase and promote resource and capability transfer.

This does not seem to be a challenge because, generally speaking, the acquiring firms normally hold a higher position of power compared to the firms they acquire in terms of both formal authority, with reference to organisational hierarchy, and informal authority, such as resources and capabilities. In fact, an excessive power disparity between the acquiring and acquired firms could harm their integration, because the needs of employees of the acquired firms might be overlooked or trivialised by the management of the acquiring ones due to former's lower levels of formal and informal authority (Jemison and Sitkin, 1986; Haspeslagh and Jemison, 1991; Stahl et al., 2011). Stahl et al., (2011) proposed that the relationship between acquirer and target, and the power differential in particular, can influence the synergy realisation of M&A through its impact on the acquired firm's employees' trust in the acquiring firm's management. In an M&A deal, the acquired firm, which is the weaker party,

often becomes distrustful because the more powerful acquiring firm has no need to gain trust and can simply use its relative power to obtain cooperation (Anderson and Weitz, 1989; Stahl et al., 2011).

However, in the cases of firms from emerging economies buying firms from developed economies, things are different because the informal and formal authority of both parties are not unified. The evidence suggests that there are authority asymmetries between the acquiring and acquired units. Despite Chinese acquirers possessing formal authority in the post-acquisition integration phase according to the organisational hierarchy, their informal authority, defined as the authority of knowledge-based resources and culture, is in a lower position (Aghion and Tirole, 1997; Baker et al., 1999). As discussed in section 6.1.5, the cultural position of Chinese acquirers is normally lower than that of acquired firms from western developed countries, although the former hold a higher formal authority. Similarly, the knowledge authority of Chinese acquirers is lower than that of their acquired firms. This is not surprising because seeking advanced resources, especially knowledge-based resources, is one of the most important motivations for Chinese acquirers' outward M&A in developed countries. Moreover, the Chinese firms' strong demand for knowledge from the acquired firms even enlarges the impact of the knowledge authority disparity.

The weak informal authority of Chinese acquirers leads to an authority asymmetry



which may exert a negative influence on the post-acquisition integration process. It could affect the foreign employees' willingness to transfer knowledge to their new owners, as they might enjoy and wish to retain their knowledge authority. In order to compensate for this imbalance, Chinese acquirers have to take measures to improve their attractiveness to achieve a better outcome in socio-cultural integration<sup>26</sup>. The data suggest that various socio-cultural integration mechanisms were adopted by the Chinese acquirers to increase their attractiveness. For example, the perceived attractiveness of the acquiring firms is strongly influenced by their reputation and performance. An educational video was then used to make the target firm employees aware of the past and current status of their new headquarters. The respectable history and outstanding current performance of their Chinese acquirers greatly improved their attractiveness. This was described by some senior executives of firm A:

“They showed a keen interest in our history because they also have a history of more than 100 years... Most common people in most countries have a common feature; they don't really know much about the conditions and cultures of other countries. Therefore, it is significant that we make them aware of our past and current statuses, show our goodwill, and express our attitude and willingness to be responsible for the future of the firm.”

“The reception of this film was very good. Most French people did not expect the parent firm to be so big and powerful, with so many plants,

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<sup>26</sup>As discussed in section 6.1.5, socio-cultural integration here means maintaining a harmonious organisational climate.

equipment and laboratories.”

In addition, the perception of the of the culture of the acquiring firm by the acquired firm’s employees is also an important factor to improve its attractiveness. For instance, the CEO of firm C visited the homes of some foreign employees and gave them Chinese gifts. When some of the French employees retired, the executive staff of firm A invited them to dinner at French restaurants. One of the executives of firm A confirmed the result of these socio-cultural integration mechanisms:

“They were moved, and they really liked this aspect of the Chinese culture.”

Furthermore, all four firms invited foreign employees to visit China. Some firms, such as firm C, even implemented quite a number of such visits. The perception of the Chinese acquirers by the acquired firms’ employees was dramatically changed after seeing first hand ‘real’ Chinese socio-cultural institutions. As one senior executive of firm C said:

“The understanding that most Spaniard’s had of China still rested on an impression dating back over 20 years. They may have been aware of the economic development of China in recent decades, but still had no idea about the contemporary socio-cultural environment of the real China. Inviting them to visit China helped them to become acquainted with the headquarters,

Chinese culture, and our organisational culture...They were shocked to find out China's development. They attended the flag-raising ceremony with us. They also asked to wear our uniform and company badge. This is a strong signal that they respected and were willing to accept our culture.”

Moreover, the Chinese acquirers also gained the respect of their foreign employees by displaying their technological abilities. For example, during the process of transferring some production lines to China, the Chinese engineers of firm B accomplished the installation and trial run procedures without any direct guidance from the Italian technologists, which greatly impressed the employees of the acquired firm. When the Italian engineers came to China to visit the parent firm, the Chinese R&D staff posed some technological challenges for them to solve together with the Chinese team. This was to demonstrate to the Italians the R&D competency of the Chinese. It greatly changed the perception of the Italian employees towards their acquirers in terms of the latter's technological ability. As some senior executives of firm C commented:

“Initially, most of them (the Italian employees) believed that Chinese firms were just rich buyers without any technology and management skills.”

“If our Chinese employees were to show them their sophistication and capabilities, the ‘superiority complex’ of some of the Italian employees would be reduced and they would become convinced of our competency and

truly respect us.”

Other approaches were also adopted by the Chinese acquirers to improve their attractiveness; these included providing quality post-acquisition rewards, promising job security, maintaining the good post-acquisition performance of the acquiring firm, etc. These approaches effectively reduced the knowledge authority gap and helped to increase the foreign employees’ willingness to transfer resources and capabilities to the acquiring firms. The organisational climate of the combined entity was also greatly enhanced by the improvement of the acquiring firms’ attractiveness.

#### **6.1.10 Key factors influencing the integration process: section conclusion**

All the themes that emerged from the data analysis are organised to define the key success factors influencing the post-acquisition integration process of Chinese firms’ outward M&A to developed countries. These factors include both those proposed in Chapter 3 and those that newly emerged from the data analysis. As shown in Figure 6.1, these key factors can be divided into two themes: status factors and process factors, according to their dynamics and M&A phases (Stahl et al., 2011). Status factors are those key factors related to the status of the acquiring firm, or to the acquirer-acquired relationship. They exist before the deal while also having a significant impact on the integration process in the post-acquisition phase. Status factors include the prior related knowledge of the acquiring firm, home country

advantages, resource complementarities, cultural differences and the acquiring firms' attractiveness. The process factors are those key factors related to the acquirer's integration approach. They act in the post-acquisition integration process. They comprise key staff retention and turnover, integration process communication, integration speed, level of integration, cultural integration, and the acquiring firms' attractiveness. Table 6.8 shows the categories of status and process factors in the post-acquisition integration process.

Table 6.8 A summary and category of key factors in the post-acquisition integration process

<i>Status factors</i>	<i>Status factors &amp; Process factors</i>	<i>Process factors</i>
Prior related knowledge; Home country advantage; complementary resource.	Cultural difference and cultural integration; Acquirers' attractiveness.	Key staff turnover and management team building; Integration speed; Level of integration; Integration process communication.

The findings support and extend the “process perspective” on M&A (Haspeslagh and Jemison, 1991), which suggests that, while pre-acquisition factors, such as strategic, organisational, and culture fit, may determine the synergy potential, the extent to which these synergies are realised depends on the ability of the acquirer to manage the post-acquisition integration process. The current understanding of the process perspective neglects, to a certain extent, the relationship between pre-acquisition factors and post-acquisition integration strategies, tactics, and practices. Based on the result of this study, it seems to be true that the integration approach and management practices adopted by the acquirer during the post-acquisition integration process affect

the extent to which the synergy potential is realised. However, how to formulate the correct integration approach and choose adequate management practices is determined by the pre-acquisition status factors<sup>27</sup>. This is also why it is suggested that some key integration issues, such as the level, speed and strategy of integration, are solved by means of contingency approaches (Angwin, 2004; Weber and Tarba, 2013; Gomes et al., 2013). Therefore, integration success is not only determined by the process factors in the post-acquisition integration phase, but is also affected by the relevant pre-acquisition status factors by way of their impact on the post-acquisition approach.

It can be observed that two factors, culture and acquiring firms' attractiveness, are included in both themes. Although cultural difference is a status factor, the way in which to moderate the negative effects of cultural difference on M&A integration, which is the cultural integration strategy, is a process factor. Similarly, despite the acquiring firm's attractiveness existing before the deal, it can be proactively improved by adopting various operational and socio-cultural integration mechanisms. The existence of these two cross-theme factors led to an important finding of this research: 'post-acquisition integration' does not merely happen in the post-acquisition phase. It starts even before the deal. On the one hand, the acquiring firm's attractiveness can be gradually built through interactions and negotiations before the M&A deal is done. This is significant for Chinese acquirers, whose attractiveness is relatively low compared with that of acquiring firms from developed countries. On the other hand,

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<sup>27</sup>How the status factors affect the formulation of the integration approach is explained in section 6.2.4.

an adequate cultural integration strategy can also be, and should be, formed before the acquisition through interactions between the management teams. This is also vital for the Chinese firms' outward M&A because they do not have enough domestic talents suitable to form the management teams of their acquired firms. If they believed that cultural integration could not be implemented smoothly in the post-acquisition phase, they might even give up the target firm.

## **6.2 Integration approach**

### **6.2.1 Integration approach revisited**

The execution of a well-designed post-acquisition integration process which can enhance a firm's ability to acquire and assimilate new resources and capabilities, while minimising interpersonal and intercultural friction, is critical to capturing synergies and pursuing M&A success (Birkinshaw et al., 2000; Schweiger, 2002, Bjorkman et al, 2007). An effective integration execution and effort matter to Chinese acquirers (Deng, 2011), but the integration strategy matters more, as it provides guidelines for M&A undertaken within different contexts, with specific features and for different reasons (Gomes et al., 2013). Despite the possibility that different acquiring firms may adopt distinct integration strategies in their M&A deals due to the uniqueness of each case, these integration strategies may be synthesised by different integration approaches.

Scholars have developed many contingency frameworks or typologies for M&A integration approaches (Haspeslagh and Jemison, 1991; Gomes et al., 2011; Angwin, 2012). The most famous and widely cited post-acquisition integration framework is represented by Haspeslagh and Jemison's (1991) four integration approaches, namely absorption, symbiotic, preservation and holding. Recent research revisited this essential topic and added new elements into the integration approach framework of Haspeslagh and Jemison (1991), such as cultural dimension, synergy potential, cultural differences, etc. (Gomes et al., 2011; Almor et al., 2009; Angwin and Meadows, 2009; Weber et al., 2009). A very recent research on Chinese firms' outward M&A to Germany integrates synergy potential, cultural influences, and learning perspectives (Liu and Woywode, 2013). They suggested a unique integration approach supported by empirical evidence in the context of Chinese M&A in Germany called the light-touch integration.

### **6.2.2 The 'Unbalanced Strategic resource focused' integration approach**

The data of this research indicate that the integration approach of firm D can be accommodated within the widely used framework of Haspeslagh and Jemison (1991) in terms of the symbiotic acquisition. This type of acquisition integration approach presents the most complex managerial challenge because it involves both strategic interdependence and organisational autonomy. In a typical symbiotic acquisition case, the two firms first coexist and then gradually become increasingly interdependent. This integration approach simultaneously requires boundary protection and



permeability. “These needs can be kept in balance by protecting the boundary between both firms that shields the broad identity and character of the acquired firm at the same time that it is becoming increasingly permeable to a whole series of interactions aimed at functional as well as general management skill transfer.” (Haspeslagh and Jemison, 1991, pp149) However, this approach is extremely difficult to be adopted by Chinese firms in their M&A deals with firms in developed countries. It requires a deep level of integration in both explicit knowledge-based and tacit knowledge-based resources. After a problematic integration, firm D failed in its acquisition and was forced to restructure its European subsidiary.

Unlike firm D, the other three firms adopted the same integration approach. To the best of the author’s knowledge, this did not fit any existing integration approach developed by researchers (Haspeslagh and Jemison, 1991; Gomes et al., 2011; Almor et al., 2009; Angwin and Meadows, 2009; Weber et al., 2009; Angwin, 2012; Liu and Woywode, 2013). It is labelled as the “Unbalanced strategic resource focused” integration. Table 6.9 illustrates the profile of this unique integration approach for Chinese acquirers. In the next section, the characteristics of this unique integration approach will be discussed in detail.

Table 6.9 The Unbalanced Strategic Resource Focused integration approach

<b>Integration approach</b>	<b>Unbalanced Strategic Resource Focused</b>
<i>Purpose</i>	To transfer key resources and capabilities from the acquired firm and enhance the competitive advantage of the acquiring firm

<i>Synergy potential</i>	Very high
<i>Cultural differences</i>	Very high
<i>Boundary conditions</i>	Maintain
<i>Operational characteristics</i>	<ul style="list-style-type: none"> <li>● Focussing upon transferring strategically important explicit knowledge-based resources while deliberately neglecting the transfer of tacit knowledge-based resources.</li> <li>● Granting autonomy and decision-making authority in day-to-day operations to the acquired firm; adopting a lower level and speed for the operational integration in most aspects while using a higher level and speed of operational integration in strategically important areas. Strategic decision-making powers are held by the acquiring firm.</li> <li>● Low level of cultural integration; a cultural integration strategy that can be described as “taking a step back and keep some distance with a high cultural tolerance to achieve mutual understanding and respect”; use various socio-cultural integration mechanisms to maintain a harmonious organisational climate.</li> </ul>

### **6.2.3 Characteristics of the integration approach of Chinese acquirers**

The integration approach of Chinese acquirers’ outward M&A to developed economies can be characterised by the following aspects:

First, the purpose of adopting such integration approach is to transfer key resources and capabilities from the acquired firms and enhance the competitive advantage of the acquiring ones. It is in line with the Chinese acquirers’ main motivation for acquiring firms overseas, which is to seek strategic assets (Deng, 2004, 2007, 2009; Rui and Yip, 2008). These strategic assets are the key resources and capabilities that need to be

transferred in the post-acquisition integration phase.

Second, Chinese acquirers focus on the transfer of strategically important explicit knowledge-based and tangible resources, while deliberately neglecting the transfer of tacit knowledge-based resources.

Third, Chinese acquirers adopt a low level and speed of operational integration in most aspects. In relation to operational integration in strategically important areas, a higher level and speed of operational integration is adopted. Acquired firms are granted a high level of autonomy and given decision-making authority in day-to-day operations. Chinese executives take responsibility in monitoring key operational activities and making strategic decisions.

Fourth, Chinese acquirers adopt a low level of cultural integration. Their cultural integration strategy can be described as “taking a step back and keep some distance with a high cultural tolerance to achieve mutual understanding and respect”. They use various socio-cultural integration mechanisms to maintain a harmonious organisational climate to support the transfer of key resources and capabilities.

Based on the above characteristics, this integration approach is deemed to be a novel post-acquisition integration approach. The M&A purpose of a very high synergy potential and pursuit is reminiscent of the features of the absorption approach of

Haspeslagh and Jemison (1991), while having huge cultural differences, maintaining the firms' boundaries, and granting autonomy to foreign managers reconciles the features of the preservation approach. It is also different from Liu and Woywode's (2013) finding of a "light-touch integration" approach, which argues that Chinese acquirers do not take any part in either the strategic or operational decision-making of their acquired firms.

Among the above four characteristics of this unique integration approach, the most extraordinary feature, which is also the key one, is that Chinese acquirers emphasise the transfer of key explicit knowledge-based and tangible resources, while deliberately neglecting the transfer of tacit knowledge-based ones. This is why this integration approach is referred as an "unbalanced strategic resource focused" integration approach. The post-acquisition implementation strategy adopted by Chinese firms in key process factors, such as the level and speed of integration, is affected and guided by this integration approach. In the next section, the rationale underlying this unique integration approach will be discussed based on the key status factors summarised in section 6.1.

#### **6.2.4 The rationale behind the Chinese acquirers' integration approach**

The results of this research reveal that there is an imbalance between the transfer of explicit knowledge-based and implicit knowledge-based resources in the post-acquisition integration phase of Chinese firms' outward M&A. Although Chinese

acquirers do want to learn both ‘hard’ technologies, to catch up and even overtake global competitors from developed economies, and ‘soft’ knowledge, such as managerial skills, corporate culture, organisation capabilities, to increase their potential embeddedness when competing in the global market (Luo and Tung, 2007; Liu and Woywode, 2013), they choose to focus more on the hard part of the resource and capability transfer when implementing their post-acquisition integration strategy.

The interview data indicates that the resources transferred in these cases were mostly tangible ones, such as manufacturing lines, good-locating factories, etc., and knowledge-based resources in articulated form, such as patented technologies. When talking about the transferred knowledge-based resources, most interviewees only mentioned the transfer of explicit knowledge-based resources. Although some CEOs did imply that the transfer of implicit knowledge-based resources had been part of their plan, it had not actually been implemented. Explicit knowledge-based resources, such as patents and production and manufacturing technology are more straightforward and urgently needed by the Chinese acquirers. All the studied acquiring firms considered the transfer of technology (especially patented, production and manufacturing technology) as one of their most significant M&A motivations. This formed the core of the Chinese acquirers’ post-acquisition integration strategy. The significance of explicit knowledge-based and tangible resources is evidenced in Table 6.4, which shows the sequence of acquisition motivations confirmed by CEOs and other top executives of all acquiring firms. Therefore, compared with tacit

knowledge-based resources, explicit knowledge-based and tangible ones are deemed to be strategically significant for Chinese acquirers.

In addition to the strategic importance of explicit knowledge-based and tangible resources, the underlying logic of this unique integration approach is affected by static factors in the post-acquisition integration process. These are: prior related knowledge, complementarity of resources, home country advantage, cultural differences and acquirer attractiveness.

First, the reason for focusing on the transfer of explicit knowledge-based and tangible resources can be explained by the nature of knowledge and by the prior related knowledge of acquiring firms (Kogut and Zander, 1993; Deng, 2011). The nature and attributes of knowledge determine that explicit knowledge-based and tangible resources are easier to be transferred compared with tacit knowledge-based resources. Although, in some cases, transferring explicit knowledge may require the support of tacit knowledge transfer to help the knowledge recipients, most Chinese acquirers accumulated ample prior related knowledge, such as a leading domestic prior R&D capability, so as to successfully accomplish such explicit knowledge transfer. Moreover, the articulateness of knowledge also facilitates explicit knowledge transfers. Chinese acquirers managed to transfer a great amount of explicit knowledge-based resources in terms of documented patents and filed technology within a short period of time because they were all well documented.

Second, The rationale for transferring explicit knowledge-based and tangible resources lies in the resource complementarity between the acquiring and the acquired firms. Despite being industry leaders in the Chinese domestic market, many manufacturing MNEs still lack resources and knowledge assets, such as brand, patented technology and advanced manufacturing techniques. This is exactly why most of them consider the pursuit of these strategic assets to be one of their main M&A motivations. The acquisition of these resources can directly complement their existing assets and improve the competitiveness of their products in the global and domestic markets. Another reflection of resource complementarity is that all four acquired firms in our case study established manufacturing factories in the host country, which could help Chinese acquirers break down technical barriers and enhance their European market distribution channels. Therefore, it is clear that there is a huge resource complementarity lying in the transfer of explicit knowledge-based and tangible resources. This complementarity of resources between the Chinese acquirers and their acquired firms led to an enormous synergy potential that could be pursued in the post-acquisition integration process. Such synergy potential was so big that Chinese acquirers did not even need to explore further synergies through the transfer of tacit knowledge-based resources.

Third, the importance of the transfer of explicit knowledge-based and tangible resources is built on the home market advantage of Chinese firms. Their resource and

knowledge seeking outward M&A are not only motivated by the exploration of overseas markets, but also driven by the opportunity of improving their competitiveness against foreign entrants in the home market. Most Chinese MNEs are still highly dependent on their home market performance in sales volume and reputation (Luo and Tung, 2007). With the complementary explicit technology-based resources transferred from the acquired firms, Chinese firms could rapidly improve their competitiveness in the domestic market. Moreover, their home country institutional advantages, such as governmental support policies, distribution channels, and their existing tacit knowledge derived from the Chinese market, would help Chinese acquirers make the most of the transferred explicit knowledge and tangible resources. Given the huge benefits linked to the transfer of explicit knowledge-based and tangible resources from the acquired firms, based on resource complementarity and home market advantage, Chinese acquirers are likely to overlook tacit knowledge, which is of less strategic importance and harder to transfer.

Fourth, the Chinese acquiring firms' need for attractiveness is linked to their forced neglect of the transfer of tacit knowledge-based resources. Tacit knowledge-based resources are embedded in practices, values and norms (Kogut and Zander, 1993), and can only be transferred by the interaction between staff who possesses similar tacit knowledge. In order to guarantee the quality and efficiency of tacit knowledge-based resource transfer, Chinese acquirers need to equip themselves with a high level of attractiveness to retain key staff who is in possession of such tacit knowledge-based



resources, such as R&D staff, technicians, and local managers. Despite the Chinese acquirers in the studied cases having adopted various measures to this end, they still could not retain all the acquired firm's key staff. Moreover, although some specific key employees were successfully retained, the Chinese firms also faced the thorny issue of finding adequate members of staff to handle knowledge transfer and localisation. This was mainly because of their lack of sufficient numbers of highly skilled and well educated home country employees despite the increasing level of international human mobility and the many highly skilled Chinese talents who move back as returning migrants from developed countries (Liu et al., 2010; Gao et al., 2013). In addition, most firms in manufacturing sectors, especially non-SOEs, are not attractive enough to be favoured by these talents in terms of salary, location and industry attractiveness. Without a high level of attractiveness, Chinese firms can hardly get enough human resources from either home or abroad to transfer tacit knowledge-based resources from the acquired unit to the headquarters.

Five, the huge cultural differences between Chinese acquiring firms and acquired ones from western developed economies forces the former to neglect the transfer of tacit knowledge-based resources. Knowledge transfer, especially tacit knowledge transfer, can only be undertaken based on an intensive interaction between the transferring and recipient units (Buckley et al, 2009). This requires the mutual understanding of values, norms, practices and routines. Achieving mutual understanding calls for a high degree of integration and the creation of a combined social community (Bresman et al., 1999),

which also implies the need for high levels of cultural integration. Nevertheless, such operational and cultural integration may ultimately lead to conflicts, loss of autonomy, key employee resignations and disruption of organisational routines (Gomes et al., 2013). This is particularly true in the context of EMNEs acquiring firms from developed countries, where cultural differences are bigger and acquirers lack sufficient experience and knowledge to handle these problems.

In brief, the unique characteristic of the integration approach of Chinese firms lies in the imbalance between the inter-firm transfer of strategic resources. The emphasis placed on the transfer of explicit knowledge-based and tangible strategic resources, while neglecting that of tacit knowledge-based ones, is a function of key static factors in the post-acquisition integration process, which are the acquiring firm's prior related knowledge, resource complementarity, home market advantage, scarcity of acquirer attractiveness, and cultural differences.

### **6.3 Developed new model and chapter summary**

Based upon the cross-case analysis results, this study developed a new explanatory model to explain the key factors influencing the post-acquisition integration process of Chinese firms' outward M&A in developed economies. This new model is shown in Figure 6.1.

It consists of nine key success factors, which are listed below, together with the explanation of their influence on the post-acquisition integration process:

1. Prior related knowledge.

The accumulation of an adequate prior international business experience, strong R&D capabilities, good performance and leading industrial status, as well as ample prior knowledge about the target firms, would enhance the ability of Chinese acquirers to identify, understand, assimilate, integrate, transform and apply the knowledge and other resources, especially complementary ones, acquired from their acquired firms.

2. Level of integration.

Chinese acquirers should adopt distinct levels of operational integration: a low one at the day-to-day management level, and a medium one on strategic issues and in strategically important operational areas.

3. Integration speed.

Chinese acquirers should adopt speeds of integration implementation as a function of their strategic intent: they should effect the functional and operational integration of strategically important areas at a fast pace, and integrate slowly in strategically less important operational activities and socio-cultural aspects.

4. Key staff turnover and management team building.

The crucial role played by key staff turnover lies in its impact upon the overall knowledge base, especially on tacit knowledge-based resources, of the acquired

firm and upon the organisational climate of the combined entity. Chinese acquirers should build their management teams by combining foreign middle managers and vice executives with Chinese CEOs and strategic decision makers.

5. Cultural differences and integration.

Having a clear awareness of the existence of enormous cultural differences and of the importance of cultural integration, Chinese acquirers should take a series of measures to avoid and reduce culture related issues based upon a unique cultural integration strategy, which can be described as “taking a step back and keeping some distance with a high cultural tolerance to achieve mutual understanding and respect”.

6. Integration process communication.

Integration process communication not only affects socio-cultural integration through its impact on the organisational climate of the combined entity, but also allows for a more efficient transfer of resources, especially knowledge-based ones, between firms. Chinese acquirers should take a series of measures to foster inter-firm communication about the past, present and future of the firm.

7. Home country advantage.

Absorbing resources and capabilities from their acquired firms so as to increase their competitiveness in their home market is the most important reason for Chinese firms to initiate outward M&A. The home country advantage of Chinese acquirers not only provides them with huge institutional support for the utilisation of any acquired resources and capabilities, but also facilitates the building of a

harmonious organisational climate. It is one of the most important rationales for the unique integration approach of Chinese acquirers.

8. Resource complementarity.

A huge resource complementarity lies in the transfer of explicit knowledge-based and tangible resources. These complementary resources between Chinese acquirers and their acquired firms lead to an enormous synergy potential that should be pursued in the post-acquisition integration process. The significance of resource complementarity between acquiring and acquired firms is not just down to the importance of the “strategic fit”, but also because of its impact on the post-acquisition integration approach.

9. Acquirers’ attractiveness.

The weak informal authority of Chinese acquirers leads to an authority asymmetry which can have a negative influence on the post-acquisition integration process. In order to compensate for this imbalance, Chinese acquirers should take various measures aimed at improving their attractiveness, so as to increase their foreign employees’ willingness to transfer resources and capabilities to them. The organisational climate of the combined entity would also be greatly improved by enhancing the acquiring firms’ attractiveness.

These nine key success factors are divided into status and process factors, according to their dynamics and M&A phases. Based upon the results of this study, it is evident that the integration approach and management practices adopted by the acquirers for

the post-acquisition integration process affect the extent to which the synergy potential is realised. Nevertheless, the way in which to formulate the right integration approach and choose adequate management practices is determined by the pre-acquisition status factors. The relationship between the integration approach and the pre-acquisition status factors is shown as the arrow from left to right at the top of Figure 6.1. The arrow pointing from the integration approach to the post-acquisition process factors implies that the best way to manage the key process factors in post-acquisition integration implementation phase is determined by the integration approach of the acquiring firm. This model suggests that the integration success is not only determined by the process factors in the post-acquisition integration phase, but is also affected by the relevant pre-acquisition status factors through their impact on the post-acquisition approach.

Among the nine key factors, cultural differences and integration, and acquirer attractiveness are part of both the status and process factors. This leads to another finding of this model: ‘post-acquisition integration’ does not merely take place in the post-acquisition phase. The integrative interaction starts even before the deal.

A newly emerged integration approach of Chinese acquirers is found in this research and is labelled “Unbalanced strategic resource focused” integration. It suggests that Chinese acquirers focus on the transfer of strategically important explicit knowledge-based resources and tangible resources, while deliberately neglecting the

transfer of tacit knowledge-based ones.

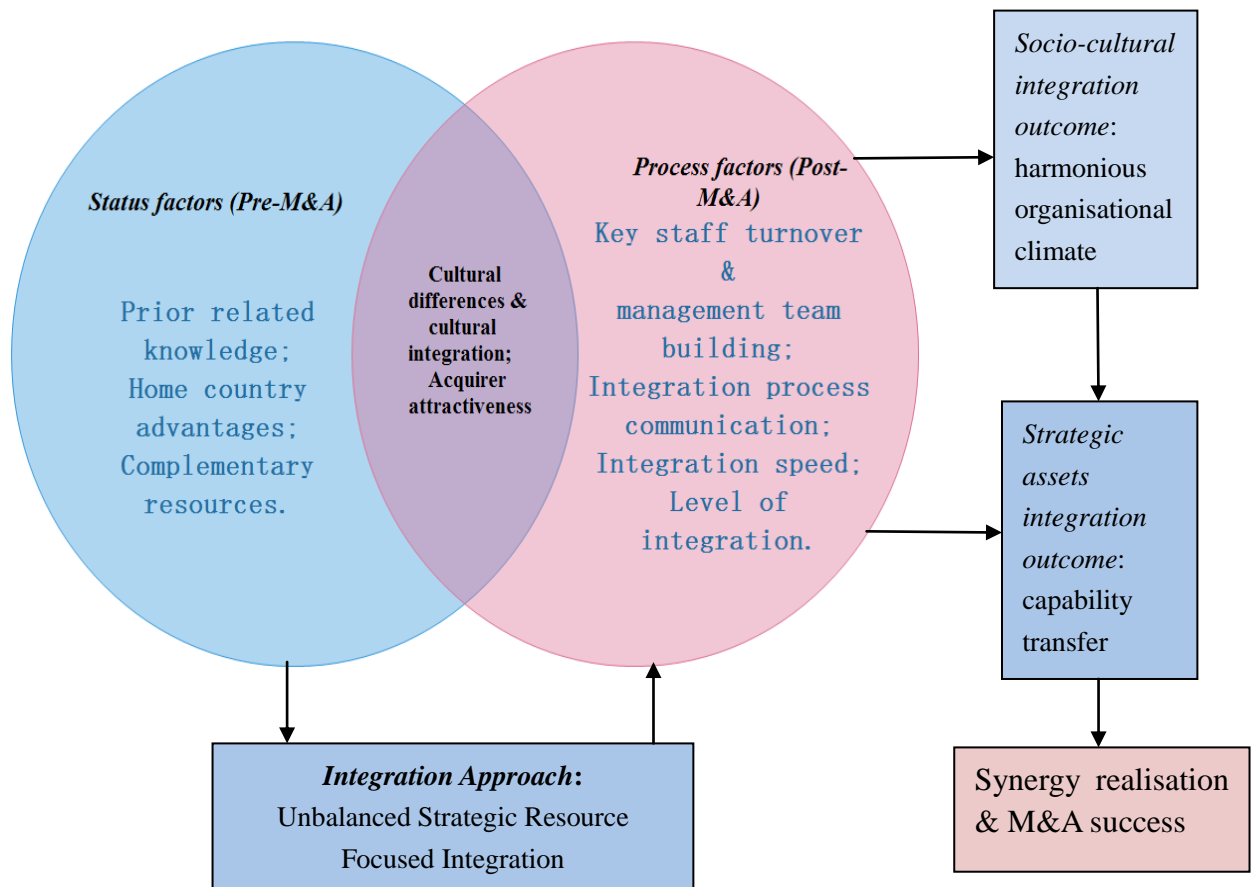


Figure 6.1 Model of key factors influencing the post-acquisition integration process of Chinese firms' outward M&A to developed economies (*Constructed by the author*)

Based on key status and process factors, and on the novel integration approach, Chinese acquirers pursue both socio-cultural and strategic assets integration outcomes in their post-acquisition integration process. The former is achieved by maintaining a harmonious organisational climate in the combined entity, while the latter is achieved by the successful transfer of resources and capabilities from the acquired firm. The arrow pointing from the socio-cultural integration outcome to the strategic assets integration outcome indicates that the ultimate aim of socio-cultural integration is to

facilitate the resource and capability transfer. Through an effective resource and capability transfer from the acquired firm, synergies and M&A success can be achieved.

#### **6.4 Conclusion**

This chapter has presented the cross-case analysis based on the results of the single case analyses chapters. Nine key success factors were identified; six addressed in the propositions and three emerging from the data analysis. These nine factors are:

- prior related knowledge;
- level of integration;
- speed of integration;
- key staff turnover and management team building;
- cultural differences and integration;
- integration process communication;
- home country advantages;
- complementary resources;
- acquirer attractiveness.

The key factors identified in this study directly influence the post-acquisition integration process of Chinese firms' outward M&A in developed economies.



According to their dynamics and M&A phases, these nine key success factors are divided into status and process factors. The relationship between these factors promoted a newly emerged integration approach by Chinese acquirers, labelled as “unbalanced strategic resource focused” integration. Based on the relationship between these factors and the integration approach, a new integrative model was developed to contribute to the theory of EMNEs’ outward M&A. Chapter 7 will discuss the implications of this research, clarify its contributions, suggest future research and draw the final conclusions.

## **Chapter 7 Discussion and conclusions**

### **Introduction**

Following the cross-case analyses and results presented in Chapter 6, Chapter 7 comes to the discussion and conclusions. This chapter will firstly summarise the research questions and corresponding findings by discussing how the results of this study answer the research questions. Then it will deal with the summary and discussion of the main findings following the sequence of the research propositions. Next, it will discuss this research’s contributions and implications, including theoretical, managerial and policy implications. Finally, it will come to limitations of the research and suggest a possible future research agenda before drawing the final

conclusions.

### **7.1 Summary of the research questions and corresponding findings**

This chapter starts with by revisiting the research questions and their corresponding findings. The main objective of this research was to explore the key success factors in the management of the post-acquisition integration process in Chinese firms' outward M&A to developed economies. Based on this research objective, three research questions were raised:

1. What are the key factors in the management of the post-acquisition integration by Chinese firms?
2. How and why do these factors impact the post-acquisition integration process and M&A performance?
3. How do the explanations of the identified key success factors contribute to the theory building related to post-acquisition integration in outward M&A by firms from China and other emerging economies?

All three research questions are addressed through the process of data analysis and discussion. The first question regarding the identification of the critical factors influencing the post-acquisition integration process of Chinese firms' outward M&A

was answered based upon the single case studies and cross-case analysis. The results of the data analysis identified nine key success factors, which are:

- prior related knowledge;
- level of integration;
- speed of integration;
- key staff turnover and management team building;
- cultural differences and integration;
- integration process communication;
- home country advantages;
- complementary resources;
- acquirer attractiveness.

These nine key factors are divided into status and process factors, based on their dynamics and M&A phases. Among these critical factors, the first six were drawn from the existing research and proposed before analysing the data, while the last three are emerging factors identified through the data analysis process.

The second research question of how and why these key success factors impact the post-acquisition integration process and M&A performance was answered through the process and results of the data analysis of this research. Both the single case pattern matching analyses and the cross-case analysis explained how these factors were identified. In accordance with their strategic motivations, Chinese acquirers pursue

post-acquisition synergies and M&A success through effective resource and capability transfers from their acquired firms. Such resource and capability transfers can be facilitated by creating and maintaining a harmonious organisational climate in the combined entity. All nine key success factors affect post-acquisition integration and M&A success by means of their impact on the maintenance of a harmonious organisational climate, which facilitates the capability transfer, and the capability transfer itself.

The third question related to how the explanations of the identified key success factors contribute to the theory building of post-acquisition integration in outward M&A by firms from China and other emerging economies and was answered by the final model provided in Figure 6.1. Drawing from the data analyses and results of this study, this dynamic model not only identifies the key success factors and their categories, but also reveals the relationship that exists between these factors and the integration approach of Chinese acquirers. It contributes to the knowledge construct of Chinese firms' outward M&A by exploring and explaining the critical success factors in the management of the post-acquisition integration process. The model not only enriches the understanding of Chinese outward M&A by amplifying the existing research, but also provides implications for acquirers from other emerging economies. When examining the value creation of outward M&A conducted by EMNEs, this model needs to be considered. Moreover, the newly emerged factors in the model also provide insights into the mainstream M&A literature which is still incomplete in its

understanding of M&A success factors (King et al., 2004; Gomes et al., 2013).

## **7.2 Discussion of the main findings**

This section discusses the main findings of this study, based on the result of the data analyses and on the final integrative model. The sequence of the discussion follows that of the research propositions.

### **7.2.1 Prior related resource/knowledge**

The research findings indicate that the prior related resources and knowledge influencing the post-acquisition integration process in Chinese firms' outward M&A include their prior international business experiences, R&D capabilities and prior knowledge of the target firms, as well as prior performance and industrial status. All these ingredients are crucial for Chinese acquirers' post M&A success.

The findings relating to prior international business experiences show that Chinese acquirers' post-acquisition integration success can benefit from any prior international exposure, regardless of whether or not the acquirers have any past CBMA experience. Chinese acquiring firms accumulate useful resources and capabilities from their prior international exposure, such as running export/import businesses, setting up overseas offices and subsidiaries, building overseas factories, purchasing advanced equipment

from global industry leaders and collaborating or doing OEM business with giants from developed economies. These resources and capabilities, including both explicit and tacit knowledge-based resources, cannot only increase the overall knowledge base of the acquiring firms, but also greatly improve Chinese acquirers' ability to absorb strategic assets from their acquired firms at both the firm and individual levels. This supports the findings of Deng (2010), who argues that absorptive capacity is an important determinant of the performance of Chinese firms' outward M&A.

It also needs to be noted that the findings indicate that having more prior experience of international business does not always result in achieving better acquisition integration and performance. Similarly, even past outward M&A experience may not benefit future M&A performance. In fact, TCL, being the only acquiring firm equipped with past outward M&A experience, failed dramatically in its later M&A deal, while the other three Chinese acquirers performed well although they lacked previous international M&A experience. Therefore, besides identifying the critical role of prior international business experience, the results of this study suggest the need to further explore the relationship between past M&A and international business experiences and post-acquisition performance. A very recent study conducted by Buckley et al. (2014) developed and tested a framework regarding prior investment experience in acquisitions by EMNEs. Their results demonstrated that not all types of resources and investment experience are equally beneficial to the performance of the target firms.

The findings on Chinese acquirers' R&D capabilities indicate that domestic leading and internationally compatible R&D capabilities can provide Chinese acquirers with a sufficient ability to identify and understand valuable advanced technology and other knowledge-based resources of the target firms, assimilate and integrate them within their existing knowledge and resource base, transform them into combined resources and apply them to commercial use. For strategic asset seeking M&A conducted by Chinese acquirers, an insufficient prior R&D capacity could hamper the realisation of post-acquisition synergy by constraining the transfer of knowledge, especially explicit knowledge, from the acquired firms. This finding also illustrates the significance of Chinese acquiring firms' absorptive capacity their outward M&A, since some traditional mainstream absorptive capacity researchers generally equate absorptive capacity with a firm's prior R&D capabilities (Cohen and Levinthal, 1990; Tsai, 2001; Schildt et al., 2012; Junni and Sarala, 2013).

The findings also suggest that Chinese acquirers' prior performance and industrial status are critical to their post-acquisition integration process and M&A success. Good prior performance and a leading industrial status can facilitate the formation of a harmonious organisational climate in the combined entity by fostering trust in the key stakeholders of the acquired firms, such as previous managers, local general employees, trade unions and local governments. In recent years, such trust was also inspired by the boom of China's economy. The idea of trust building is in line with a

recent study by Stahl et al. (2011), which suggests that the establishment of trust between the two parties mediates the effects of the integration process variables and post-acquisition integration outcomes.

It has been shown that Chinese acquirers' prior knowledge of their targets is also critical for managing the post-acquisition integration process. Acquiring firms not only need to identify the complementary capabilities that they require to create synergy, but should also be aware of the potential difficulties they are likely to face before the transaction. Specifically, accumulating prior knowledge of target firms in western developed countries before initiating M&A deals is even more critical for Chinese acquirers, considering that cultural differences, language problems and other institutional constraints can all give rise to post-acquisition challenges.

### **7.2.2 Level of integration**

The results of this study show that Chinese acquirers' choice of the level of integration is a key factor in pursuing post-acquisition integration success. Based on their specific characteristics and organisational differences, Chinese acquirers adopt distinct levels of operational integration; a low level of integration at the day-to-day management level and a medium one on strategic issues and in strategically important operational areas.



The findings show that Chinese acquirers' generally low level of integration in day-to-day operational management can be reflected in their allowing local managers a high level of autonomy in making day-to-day operational management decisions in most departments, appointing very few permanent or long-term Chinese expatriates to work in the acquired firm, and retaining most of the existing formal structures and routines of the acquired firms. Through these measures, Chinese acquirers can not only retain the advantages of the localisation of management, but also minimise any potential shortcomings in their managerial capabilities and the liability of foreignness. On the one hand, local management teams, especially existing managers, know the acquired firm better than expatriates from China in terms of organisational structures and culture, day-to-day work routines, and local institutions. Moreover, changing the existing operational system and day-to-day routines of the acquired firms may lead to the impairment of such firms' knowledge-based resources, which is what Chinese acquirers mainly wish to gain through their M&A deals. On the other hand, limitations in Chinese acquirers' capabilities, especially the lack of availability of suitable talent to be employed as expatriate managers, determine that it would be unrealistic for them to greatly intervene in the day-to-day operations of their acquired firms. In addition, involving Chinese managers in the day-to-day operational management may trigger potential culture conflicts which are likely to occur as a result of their interactions with employees from different socio-cultural backgrounds. Such conflicts could be exacerbated if too many long term expatriates were posted to the acquired firms, because local employees might perceive their career opportunities

to be blocked by Chinese workers. This would result in a distrustful organisational climate which could hamper the transfer of resources in the integration process. Compared to firms A, B, and C, firm D intervened too heavily in the day-to-day operations of its acquired firm and employed many more Chinese expatriates, which triggered severe cultural conflicts, a poor resource transfer and a disappointing integration outcome.

Despite a low level of integration in most aspects of general day-to-day management having been shown as critical for managing Chinese acquirers post-acquisition integration process, the findings of this study also indicate that some strategically important organisational departments and operational aspects in acquired firms were subject to a medium level of integration. This part of the operational integration included certain crucial activities such as procurement, market distribution, investment and R&D. In the major activities of these crucial units, Chinese executives with held decision making powers by getting directly involved in or setting up strict monitoring mechanisms to manage risk by ensuring that the operation of these crucial operational units of their acquired firms was carried out in adherence to the strategic intent of the headquarters. The relatively higher level of integration implemented in these crucial organisational departments and operational aspects was a consequence of their strategic importance, which was reflected in both the strategic intent of the M&A deals and the synergy potential. Those operations closely related to the motivations of the M&A, such as gaining technological resources and overseas market distribution

channels, should be particularly emphasised and adequately integrated to achieve resource and capability transfer. For example, a higher level of integration of market distribution and R&D units could ensure that the operations of these crucial business units of the acquired firms follow the strategic intents of their acquirers. Such motivation-related issues are also where potential synergies are realised. In addition, synergies can also be captured by integrating procurement and reducing costs. This is in line with the finding of a previous research on Asian firms' CBMA conducted by Cogman and Tan (2010), who suggest that Asian firms tend to make CBMA to capture synergies in areas such as procurement.

Through revealing these two magnitudes of integration levels, i.e. those of the general day-to-day operational management and strategically important operational aspects, this study finds the Chinese solution to the post-acquisition integration dilemma (Gomes et al., 2013). In the context of Chinese firms' outward M&A to developed economies, the negative effects of an excessively high level of integration would be amplified by the huge cultural differences and by the Chinese acquirers' lack of suitable talents to handle integration issues. Therefore, despite strategically important organisational departments and operational areas requiring a high level of integration, Chinese firms still need to keep it at a moderate level to avoid the potential value destruction that could otherwise occur.

### **7.2.3 Integration implementation speed**

Integration implementation speed has been confirmed to be a key success factor in the management of the post-acquisition integration process in Chinese firms' outward M&A. The role of integration speed is still an under-researched area in the study of M&A integration in mainstream research (Stahl et al., 2013). Relevant research in the context of emerging economies, and of China in particular, is still undeveloped.

The contradictory empirical findings on the relationship between integration speed and acquisition success led some M&A scholars to call for a contingency approach (Angwin, 2004; Gomes et al., 2013). The findings of this study support this argument by arguing that the integration speed implemented by of Chinese acquirers was affected by their strategic intent: they adopted a fast pace of functional and operational integration in strategically important areas and integrated slowly in strategically less important operational activities and socio-cultural aspects.

Because most of the acquired firms had suffered losses for a long time before being acquired by the Chinese firms, the findings suggest that a rapid organisational change through the integration of functional areas was essential to rid them of their former negative images and successfully rebrand them as new entities. A similar fast integration speed was adopted for activities and departments that were in line with the strategic intents and main acquisition motivations of the Chinese acquirers, such as the transfer of technology from the acquired firms. This logic is similar to that

underlying the medium degree of integration adopted for strategically important operational aspects. The rapid transfer of the required resources and capabilities instantly improved the competitiveness of the Chinese acquirers and precipitated synergies in a shorter time period.

Conversely, strategically less important operational areas were integrated relatively slowly in order to contain the potential stress on the employees of the acquired firms, because a swiftly imposed change in the day-to-day management could have led to acculturating stress, which might have generated resistance and hostility on the part of the local employees. In the same manner, the speed of socio-cultural integration was also deliberately controlled at a slow pace by the Chinese acquirers. The aim of these efforts was to maintain a harmonious socio-cultural climate within which the combined organisation could operate smoothly and focus on strategically important areas to enable the swift and smooth transfer of key resources and capabilities.

#### **7.2.4 Key staff turnover and management team building**

Among human resource related issues, key staff turnover and management building in acquired firms have been found to be critical to the management of the post-acquisition integration process and performance of Chinese firms' outward M&A.

The findings indicate that the turnover of key employees, who possess individual knowledge-based resources and significantly contribute to the overall knowledge base of the acquired firms, has a significant influence on the Chinese firms' outward M&A performance through its impact on resource and capability transfers and organisational climate maintenance. Such influence is mainly embodied in the transfer of tacit knowledge-based resources from the acquired firms. Thus, the retention of key staff, such as technical experts and marketing talents, is critical to post-acquisition management. Even successfully retaining most key employees, finding adequate members of staff to handle the knowledge transfer and localisation was also a thorny issue for Chinese acquirers, which lack sufficient highly skilled and well educated home country employees to manage the integration process. In addition to its impact on the transfer of tacit knowledge-based resources, key staff turnover can also influence post-acquisition integration by affecting the organisational climate of the combined entity, because the withdrawal and turnover of existing staff can lead to stress and resistance among remaining employees. Therefore, although the retainment of most local employees involves missing an opportunity to reduce labour costs through M&A, it can help Chinese acquirers to improve their ability to transfer resources and capabilities and reduce any discomfort and distrust among the employees of the acquired firms.

Despite the commonality of the roles they share with other key staff, management level staff members of acquired firms are also crucial for post-acquisition integration

and performance because of the leading role of senior management. The Chinese acquirers paid particular attention to management team building in their acquired firms and chose to retain most local managers after the transaction. Some of them, such as CITIC HIC, even considered the retention of the top management team as one of the prerequisites for conducting the M&A. Not only did the existing managers possess a deep knowledge of organisational structures and culture, day-to-day work routines and local institutions, but they could also contribute to the maintenance of a harmonious organisational climate to facilitate the resource and capability transfer between firms. Despite their tendency to build localised management teams by granting them the responsibility of day-to-day operational management, the Chinese acquirers did not neglect the significance of risk management and strategic decision-making rights, which ensured that Chinese executives would retain absolute control over their subsidiaries to effectively and smoothly transfer resources and seek potential synergies. Therefore, the typical management team of a firm acquired by Chinese MNEs is mainly a combination of a Chinese CEO and a foreign vice CEO and managers.

### **7.2.5 Cultural differences and integration**

The findings of this study indicate that cultural integration is the most important key factor that influences post-acquisition integration and M&A performance. Despite cultural differences and cultural fit being mostly assessed before M&A deals, their

impact on post-acquisition performance can be moderated by cultural integration strategies and efforts. Having a clear awareness of the enormous cultural differences and of the importance of cultural integration, the Chinese acquirers took a series of measures to avoid and reduce cultural related problems under their unique cultural integration strategies.

Unlike developed countries, which normally pursue a high degree of cultural integration through cultural convergence and crossvergence, most Chinese acquirers, such as firms A, B, and C, choose to adopt a low level of cultural integration with a strategy described as “taking a step back and keep some distance with a high cultural tolerance to achieve mutual understanding and respect”. Drawing from the experience of forerunners such as firm D, most Chinese acquirers realise that they lack the ability to solve the complex cultural integration problems that could emerge from the pursuit of cultural convergence or crossvergence. The primary underlying rationale for this unique cultural integration strategy lies in the Chinese acquirers’ lower dependency on the transfer of tacit and socially embedded knowledge-based resources and emphasis on the transfer of explicit knowledge-based and tangible resources. Such an integration strategy can benefit Chinese acquirers by containing potential cultural clashes and creating a harmonious organisational climate to facilitate the transfer of key resources.

Although a low level of cultural integration was adopted by Chinese acquirers to keep



a certain cultural distance with a high tolerance, they still needed to take measures to reduce and solve emergent cultural related problems during the post-acquisition integration phase. This included using local managers, avoiding the use of long term Chinese expatriates, using socio-cultural integration mechanisms such as visits, joint dinner parties, tours of China and of the headquarters, etc. These measures were taken to achieve mutual understanding and respect on cultural related issues, so that a harmonious organisational climate could be maintained to facilitate inter-unit resource and capability transfer.

#### **7.2.6 Integration process communication**

Most Chinese acquirers are aware of the significance of effective communication and consider communication during the integration process to be a key factor in the management of the post-acquisition integration process and to achieve M&A success. On the one hand, effective communication allows for more efficient transfer of resources, especially knowledge-based ones, from the acquired firms. On the other hand, high quality communication can also foster socio-cultural integration through its impact on the organisational climate of the combined entity. Therefore, the Chinese acquirers adopted a number of measures to improve the quality of inter-firm communication about the past, present and future of the firm.

Communicating about the past mainly refers to informing the employees of the

acquired firms about their new parent firms' history and organisational culture, so as to help them to build a better understanding of them and create a harmonious organisational climate for the integration implementation process.

Communicating about the present focuses on taking measures to promote inter-firm communication on current integration practices by overcoming communication difficulties such as cultural differences, language barrier, time zone difference, etc. These measures include hiring high-quality interpreters, setting up specialised communication support departments, emphasising the executive level staff's role of mediators, deliberately containing the communication opportunities between ordinary Chinese and foreign employees, communicating with foreign general employees through the mediation of trade unions and foreign managers, involving Chinese top executives in the communication with the employees of the acquired firms to show regard for important issues on certain special occasions. These efforts can promote inter-firm resource and capability transfers by improving communication efficiency and reducing misunderstandings with foreign employees.

Communicating about the future refers to informing foreign employees about the strategy and future plans of the acquired firm and of the combined entity. The foreign employees' willingness to transfer tacit knowledge-based resources to their headquarters would be improved if the Chinese acquirers could help them realise how important transferring these resources was for the strategy and the future operation of the combined firm.

### **7.2.7 Home country advantages**

Home country advantages are an emerging theme that was not proposed in the research propositions. The findings of this study indicate that the home country advantages of Chinese acquirers is a key factor in the management of the post-acquisition integration process as they affect the formation of the integration approach.

It has been shown that most Chinese acquirers seek the resources and capabilities of foreign firms to increase their competitiveness in the home market. Improving their competitive advantage on their domestic rivals is one of the most important reasons for Chinese firms to initiate outward M&A to developed economies, at least at the initial post-acquisition stage. They are still highly dependent on their home market performance in both sales volume and reputation, not only due to the difficulties of true internationalisation, but also because the Chinese market is too big to ignore. In addition, their home institutional advantages, such as governmental support policies, distribution channels and the existing tacit knowledge-based resources derived from the Chinese market, can help Chinese acquirers make the most of the transferred resources. The significant role played by home country advantages has a great impact on the Chinese acquirers' integration approach. Equipped with huge home country advantages, Chinese firms can view CBMA as a long term investment and do not expect immediate returns from their acquired firms because they have a strong

supporting domestic business performance and have the home institution advantages to utilise the resources and capabilities acquired from their foreign subsidiaries. Moreover, the good performance of the acquiring firms in the Chinese market can also provide the foreign employees with a sense of security should the acquired firms fail to make profit, and help Chinese staff members to adopt a stance of high cultural tolerance. Therefore, not only do home country advantages provide a huge institutional support for the utilisation of acquired resources and capabilities, but they also facilitate the building of a harmonious organisational climate.

#### **7.2.8 Resource complementarity**

As an emerging factor found in the data analysis process, the resource complementarity between the two parties is evidenced to be a key factor in the management of the post-acquisition integration and in the pursuit of M&A success. The significance of resource complementarity lies in its influence on the decisions relating to the post-acquisition integration approach.

The findings indicate that a huge resource complementarity lies in the mutual transfer of explicit knowledge-based and tangible resources from the foreign acquired firms to their Chinese acquirers. These complementary resources include some that are valuable and vital to Chinese firms, such as brand, patented technology, and geographic distribution, and others that can benefit western acquired firms, such as

cost saving materials and mechanisms. Such complementary resources lead to an enormous synergy potential and are crucial for the Chinese acquirers' strategic intent. Therefore, Chinese acquirers do not even need to source more synergies through the transfer of tacit knowledge-based resources, because they can gain what they are eager to acquire from the transfer of complementary resources, which are mostly explicit knowledge-based and tangible ones. This provides Chinese acquirers with the opportunity to apply novel integration approaches and socio-cultural integration strategies based on their own characteristics. In addition, resource complementarity is also the foundation of Chinese acquirers' home market advantages. Without this huge resource complementarity, Chinese acquirers could not make full use of their home market advantages to increase the competitiveness of their existing products within a relatively short time period.

### **7.2.9 Acquirers' attractiveness**

The findings of this study also suggest that the attractiveness of Chinese acquirers, being another key success factor that emerged in the data analysis process, influences the post-acquisition integration phase of Chinese firms' outward M&A to developed countries. The research shows that there are authority asymmetries between the Chinese acquirers and their western acquired firms. Although Chinese firms possess a higher formal authority in the post-acquisition phase because of their organisational position as headquarters, their informal authority, i.e. the authority deriving from

knowledge-based resources and culture, is actually lower. This is relevant to Chinese strategic asset seeking firms since their most important motivation for conducting CBMA is to seek advanced resources and capabilities from their targets.

Such authority asymmetry could have a negative impact on the Chinese firms' post-acquisition integration process as foreign employees might stand on their high informal authority and show a low level of willingness to transfer their knowledge to their Chinese bosses. In these cases, Chinese acquirers need to take measures to improve their attractiveness and compensate this imbalance in authority. Various socio-cultural integration mechanisms can be adopted by Chinese firms to increase their attractiveness, such as using educational videos to make their target firm employees aware of the history and current leading status of their new headquarters, showcasing positive aspects of Chinese and firm organisational culture, exhibiting the technological abilities of the Chinese employees, providing quality post-acquisition rewards, promising job security, maintaining good post-acquisition performance in the acquiring firm, etc. Through these socio-cultural integration mechanisms, the organisational climate of the combined entity can be greatly improved through the enhancement of the acquiring firms' attractiveness.

### **7.3 Contributions and implications**

#### **7.3.1 Research contributions**

This research makes a contribution to knowledge by providing a better understanding of the management of the post-acquisition integration process of Chinese firms' outward M&A to developed economies, which helps to develop the body of knowledge on the theory of international M&A, and EMNEs' CBMA in particular. In addition to its theoretical contributions, this study also provides significant managerial implications for Chinese firms to operate successfully in their post-acquisition phase in developed economies.

This study contributes to the knowledge construct of Chinese firms' outward M&A by exploring and explaining the key success factors in the management of the post-acquisition integration process, which is the central part of the M&A value creation mechanism (Haspeslagh and Jemission, 1991). Its major contribution consists in the newly developed model, which can be used to explain key issues and processes in the management of the Chinese acquirers' post-acquisition integration in developed economies. The previous literature is incomplete and insufficient in explaining this phenomenon. The new integrative model, which includes nine key success factors and an integration approach, not only indicates how these factors influence the integration process of Chinese firms, but also illustrates the relationship between these factors and the Chinese acquirers' choice of integration approach. It enriches the understanding of Chinese outward M&A by expanding the existing research and provides implications for acquirers from other emerging economies.

Despite this study exploring research questions pertaining to the outward M&A of Chinese firms', its propositions and proposed framework are set up on mainstream theories and empirical findings on M&A. In addition to its contribution to Chinese outward M&A research, it also formulates important findings which provide valuable implications for mainstream M&A research. On the one hand, this study contributes to the knowledge of M&A by unfolding EMNEs' outward M&A to developed economies. It reveals that the post-acquisition integration process of Chinese acquirers is influenced by some new factors that had not been uncovered in the existing mainstream literature. These newly emerged factors may provide implications for mainstream research on identifying new determinants of M&A success. In addition, it has shown that Chinese acquirers adopt a novel integration approach to help manage their post-acquisition integration process. This integration approach is generally consistent with, but actually different from, researchers' current perception and understanding of EMNEs' integration approaches and strategies. As a significant part of this unique integration approach, a novel cultural integration strategy is articulated, which contributes to M&A researchers' current understanding of cultural differences and integration in international M&A, and EMNEs' outward M&A in particular. On the other hand, the new integrative model provides a consistent link between the existing literature, which is mostly focused on the M&A key success factors in a single phase, and future research, which needs to emphasise the holistic value creation mechanism of M&A phenomena (Gomes et al., 2013). The model indicates that



despite M&A creating value in the post-acquisition integration phase, an examination of the determinants of M&A integration should also incorporate those pre-acquisition factors which influence the integration process through their impact on the formation of the integration approach. The relationship between pre- and post-acquisition factors and the integration approach have never been clearly identified. The further exploitation of these relationships will benefit our current understanding of the M&A performance determinants. In some very recent papers, scholars have begun to realise the importance of using holistic models comprising both pre- and post-M&A phase issues to unravel the M&A performance puzzle (Bauer and Matzler, 2013; Gomes et al., 2013).

In addition to its contributions to theory, this study also makes managerial ones. The post-acquisition overseas management by Chinese acquirers has been proven to be problematic. This is particularly true of those pioneers who effected outward M&A before the 2008 financial crisis (Tan and Ai, 2010). It is true that latecomers can gain useful knowledge from the valuable experiences of their forerunners, but such knowledge is often mainly fragmented and intuitive. This study identifies the key factors that potential Chinese acquirers should take into account in their future post-acquisition integration processes. Chinese acquirers ought to choose a suitable integration approach based on their motivations and specific pre-acquisition key factors, and take measures to adequately handle the post-acquisition key factors during the integration implementation process, so as to directly foster the transfer of

resources and capabilities from the acquired firms, or create and maintain a harmonious organisational climate to facilitate such transfer.

### **7.3.2 Theoretical implications**

In addition to the contributions discussed above, this study also provides several theoretical implications for the existing research streams in relation to M&A.

First, the findings in relation to the prior related resources of Chinese acquirers as a key success factor support Deng's (2010) argument of the absorptive capacity of Chinese firms being an important determinant of their performance in outward M&A, and their prior related knowledge being a significant antecedent of their absorptive capacity. Moreover, the prior related resources in this study extend Deng's (2010) scope of prior knowledge, and include prior international business experience, R&D capability, prior knowledge about the target firm, as well as prior performance and industrial status. This finding can amplify the existing knowledge about the antecedents of the absorptive capacity of acquiring firms from China or other emerging economies and provide implications on how such absorptive capacity influences Chinese acquirers' post-acquisition integration process.

Second, this study suggests that Chinese acquirers adopt different levels of operational integration; a low level of integration at the day-to-day management level

and a medium one on strategic issues and in strategically important operational areas. The optimal level of integration is still a dilemma in M&A research. Current empirical research can only prove that implementing at least some degree of integration is decisive for M&A success (Bresman et al., 1999; Zollo and Singh, 2004; Vaara et al., 2012; Bauer and Matzler, 2013). For example, Bauer and Matzler (2013) empirically test a sample of 106 SME transactions in the German-speaking areas of Central Europe and find a positive relationship between the degree of integration and M&A success. Vaara et al. (2012) find that the level of operational integration is positively associated with capability transfer, suggesting that at least a moderate level of integration is a prerequisite for post-acquisition synergy realisation. Remaining consistent with these previous analyses, this study also argues not to view the level of integration as a uniform issue and suggests the adoption of different levels of integration in different operational areas. The differences need to be reflected in the acquirers' integration approach and be based on their specific characteristics, motivations, and organisational differences. In this research, Chinese acquirers use different levels of operational integration due to their strategic intent, huge cultural differences, lack of managerial talents, etc. This finding may be applicable to other emerging economies, or even provide implications for the mainstream M&A research.

Third, this study firstly explored the speed of integration in the context of emerging economies and of China in particular. Even in the study of M&A integration in mainstream research, the speed of integration is an under-researched area (Stahl et al.,

2013). The findings of this study support the mainstream argument for the use of a contingency approach to M&A integration speed (Angwin, 2004; Gomes et al., 2013). Building on this consensus, this study provides implications for research on integration speed and suggests that the integration speed implemented by Chinese acquirers is affected by their strategic intent, so that functional integration and strategically important areas in operational integration need to be implemented fast, while strategically less important operational activities and socio-cultural aspects need to be integrated slowly. The findings not only uncover the speed of integration in the context of CBMA conducted by acquirers from China and from other emerging economies, but also extend the knowledge of integration speed by introducing a possible strategy for the formulation of the appropriate speed of integration.

Fourth, the findings of this study provide implications for research in relation to the role played by top management teams in the management of post-acquisition integration. No relevant research had ever been done in the context of EMNEs' outward M&A to developed countries before this study. Traditional mainstream M&A scholars often suggest that the general employees of acquired firms are more likely to benefit from M&A by a healthy acquirer, while the prospect of being acquired may be threatening to the top managers of target firms (Stahl et al., 2011). This is because the poor performance of a firm is normally attributed to its top executives. The findings of this study show different results and explanations. Chinese acquirers pay particular attention to management team building in their acquired firms and tend to retain most

local managers after the transaction. This is because the latter not only possess better knowledge about the firms and local institutions, but can also contribute to the maintenance of a harmonious organisational climate to facilitate inter-firm resource and capability transfer. This finding can help further research analyse the relationship between top management building and M&A performance in Chinese firms, or EMNEs' outward M&A in developed economies.

Fifth, as an important part of the informal institutional environment, culture has long been considered a crucial issue in analysing international business phenomena in the context of emerging economies (Wright et al., 2005; Luo and Tung, 2008). It is surprising that Deng's (2010) framework of using an organisational learning perspective to explain the outward M&A performance of Chinese firms does not include cultural issues. Liu and Woywode (2013) made some progress by building an integrative model comprising both the organisational learning perspective and cultural differences to explore the integration approach in Chinese acquirers' outward M&A in Germany. However, their work only considers the influence of national and corporate cultural differences as static factors. This study makes further progress and suggests that despite cultural differences and cultural fit being mostly assessed before M&A deals, their impact on post-acquisition performance can be moderated by cultural integration strategies and efforts in the post-acquisition integration process. The findings on the Chinese acquirers' cultural integration strategy is coherent with recent research on M&A which suggests that aspects of socio-cultural integration, such as

the emergence of a shared identity and trust, and the building of an atmosphere of mutual respect and trust, can facilitate resource and capability transfers (Larsson and Lubatkin, 2001; Stahl et al., 2011; Stahl et al., 2013). Taking a further step, the results of this study also provide insights into how these socio-cultural aspects are used by acquirers from emerging economies to moderate the effects of the huge cultural differences between firms (Bjorkman et al., 2007).

Sixth, the unearthing of three emerging key factors, which are home country advantages, complementary resources and acquirer attractiveness, enrich scholars' current understanding of these factors and of the post-acquisition integration process. The existing literature examined the role played by home country institutions in explaining the rationale of Chinese firms' outward M&A (Rui and Yip, 2008; Deng, 2009). However, their impact on the post-acquisition integration process had never been explored before this study. Similarly, complementary resources had long been studied as determinants of M&A success because they represent the strategic fit of two parties (Larsson and Finkelstein, 1999). Nevertheless, very few researchers realised their impact on the capability transfer process in the post-acquisition phase (Bjorkman et al., 2007). This study uncovered that these two factors are significant foundations of the unique integration approach and novel socio-cultural integration strategy of Chinese acquirers. It is reasonable to believe that these two factors could shed more light on the research of EMNEs' outward M&A. The first time that acquirer attractiveness received interest was at the 2004 Academy of Management

Conference. Stahl et al. (2004) proposed that the greater the perceived attractiveness of the acquiring firm, the higher the level of social integration following the acquisition. They also believed social integration to be positively associated with capability transfer from the acquiring firm to the acquired one. Despite their proposal of some key determinants of acquirer attractiveness, such as prior inter-firm contacts, quality of post-acquisition rewards, the perceived quality of the human resource management practices of the acquiring firm, etc, their arguments were just based on literature review and were not backed up by any empirical evidence<sup>28</sup>. This study has empirically examined the impact that acquirer attractiveness has on post-acquisition performance, which provides implications for understanding the role that acquiring firms play in the management of the post-acquisition integration process. The above three key factors deserve future attention not only in studies regarding EMNEs' international M&A, but also by mainstream M&A researchers to uncover the incomplete key success factors of M&A performance. In addition, these three emergent factors also provide potential contributions to established mainstream theories on MNEs. For example, the impact of home country advantages on the post-acquisition integration process suggests that Chinese acquirers generally tend to exploit resources and capabilities acquired from their western partners in the home market. This contributes to Dunning's OLI paradigm by expanding the scope of its Ownership and Location advantage, and is in line with, and further extends Child and Rodrigues (2005)'s argument that the internationalisation of Chinese MNEs is aimed

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<sup>28</sup> Moreover, the authors eliminated this part of the argument when their paper was finally published in the *Journal of International Business Studies* in 2007.

at addressing their competitive disadvantages.

Seventh, despite this study being in favour of the process perspective of Haspeslagh and Jemison (1991) and their proponents, the results show that post-acquisition integration implementation is not only affected by those process factors which occur during the post-acquisition phase, but is also influenced by pre-acquisition status factors. Such status factors could affect post-acquisition integration and performance through their impact on the formation and implementation of the acquiring firms' integration approaches. This important finding has implications on the scope of the process perspective and brings the attention of researchers back to pre-acquisition factors and to the linkage between them and post-acquisition ones.

Eighth, although some recent papers have drawn the attention of M&A scholars to the important role played by the integration approach in achieving post-acquisition integration success and good performance (Weber et al., 2009; Weber et al., 2011), research on the integration approaches of acquirers from EMNEs is still very scarce (Liu and Woywode, 2013). Liu and Woywode (2013) shed some light in a recent paper by uncovering the light-touch integration approach of Chinese acquirers in Germany, which is characterised by a combination of Haspeslagh and Jemison's (1991) preservation and symbiotic approach. However, their results were based on data collected only from the executives of acquired firms, which limits their strategic position and comprehensiveness. The reliability of their study may be hampered as



German managers might not have been aware of the strategy of the combined organisation and could only deliver one-sided information. This study compensates this methodology short coming by conducting interviews with top executives and even CEOs of both the acquiring and acquired firms. The findings in relation the integration approach are partly different from those of Liu and Woywode's (2013) work, which argues that Chinese acquirers only offer strategic advice while bestowing decision-making autonomy onto the acquired management team. In fact, Chinese acquirers only grant autonomy for less strategically important issues, while firmly withholding decision-making rights on strategically important areas. The findings enhance the general understanding of the impact of pre-acquisition strategic intent on the post-acquisition integration approach, and fill a research gap in the integration management of EMNEs' outward M&A.

Ninth, the role of culture in the post-acquisition integration phase has been an important standpoint for seeking explanations for M&A performance (Stahl et al., 2013). While there is a general acceptance that cultural differences matter, how cultural differences affect post-acquisition integration in international M&A, and in EMNEs' outward M&A to developed economies in particular, is still unclear (Sarala and Varra, 2010; Vaara et al., 2012; Birkinshaw et al., 2010). As an important underpinning of the integration approach, a novel cultural integration strategy for Chinese acquirers is found in this study. Such cultural integration strategy is different from the cultural convergence or crossvergence which are normally adopted by

acquirers from developed economies to pursue a high degree of cultural integration (Sarala and Varra, 2010). The main aim of the cultural integration strategy of Chinese acquirers is to contain cultural conflicts and create a harmonious organisational climate to support resource and capability transfer. This novel cultural integration strategy provides significant implications for research on the effect of cultural differences and integration of acquiring firms from other emerging economies by suggesting that the main role of culture related issues is to foster capability transfer from acquired firms.

Tenth, Haspeslagh and Jemison (1991) claim that integration is an interactive and gradual process in which individuals from the two organisations must learn to work together and cooperate to create value through capability transfer. “Creating an atmosphere that can support it [the integration] is the real challenge” (Haspeslagh and Jemison, 1991, p. 107). Despite some previous research having focused either on the capability transfer or on the atmosphere of the combined firm (Bresman et al., 1999; Birkinshaw et al., 2000; Stahl et al., 2011), very few studies have tried to integrally combine these two essences. By revealing the key success factors in the management of post-acquisition integration, this study finds that some key factors can facilitate both socio-cultural integration by maintaining a harmonious organisational climate, and strategic asset integration by transferring resources and capabilities from acquired firms to acquirers. This provides implications for future studies to examine M&A performance indicators through more comprehensive models which cover both

capability transfer and socio-cultural integration.

Eleventh, although, due to the nature of case study research, the results of this study should not be simply generalised, they provide implications for acquirers from other emerging economies. Specifically, on the one hand, the integration approach applied by Chinese acquirers may also be suitable for acquiring firms from other emerging economies, since the latter may possess similar pre-acquisition status factors. On the other hand, the three emergent factors may provide implications for deductive research in the context of other emerging markets on identifying key determinants of M&A success.

Twelfth, the results of this study suggest that the Chinese acquirers' ownership structure in terms of SOEs/non-SOEs does not exert any significant influence on post-acquisition integration in Chinese firms' outward M&A. The impact of the Chinese acquirers' ownership structure on post-acquisition integration has never been empirically explored. The CEOs from both SOE acquirers considered that they had not faced any obstruction linked to their ownership structure. This extends the findings of Zhang et al. (2011), who argued that the likelihood of a Chinese firm succeeding in an overseas acquisition is lower if the acquiring firm is a SOE. Despite the ownership structure of Chinese acquirers being able to potentially affect the completion of their outward M&A, as was claimed by Zhang et al. (2011), this study suggests that a state-owned structure is not a key factor for integration once the

transaction proceeds to its post-acquisition phase. The most likely possible explanation is that, in the post-acquisition integration phase, the differences in the Chinese acquirers' ownership structures are primarily embodied in their organisational culture differences (Liu & Woywode, 2013), and the impact of the latter on the Chinese acquirers' post-acquisition integration is overshadowed and dwarfed by the huge national cultural differences.

### **7.3.3 Managerial implications**

This study provides several managerial implications for both Chinese acquirers and western acquired firms.

Chinese acquirers ought to choose a suitable integration approach based on their motivations and specific pre-acquisition key factors and take measures to adequately handle the post-acquisition key factors during their integration implementation process, so as to foster the transfer of resources and capabilities from the acquired firms directly to the acquirers, or create and maintain a harmonious organisational climate to facilitate such transfer. The novel integration approach found in this study can help Chinese firms which intend to make strategic intent M&A to better manage their post-acquisition integration process.

Nevertheless, it must be noticed that the current integration approach adopted by

Chinese acquirers sacrifices the transfer of tacit knowledge-based resources, which is normally the most valuable resource for a firm's competitive advantage. Despite such sacrifice being able to compensate the disadvantages of Chinese acquirers in the management of post-acquisition integration, such as the lack of talents and the cultural differences, and contribute to their focus on the transfer of strategic important explicit knowledge-based resources, this might be only a temporary solution involving short term gain, whereas it would be harmful to firm competitiveness in the global market should such a focus persist long term. Most Chinese manufacturing firms, even industry leaders, still lack innovative capabilities, which are considered to be one of the most significant components of a firm's dynamic capabilities (Wang and Ahamed, 2007). This needs to be addressed, among other measures, by transferring tacit knowledge from the acquired firms. Therefore, Chinese acquirers need to explore new modes for the management of post-acquisition integration without sacrificing the transfer of tacit knowledge-based resources, which is more valuable and much harder to transfer across firms.

Specifically, the role played by key staff in influencing a firm's resource base needs to be emphasised. On the one hand, in the pre-acquisition phase and to minimise potential key staff turnover, Chinese acquirers should properly consider ways of improving their reputation and attractiveness. On the other hand, Chinese executives must be prepared to locate skilled employees to enable capability transfer before opening the grey box of the post-acquisition integration process (Zander and Zander,

2010). This is particularly difficult due to the information asymmetry suffered by the executives of the acquiring firms. To partly overcome this difficulty, acquirers from China and other EMNEs can start building personal relationships with the management teams of the target firms in the pre-acquisition due diligence and negotiation phase of M&A. Working with a competent management team before the announcement of the proposed M&A can help build trust with the target firm and ease the communication difficulties of the post-acquisition integration phase.

As for target firms from developed economies, the “unbalanced strategic resource focused” integration approach of Chinese acquirers provides the former with high levels of autonomy and job opportunities in their home country. When western firms seek Chinese strategic intent buyers due to their financial needs or potential market seeking, they need not worry that Chinese acquirers would intervene too much, nor be afraid of being taken over by the new boss. This cognition could stimulate more future cooperative opportunities for both parties.

Moreover, this study suggests that professional institutions may provide value-added potential for Chinese acquirers in the post-acquisition integration phase. Professional service institutions, such as accountants, consultants and law firms have long been widely used by acquiring firms around the world and have been involved in international M&A transactions. Nevertheless, their effects are limited to the pre-acquisition phases, such as the due diligence and negotiation processes. When the

deals are settled, these professionals generally leave the case and are seldom involved in the post-acquisition phase. This study suggests that there are potential advantages in involving professional institutions in the integration process of Chinese firms' outward M&A. These professional firms possess a better understanding of the host institutional environments, including both formal institutions, such as local regulations and laws, and informal ones, such as culture. Through a more active participation in the operational management of the acquired firms, professional firms could improve the knowledge base of Chinese acquirers and help them handle post-acquisition integration difficulties (Liu and Woywode, 2013).

#### **7.3.4 Policy implications**

In respect to policy implications and to enable Chinese acquirers to focus on the due diligence and negotiation processes before the M&A deal, it would be necessary for the Chinese government to simplify the time and bureaucratic procedures needed for pre-acquisition approval. On the other hand, the findings of this study suggest that a good past performance and high R&D capabilities can facilitate the post-acquisition integration and performance of Chinese acquirers. Therefore, the Chinese government could partly control the post-acquisition performance of SOEs by screening their performance and R&D capabilities.

In addition, the support of the Chinese government in terms of both policies and

M&A guidelines is totally focused on the pre-acquisition phase. Chinese acquirers hardly receive any support from their home government after the deal, although the post-acquisition integration phase is where value is created and the real problems lie. Therefore, a variety of home country intermediaries, such as educational institutions, governmental agencies and industrial associations, could substantially contribute to the handling of post-acquisition challenges (Liu and Woywode, 2013).

#### **7.4 Limitations**

While the author claims that this research is the first step towards the understanding of the key factors in the management of the post-acquisition integration process in Chinese firms' outward M&A to developed economies, several limitations are present in it.

First, the case study research strategy adopted is mainly based on qualitative methods and data. The nature of case study research indicates that the final model of this study should not be simply generalised. Moreover, the results of this study are developed from the analysis of China's manufacturing sector. Results drawn from one sector of a representative emerging economy should not be generalised without restriction to other emerging economies. Further comprehensive or disaggregate analysis in other sectors (such as services) and in different emerging economies (such as India) should be conducted to enrich or modify our findings.



Second, although interviews were conducted with top executives in both acquiring and acquired firms, most interviewees in this research were Chinese due to their high management positions in the post M&A hierarchy. The author believes that these high level informants are knowledgeable of both the acquiring and acquired firms' strategic decision-making in the post-acquisition integration process. Although this method is supported by other scholars (Junni and Sarala, 2013), including more foreign interviewees from the acquired firms could provide a more balanced view on the socio-cultural issues in the post-acquisition integration phase.

Third, the data of the studied cases was collected after 18 months and 24 months from the deal, respectively. Although enough time had elapsed to allow the firms to integrate, the key success factors of post-acquisition integration may vary with time. A longitudinal research could greatly add to the quality of this research and to the validity of its findings. Due to the limitations of the PhD study period, a longitudinal study was not feasible. Moreover, the relatively short history of EMNEs' outward M&A to developed countries increases the difficulties in conducting a longitudinal research.

Fourth, the saturation level of the interview data of TCL's case is rather modest. This is because the deal had taken place ten years before, so a large proportion of the parties involved had left the firm. Moreover, as it was a failed M&A, some of the

senior executives did not wish to talk too much about this unsuccessful past event. Therefore, although the author was introduced to TCL's senior management by a vice CEO of the group, it was still difficult to persuade them to take the interview. Nevertheless, the availability of external documentation was very high because this had been a hot issue and a very high-profile case representing China's 'go global' approach. There are numerous news items, commentaries, interviews, speeches, and case studies available in relation to this deal. In this case, the modest saturation level of the primary data was compensated by the combination of different sources of secondary data

Fifth, the appropriate number of the studied cases needed is debatable. It is always difficult to answer how many cases should be included in a case study research. Although the study of multiple cases can make the research findings more robust, it requires extensive resources and time, which could be beyond the means of a PhD student. The difficulties linked to conducting a multiple case study in exploring international business questions have been experienced by the author of this research. It was not easy to arrange the data collection for all four cases, especially as the acquired firms were not in the same country. In the data collection period, five cases were approached. Ultimately, the author decided to include four cases in this research because of saturation considerations and case selection criteria.

Sixth, the results of this study are mainly based on related acquisitions. This is in line

with the prevalence of related growth motives in contemporary M&A. Moreover, related acquisitions dominate the past and present of the outward M&A of Chinese firms. However, it is possible that the results would be different if unrelated M&A were focused upon (Junni and Sarala, 2013).

## **7.5 Future research outlook**

This study also provides possible pointers for future research.

Most of the existing research on the outward M&A of Chinese firms has concentrated on pre-acquisition motivations, rationales and possible performance determinants. This thesis is the first to research the Chinese EMNEs' post-acquisition integration process. It calls for more systematic research on the post M&A phase, where value is created.

Moreover, this study has identified and explained some key success factors in the management of the post-acquisition integration process and in the achievement of M&A success. The evaluation of the causal relations between these key factors and M&A performance could be further strengthened by a quantitative approach. This is currently very difficult to realise due to the relatively short history of Chinese firms' outward M&A. When more cases will be available and Chinese managers will be more comfortable in cooperating with researchers, the author suggests using

quantitative methods, such as surveys, to test the final model of the study.

In addition, the findings of this study also indicate that these key factors are not isolated. So far, there is still lack of connection between M&A performance determinants. The inter-relationships between key success factors recently received attention from mainstream M&A scholars (Gomes et al., 2013). Therefore, it is crucial to examine the relationships which exist between the key factors identified in this study, especially between pre-acquisition status factors and post-acquisition process factors. For example, the findings suggest that the Chinese acquirers' cultural integration strategy is affected by their attractiveness, human resource related issues and the resource complementarity between the two parties. Such relationships require further exploration in future research.

Furthermore, the results of this study may face certain difficulties when generalised to other emerging economies due to certain specific characteristics of Chinese acquirers. For example, there is some evidence that the way in which the acquirers approach integration and that in which the acquired firms respond are contingent on their national origins (Stahl and Javidan, 2009; Stahl et al., 2012). Acquirers from different countries may have different perspectives on how post-acquisition issues should be dealt with (Stahl and Javidan, 2009). Therefore, despite this study having uncovered a novel integration approach, which may provide implications for other emerging economies, this integration approach should not be simply generalised to acquiring

firms from other emerging economies. Similar research is suggested to be conducted in the context of another emerging country to enrich the generalisability of the developed model.

Finally, this study has identified some key factors that have seldom, if ever, been noticed by mainstream M&A research, such as acquirer attractiveness and home country advantages. These factors may contribute to the knowledge of M&A performance determinants and require further attention in future research.

## Appendix 1: The approval procedure of China’s outward M&A

### Step one: Foreign exchange registration with SAFE

#### Based on “Regulations for foreign exchange administration of domestic institutions overseas direct investments”

1. Chinese investors should explain the source of funds to local Administration of Foreign Exchange when registering.
2. After examining the application documents submitted by investors, local Administration of Foreign Exchange will issue ODI registration IC card (started from January 2009)

### Step two: Obtaining approval from NDRC (including provincial DRC)

#### Based on “The interim administrative measures of examination and approval of overseas investment projects”

1. Investors should report to corresponding Development and Reform Commission (State or provincial level) and receive the confirmation letter before applying for approval of DRCs.
2. Different kinds of projects should be examined by different governmental authorities. All projects in Taiwan and countries which have no diplomatic relations with China should be approved by NDRC.

	<30m USD	> 30m USD<200m USD	>200m USD
Natural Resource Exploitation Projects	Local DRCs	NDRC	State Council

	<10m USD	> 10m USD<50m USD	>50m USD
Non Resource Exploitation Projects	Local DRCs	NDRC	State Council

3. Investors are not allowed to sign any documents with legal validity before the approval of NDRC.

**Step three: To be authorized by MOFCOM**

Based on “Regulations on overseas investment administration”

1. Once decided to conduct outward M&A, investors should report to MOFCOM and SAFE (state or provincial) and submit the form entitled “Report Prior to Enterprises’ Overseas M&A”.
2. After the approval of NDRC, investors should apply to the MOFCOM (state or provincial) for “Enterprises’ Overseas Investment Certificate” under the following conditions

Projects that should be authorized by MOFCOM	Projects that should be authorized by provincial commerce authorities
Projects in countries which have no diplomatic relations with China; Projects in specific countries which are indentified by MOFCOM; Projects over 100m USD; Projects involving multi-countries; Projects with special aim; Projects invested by Central Enterprises.	Projects between 10m and 100m USD; Natural Resource Exploitation Projects; Projects that need to attract investment at home.

**Other Steps of Government Administrative Control:**

1. The approval of fund to conduct feasibility study **(By SAFE)**

After submitting application of the overseas investment project, investors can apply to the local Administration of Foreign Exchange for fund to cover the cost of conducting feasibility study.

2. The Foreign Exchange Registration Certificate **(By SAFE)**

After the approval of NDRC and MOFCOM, investors should obtain Foreign Exchange Registration Certificate from SAFE before exchanging the fund in RMB Yuan into foreign currency.

3. Obligation of being supervised and reporting **(By MOFCOM&SAFE)**

Investors should cooperate with the joint annual inspection of overseas investment by MOFCOM and SAFE and submit quarterly ODI statistics report to help MOFCOM build a national statistics system of overseas investment.

**Special steps for SOEs:**

Central SOEs and Local SOEs should report to corresponding State-owned Assets Supervision and Administration Commission (SASAC) of the State Council before applying to other governmental authorities.

Source: MOFCOM (2010), NDRC (2010), SAFE (2010)

## Appendix 2: Official Regulations on Chinese Outward M&A

Issuing Date	Notification and regulations	Enunciator	Description
July 1988	Regulations governing the approval of setting up trade-related enterprises overseas	MOFCOM	Overseas profits should be remitted to China.
March 1989	Measures for governing the foreign exchange of overseas investment	SAFE	The first regulation on governing the foreign exchange for overseas investment.
June 1990	Detailed rules for implementation of measures for governing the foreign exchange of overseas investment	SAFE	Detailed rules for applying foreign exchange for overseas investment.
March 1991	Opinions of State Planning Commission (previous name for current NDRC) on enhancing the administration of overseas projects	NDRC	The first regulation about overseas investment by NDRC.
August 1991	Provisions on establishment and approval of overseas investment project proposal and feasibility study report.	NDRC	The first document that formulate the approval procedures by NDRC.
September 1993	The standards of examining and approving the source of foreign exchange for overseas investment	SAFE	Source of fund for overseas projects should be examined and approved before making applications to other governmental authorities.
September 1995	Supplementary circular to measures for governing the foreign exchange of overseas investment	SAFE	Investors are allowed to purchase foreign exchange.
September 1999	Circular concerning certain projects exempted from paying deposits for overseas profits	SAFE	The requirement for security deposit charge of certain projects is loosened.
October 2002	Circular concerning applying the comprehensive performance appraisal system for overseas investment	MOFTEC (predecessor of MOFCOM)	Performance appraisal system of overseas investment established.
October 2002	Tentative measures for the joint annual inspection of overseas investment	MOFTEC (predecessor of MOFCOM) SAFE	The first regulation on post-investment inspection.
November 2002	Circular concerning relevant issues on removing repatriation requirement for the overseas profits made by Chinese acquirers	SAFE	Removal of the need to repatriate overseas profit in the future.
December 2002	Circular concerning printing and distributing the statistic template for overseas investment	MOFCOM	Preparing for publishing the Statistical Bulletin of China's Outward Foreign Direct Investment
March 2003	Circular concerning relevant issues of simplifying the examination of the source of foreign exchange for overseas investment	SAFE	Industrial investment projects, foreign aid projects and strategic investment projects authorized by the State Council no longer to be examined. Foreign exchange obtained

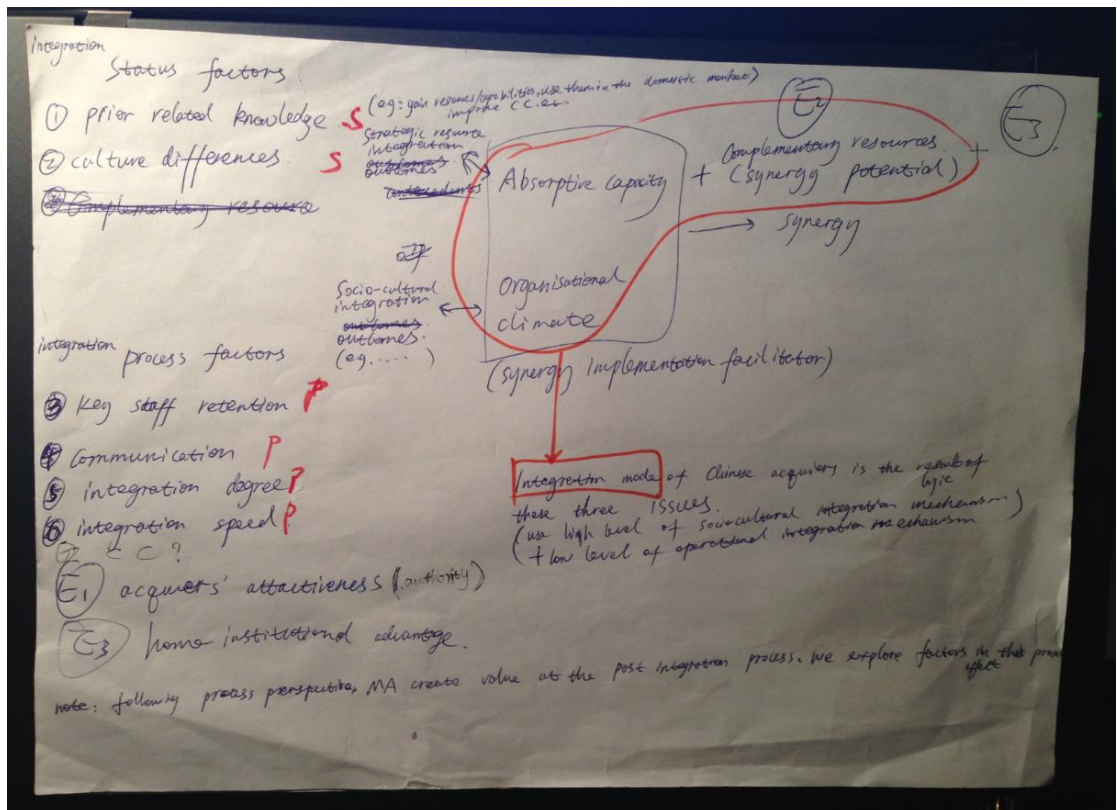
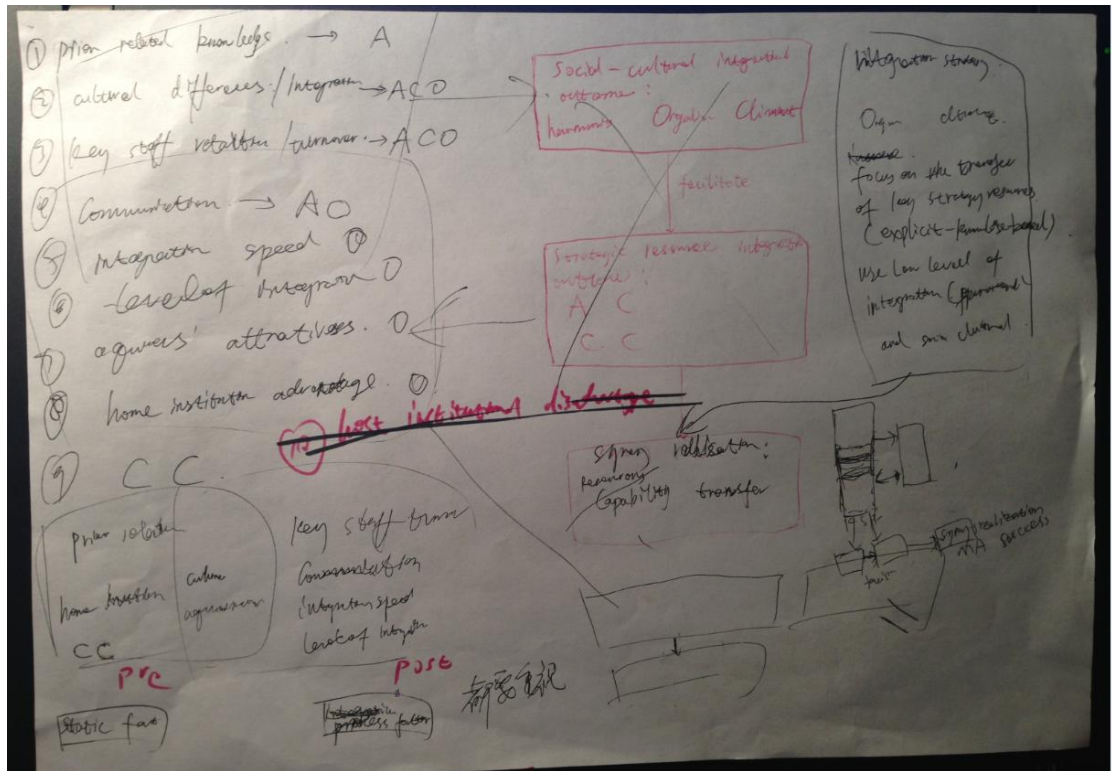


			abroad will not be examined any more.
July 2003	Circular concerning relevant issues of returning the deposit of overseas investment profit	SAFE	Overseas profit deposit not required anymore.
October 2003	Circular concerning relevant issues of further deepening the reform of foreign exchange administration for overseas investment	SAFE	Relevant approval process simplified.
November 2003	Circular on establishing information database for potential firms of making overseas investment	MOFCOM	To detect the willingness of potential investors into overseas market.
April 2004	The tentative administrative rules of approving overseas investment projects	NDRC	Outward M&A investors are not allowed to sign any documents with legal validity before the approval of NDRC.
July 2004; October 2005; January 2007	The guidance catalogue of countries and industries for overseas investments (1, 2, 3)	MOFCOM; MFA (Ministry of Foreign Affairs); SAFE	Investment into listed countries and industries are encouraged and incentivised.
October 2004	Circular concerning policy of granting credit aid to key overseas investment projects encouraged by the state	NDRC; China EXIM Bank	Providing financial support to key M&A projects that can strengthen international competitiveness and market development.
October 2004	Interim administrative measures of the examination and approval of overseas investment projects	NDRC	Investment projects should be approved by NDRC or provincial DRC according to the category and bid value.
October 2004	Decision on the examination and approval of established overseas investing enterprises	MOFCOM	Feasibility study report is not required anymore.
March 2005	Circular on reporting before making overseas M&A	MOFCOM; SAFE	Once decided to carry out overseas M&A, investors should report to corresponding MOFCOM and SAFE and submit the “The reporting table before overseas M&A”
May 2005	Circular concerning relevant issues of expanding the trial regions of foreign exchange administration for overseas investment	SAFE	The scope of the trial regions is expanded to the whole country; available foreign exchange is increased for investors; the approval authority of local SAFEs is expanded.
July 2005	Circular concerning relevant issues of establishing a risk guarantee mechanism for key overseas investment projects	NDRC; CECIC	Providing risk management and investment consulting to key projects encouraged by the state.
September 2005	Circular on adjusting the administration of overseas financial guarantee provided by domestic bank	SAFE	Applying balance administration instead of examining each transaction.
October	Detailed regulations on the examination and	MOFCOM	Specific regulations based on “Decision on

2005	approval of established overseas investing enterprises		the examination and approval of established overseas investing enterprises”
June 2006	Circular on adjusting certain foreign administrative polices concerning overseas investment	SAFE	Investors can purchase foreign exchange with CNY for overseas investment without upper limit.
June 2006	Circular on establishing the statistic examination system of overseas investment by destination	MOFCOM	To ensure the accuracy and completeness of the statistical data of China’s OFDI.
November 2006	Urgent circular on enhancing the statistic system of outward foreign direct investment	MOFCOM	To emphases on building a sound statistic system for overseas investment.
January 2008	Circular concerning relevant issues of adjusting the examination and approval of overseas investment	MOFCOM	Expanded the authority of provincial Commerce Bureau.
December 2008	Circular concerning relevant issues of implementing the overseas investment module of information system on foreign direct investment	SAFE	Use IC card to manage foreign exchange of overseas investments.
May 2009	Regulations on overseas investment administration	MOFCOM	Simplified the approval procedures of overseas investments and expanded the authority of provincial Commerce Bureau.
June 2009	Circular concerning relevant administrative issues of the overseas loan by domestic enterprises	SAFE	Enlarged funding source of overseas loans. Simplified the examination and approval of overseas loans.
June 2009	Circular concerning relevant issues of strengthening the administration of overseas investment projects	NDRC	Investors should report to NDRC before start substantive work in outward M&A projects.
August 2009	Circular on regulations of foreign exchange administration of domestic institutions in their overseas direct investment	SAFE	Changed the examination and approval of overseas investment funding source,
December 2009	Circular concerning relevant issues on joint annual inspection of overseas investment	MOFCOM; SAFE	Comprehensive performance appraisal will no longer be taken as part of annual inspection.
December 2009	Circular concerning relevant issues on tax credit of offshore income	MOF (Ministry of Finance); SAT (State Administration of Taxation	Regulation on tax credit of offshore income.

Source: MOFCOM (2010), NDRC (2010), SAFE(2010), and Voss et al., (2008).

Appendix 3: Two sketches (examples of the evolution of the final model)



#### **Appendix 4: Research background-China as a new emerging market**

With its 1.36 billion people, China is the world's most populous country, making up about 20% of the world population (National Bureau of Statistics of China, 2013), and is therefore potentially the world's largest market. It is also one of the world most fast-growing countries. According to the preliminary accounting of the National Bureau of Statistics of China, the gross domestic product (GDP) of China reached 56,884.5 billion Yuan in 2013, a year-on-year increase of 7.7% at comparable prices. Since the start of the new century, China has achieved an average annual GDP increase of over 10%, which helped to keep China's at the top in the world's GDP table. In 2010, China overtook Japan as the world's second largest economy. In fact, over the last two decades, China has been the world's fastest growing economy based on GDP growth (China Statistical Yearbook, 2013; National Bureau of Statistics of China, 2014).

China's GDP has been growing significantly since the country started to open up in 1978. The country performed even more strongly during the course of my research. This growth has been attributed to its political stability, market liberalisation policy, social stability and the development of both inward and outward investment (Siebers, 2011). Although the 2008 global financial crisis hampered the world economy, owing to a series of economic stimulation policies issued by the central government, China's GDP growth suffered less compared with that of developed countries (Tan and Ai, 2010).

In China, GDP is divided into primary, secondary and tertiary industry sectors. The primary industry sector includes farming, forestry, animal husbandry and fisheries, and accounts for around 10.1% of GDP. The secondary sector, which includes industry and construction is the most important and accounts for 45.3% of GDP. The tertiary sector accounts for the remaining 44.6% of the total output and consists of wholesale and retail trading; transport and storage; financial intermediation; real estate; hotel and catering services and others (Siebers, 2011; China economy, 2013; Trading Economics, 2014). Despite the tertiary industry's contribution to the GDP having increased dramatically in recent years<sup>29</sup>, the secondary sector remains at the heart of China's economy.

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<sup>29</sup>The recent growth of the tertiary sector is largely attributed to the dramatic increase of the real estate industry (NetEase, 2014).

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