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**The Impact of Cultural Differences and  
Absorptive Capacity on Chinese Acquiring  
Firms' Post-Acquisition Integration: An  
Exploratory Qualitative Study**

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## Abstract

Cross-border mergers and acquisitions (M&As) have shown significant growth during recent years. In particular, Chinese cross-border M&As have captured an important position. However, the failure rate has continued to be noteworthy high, while cross-border M&As have increased significantly. Also, previous research indicated problematic characteristics of a lot of Chinese cross-border M&As. The research, which has focused on the post-acquisition integration of Chinese cross-border M&As, is still emerging and understudied. Therefore, this study aims to investigate further insights on the impact of cultural differences and absorptive capacity on the post-acquisition integration mode of Chinese acquiring firms in Chinese cross-border M&As within developed economies. A total of 16 senior managers from three Chinese medium-high-technology manufacturing enterprises have participated in a semi-structured face-to-face interviews in their offices in three different cities in China; Ningguo, Beijing, and Taiyuan. The interviews were undertaken over a six-week period from October to November in 2016. All the interviews have been transcribed verbatim and thematically analysed manually after the data collection phase. This study found four motivations for Chinese acquiring firms to attempt cross-border M&As. Subsequently, since three main obstacles were discovered; cultural differences, perceived environmental uncertainty and lack of managerial confidence, and weak absorptive capacity; Chinese acquiring firms have adopted a ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode in the post-acquisition integration to avoid the influence of these obstacles as much as possible, and assimilate and integrate the newly acquired knowledge from their acquired firms effectively.

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# 1 Introduction

## 1.1 Background

Mergers and acquisitions (M&As) have been a prevalent research area in recent years. In 2013, the total worldwide volume of M&As was approximately equal to Brazilian GDP, at US\$2.24 trillion. This stresses the importance of understanding M&As in management research (Bauer, Matzler, & Wolf, 2016). With the important cultural differences between acquiring companies and acquired companies, cross-border M&As and domestic M&As differ significantly. Within the broader area of foreign direct investment (FDI), cross-border M&As have increased notably during the past 15 years (UNCTAD, 2000, 2015), reaching a total of US\$1.6 trillion in 2015, which has been calculated as one-third of the entire value of global M&As (UNCTAD, 2015). Cross-border M&As have shown significant growth following the Great Recession, with the lowest amount in the last 10 years being US\$0.53 trillion in 2009 (Rottig, Schappert & Starkman, 2016). In recent years, a new phenomenon has emerged wherein cross-border M&As have begun to be adopted by multinationals from emerging economies as one of their global development strategies (Liu & Woywode, 2013). Notably, multinationals from China and India have captured a significant position in cross-border M&As (Boateng, Qian, & Tianle, 2008; Buckley et al., 2007).

However, the failure ratio maintains a considerably high level although cross-border M&As have increased by an obvious amount in recent years. Failed cross-border M&A deals accounted for 50% to 83% of the entire transactions of global cross-border M&As (KPMG, 1999, 2014). Also, for numerous Chinese MNEs, features including value

destruction and other problems have been shown in cross-border M&As (The Economist, 2008). Thus, the literature that focuses on post-acquisition integration of cross-border M&As from emerging economies, particularly from China, has gradually increased.

As a significant entry strategy of FDI, the motivations of cross-border M&As are the same as for other FDI methods, which include improving the acquiring firm's competitive advantage, better utilising and developing a corporation's assets, and varying risk, among other factors (Li, Li, & Wang, 2016). For Chinese cross-border M&As, Deng (2010b) pointed out that seeking a strategic asset can be one of the most significant reasons although there are many others. Chinese cross-border M&As help Chinese multinational enterprises (MNEs) acquire new external knowledge or strategic assets through international acquisitions to lessen Chinese MNEs' competitive weakness (Child & Rodrigues, 2005; Deng, 2007; Deng, 2010b).

## **1.2 Study Purpose and Significance**

The purpose of this thesis is to investigate the impact of cultural differences and absorptive capacity on Chinese acquiring firm's post-acquisition integration mode in cross-border M&As. Regarding the different cultures between target firms and acquiring firms, many scholars have tried to determine M&As' success and failure from the cultural perspective (Morosini, Shane, & Singh, 1998; Very, Lubatkin, Calori, & Veiga, 1997; Weber, 1996). The capacity for exploiting routines and knowledge is necessary for companies to solve problems and then realise successful international acquisitions; this is referred to as absorptive capacity (Zollo & Singh, 2004).

The significance of this research is that this thesis attempts to realise the contributions to the literature of cross-border M&As in three ways. Firstly, this thesis attempts to expand and supplement the extant literature about post-acquisition integration of cross-border M&As in developed economies by acquirers from emerging economies. It has been found that a creative integration mode has been significantly adopted by Chinese acquiring firms. This integration mode showed a high degree of management autonomy for acquired firms in developed economies. It is fascinating that this whole integration mode seems notably different from a traditional integration mode as outlined in the extant literature. The traditional integration mode means that the integration should be designed from the top down, and should regard the acquiring firm as the centre (Haspeslagh & Jemison, 1991). It was also discovered that this integration mode not only helped Chinese MNEs avoid the influence of cultural difference and absorptive capacity to a considerable extent, but also helped them complement the disadvantages of Chinese cross-border M&As. Furthermore, through this integration mode, the Chinese MNEs have even gained more benefits from cultural differences when compared to the traditional integration mode.

Secondly, as the integration mode emerged it became clear that a lens of Taoism could be adopted. This is one of the most important Chinese traditional cultures, and it could be used to interpret this new integration mode as the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode. There is a scarcity of literature utilising Taoism to introduce the post-acquisition integration mode of Chinese cross-border M&As. This study contributes to the expansion and prosperity of the existing related research. Most importantly, this thesis develops a model, which is labelled the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode, that is presented from a Chinese acquiring firm’s perspective, and can be applied to the existing related studies.

Thirdly, this thesis also found, and has offered, several new elements and insights into the existing related studies. Perceived environmental uncertainty and lack of managerial confidence have emerged in this thesis, which were noticed by few researchers in terms of post-acquisition integration and cross-border M&As from emerging economies. Besides this, with weak absorptive capacity, the needs of imitation effects and demonstration effects for Chinese acquiring firms have also been observed in this thesis. There is also a scarcity of literature that has mentioned these needs of imitation effects and demonstration effects for Chinese MNEs in the research area of cross-border M&As from emerging economies.

Moreover, since the qualitative method appears to be likely to offer more profound insights and more abundant information, the application of a more qualitative method has been called for by scholars in the research of cross-border M&As (Rottig et al., 2016; Schweizer, 2005). For example, case studies and in-depth interviews are qualitative methods. This approach can provide a better comprehension of cross-border M&As, which was the case in this thesis.

### **1.3 Research Question**

This thesis aims to contribute to the existing studies on the impact of cultural differences and absorptive capacity on Chinese acquiring firm's post-acquisition integration mode in cross-border M&As within developed economies. It will conduct a qualitative research through in-depth interviews with the aim of offering a deep and rich understanding of the process of post-acquisition integration and integration mode by Chinese MNEs in Chinese cross-border M&As. Thus, the research question for this thesis was identified as:

How do cultural differences and absorptive capacity impact the post-acquisition integration mode of Chinese acquiring firms in cross-border M&As within developed economies?

Regarding the following sections of this thesis, chapter two provides an overview of the literature on the development of cross-border M&As from emerging economies, mainly from China, and cultural differences and absorptive capacity in the post-acquisition period. Moreover, chapter two also focuses on Chinese acquiring firms in their post-acquisition integration of Chinese cross-border M&As. The research methodology, the research design, the collection of data, and the analysis of the data of this study are covered in chapter three. Chapter four sets out the findings of this research. The findings are expressed in the form of themes and categories, with several tables presenting direct quotes from the transcribed interviews based on the analysis. The implications for literature and theory, the implications for practice, and the implications for future research of this study are discussed in chapter five. Finally, chapter six provides the conclusion of this study and its findings, its significance and relevance, as well as the research limitations, future research directions and the conclusions of this thesis.

# 2 Literature Review

## 2.1 Introduction

The literature review is chapter two of the thesis. It consists of four main sections: Cross-border M&As from emerging economies, focusing especially on those from China; cultural differences in post-acquisition integration; absorptive capacity in post-acquisition integration; and Chinese acquiring firms in cross-border M&As, and then in post-acquisition integration. The chapter starts with a diverse literature review on cross-border M&As. The first section includes the development and current situation of cross-border M&As from emerging economies, particularly from China. The second section concentrates on the influence of the cultural differences between acquired firms and acquiring firms in post-acquisition integration. The third section reviews absorptive capacity in post-acquisition integration. The last section provides a review of Chinese acquiring firms in cross-border M&As and subsequently in post-acquisition integration.

## 2.2 Cross-border M&As from Emerging Economies

Initially, multinationals from developed countries have always adopted a preferred corporate strategy, namely M&As, to expand their scale, acquire new knowledge and vary their current business scope in new markets (Gomes, Weber, Brown, & Tarba, 2011; Pablo & Javidan, 2004). Over the past 20 years, although M&As' failure rate has been continuously reported as being high, M&As' scope and frequency have shown an important increase (Cartwright & Cooper, 1996, 2000; Reus & Lamont, 2009; Weber,

Tarba, & Oberg, 2014). For the developing strategy of corporate globalisation, cross-border M&As have been regarded as an extensively adopted strategy. From the aspect of sales, cross-border M&As can lead to a quicker increase than an organic increase, although this may also cause bigger risks (Lynch, 2006).

In recent years, a new phenomenon has significantly emerged wherein cross-border M&As have begun to be used by multinationals from emerging economies as one of their global developing strategies (Liu & Woywode, 2013). Primarily, in cross-border M&As, multinationals from China and India have occupied a significant position (Boateng et al., 2008; Buckley et al., 2007).

From 2007, Chinese Outbound Foreign Direct Investment (OFDI) has grown by 132% and reached US\$52 billion in 2008, despite the global financial crisis occurring in that year. Since then the flow towards outbound investment has increased continuously, to US\$56 billion in 2009 and US\$68 billion in 2010 (UNCTAD, 2011). From 2011 to 2015, it was estimated that the average annual increase in the ratio of Chinese OFDI had maintained an increasing rate of around 17% (Ministry of Commerce of China, 2016). Most significantly, for Chinese companies' globalisation, cross-border M&A has been recognised as a main entry mode (Alon & McIntyre, 2008; Deng, 2010b; Peng, 2012). From US\$3 billion in 2004, the value of Chinese cross-border M&As has grown by 10 times, reaching US\$33.79 billion by 2013 (Ministry of Commerce of China, 2014). Zheng, Wei, Zhang, and Yang (2016) found that within Chinese cross-border M&A deals, the knowledge-intensive industries from developed countries have progressively drawn Chinese Multinationals' attention. These are, for example, industries including computer science, biotechnology and machinery manufacturing.

Previous research identified that utilising assets is not the only reason for corporates' foreign direct investment (FDI); among other reasons are searching for strategic assets,

and exploiting or increasing the corporates' competitive advantages (Chang, 1995; Dunning & Lundan, 2008; Makino, Lau, & Yeh, 2002). For multinationals from emerging markets, this is especially important. With disadvantages in their levels of tangible and intangible resources, including technology, these corporates are inclined to be latecomers (Li et al., 2016).

The institutional environment, such as the protection of intellectual property, and infrastructure such as communication and interaction platforms for innovative corporates, might not yet be developed. Therefore, it might be hard to exploit the acquired assets internally (Li et al., 2016). Thus, inferior factors of latecomers can be conquered by way of going overseas. Similarly, the limitations of internal institutions can also be mitigated (Luo, 1998). If multinationals from emerging markets can utilise and integrate overseas core competitive advantages, new opportunities from markets worldwide can be explored by these multinationals (Luo & Tung, 2007). Stiebale (2016) also demonstrated that the post-acquisition innovation of the merged firms showed a considerable increase after cross-border M&As.

Furthermore, from the perspective of previous scholars in the management field (Lubatkin, 1987; Very & Schweiger, 2001; Walter & Barney, 1990), the significance of the integration procedure after acquisitions has been stressed by the prior research on performance and the strategy of M&As. Finally, the process of post-acquisition integration helps realise the synergic effects from M&A transactions (Larsson & Finkelstein, 1999; Pablo, 1994). Besides, in the integration process, there are some obstacles for multinational MNEs from emerging economies, especially for Chinese MNEs in post-acquisition integration of cross-border M&As.

## 2.3 Cultural Differences in Post-Acquisition Integration

As mentioned above, there are some obstacles for emerging MNEs in the process of post-acquisition integration of cross-border M&As. This section emphasises one of the most important obstacles, the cultural differences between target firms and acquiring firms. Concerning different cultures between target firms and acquiring firms, many scholars have attempted to determine the success and failure of M&As from the cultural perspective (Morosini et al., 1998; Very et al., 1997; Weber, 1996). In the international environment, the touching of cultures is linked to costs, risks and difficulties, which is proposed by the similarities, fit and distance proposition of cultures (Hofstede, 2001). Between acquiring firms and target firms, communication and cooperation turn into a significant challenge. Therefore, with increasing differences in the cultures between acquiring firms and target firms, the integration costs rise (Kogut & Singh, 1988).

Within post cross-border M&As integration, cultural differences between target firms and acquirers include national-level cultural differences and organisational-level cultural differences (Bauer et al., 2016; Cloudt, Hagedoorn, & Van Kranenburg, 2006; Kogut & Singh, 1988). Previous research has shown that national-level cultural difference is an essential factor for the success or failure of cross-border M&A integration, processes and outcomes (Stahl & Voigt, 2008; Teerikangas & Very, 2006; Weber, 1996). National-level cultural differences are related to the degree to which cultural norms differ between two different countries (Kogut & Singh, 1988).

However, the findings of the prior research have not been consistent. On the one hand, Cloudt et al. (2006) found that national-level cultural differences have positive effects on the post-acquisition innovation of acquiring firms. Kogut and Singh (1988) have also shown that it would be beneficial for merged entities from countries with

significant national-level cultural differences.

On the other hand, national-level cultural difference is also usually known as a primary barrier for integration of cross-border M&As (Datta & Puia, 1995; Morosini et al., 1998). Bauer et al. (2016) found that national-level cultural differences have an obstructive impact on an acquiring firm's innovation within the process of cross-border M&As. Higher levels of conflict in daily operations after cross-border M&As, cultural ambiguity and process losses when bilateral cultures collide might be increased by larger national-level cultural differences (Morosini et al., 1998). National-level cultural differences can also affect the identity-establishing process generating in-group versus out-group biases, which can increase cultural uncertainty and ambiguity in the future, leading to social conflicts and a high possibility of distrust (Vaara, Sarala, Stahl, & Björkman, 2012).

The findings are also inconsistent in terms of organisational-level cultural differences. Kogut and Singh (1988) demonstrate that different styles of practices and routines that belong to organisational-level cultural differences would be beneficial for the merged entity. Innovation and R&D activities are often related to these practices and routines (Morosini et al., 1998).

However, organisational-level cultural differences including distinct practices and routines would also be a significant obstacle for the integration process and knowledge transfer, and cause high integration costs between the target firm and the acquirer (Bauer et al., 2016; Rottig et al., 2016). Moreover, Rottig et al. (2016) also show that national-level cultural differences are also reflected in organisational-level cultural practices.

Finally, there is a scarcity of research focusing on how national-level cultural

differences and organisational-level cultural differences affect post-acquisition integration and integration mode, and how emerging MNEs deal with this significant obstacle, especially for Chinese MNEs. Thus, as one of its most essential aspects, this thesis has focused on the impacts of national-level and organisational-level cultural differences on the post-acquisition integration and the integration mode of Chinese acquiring firms in cross-border M&As.

## **2.4 Absorptive Capacity in Integration**

Scholars of organisational learning have described a company as an organisation which has two essential features: one is that this organisation is based on routines and relying on the past; and the other is that reasoning can be converted by this organisation from experience into understanding and routines (Levitt & March, 1988). In the light of the knowledge-based perspective, the most significant asset on the aspect of strategy for firms is knowledge and, in particular, implicit knowledge (Grant, 1996; Kogut & Zander, 1992). Cross-border M&As can be applied by firms as a chance to approach external technology and knowledge that target enterprises are dominant in (Nadolska & Barkema, 2007). For emerging MNEs, one of the important reasons for their cross-border M&As is learning (Li, 2010; Luo & Tung, 2007; Meyer & Thaijongrak, 2012). Moreover, the complications of international acquisitions have often been underrated by companies in the initial period of globalisation. Simultaneously, the synergy within the strategic assets of merged entities has usually been overstated (Child, Faulkner, & Pitkethly, 2003). Exploiting routines and knowledge is necessary for companies to solve problems and then realise successful international acquisitions. This is referred to as absorptive capacity (Zollo & Singh, 2004).

Absorptive capacity is explained as “the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends” (Cohen & Levinthal, 1990, p. 1). Cohen and Levinthal (1990) also stated that a firm’s absorptive capacity is significant for its innovative capabilities. It is regarded as a function of resolving previous organisational questions, and comes from the stores of knowledge in the enterprise (Kogut & Zander, 1992). Lane, Koka, and Pathak (2006) articulated that the conception of absorptive capacity has been regarded as a potential theme in the management of international strategy, and various organisational occurrences; for instance, organisational learning, knowledge assimilation and transmitting, strategic leagues, and operating results; have been interpreted by employing absorptive capacity. In the meantime, the dynamic capability is defined as “the capacity of an organization to purposefully create, extend, or modify its resource base” (Helfat et al., 2007, p. 4). Deng (2010a) stated that there is a general consensus that the dynamic capability of an organisation can be symbolised by its absorptive capacity. For instance, Zahra and George (2002) have also defined absorptive capacity as a dynamic capability which includes a multi-dimensional concept. Absorptive capacity is related to a companies’ capabilities of knowledge acquisition, assimilation, transformation and exploitation (Zahra & George, 2002).

Furthermore, a lot of organisational scholars have defined absorptive capacity itself as having diverse impacts and contributions on differing parts belonging to absorptive capacity (Jansen, Van Den Bosch, & Volberda, 2005; Kim, 1998; Van Den Bosch, Volberda, & De Boer, 1999). Therefore, this gives a better comprehension of the reasons why specific companies cannot successfully develop and convert newly acquired knowledge even though they have the ability to absorb and acquire it (Deng, 2010a). For example, Kim (1998) regarded the standard of previous related knowledge as the

decisive factor of absorptive capacity. In the meantime, the effects of combinative capabilities and organisational structure on the degree of absorptive capacity has been shown by Van Den Bosch, Volberda, and De Boer (1999).

When considering the most significant evolution of absorptive capacity as well as the most related characteristics in the background of cross-border M&As, Deng (2010a) suggested a model of absorptive capacity that includes three dimensions. The model is composed of the three most important dimensions, and each dimension is identified by some organisational elements (Cohen & Levinthal, 1990; Kim, 1998; Lei & Hitt, 1995; Shimizu, Hitt, Vaidyanath, & Pisano, 2004; Van Den Bosch et al., 1999; Zollo & Singh, 2004). The first dimension refers to companies' capability to comprehend and recognise the acquired strategic assets, with prior related knowledge regarded as the main factor for the first dimension (Kim, 1998; Shimizu et al., 2004). Halebian, Kim and Rajagopalan (2006) found that companies' following the behaviour of M&As can be forecasted by the previous M&A experience of these companies.

The second dimension refers to the capability to integrate and synthesise the acquired strategic asset, with combinative capabilities regarded as the major factor (Van Den Bosch et al., 1999; Zollo & Singh, 2004). As for the main factor of this dimension, combinative capabilities help firms compound and acquire new knowledge (Van Den Bosch et al., 1999; Zollo & Singh, 2004). According to the rationale within the previous studies, combinative capabilities help acquiring companies integrate assets in new ways, which have been regarded as a useful mechanism of governing within absorptive capacity (Deng, 2010a). It is significantly difficult for acquiring enterprises to absorb and integrate acquired strategic assets if they lack these capabilities (Deng, 2010a; Jansen et al., 2005; Kogut & Zander, 1992; Van Den Bosch et al., 1999; Zollo & Singh, 2004). If firms can accomplish an effective combination and interplay of

complementary assets, innovation success will become easier to achieve (King, Covin, & Hegarty, 2003).

The third dimension relates to the capability to covert and apply the strategic assets of acquisitions, and strategy execution and effort is the principal factor (Deng, 2010b; Lane, Salk, & Lyles, 2001; Hitt, Harrison, & Ireland, 2001). Lane et al. (2001, p. 1157) stated that “applying external knowledge involves the ability to diffuse knowledge within the organization, to integrate it with the organization’s activities and to generate new knowledge from it”. Therefore, acquiring companies’ competitive advantage or their sound performance cannot be automatically generated by the acquired strategic resources (Deng, 2010a). One of the important barriers for acquiring companies using the acquired resources to produce value is unsuccessful strategy execution (Seth, Song, & Pettit, 2002). Hitt, Harrison and Ireland (2001) demonstrated that the strategy of acquiring companies in the post-acquisition phase or the companies’ actions in post-acquisition integration will differentiate success and failure. Moreover, the degree of absorptive capacity can be affected by the utility of strategy execution of acquiring companies, which is seen as a basic element for the acquiring companies’ absorptive capacity (Deng, 2010a). The strategy execution also simultaneously ensures that the acquiring companies are able to use and develop the potentiality of the acquired resources. Therefore, strategy execution and effort is an essential dimension for a firm’s absorptive capacity. For absorptive capacity, as a multi-dimensional concept, every dimension is dissimilar, but indispensable and supplementary. Besides this, the effects of absorptive capacity on the commercial performance of the firm and the acquisition of knowledge have been interpreted by all the three dimensions together (Deng, 2010a). Furthermore, the companies with lower levels of absorptive capacity would not only have less potential to acquire and absorb knowledge, but also have less effectiveness in

expanding and applying implicit knowledge (Deng, 2010a). Li et al. (2016) also found that, in particular, companies with higher absorptive capacity would have a higher ability to conquer the problems created by the cultural differences between acquiring companies and target companies. A firm's absorptive capacity is a significant factor for such a firm achieving the goal of organisational learning (Liu & Deng, 2014). If companies want to assimilate the external knowledge, they must possess adequate absorptive capacity (Liu & Woywode, 2013). Without adequate absorptive capacity, it is hard for acquiring companies to successfully recognise, absorb and use the target strategic assets (Deng, 2010b). The performance and results of Chinese cross-border M&As are notably influenced by the absorptive capacity of the Chinese MNEs. Deng (2010a) pointed out that for an acquiring company, its capability for recognising, absorbing, integrating and using the acquired new knowledge in business utilisation is significantly affected by its absorptive capacity. Therefore, the outcomes of Chinese acquiring companies' cross-border M&As are also influenced by their absorptive capacity. Concerning the view of integration management, Chinese acquiring firms' selection for the mode of integration has been significantly influenced by their absorptive capacity in cross-border M&As. Thus, the absorptive capacity is also regarded as a critical determinant for the selection of an integration pathway (Liu & Woywode, 2013).

Therefore, absorptive capacity can play a significant role in the post-acquisition integration of cross-border M&As. However, the research focused on the effects of absorptive capacity in the post-acquisition integration of the cross-border M&As from emerging MNEs' is still underdeveloped, especially for Chinese cross-border M&As. Thus, this thesis aimed to investigate how the absorptive capacity of Chinese acquiring firms influences their post-acquisition integration mode in Chinese cross-border M&As.

## **2.5 Chinese Acquiring Firms in Cross-Border M&As and Post-Acquisition Integration**

Chinese companies have notably participated in the field of international business over the past ten years (Chatzkel & Ng, 2013). As mentioned above in section 2.2, Chinese OFDI has significantly increased in recent years. In the context of the globalisation goal of Chinese MNEs, cross-border M&As have been regarded as a principal entry mode. Data from the Ministry of Commerce of China (2014) shows that the value of Chinese cross-border M&A deals has had a 10-fold increase from US\$3 billion in 2004 to US\$33.79 billion in 2013. Chinese cross-border M&A has global significance (Liu & Deng, 2014). Furthermore, since 2005, in Western Europe, the amount of Chinese cross-border M&As has continuously increased, to the extent of a 200% increase by 2011 (Liu & Deng, 2014). Previous research identified that scholars and commercial practices have both paid close attention to Chinese companies' internationalisation (Deng, 2012). Sun (2016) stated that, with the cross-border M&As in developed economies, Chinese multinationals had shown their courage and aggressiveness.

Following this logic, Chinese multinationals' motives have been investigated in a series of studies around the globe (Bhagat, Malhotra, & Zhu, 2011; Boateng et al., 2008; Deng, 2010b; Sun, 2016). These studies have also examined the influences of the motivations on the performance of finance and strategy in the post-acquisition integration process. There are also some factors affecting the selection of entry mode for the FDI of Chinese firms, including the motivations and intent of strategy (Rui & Yip, 2008); for example, asset-seeking (Deng, 2009). One of the critical reasons for the cross-border M&As of Chinese acquiring firms is learning (Li, 2007). For example, Deng (2007) and Liu and Woywode (2013) stated that the acquired targets of Chinese cross-border M&As

include top-line brands and cutting-edge technologies from North America and the European Union, respectively. The European Union has shown a significant 20-fold increase in the annual contract value of Chinese cross-border M&As from 2009 to 2011, reaching £15 billion. The phenomenon of continuously increasing Chinese OFDI within the European Union is obvious (Clegg & Voss, 2012).

The cultural differences which include national-level and organisational-level cultural differences, and absorptive capacity are significant for Chinese MNEs in cross-border M&As, as explained above in sections 2.3 and 2.4.

The process of post-acquisition integration helps realise the synergic effects from M&A transactions (Larsson & Finkelstein, 1999; Pablo, 1994). Post-acquisition integration is also important for the acquiring firm's levels of innovation, which are also influenced by cultural differences (Bauer et al., 2016; Björkman, Stahl, & Vaara, 2007; Sarala & Vaara, 2010). One of the main reasons for declining innovation outputs of the acquiring firm after an acquisition is less successful post-acquisition integration (Puranam, Singh, & Zollo, 2006). Schweiger (2002) showed that the ability to reduce decreases in value to the minimum level in M&As and increase value creation to its maximum in M&As, is significantly impacted by the implementation of a carefully-planned integration procedure. Post-acquisition integration is a significant determinant of the success or failure of cross-border M&As. Therefore, the process of post-acquisition integration is critical for Chinese cross-border M&As. However, the target companies are often forced into the method used for integration and applications by the acquiring companies (Liu & Woywode, 2013).

Post-acquisition integration processes have often been separated into human integration and task integration (Bauer et al., 2016). Human integration is associated with organisational cultures, and values and aims to create positive attitudes among

employees and a shared identity with the firm (Ashforth & Mael, 1989). The purpose of task integration is realising operational synergies, while it represents the coordination of transferring and sharing capabilities and resources (Birkinshaw, Hakanson, & Bresman, 2000). Human integration could have a negative effect on innovation outcome; however, innovation outputs gained a significant positive effect from task integration at the same time (Bauer et al., 2016).

Haspeslagh and Jemison (1991) emphasised that, in the process of post-acquisition integration, structural integration is distinguished by an integration which includes a 'bold stroke' to a large extent. They also advised that, to achieve the goal of synergy, it is essential that post-acquisition integration must be designed from top to bottom, while regarding the acquiring firm as the centre (Haspeslagh & Jemison, 1991).

Post-acquisition integration has been examined by scholars through studying the modes of integration (Gomes et al., 2011; Haspeslagh & Jemison, 1991; Liu & Woywode, 2013). Three differing modes of post-acquisition integration have been studied in previous research (Haspeslagh & Jemison, 1991). The first mode is 'absorption', which stands for a high degree of post-acquisition integration. The meaning of the first mode is that the border at the middle of the acquiring company and the acquired company has been melted away, and the management autonomy of the acquired company has been reduced to a minimum. The second mode is 'symbiosis', which expresses a moderate degree of post-acquisition integration. In this mode, the status of the coexisting companies slowly changes to one of interdependence between the acquiring company and the acquired company.

The third mode is 'preservation', which signifies the lowest degree of post-acquisition integration. The third mode suggests that the acquiring company manages the acquired company to a minimal extent. In other words, the management of the acquired company

has been increased and maintained to achieve maximum autonomy (Haspeslagh & Jemison, 1991). Liu and Woywode (2013) have found a hybrid mode at the middle position of the symbiosis and preservation modes in the post-acquisition integration of Chinese M&As. They defined this mode as a 'light-touch integration' mode, which basically means that, in the process of post-acquisition integration, there is extremely little or no integration occurring. After the cross-border M&As, the extant management team of the acquired firm is maintained by the majority of the Chinese MNEs (Liu & Woywode, 2013). Regarding the acquired firm's daily work/tasks, the Chinese MNEs have shown a non-proactive involvement. If compared to the conventional cross-border M&As, this integration mode sometimes appears to be exceedingly non-active (Liu & Woywode, 2013). It indicates the characteristics of symbiotic mode that refers to a significant level of the synergy possibilities and supplementary industry profiles. In the meantime, however, it also represents the features of the preservation mode, in which the Chinese MNEs have kept the border between themselves and the acquired company, and have permitted a high degree of autonomous management by the acquired company (Liu & Woywode, 2013).

Moreover, Sun (2016) also stated that spectators to Chinese cross-border M&As had been astonished by the Chinese acquirer's mindset to go with the flow and the acquirer's exterior effortless in the process of post-acquisition integration. The traditional knowledge of the primary trend in theories of international strategy and cross-border M&As might be challenged by the non-traditional conduct of Chinese multinational companies' approaches to the post-acquisition integration. In her study, Sun (2016) tried presenting that this integration had been conceived as a local pattern and conception from the perspective of Taoism philosophy in China. Taoism is one of the traditional shapes of Chinese wisdom (Chatzkel & Ng, 2013). Taoism is often

interpreted as a 'way' or a 'road' in English literal translations. The core minds of Taoism are about complying with natural, permanent, spontaneous and unnameable patterns in one's surroundings, and how to achieve the patterns that result in being a Taoist (Chatzkel & Ng, 2013). Graham (1989) stated that Tao could be roughly explained as the basic energies of the universe flow, or as the force or pattern that helps to maintain the universe in the status of being balanced and ordered. Chatzkel and Ng, (2013) explained that within Taoism, 'action-less or doing nothing' is the core mind of 'Wu Wei', which is explained as water going at a low speed in line with water's nature of yielding. Water is so powerful that it can shift soil and sculpt hard rock despite its soft nature. Taoist philosophy suggests that in the light of the manners of the universe, the universe runs in a harmonious way (Chatzkel & Ng, 2013). In Taoism, Lao-zi and Zhuang-zi are two well-known Taoists. Lao-zi and Zhuang-zi pointed out that life forms can change and make themselves suitable for the environment around them. Lao-zi and Zhuang-zi also proposed that, as life forms, human beings are in the same situation and adapting into nature in order to survive (Chatzkel & Ng, 2013). Previous research pointed out that, in the modern world, Taoism affected Chinese managers' leadership ways (Xing & Sims, 2012). Xing and Sims (2012) demonstrated that Chinese managers adopted Taoism's fundamental thoughts in the commercial environment. Chinese managers always deal with negative issues accompanied by self-reflexivity rather than being inclined to force any kind of circumstances. In the light of the Taoism within the Chinese traditional cultures, the opposite of the approach of 'Wu Wei' can be regarded as a 'You Wei' approach in Chinese which refers to an effortful way (Sun, 2016).

Moreover, in post-acquisition integration of cross-border M&As, Chinese MNEs may perceive the uncertainty from a different culture, different institutions and a different business environment within host countries. Perceived environmental uncertainty arises

when the decision-makers of an organisation realise the feature of unpredictability in their environment (Buchko, 1994; Milliken, 1987). Therefore, perceived environmental uncertainty can be another obstacle for Chinese MNEs in post-acquisition integration.

Milliken (1987) also identified that the perceived environmental uncertainty would take place when the understanding of the major events or trends occurring in the outside environment causes a lack of confidence and predictability for the decision-makers, or when the decision-makers realise that the probabilities cannot be assigned to the possibility exactly in regards to the arising of the changes and/or specifically, special and unusual events. Perceived environmental uncertainty is significant for corporate management. For recognising and organising valuable M&As, managers can apply a firm's resources more effectively, if these managers can comprehend and know the demand of industry more clearly (Chen & Lin, 2017). Bertrand and Schoar (2003) identified that, in a specific environment, managers operate differently. Previous research supposed that in the context of high environmental uncertainty, more valuable M&As can be realised by the managers who are more capable in the positions (Chen & Lin, 2017).

Naturally, Chinese acquiring firms want to integrate and manage target firms well in the post-acquisition integration process. Previous research found that M&As' management performance and capacity are significantly influenced by high environmental uncertainty (Chen & Lin, 2017). Due to the reason that, in different industries and different phases of each industry lifecycle, the perceived environmental uncertainty is different, the degree to which different firms identify the importance of the outside environment can be different, and firms' response to the environment also differs (Abels, 2002). However, there is scarce literature focusing on the influence of perceived environmental uncertainty for Chinese MNEs in post-acquisition integration.

Hence, this thesis has also paid attention to perceived environmental uncertainty in the post-acquisition integration of Chinese cross-border M&As.

In addition, knowledge transfer is also significant for acquiring companies and their innovation in cross-border M&As (Björkman et al., 2007; Bresman, Birkinshaw, & Nobel, 1999; Sarala & Vaara, 2010). A specific extent of knowledge transfer is required for companies to leverage the potentiality of innovation of acquired resources (Bresman, Birkinshaw, & Nobel, 2010). Knowledge transfer refers to the procedure of transferring the knowledge that is inclined to be socially complex, embedded, and implicit between target companies and acquiring companies (Barney, 1991; Sarala & Vaara, 2010). Zander and Kogut (1995) pointed out that knowledge is regarded as the accumulated practical skill or expertise that helps one do something smoothly and efficiently. The processes of knowledge transfer within multinational firms are complicated but significantly important for sustaining competitive advantage (Bhagat, Kedia, Harveston, & Triandis, 2002). Prior studies have suggested that cultural integration is crucial for enabling knowledge transfer as part of the acquisitions process (Björkman et al., 2007; Bresman et al., 1999). Bauer et al. (2016) and Sarala and Vaara (2010) demonstrated that cultural differences also influence knowledge transfer during the process of cross-border M&As.

Besides, demonstration effects are also important for Chinese acquiring firms to learn new external knowledge. In regards to learning knowledge through FDI, the demonstration effect is a significant mechanism (Fu, 2012). Fu (2012) also showed that with the methods of demonstration-by-implementation and word-of-mouth, firms could learn and imitate advanced external knowledge and practice. An example is the Chinese banking industry. Foreign banks had an important demonstration effect on Chinese local banks in respect of advanced management skills following foreign banks

establishing themselves in China (Fu, 2012). Also, firms can assimilate new external knowledge through imitation. The imitation effects are notably important for Chinese acquiring firms in organisation learning (Chang et al., 2017). The dual factor of competitiveness in innovation and growing markets involves transformation and imitation in organisational capabilities (Zander & Kogut, 1995).

## **2.6 Summary**

An understanding is required of the subtle difference in the direction of companies' behaviour for the occurrence of unceasingly growing Chinese OFDI, especially Chinese cross-border M&As (Harrison & Ma, 2013; Liu & Deng, 2014). Therefore, this thesis aims to investigate the impacts of national-level and organisational-level cultural differences and absorptive capacity on the post-acquisition integration and the integration mode of Chinese acquiring firms in Chinese cross-border M&As. Also, this study discussed imitation and demonstration effects and the obstacle of perceived environmental uncertainty. The methodology of this study is presented in the next chapter.

# 3 Methodology

## 3.1 Introduction

The methodology is chapter three of this thesis. The adoption of a qualitative research method for this study is justified in this chapter. This chapter also provides a review of the study aim and research design, and an explanation of the sampling strategy. A detailed interpretation of the data collection, ethical considerations and data analysis are also presented.

## 3.2 Study Aim

This thesis aims to investigate more insights into the impact of cultural differences and absorptive capacity on Chinese acquiring firms' post-acquisition integration mode during Chinese cross-border M&As within developed economies. In other words, considering national-level and organisational-level cultural differences, and absorptive capacity, this thesis outlines a study with the aim of offering detailed information about the process of post-acquisition integration and integration modes by Chinese MNEs in Chinese cross-border M&As within developed economies.

## 3.3 Research Design

### 3.3.1 Qualitative Research Method for The Thesis

As mentioned above, this study is intended to find more insights into how national-

level and organisational-level cultural differences, and absorptive capacity influence the process of post-acquisition integration and integration modes by Chinese acquiring firms. Previous research has introduced qualitative research as follows:

Qualitative research is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem (Creswell, 2009, p. 4)

This was the case in this thesis. Furthermore, due to qualitative methodology appearing to be likely to offer more profound insights and more abundant information, the application of qualitative methods has been supported by scholars in research of cross-border M&As (Rottig et al., 2016; Schweizer, 2005).

### **3.3.2 Case Study and Interview**

A case study can be used as the major methodology for explorative, while descriptive and explanatory questions are suitable for generating novel and accurate insights about the phenomenon under study (Eisenhardt & Graebner, 2007). An abundant, deep and wide comprehension can be offered by the method of case studies (Morris & Wood, 1991). Previous research has defined the research method of case study “as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used” (Yin, 1984, p. 23). Yin (1994) also stated that based on various data sources, the case study is a plentiful, empirical description belonging to specific examples of a phenomenon. Robson (2002) showed that, for the analysis of organisations with a real-life background, a comprehensive case study could be regarded as a functional tactic. As a research tactic, the case study concentrates on comprehending the dynamics that have been shown within a single circumstance

(Eisenhardt, 1989).

Also, both single and multiple cases can be included in case studies (Yin, 1994). Eisenhardt and Graebner (2007) suggested that, on the basis of more deeply varied qualitative data, a more solid theory can be generated from multiple cases. Since multiple cases can help researchers easier gain exact meanings and suitable degrees of abstraction of concepts, it is possible to represent relationships and construct more accuracy with multiple cases. Researchers can realise the extension of exploring research aims and explaining theories through multiple cases (Eisenhardt & Graebner, 2007). When using multiple cases, one of the important impacts on the theoretical aspect is the expansion of the theory (Yin, 1994). Moreover, only those relationships which repeatedly occur among the majority of, or all of, the cases are maintained by the researchers who adopt multiple-cases as the research method (Eisenhardt & Graebner, 2007). Therefore, due to the features of case studies, it can be the suitable methodological framework for this thesis. Simultaneously, this thesis has adopted a multiple case studies methodology, which contains four cases of Chinese cross-border M&As from three Chinese MNEs.

Generally, case studies incorporate methodology for collecting data which contains archives, interviews, questionnaires and observations (Eisenhardt, 1989). For exploring the values and attitudes of people, interviewing can be an appropriate method since interviewing can supply an approach to the understanding, experience, and judgements of people, and even how they understand the incidents (Byrne, 2004). Due to that, this thesis explores more insights into Chinese cross-border M&As, as the impacts of cultural differences and absorptive capacity on the post-acquisition integration mode of Chinese acquiring firms. For example, the understandings, attitudes, perspectives, experience and judgements of the Senior Managers of Chinese acquiring firms are the

primary data. So, this thesis has used semi-structured interviewing as the method of data collection.

Furthermore, Eisenhardt (1989) mentioned that if the theoretical view or propositions have been pre-set, it might cause prejudice and restriction for the findings. Therefore, it is significant to try to move towards an ideal theoretical method without any thoughts for theory or any test for hypotheses at the start. In other words, researchers ought to refrain from considering the particular relationships among theories and variables to a large extent, specifically at the beginning of the research process (Eisenhardt, 1989). Hence, as a piece of explorative research with the aims of obtaining greater insight into the impact of cultural differences and absorptive capacity on Chinese acquiring firms' post-acquisition integration mode in cross-border M&As within developed economies, propositions have not been set in this study.

### **3.4 Sampling Strategy**

The research question for this thesis is; 'how do cultural differences and absorptive capacity impact the post-acquisition integration mode of Chinese acquiring firms in cross-border M&As within developed economies?' Therefore, Chinese firms which acquired target firms within cross-border M&As in developed economies can be used as essential samples for investigation for this thesis. In technology manufacturing industries, cross-border M&As are likely to transfer important technologies of products and procedure from acquired firms in developed economies to acquiring firms in emerging economies (Aybar & Ficici, 2009). As such, cross-border M&As by Chinese medium-high-technology manufacturing enterprises are an appropriate sample for studying acquiring firms' post-acquisition integration mode in this study.

For the selection of the cases, Eisenhardt (1989) stated that the cases might be selected to duplicate prior cases or expand emerging theory. The cases can also be selected to fill categories of theory and supply instances that are ‘polar’ to each other. Moreover, she also pointed out that although researchers might select the cases randomly, random selection of the cases is neither essential, nor preferable within case study design. Therefore, selecting the cases that seem to duplicate or expand emerging theory is the aim of theoretical sampling (Eisenhardt, 1989). Despite the fact that the sample was not chosen randomly, the sample indicated the selection of particular cases to expand the theory to a wide scope of organisations. Thus, four cases of typical Chinese cross-border M&As in developed economies have been selected for this thesis.

Specifically, as for the selection of cross-border M&As, previous research pointed out that a distinct chance to study post-acquisition integration is provided by transactions with asset-seeking as the main motivation (Liu & Woywode, 2013). Liu and Woywode (2013) also mentioned that Chinese international acquisitions in Germany primarily focus on asset-seeking transactions, rather than resources-driven ones.

Moreover, the large difference between Chinese culture and Western culture, which has been examined by scholars, makes developed economies that have a Western culture an appropriate context for exploring the cultural aspects of the research question (Hofstede & Hofstede, 2004). For example, Germany or other Western developed economies would be appropriate choices.

In summary, cross-border M&As of Chinese medium-high-technology manufacturing enterprises in Germany or other Western developed economies with asset-seeking as the major motivation could be a suitable selection criteria for the cases examined in this thesis. Finally, as mentioned above in section 3.3.2, in total four cases have been selected for this thesis. These four cases were separately collected from three Chinese

medium-high-technology manufacturing enterprises. The first Chinese firm (firm A) is a privately-owned enterprise that manufactures motor vehicle parts in China. The second Chinese firm (firm B) is a state-owned enterprise, which manufactures machine tools in China. The last Chinese firm is also a state-owned enterprise that manufactures heavy machinery and equipment in China. All four cases involve asset-seeking deals by Chinese cross-border M&As. Besides this, within the four cases, three deals involved merging with and acquiring the target firms, carried out by two of the three Chinese medium-high-technology manufacturing enterprises in Germany, and the last deal involved investing in Australia, which represented a focus on Western developed economies (e.g. Boateng et al., 2008; Liu & Woywode, 2013).

With respect to the participants, they had to meet three specific selection criteria in order to be selected for the interview process. Firstly, the current positions of the participants needed to be Senior Managers or individuals in upper positions in the three Chinese medium-high-technology manufacturing enterprises. Secondly, the participants needed to have been involved in both the cross-border M&As and the post-acquisition integration of the particular cases. Thirdly, the work period of each participant in these Chinese firms (calculated by the time of the interview) must have included the time since the specific cross-border M&As occurred.

The reason for the third requirements was that this ensured that the participants experienced both the cross-border M&As and the subsequent post-acquisition integration of the specific cross-border M&As from a timing perspective. The three selection criteria ensured that the participants had a comprehensive understanding of their company's respective cases.

### **3.5 Participants**

Based on a consideration of the study aims, research design and sampling strategy, 16 Senior Managers from three Chinese acquiring firms were purposely selected to participate in the data collection process. For protection of anonymity of both the Chinese firms and the participants, identifiable information has been removed from the study. Therefore, the three acquiring firms were coded as firms A, B, and C, and the acquired firms were coded as firms Aa1, Aa2, Bb1 and Cc1 correspondingly. The demographics of these firms are displayed in Table 1. Firm A has merged with firms Aa1 and Aa2, which refers to case one and case two, and firm B acquired firm Bb1, which is case three. Firm C acquired firm Cc1, which is case four.

Since firms A, B and C have adopted their new integration mode (the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode, which will be explained in the following sections of the Findings chapter), they asked and helped firms Aa1, Aa2, Bb1 and Cc1 to establish new subsidiaries in China, particularly in the industrial parks of firms A, B and C, respectively. Therefore, Aa1’s new subsidiary was coded as Aa1a, and the new subsidiary of Aa2 was coded as Aa2a. Bb1’s new subsidiary was coded as Bb1a. The new subsidiary of Cc1 was coded as Cc1a. These are also shown in Table 1.

Concerning the participants, they were coded as S1 to S16 respectively, as expressed in Table 2. Specifically, the participants S1 to S7 were from firm A, and S8 to S13 belonged to firm B. The rest of the participants, which included S14, S15 and S16, were from firm C. The demographic data of the 16 participants is also listed in Table 2.

#### **3.5.1 Demographic Data**

Tables 1 and 2, below, contain the demographic data of the participants.

**Table 1** Chinese Acquiring Firm Demographics

<b>Acquiring Firms</b>	<b>Ownership of Acquiring Firms</b>	<b>Acquired Firms</b>	<b>Senior Managers</b>	<b>Country of Origin of Acquired Firms</b>	<b>The Start of Cross-border M&amp;As</b>	<b>Time Frame in Years Since Merged</b>	<b>Duration Since Merged</b>	<b>The New Subsidiary of Each Acquired Firm</b>
<b>A</b>	Privately-Owned Enterprise	Aa1 (Case One), Aa2 (Case Two)	S1, S2, S3, S4, S5, S6, S7	Germany	June 2014 & April 2015	2 Years, 4 Months & 1 Year, 6 Months	Short-term	Aa1a (of Aa1), Aa2a (of Aa2)
<b>B</b>	State-Owned Enterprise	Bb1 (Case Three)	S8, S9, S10, S11, S12, S13	Germany	September 2005	11 Years, 1 Month	Long-term	Bb1a (of Bb1)

<b>C</b>	State-Owned Enterprise	Cc1 (Case Four)	S14, S15, S16	Australia	April 2011	5 Years, 7 Months	Medium- term	Cc1a (of Cc1)
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Calculated by October and November in 2016 (the time of interview)

**Table 2** Senior Manager Demographic Data

<b>Identifier Senior Manager</b>	<b>Age Range</b>	<b>Ethnicity</b>	<b>Current Position</b>	<b>Years of Working in Firms</b>	<b>Geographic Location of the Workplace</b>
S1	46-55 years	Chinese	Group Chief Financial Officer & Group Senior Vice President of Firm A	18	Ningguo, Anhui Province, China
S2	36-45 years	Chinese	Assistant General Manager & Securities Affairs Representative of Firm A	10	Ningguo, Anhui Province, China
S3	46-55 years	Chinese	Group Senior Vice President (In charge of marketing and technology) of Firm A	17	Ningguo, Anhui Province, China
S4	36-45 years	Chinese	(Former) Deputy Head of Technology Department of Firm A & (Now) Deputy General Manager (In charge of technology) of	16	Ningguo, Anhui Province, China

			Firm Aa1a (the Subsidiary of Firm Aa1)		
S5	46-55 years	Chinese	(Former) Deputy General Manager (In charge of manufacturing) of Firm A, & (Now) Chief Executive Officer (CEO) & General Manager of Firm Aa2a (the Subsidiary of Firm Aa2)	26	Ningguo, Anhui Province, China
S6	26-35 years	Chinese	Senior Manager in Group Finance Department of Firm A	3	Ningguo, Anhui Province, China
S7	46-55 years	Chinese	Deputy General Manager (In charge of technology) of Firm A	20	Ningguo, Anhui Province, China
S8	56-65 years	Chinese	(Former) Chief Engineer & (Now) Senior Expert-level Adviser of Firm B	39	Beijing, China
S9	36-45 years	Chinese	Deputy General Manager of Holding Company	9	Beijing, China

			of Firm B		
S10	26-35 years	Chinese	Deputy Head of Overseas Business Department of Firm B	10	Beijing, China
S11	46-55 years	Chinese	Chief Accountant & Head of Overseas Business Department of Firm B	20	Beijing, China
S12	46-55 years	Chinese	Chief Engineer of Firm B	30	Beijing, China
S13	46-55 years	Chinese	General Manager of Firm B	30	Beijing, China
S14	56-65 years	Chinese	Chairman of the Board of Firm C	40	Taiyuan, Shanxi Province, China
S15	46-55 years	Chinese	(Former) Head of Administrative Law Department & (Now) Deputy General Manager	30	Taiyuan, Shanxi Province, China

			of Firm C		
S16	46-55 years	Chinese	(Former) Head of Production Department & (Now) Head of Product Quality Supervision Department of Firm C	30	Taiyuan, Shanxi Province, China

Calculated by October and November in 2016 (the time of interview)

It is clear from Table 2 that all participants are very senior managers, the majority of whom have been working within their respective companies for a very long time. The shortest tenure is three years and the longest 40 years. The mean duration of the employees with the respective companies over all 16 employees was 21.75 years.

### **3.6 Ethical Considerations**

In terms of ethical considerations, after reading and checking the Massey University Screening Questionnaire 2016 (To Determine the Approval Procedure), the answers to all the questions were ‘no’. This is due to the fact that the research did not search for sensitive material of the businesses, or their intellectual property. At the same time, the researcher did not stand in an authoritative position over the participants. Besides, whenever the intentional or unintentional disclosure of sensitive information happened, the researcher strictly complied with the principles of confidentiality.

All the participants, the Chinese sample firms and the acquired firms, were accessed in an anonymous approach. In the phase of recruitment, this was applied to all the participants. For example, the participants have been anonymously coded from S1 to S16 for the protection of their confidentiality and privacy. The codes ‘S1, S2, and S3, etc.’ chosen by the researcher had features that are comprehensible for the researcher, but concurrently conceal all identifying information which might allow for recognition of any of the participants. The Chinese firms have been de-identified and coded as firms A, B, and C, and the acquired firms have also been coded in a non-identifiable fashion as firms Aa1, Aa2, Bb1 and Cc1, correspondingly. Also, the new subsidiaries of the acquired firms (firms Aa1, Aa2, Bb1 and Cc1) have been coded as firms Aa1a, Aa2a, Bb1a and Cc1a, respectively. In addition, both a consent form and an information sheet

were supplied to each participant before every interview (see Appendix A & Appendix B). It was a requirement that the consent form was signed by every participant before each interview, after the study had been explained by going through the participant information sheet.

The researcher and his supervisory team submitted a low-risk Ethical application to the Massey University Human Ethics Committee for this thesis before the data collection process was conducted.

### **3.6.1 The Approval of Ethics**

The low-risk Ethics Application was approved by the Massey University Human Ethics Committee in Auckland, New Zealand (see Appendix C). The researcher then travelled to China to initiate the data collection processes.

## **3.7 Materials**

Regarding the interview guide, it was designed based on the research question, research design and gaps identified through the literature review. It consisted of six sections. Firstly, each interview started with section one, which refers to demographic data. In this section, all the participants were asked to answer several demographic questions such as age, ethnicity, current position in the multinational firm, years of working in this firm, and the geographical location of their workplace. Then, in section two, the participants were asked to describe the influence of cross-border M&As. For example; ‘as for your opinion, what is the main impact of the cross-border M&As on acquiring firm? How do they influence the acquiring firm?’ At the same time, the participants

were asked to talk about specifically how the cross-border M&As affect acquiring the firm's innovation outcomes. When it comes to the section three, the questions began to focus on the impacts of cultural differences, divided into two parts; national-level cultural differences, and organisational-level cultural differences.

In section four, the influence of cultural differences on post-acquisition integration and the acquiring firm's innovation, and even detailed information about the integration process was collected from participants. With regard to section five, rich and deep information about acquiring the firm's absorptive capacity and its influence was provided by the participants. Lastly, in section six, broad perceptions about any other factors which may have affected the acquiring firm's level of innovation, and how these factors impact on innovation, were posed to the participants. Moreover, at the final stage of each interview, the researcher provided the opportunity for the participants to add anything that they believed was significant for the acquiring firm's post-acquisition integration within the Chinese cross-border M&As landscape. Also, if the interviewees had some extra flexible time, questions about the knowledge transfer process were also asked. These extra questions were asked in all the interviews, and the information relating to knowledge transfer was found to be valuable for later analysis. Eisenhardt (1989) highlighted that instruments for collecting data should be able to accept extra adjustments. In this case it involved adding questions to the original interview guide. The adjustments let the investigators explore emerging themes and utilise particular chances that arose in the course of the interviews (Eisenhardt, 1989). Therefore, if extra adjustments on collecting data may be better at building theory or supplying novel insights into theory, the use of the extra adjustments is meaningful, particularly when a new chance for collecting data appears, or a novel set of thoughts appears in the process of research (Eisenhardt, 1989).

An original copy of the interview guide has been attached in the Appendices (see Appendix D).

### **3.8 Procedure**

The procedure of the data collection was primarily concluded in three steps. With respect to the first step, two mock interviews were undertaken with two postgraduate students in business with necessary knowledge of cross-border M&As. This was undertaken to receive any advice or comments on the interview schedule, interview questions or any other aspect (Brinkmann & Kvale, 2015). This step was used to check some points: For example, to determine whether or not the interview schedule is reasonable, logical and acceptable; whether or not the interview questions are clear, acceptable and easy to understand; and whether or not the number of interview questions is appropriate for the one-hour interview timeframe.

In terms of the second step, the researcher carefully selected and contacted suitable senior managers through international calls or emails to the three Chinese medium-high-technology manufacturing enterprises. The researcher also emailed the information sheet about this research (see Appendix B) to senior managers whose emails were accessible. For the other senior managers, the information sheet was introduced and described by the researcher on the international calls as preferred. After the senior managers agreed to participate in this research, a specific time and place for conducting each interview were selected by each participant. Moreover, it was necessary that the consent form was signed by each participant before each interview. In addition, the researcher assured participants that there was no correct or wrong answer in the process of all the interviews. The researcher also explained that the aim

of this research was to obtain new insights about acquiring firm's post-acquisition integration of Chinese cross-border M&As from their experiences and understandings. Then, one pilot interview was conducted, and afterwards the following interviews were adjusted and amended based on the experience and simultaneous feedback from the pilot interview.

Finally, a total of 16 senior managers from the three Chinese medium-high-technology manufacturing enterprises were interviewed face to face using the semi-structured guide in their offices in three different cities in China; Ningguo, Beijing, and Taiyuan. These interviews were undertaken over a six-week period in October and November 2016. The departments of the participants in charge within the three firms covered Cross-border M&As, Innovation, R&D, Human Resource (HR), Financial and Marketing. Each interview was digitally recorded, and was between 1 hour and 2 hours in duration. Hand-written records and field notes were also utilised. Besides this, multiple data sources helped to properly realise the triangulation, which can supply more solid validation for the research (Eisenhardt, 1989). Yin (2014) suggested that for securing the validity of the data in qualitative research, triangulating the secondary data with the interview data is a useful approach. Therefore, for the validity of this thesis, some secondary data was also collected by the researcher. In this thesis, the secondary data involved information derived from two main avenues. The first was from the websites of the Chinese acquiring firms and the news about their cross-border M&As. The second referred to their internal textual materials and the Microsoft PowerPoint documents of their internal meetings.

### **3.9 Transcribing and Translating**

With regard to transcribing and translating, all 16 interviews were transcribed verbatim by the researcher after the process of data collection. The process of transcribing the interviews helps researchers not only approach and understand data more easily but also analyse the data more easily (Huberman & Miles, 1983). All the participants preferred answering the interview questions in their native language, which is Mandarin Chinese. Since all the interviews were conducted in Mandarin Chinese, and it has also been found that several different computer software programs for voice transcription often made mistakes in the transcribing process, the researcher did not utilise any voice transcription software during the study.

The transcribing took three months as the transcripts needed to be carefully listened to and checked again and again (on average more than two times) to ensure the accuracy of the transcription. The transcriptions included a total of 95,000 words. The researcher also utilised the original Mandarin Chinese in the process of data analysis so as to reduce the risk, referred to as missing the accurate meaning of the participants' statements, to a minimum during the process of translating the interview recordings into English. Subsequently, the parts within the interview transcripts that are included in the findings chapter have been translated into English.

### **3.10 Data Analysis**

With respect to the phase of data analysis, this thesis has adopted thematic analysis for the collected qualitative data. Braun and Clarke (2006) stated that for the analysis of qualitative research, thematic analysis could be regarded as a fundamental and basic

method. They also mentioned that along with having a potential capacity of supplying an abundant, comprehensive and complicated description of data, a flexible and functional instrument is offered by thematic analysis. Furthermore, Creswell (2009) advised that there are six main steps in the procedure of data analysis. Therefore, the process of data analysis of this thesis is conducted as follows. In this thesis, the first step refers to organising and preparing all the raw data, which included the transcripts of the 16 interviews, hand-written records and field notes (Creswell, 2009). For the transcripts, all 16 interviews have been transcribed verbatim and checked several times (on average more than two times) to ensure the accuracy of the transcriptions for subsequent data analysis. Then, in the second step, the researcher carefully read and thought about all the data mentioned above. This helped the researcher gain a general feeling, as well as an understanding of the data as a whole (Creswell, 2009).

In terms of the third step, the researcher started to analyse detailed information of the data, and to code the material simultaneously for the analysis. According to their prior study (as cited in Creswell, 2009), Rossman and Rallis (1998) stated that “coding is the process of organizing the material into chunks or segments of text before bringing meaning to information” (p. 171).

In the procedure of coding, there are three major parts that the researcher focused on. Part one was that the researcher gathered all the textual data together in the process of the data collection. Then, the researcher classified sentences or paragraphs into different categories by hand, which was the contents of part two. In part three, the researcher tagged these categories with differing terms. Within these terms, each term was usually determined according to the participant’s actual words. These terms, which were on the basis of the participants’ actual words, have been labelled ‘in vivo’ terms by the previous research (Creswell, 2009).

With regard to the fourth step, for the analysis, the researcher has completed the descriptions of the participants, background situation, categories and themes through the procedure of coding. With the background environment, the specific interpretations of the events, locations, and participants have been contained in the descriptions. For case studies, this step is significantly beneficial and functional. Subsequently, several themes have been created through the process of coding by the current researcher for this thesis. For this qualitative research, the themes emerged as the primary findings. In the findings chapter, the headings were generated from these themes (Creswell, 2009). As they represented the participants' multiple views, these themes were based on quotations from the participants. As a research project using case studies, in this thesis, not only does the research investigate every individual case but also cross all the sample cases, and the researcher has analysed and tested all these themes.

When it comes to the fifth step, for showing the descriptions and the themes in the qualitative narrative of this thesis, the researcher has utilised the additions of sub-themes, participants' multiple views, and quotations, among other aspects, to express all the findings from the process of the data analysis. In this thesis, the researcher also adopted the tables of quotes from the participants into the findings section. The researcher then made an explanation for the data in the sixth step. Creswell (2009) pointed out that this explanation can be a personal understanding of the investigator within the culture, the past, and the experiences of her or him. Alternatively, after comparing the findings with the extant theories or literature, an implication may emerge, which can also be an explanation. In this thesis, the researcher stated an explanation after reviewing the existing theories and previous studies about the post-acquisition integration of Chinese cross-border M&As.

### **3.11 Summary**

In this thesis, the justifications for adopting a qualitative approach as the methodology have been set out in this chapter (chapter three). In particular, this thesis utilised case studies as a method to investigate the research aims. Case studies are able to be utilised to achieve a variety of goals; for example, to supply descriptions, examine theory or build theory (Eisenhardt, 1989). Then 16 semi-structured interviews were conducted at the Chinese acquiring firms in China for the data collection. This step took over a six-week period in October and November, 2016. Subsequently, the important considerations of the ethics of this study have also been shown in this chapter. Lastly, detailed descriptions of the procedure of the data collection and then the process of the data analysis have also been expressed in chapter three. The findings based on the interview data of the participants are showed in the following chapter (chapter four).

# 4 Findings

## 4.1 Introduction

This study set out to explore how cultural differences and absorptive capacity impact Chinese acquiring firm's post-acquisition integration mode in cross-border M&As within developed economies. This chapter outlines the findings of this study based on semi-structured interviews with 16 senior managers undertaken over a six week during October and November in 2016. The sample is from 3 acquiring firms, located in 3 different cities in China. In this chapter direct quotes from the transcribed interviews are used where required to help explain and demonstrate the analysis of the findings. Due to the need to protect the anonymity of all the participants and the firms, names and other identifiable information about the participants and the firms have been removed from the direct quotes. This is not a theory-building thesis; rather it is a descriptive thematic analysis, and the following findings are presented in this Chapter:

- **4.2 Motivations for Chinese Cross-Border M&As**
- **4.3 Obstacles to Chinese Post-Acquisition Integration**
  - 4.3.1 Obstacle One: National-level and Organisational-level Culture Differences
    - 4.3.1.1 National-level Cultural Differences
    - 4.3.1.2 Organisational-level Cultural Differences
  - 4.3.2 Obstacle Two: Perceived Environmental Uncertainty & Lack of Managerial Confidence

- 4.3.3 Obstacle Three: Weak Absorptive Capacity in the Post-Acquisition Integration
- **4.4 Imitation Effects & Demonstration Effects for Chinese Acquiring Firms**
- **4.5 The New Post-Acquisition Integration Mode of Chinese Acquiring Firms**
  - 4.5.1 The First Part of the Integration Mode: A ‘Wu Wei’ Approach
  - 4.5.2 The Second Part of the Integration Mode: An Approach of Selective ‘You Wei’
  - 4.5.3 The Third Part of the Integration Mode: An Approach of Reversed ‘You Wei’

## **4.2 Motivations for Chinese Cross-border M&As**

In the first place, when the participants talked about the motives of these four cases by the Chinese acquiring firms at the pre-acquisition phase, they mentioned that there are four main motivations for Chinese firms to attempt these cross-border M&As. The four motivations were industry complementarity, knowledge asset-seeking, technological capability and innovative capability.

With respect to industry complementarity, some senior managers believed that the host countries and China have complementary industry profiles, which has promoted cooperation between the acquiring firm and the acquired firm. According to the four cases, the data shows that both firms A and B chose Germany in cases one, two and three. Firm C has selected Australia in case four. In case one, a senior manager stated, ‘Germany has many firms which have advanced technology, and China has the advantages of cheap labour cost and a huge market potential...’ (Participant S3, firm

A). Also, in case four, based on the M&A experience, a participant reflected, ‘... the technologies of firm Cc1 in Australia can make up for our shortboard in the area...’ (Participant S14, firm C). This response also showed another motivation; knowledge asset-seeking. All 16 senior managers believed that the target firms, which were firms Aa1, Bb1 and Cc1, held key knowledge and advanced technology in their respective industries.

According to case three, a senior manager from firm B stated that, ‘it is due to the fact that the [acquired] firm Bb1 has advanced technology and several key technologies of know-how in the industry...’ (Participant S10, firm B). In light of case four, the senior manager from firm C explained, ‘... due to that Cc1 is one of the best two manufacturers in the specific domain, with the acquisition of Cc1, the core competitiveness of our firm C has been obviously strengthened in the heavy industry...’ (Participant S14, firm C). Therefore, industry complementarity and knowledge asset-seeking were two of the motivations for the Chinese medium-high-technology manufacturing enterprises.

In terms of technological capability and innovative capability, firstly, most of the senior managers of the Chinese acquiring firms showed that their firms had absorbed some key knowledge and several advanced technologies from the acquired firms. This has then also led to significant influences on the activities of manufacturing, R&D and innovative in the Chinese acquiring firms A, B and C. Subsequently, these effects have significantly helped the Chinese acquiring firms improve their own technological capability and innovative capability. In case three, a senior manager from firm B said, ‘... with the acquisition of firm Bb1, the progress of technology and R&D capacity of us [firm B] has been sharply improved in the industry, and our innovation outputs have increased significantly in the recent years, which was our expectations...’ (Participant S10, firm B). Another senior manager of firm B also highlighted that:

With merging and acquiring the target firm Bb1 in Germany... this deal has obviously increased our innovation outputs if we compare the outcomes before the deal... it was one of our goals... and enhanced the core competitiveness of our company [firm B] in this industry (Participant S8, firm B).

In case one and case two, a senior manager of firm A also asserted:

Our company A has acquired two German firms Aa1 and Aa2... the two deals had the significant influence on the improvement of our [firm A] innovative capability that was one of the [our] aims... it would be significantly difficult for us to accomplish sustainably high increase on innovation outcomes in recent years without these two successful cross-border M&As in Germany (Participant S1, firm A).

Thus, the improvements in technological capability and innovative capability were the last two motivations for the Chinese acquiring firms. In summary, industry complementarity, knowledge asset-seeking, technological capability and innovative capability were found in this thesis to be the four main motivations for the Chinese acquiring firms to attempt cross-border M&As. In other words, these four motivations were the four initial goals of the Chinese acquiring firms in the cross-border M&As. The examples of the direct quotes (included the quotes mentioned above) for the four motivations are presented as follows.

**Table 3** Motivations for Chinese Cross-border M&As

Theme & Selective Exemplifying Quote for Motivations for Chinese Cross-border M&As	Number of Senior Managers
<p><b>Industry Complementarity</b></p> <p><i>‘Germany has many firms which have advanced technology, and China has the advantages of cheap labour cost and a huge market potential...with the cross-border M&amp;A, we can learn the advanced technology from the acquired German firms...’ (Participant S3, firm A).</i></p> <p><i>‘... the technologies of firm Cc1 in Australia can make up for our short board in the area... subsequently the cross-border M&amp;A of firm Cc1 has complemented our firm C’s short board, and then improved our technology and innovation outcomes impressively [in this field] ...’ (Participant S14, firm C).</i></p> <p><b>Knowledge Asset-Seeking</b></p> <p><i>‘It is due to the fact that the [acquired] firm Bb1 has advanced technology and several key technologies of know-how in the industry...’ (Participant S10, Firm B).</i></p> <p><i>‘... Due to that Cc1 is one of the best two manufacturers in the specific domain, with the acquisition of Cc1, the core competitiveness of our firm C has been obviously strengthened in the heavy industry...’ (Participant S14, firm C).</i></p>	<p>6</p> <p>7</p>

<p><b>Technological Capability</b></p> <p><i>'...firm Bb1 has some key technologies in that product...with this acquisition [of firm Bb1], these key technologies have been brought to us...this has led to the improvement of our technological capability...' (Participant S8, firm B).</i></p> <p><i>'... with the acquisition of firm Bb1, the progress of technology and R&amp;D capacity of us [firm B] has been sharply improved in the industry, and our innovation outputs have increased significantly in the recent years, which was our expectations...' (Participant S10, firm B).</i></p> <p><i>'That deal [the acquisition of firm Cc1] has improved our technology and innovation outcomes impressively [in this field]' (Participant S14, firm C).</i></p>	14
<p><b>Innovative Capability</b></p> <p><i>'Our company A has acquired two German firms Aa1 and Aa2... the two deals had the significant influence on the improvement of our [firm A] innovative capability that was one of the [our] aims... it would be significantly difficult for us to accomplish sustainably high increase on innovation outcomes in recent years without these two successful cross-border M&amp;As in Germany...' (Participant S1, firm A).</i></p> <p><i>'With merging and acquiring the target firm Bb1 in Germany... this deal has obviously increased our innovation outputs if we compare the outcomes before the deal... it was one of our goals... and enhanced the core competitiveness of our company [firm B] in this industry.' (Participant S8, firm B).</i></p>	14

<p><i>'...and our innovation outputs have been increased significantly in the recent years, which was our expectations...'</i> <i>(Participant S10, firm B).</i></p>	
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<p><i>'...and then improved our technology and innovation outcomes impressively [in this field] ...'</i> (Participant S14, firm C).</p>	
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## **4.3 Obstacles to Chinese Post-Acquisition Integration**

With respect to the process of post-acquisition integration, the participants of the Chinese acquiring firms have articulated that there are several important obstacles that their firms experienced and overcame. In this study, the senior managers reported that the main obstacles included three aspects in their post-acquisition integration. These aspects were; (a) national-level and organisational-level cultural differences, (b) perceived environmental uncertainty and lack of managerial confidence, and (c) weak absorptive capacity.

### **4.3.1 Obstacle One: National-level and Organisational-level Cultural Differences**

In terms of the first aspect, most of the participants believed that the cultural differences between the target firms and the Chinese firms were important obstacles. In the words of a participant, ‘the cultural differences included national-level and organizational-level culture differences did exactly exist, which seems inevitable...’ (Participant S4, firm A). Therefore, in this thesis, the cultural differences between target firms and acquiring firms included national-level cultural differences and organisational-level cultural differences.

#### **4.3.1.1 National-level Cultural Differences**

According to the interview data, some participants in this study have realised that there are national-level cultural differences between the target firm and the acquiring firm that was able to lead to obstacle effects in the post-acquisition integration of the cross-

border M&As. Therefore, they have adopted their own new mode (the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode, which will be explained in the following sections of this Findings chapter) in the post-acquisition integration to avoid the obstacle influences of the cultural differences, which include both national-level and organisational cultural differences. Moreover, with this new integration mode, more than half believed that the national-level cultural differences were a beneficial factor for mutual learning and innovation, rather than playing a role as a significant barrier or obstacle in post-acquisition integration. For example, with this understanding, in case three, one of the senior managers from firm B even stated, ‘if there was no cultural difference [between firm B and Bb1] ..., no progress [of these two firms] would arise’ (Participant S8, firm B). In cases one and two, based on their own experience, a senior manager from firm A stated that:

The national cultural differences between Germany and us have definitely existed, such as different languages, values and character traits so on. However, with our way [mode], we have regarded the differences as a chance that we can learn the advantages from the acquired German firm. The target firm can learn from us as well. Moreover, the national cultural differences have also brought some beneficial effects on our innovation (Participant S1, firm A).

In the light of their own understanding, another senior manager has also explained that:

The national culture of Germany was different from our [Chinese national] culture...but with our integration mode, we did not have to involve with them [German staff] every day, so there was no need to tolerate the shortcomings of each other...If the target firm worked and involved deeply with us in other modes such as joint venture mode, the national cultural differences would have some obvious obstacle effects. However, the German firm was acquired by us, therefore

in our mode, it can be regarded that we can almost 100% avoid these [obstacle] differences (Participant S3, firm A).

Thus, the Chinese acquiring firms tried to avoid as much as possible the obstacle impact of the national-level cultural differences through their new integration mode. The cultural differences were regarded as the first reason for the Chinese acquiring firms to use their new integration mode. Subsequently, national-level cultural differences were not only regarded as an important barrier or obstacle by the participants, but also seen as an opportunity for mutual learning and the improvement of their innovation. Besides, some participants felt that the influence of organizational-level cultural differences was more obvious than that of national-level cultural differences. A participant from firm B commented:

In fact, it was found that the influence of organizational cultural differences was much more obvious than that of national cultural differences in our case [the acquisition of firm Bb1] ... The influence of national cultural differences was not as significant as that of organisational cultural differences, especially in work [daily work], and the organisational cultural differences have played an important role (Participant S12, firm B).

Within case four, another participant from firm C also mentioned; ‘We paid more attention on the organizational cultural differences than national cultural differences in our case [the acquisition of Cc1]’ (Participant S14, firm C). Hence, the findings on organisational-level cultural differences are outlined as follows.

#### **4.3.1.2 Organizational-level Cultural Differences**

Nearly all (15 out of 16) of the participants recognised that organisational cultural

differences have also existed during the post-acquisition integration. As mentioned above, the Chinese acquiring firms adopted their own new integration mode (the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode) to try to avoid the influences of organisational-level cultural differences. With their new integration mode, some participants mentioned that there are still three different points of organisational-level cultural difference, which played a role as significant obstacles within the process of post-acquisition integration. The first point was described as the ‘slow-paced work’ of the acquired firms. For example, within case one, in the words of a senior manager from firm A:

The German firm [Aa1] was ‘slow-paced’ in the daily work to some extent. It was one of the most obvious organisational cultural differences between them [Aa1] and us which we found so far. It is due to the fact that the ability of quick responses to the customers is extremely important in China. For example, if customers need a Quote Item in three days, it would be a normal work intensity for us, but it seems incredible intensity of work for them [Aa1]. Therefore, the differences of work intensity or pace were significant (Participant S4, firm A).

In case three, a participant from firm B also articulated that, ‘... the German employees [of firm Bb1] work slowly, and the efficiency is not high...’ (Participant S8, firm B).

The second point refers to the fact that the staff of the acquired firm never worked overtime. According to their experience, a senior manager from firm B noted, ‘initially, the German employees never worked overtime... we work shifts 24 hours a day...our employees never complained about working overtime...’ (Participant S12, firm B).

Based on the experience, a senior manager of firm A also reflected:

Most of the foreign firms’ staff such as the staff of firm Aa1 just regarded work

as a 'job'. When they have finished the work what they should do, they would just swipe the staff ID card and go home, and then they would not care anything about work. However, for us, it was totally different. Most of us, even include me [as a Senior Manager], often work overtime... In fact, we almost standby for 24 hours a day which means that although we are at home after work... It is usually the same situation even though during weekends, and we truly regard the enterprise [firm A] as our own home. This is related to our organisational culture... Therefore, there are some significant organisational cultural differences between Aa1 and us... This difference has affected the working efficiency and progress between firm Aa1 and us (Participant S4, firm A).

The third point was described as a specific issue by the participants, which is interpreted as follows. A few participants stated that the technicians of the Chinese acquiring firms did not give any direct feedback to the German technicians, which had affected the integration of both employees and absorption of technology to some extent. For example, based on their experience, a senior manager of firm B explained this in detail:

In fact, for instance, a German technician of firm Bb1 believed that a part of process flow should be done in a specific way. However, due to the own working experience, one of our Chinese technicians did not follow that way at that moment. After a long time, that German technician might not want to communicate with the Chinese technician of us, and even might not want to teach him anymore. It has occurred, although according to the Chinese technician own working experience, his way might be correct in the process flow as well. The reason was that firstly, he did not follow the way as the German technician has taught him; secondly, in the mind of the German technician, you could work in your own way, but you had better to give me feedback. However, he not only did not follow that

way, but also did not give out any feedback. As time goes on, it may cause conflicts between the two sides. In fact, due to our organisational culture, he was not used to giving the opposite feedback directly to the German technician. Therefore, our organisational culture was obviously different from firm Bb1's. This kind of issue happened between German technicians and our technicians sometimes (Participant S12, firm B).

A senior manager from firm A also pointed out that, '... our employees needed to adapt their [communication] ways, then we started the partial communication with them [the German employees of firm Aa2] ...' (Participant S5, firm A).

With regard to the rest of the participants, more than half of them believed that with their new integration mode, the organisational-level cultural differences have also brought considerable beneficial effects for post-acquisition integration. They reported that the differences had created many valuable opportunities to learn the advantages from each other in cross-border M&As. One of the senior managers from firm A explained:

Through our integration mode, the organisational cultural differences have given us a lot of chances to learn the advantages such as advanced management skills from the target firm [Aa1]. For example, a skilled worker, who worked on an ordinary lathe, could work in the one same position and the same workshop for his whole lifetime in firm Aa1. On the contrary, in our firm [firm A], almost no one would work like this, and they [skilled workers] always hope to get job promotion to increase income... we tried building a technology-based and fair promotion environment [as firm Aa1] for the skilled workers, which was a significant factor that led to the sustained increase in our innovation outcome (Participant S1, firm A).

In the light of their own experience, another senior manager said, ‘the overall planning of firm Aa1 was better than us... we can learn this from them... ...’ (Participant S5, firm A). In case three, a participant also asserted:

The corporate welfare of firm Bb1 and the labour union are very good. Most of the recruiting staff of Bb1 truly liked the career... There’s no occupational discrimination in the organisational culture of Bb1. It was quite different from us... Therefore, it has been hard to retain the excellent technicians in our firm [firm B]. People always want to leave and chase the better career... so with our [integration] mode we have learnt this organisational culture from Bb1. (Participant S8, firm B)

Within case four, a senior manager also reported that, ‘...the degree of attention for the reliability and quality of products within the [organisational] culture of firm Cc1 and us was quite different. Firm Cc1’s [organisational] culture was more rigorous and strict than us, and we learned from them’ (Participant S14, firm C). Therefore, in the context of their new integration mode, most of the participants believed that the organisational-level cultural differences have mainly played a beneficial role for the Chinese acquiring firms, although there are still three significant obstacles stemming from the differences. The differences have provided many opportunities for the Chinese acquiring firms to learn advantages from the acquired firms. The examples of the direct quotes (included the quotes mentioned above) regarding the national-level cultural differences and organisational-level cultural differences are presented as follows.

**Table 4** Obstacle One: National-level and Organisational-level Cultural Differences

Theme & Selective Exemplifying Quote for Obstacle One: National-level and Organisational-level Cultural Differences	Number of Senior Managers
<p><b>National-level Cultural Differences</b></p> <p><i>‘The national cultural differences between Germany and us have definitely existed, such as different languages, values and character traits so on. However, with our mode, we have regarded the differences as a chance that we can learn the advantages from the acquired German firm. The target firm can learn from us as well. Moreover, the national cultural differences have also brought some beneficial effects on our innovation’ (Participant S1, firm A).</i></p> <p><i>‘The national culture of Germany was different from our [Chinese national] culture...but with our integration mode, we did not have to involve with them [German staff] every day, so there was no need to tolerate the shortcomings of each other...If the target firm worked and involved deeply with us in other modes such as joint venture mode, the national cultural differences would have some obvious obstacle effects. However, the German firm was acquired by us, therefore in our mode, it can be regarded that we can almost 100% avoid these [obstacle] differences’ (Participant S3, firm A).</i></p> <p><i>‘The cultural differences included national-level and organisational-level culture differences did exactly exist, which seems inevitable...’ (Participant S4, firm A).</i></p> <p><i>‘The differences [the national cultural differences] have existed, but the influence of the differences was not significant in work [integration]... If there was no cultural difference [between firm B and Bb1] ..., no progress [of these two firms]</i></p>	<p>15</p>

<p>would arise...’ (Participant S8, firm B).</p> <p>‘In fact, it was found that the influence of organizational cultural differences was much more obvious than that of national cultural differences in our case [the acquisition of firm Bb1] ... The influence of national cultural differences was not as significant as that of organisational cultural differences, especially in work [daily work], and the organisational cultural differences have played an important role...’ (Participant S12, firm B).</p> <p>‘We paid more attention on the organisational cultural differences than national cultural differences in our case [the acquisition of Cc1]’ (Participant S14, firm C).</p> <p><b>Organisational-level Cultural Differences</b></p> <p>‘The German firm [Aa1] was “slow-paced” in the daily work to some extent. It was one of the most obvious organisational cultural differences between them [Aa1] and us which we found so far. It is due to the fact that the ability of quick responses to the customers is extremely important in China. For example, if customers need a Quote Item in three days, it would be a normal work intensity for us, but it seems incredible intensity of work for them [Aa1]. Therefore, the differences of work intensity or pace were significant’ (Participant S4, firm A).</p> <p>‘... the German employees [of firm Bb1] work slowly, and the efficiency is not high...’ (Participant S8, firm B).</p> <p>‘Initially, the German employees never worked overtime... we work shifts 24 hours a day...our employees never complained about working overtime...’ (Participant S12, firm B).</p> <p>‘Most of the foreign firms’ staff such as the staff of firm Aa1 just regarded work as a ‘job’. When they have finished the</p>	16
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*work what they should do, they would just swipe the staff ID card and go home, and then they would not care anything about work. However, for us, it was totally different. Most of us, even include me [as a Senior Manager], often work overtime... In fact, we almost standby for 24 hours a day which means that although we are at home after work, there are still a lot of things that are needed to deal with in many “working groups” on the platform of “Wechat” [a kind of synthetically social software]. It is usually the same situation even though during weekends, and we truly regard the enterprise [firm A] as our own home. This is related to our organisational culture... It is due to the fact that we are all from firm A, and also growing up with firm A step by step. The current achievement of firm A is brilliant, which has been cherished by all of us. Therefore, there are some significant organisational cultural differences between Aa1 and us... This difference has affected the working efficiency and progress between firm Aa1 and us’ (Participant S4, firm A).*

*‘... There was a big difference between Aa1 and us which belonged to the different organisational culture. It was that the staff of Aa1 were very clear about their work and life. If we had suddenly received a big market order, all of us [even the Senior Managers] must be kept in touch available for 24 hours per day, and we were always ready to get to work anytime. While sometimes we were quite busy doing other things rather than working, but we had to rush over back to our firm if there was some important and urgent work that needs to be addressed’ (Participant S5, firm A).*

*‘In fact, for instance, a German technician of firm Bb1 believed that a part of process flow should be done in a specific way. However, due to the own working experience, one of our Chinese technicians did not follow that way at that moment. After a long time, that German technician might not want to communicate with the Chinese technician of us, and even might not want to teach him anymore. It has occurred, although according to the Chinese technician own working experience, his way might be correct in the process flow as well. The reason was that firstly, he did not follow the way as*

*the German technician has taught him; secondly, in the mind of the German technician, you could work in your own way, but you had better to give me feedback. However, he not only did not follow that way, but also did not give out any feedback. As time goes on, it may cause conflicts between the two sides. In fact, due to our organisational culture, he was not used to giving the opposite feedback directly to the German technician. Therefore, our organisational culture was obviously different from firm Bb1's. This kind of issue happened between German technicians and our technicians sometimes' (Participant S12, firm B).*

*'... our employees needed to adapt their [communication] ways, then we started the partial communication with them [the German employees of firm Aa2] ...' (Participant S5, firm A).*

*'Through our integration mode, the organisational cultural differences have given us a lot of chances to learn the advantages such as advanced management skills from the target firm [Aa1]. For example, a skilled worker, who worked on an ordinary lathe, could work in the one same position and the same workshop for his whole lifetime in firm Aa1. On the contrary, in our firm [firm A], almost no one would work like this, and they [skilled workers] always hope to get job promotion to increase income... we tried building a technology-based and fair promotion environment [as firm Aa1] for the skilled workers, which was a significant factor that led to the sustained increase in our innovation outcome' (Participant S1, firm A).*

*'The overall planning of firm Aa1 was better than us... we can learn this from them... ...' (Participant S5, firm A).*

*'The corporate welfare of firm Bb1 and the labour union are very good. Most of the recruiting staff of Bb1 truly liked the career. They were willing to work as [skilled] workers. In the aspect of careers, they did not think that there was a distinction*

*between good career or normal career. There's no occupational discrimination in the organisational culture of Bb1. It was quite different from us. Therefore, it has been hard to retain the excellent technicians in our firm [firm B]. People always want to leave and chase the better career... so with our [integration] mode we have learnt this organisational culture from Bb1.' (Participant S8, firm B)*

*'The organisational cultural differences have existed between firm Bb1 and us...that our technicians were not as careful and rigorous as firm Bb1's technicians...After this experience, our technicians have changed a lot in the future work which has brought significantly beneficial effects on the R&D capacity and also our innovation outcomes' (Participant S10, firm B).*

*'The organisational cultural difference had existed in our case. We felt that there were relatively large differences between firm Cc1 and us. However, the differences have not obviously influenced on our innovation. The degree of attention for the reliability and quality of products within the [organisational] culture of firm Cc1 and us was quite different. Firm Cc1's [organisational] culture was more rigorous and strict than us, and we learned from them' (Participant S14, firm C).*

### **4.3.2 Obstacle Two: Perceived Environmental Uncertainty & Lack of Managerial Confidence**

In this study, 11 of 16 senior managers mentioned that they had recognised the perceived environmental uncertainty and lack of managerial confidence in the target firms within the host country during the cross-border M&As. They believed that the perceived environmental uncertainty was another important obstacle. Moreover, based on the descriptions of the participants, the analysis found that the lack of managerial confidence in the management of the acquired firms was a significant obstacle for the Chinese acquiring firms. As mentioned in section 4.3.1 above, the Chinese acquiring firms adopted their new integration mode to avoid the influence of national-level and organisational-level cultural differences. Furthermore, most of the senior managers also indicated that the perceived environmental uncertainty and lack of managerial confidence was another reason for them utilising their new integration mode in the post-acquisition integration. In the light of the understandings, a senior manager from firm A stated:

Can Chinese [our Chinese managers] adapt to Germany [German culture, laws or external environment etc.]?! There is a huge difference in the culture [between firm A and these two acquired firms]. You [our Chinese managers] cannot even understand the laws of the region. You cannot manage them [firms Aa1 and Aa2] (Participant S3, firm A).

The perceived environmental uncertainty of the Chinese acquiring firms in the post-acquisition phase was caused by the unpredictability and unfamiliarity. The unpredictability and unfamiliarity have led to the lack of managerial confidence among the senior managers in managing the acquired firms in the host countries. The

unpredictability and unfamiliarity mainly included three aspects; the national-level and the organisational-level cultural differences, the different employee protection systems and laws, and dealing with the new external environment of the host countries. With respect to the different employee protection systems from those in place in China, they mainly referred to the external labour unions, which represented the employees of firms Aa1, Bb1 and Cc1 in this study. Most of the senior managers of firms A and B demonstrated that German labour unions were still unfamiliar, unpredictable and they had little experience with them. As such, both these two firms hired consulting companies to make sense of the situation and receive advice. In case three, a senior manager from firm B articulated:

Due to the fact that the [German] labour union of the target firm Bb1 and the [German] legal background situation was unfamiliar and unpredictable to us..... We did not dominate them [firm Bb1] ... It was pointless to have Chinese [the Chinese employees of firm B] to participate in the [German] labour union of the target firm Bb1. (Participant S8, firm B).

In cases one and two, a senior manager from firm A commented:

After the [cross-border] M&As, if the professional managers we [firm A] sent knew more about the local situations than the local profession managers [the German managers of firms Aa1 and Aa2], that [sending our Chinese managers to manage firms Aa1 and Aa2] would be OK. However, this was very hard and impossible... Therefore, we used our [new] integration mode (Participant S6, firm A).

Similarly, in case four, the Australian culture, laws and systems were also significantly new, and the senior managers of firm C were inexperienced with them. A senior manager from firm C mentioned:

We also do not interfere in their [firm Cc1] operating structure. In fact, if we went to manage them [firm Cc1], it was difficult or impossible for the employees [of firm Cc1] to adapt to us [the approach of our management]. This [integration] mode is very good (Participant S16, firm C).

From the interview data mentioned above, and especially the comments of Participant S3, ‘Can Chinese [our Chinese managers] adapt to Germany [German culture, laws or external environment etc.]?!... You [our Chinese managers] cannot even understand the laws of the region. You cannot manage them [firms Aa1 and Aa2]’ (Participant S3, firm A), most of the senior managers have shown a lack of managerial confidence in the management of the acquired firms.

Furthermore, with respect to their prior experience of cross-border M&As, the senior managers of firm A also showed that they did not have adequate managerial experience to manage foreign acquired firms in foreign countries before the acquisitions of firms Aa1 and Aa2. In addition, the senior managers within firms B and C recognised that they only have very limited international experience before the cross-border M&A deals, such as the business of import and export. The participants of firms B and C felt that they did not have any managerial experience in managing foreign firms within cross-border M&As. Therefore, the significant shortage of prior managerial experience in cross-border M&As has further aggravated the lack of managerial confidence of the senior managers in managing the acquired firms in the host countries. In summary, most of the senior managers within firms A, B and C do not believe that they or their management teams are able to manage the acquired firms well in the host countries.

Subsequently, only the senior managers trusted that the originally-local management team could provide the best management and operational oversight for the acquired firms in the host countries. In cases one and two, a senior manager of firm A asserted that, ‘if the local German management team cannot manage it [the acquired firms Aa1 or Aa2] well, this will be much more impossible that the Chinese management team can manage it well’ (Participant S1, firm A). He also stated that:

At that moment, a lot of investors asked me, ‘in the post-acquisition integration, will you change the CEOs of the firms Aa1 and Aa2?’, ‘will you change the CFOs?’ etc. My answer is that we will not change anything of the management team... we will use our own [new] integration mode (Participant S1, firm A).

In case three, a senior manager from firm B also mentioned, ‘however, our holding company seriously questioned our capability that we could manage firm Bb1 well... Especially, because we do not have any background of studying abroad...’ (Participant S8, firm B). Another senior manager of firm B reported:

We believed that the [local] German management team could create the best management for the firm Bb1...Based on reliance, we trusted them [the local German management team] very well. Then they did not live up to our trust, and their management was very good. On this aspect, the cooperation between them and us was very pleasant (Participant S12, firm B).

Therefore, the senior managers were confident of the original German management team, and they maintained the original management team of the acquired firms in the host countries. From case three, two senior managers also suggested, ‘we almost did not change anything on the aspect of the human resource [of firm Bb1]’ (Participant S8, firm B). ‘The three mainly original senior managers [ of firm Bb1 which consist of the

top management team] are still at their initial positions during the post-acquisition integration' (Participant S10, firm B). In case four, as mentioned above, Participant S16 also stated that:

We [firm C] have a deputy general manager in their firm [firm Cc1] now. We are supervising, rather than participating [in Cc1's management] ... This [integration] mode is very good. They [firm C] have their own market as well. We also expect them to be a profitable business (Participant S16, firm C).

Another senior manager from firm C also reported, 'basically, we did not intervene any management of Cc1 in Australia after the cross-border M&A deal...' (Participant S14, firm C). In summary, the interview data indicated that, as another obstacle, the perceived environmental uncertainty and lack of managerial confidence were reasons for the Chinese acquiring firms adopting their new integration mode.

**Table 5** Obstacle Two: Perceived Environmental Uncertainty & Lack of Managerial Confidence

Theme & Exemplifying Quote for Obstacle Two: Perceived Environmental Uncertainty & Lack of Managerial Confidence	Number of Senior Managers
<p><b>Perceived Environmental Uncertainty</b></p> <p><i>‘...Can Chinese [our Chinese managers] adapt to Germany [German culture, laws or external environment etc.]?! There is a huge difference in the culture [between firm A and these two acquired firms]. You [our Chinese managers] cannot even understand the laws of the region. You cannot manage them [firms Aa1 and Aa2] ...’ (Participant S3, firm A).</i></p> <p><i>‘... after the [cross-border] M&amp;As, if the professional managers we [firm A] sent knew more about the local situations than the local profession managers [the German managers of firms Aa1 and Aa2], that [sending our Chinese managers to manage firms Aa1 and Aa2] would be OK. However, this was very hard and impossible... Therefore, we used our [new] integration mode...’ (Participant S6, firm A).</i></p> <p><i>‘Due to the fact that the [German] labour union of the target firm Bb1 and the [German] legal background situation was unfamiliar and unpredictable to us... We did not dominate them [firm Bb1] ... It was pointless to have Chinese [the Chinese employees of firm B] to participate in the [German] labour union of the target firm Bb1.’ (Participant S8, firm B).</i></p> <p><i>‘... We also do not interfere in their [firm Cc1] operating structure. In fact, if we went to manage them [firm Cc1], it was difficult or impossible for the employees [of firm Cc1] to adapt to us [the approach of our management]. This [integration]</i></p>	<p>11</p>

<p><i>mode is very good...’ (Participant S16, firm C).</i></p> <p><b>Lack of Managerial Confidence</b></p> <p><i>‘At that moment, a lot of investors asked me, “in the post-acquisition integration, will you change the CEOs of the firms Aa1 and Aa2?”, “will you change the CFOs?” etc. My answer is that we will not change anything of the management team...we will use our own [new] integration mode...If the local German management team cannot manage it [firms Aa1 or Aa2] well, this will be much more impossible that the Chinese management team can manage it well...’ (Participant S1, firm A).</i></p> <p><i>‘We never send our [Chinese] managers to manage the German acquired firms! They [firms Aa1 and Aa2] are German companies. The German managers managed them [firms Aa1 and Aa2] very well, and both these two firms are profitable [businesses]. Can we send our [Chinese] manager to manage [them]?! Can Chinese [our Chinese managers] adapt to Germany [German culture, laws or external environment etc.]?! There is a huge difference in the culture [between firm A and these two acquired firms]. You [our Chinese managers] cannot even understand the laws of the region. You cannot manage them [firms Aa1 and Aa2]. In other Chinese [cross-border M&amp;As] cases, few [acquiring] firms have sent [Chinese] managers to the senior management team [of acquired firms].’ (Participant S3, firm A).</i></p> <p><i>‘However, our holding company seriously questioned our capability that we could manage firm Bb1 well. To be exact, they did not believe that we, as “a bunch of country bumpkins”, can lead the Germans [the firm Bb1] well. Especially, because we do not have any background of studying abroad...’ (Participant S8, firm B).</i></p> <p><i>‘We almost did not change anything on the aspect of the human resource [of firm Bb1]’ (Participant S8, firm B).</i></p>	14
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*'The three mainly original senior managers [of firm Bb1 which consist of the top management team] are still at their initial positions during the post-acquisition integration' (Participant S10, firm B).*

*'We believed that the [local] German management team could create the best management for the firm Bb1...Based on reliance, we trusted them [the local German management team] very well. Indeed, they did not live up to our trust, and their management was very good. On this aspect, the cooperation between them and us was very pleasant.' (Participant S12, firm B)*

*'We [firm C] have a deputy general manager in their firm [firm Cc1] now. We are supervising, rather than participating [in Cc1's management]. We also do not interfere in their [firm Cc1] operating structure. In fact, if we went to manage them [firm Cc1], it was difficult or impossible for the employees [of firm Cc1] to adapt to us [the approach of our management]. This [integration] mode is very good. They [firm C] have their own market as well. We also expect them to be a profitable business' (Participant S16, firm C).*

*'Basically, we did not intervene any management of Cc1 in Australia after the cross-border M&A deal...' (Participant S14, firm C).*

### **4.3.3 Obstacle Three: Weak Absorptive Capacity in the Post-Acquisition Integration**

With respect to the absorptive capacity of the Chinese acquiring firms and its influence on the post-acquisition integration, the interview questions focused on the three dimensions of the absorptive capacity as mentioned in chapter two of this thesis. The first dimension of absorptive capacity mainly refers to prior related knowledge, and combinative capability is the major factor of the second dimension. Strategy execution and effort is seen as the principal factor of the third dimension. Most of the senior managers recognised that their firms' absorptive capacity was significantly weak in their post-acquisition integration. The weak absorptive capacity was described by the senior managers as another important obstacle for the Chinese acquiring firms in the post-acquisition integration. It also emerged as a significant reason for them adopting their new integration mode.

In the light of the interview data, some senior managers of firms A, B and C believed that the first dimension (prior related knowledge) of their absorptive capacity was strong rather than weak from in the post-acquisition phase. However, more than half of the participants of firms A, B and C recognised that the second dimension (combinative capabilities) of their absorptive capacity was significantly weak. Then, as a privately-owned enterprise, several senior managers from firm A believed the third dimension (strategy execution and effort) of their absorptive capacity was strong in the post-acquisition integration. They were also proud of their firm's strength in the third dimension as compared to state-owned enterprises. For firms B and C, the participants also mentioned that the third dimension (strategy execution and effort) of their absorptive capacity was weak in the post-acquisition integration. It was also weaker

than privately-owned enterprises.

Specifically, in terms of the first dimension, most of the senior managers highlighted that the prior related knowledge about the target firm was notably important for their cross-border M&A deals. Moreover, some participants believed that they performed well on learning the prior related knowledge about the target firms, and the first dimension of their absorptive capacity was strong. Based on their experience, a participant from firm B stated:

The prior related knowledge about the target firm [firm Bb1] was extremely important for us to merge and acquire firm Bb1. At that moment, we have hired a consultant company to do the due diligence for us learning the target firm deeply. Moreover, due to that we had almost 20-year cooperation history with the target firm Bb1, both us and Bb1 already knew each other very well (Participant S8, firm B).

In the light of the understanding, a senior manager from firm A also articulated:

Since firms Aa1, Aa2 and us [firm A] were in the same industry for decades, so we knew Aa1 and Aa2 very well... This has helped us a lot in learning and understanding firms Aa1 and Aa2, which was very important for the acquisitions... We felt that a cross-border M&A deal seems like a marriage. If a man wants to marry a woman, he should know her very well such as some background information that includes culture, family, and character etc. Therefore, as for our firm A, when we intended to purchase the target firms Aa1 and Aa2 in Germany, we should know them well and deeply (Participant S1, firm A).

However, with respect to the second dimension (combinative capabilities), more than half of the senior managers of firms A, B and C recognised that the second dimension

(combinative capabilities) of their absorptive capacity was significantly weak in the post-acquisition integration. They considered that it needs to be improved gradually. In cases one and two, a senior manager from firm A stated:

Since the [knowledgeable and technical] level of the acquired firms [firms Aa1 and Aa2] was a little higher than us, so it was difficult to combine their knowledge and technologies in the [post-acquisition] integration sometimes... Our [firm A] manufacturing, [industrial] process etc. must reach a certain level, then we can combine it [their knowledge and technologies] smoothly... When they [the acquired firms] did some [product] design for us, if our level cannot meet this requirement, such as a lower process of us, we cannot combine it (Participant S7, firm A).

In case three, based on their experience, a senior manager pointed out:

There are some advanced technologies. We can get [from firm Bb1]. However, because of our lack of R&D capabilities, we cannot absorb and combine them. In other words, we can get all the parts, but we cannot absorb and combine the internal [technologically] experience, principles and relationships. They are [stored] in the minds of German technicians. We cannot get them... It is similar to a situation that a student of primary school wants to learn a postgraduate thesis. This student knows the thesis is a good studying material, but he or she cannot absorb it... In other words, since we want to absorb and combine the technologies of firm Bb1 more effectively, so we need to improve our R&D capabilities as soon as possible during the process of the [cross-border] M&As. Only when we have strong capabilities, we can absorb and combine their technologies more effectively or more easily (Participant S10, firm B).

In case four, in the light of this understanding, a participant also reflected that:

At present, we [firm C] have gotten all the [product] drawings and [process] handbooks, but we still need the technicians [of firm Cc1] ... Our [absorptive] capability is not strong enough. Therefore, we required that they [firm C] must send some of their skilled technicians to us. The technicians must often be sent [to us] ... The technicians must teach our workers... Thus, we have adopted our integration mode (Participant S14, firm C).

Due to their weak combinative capabilities, these data have also shown the Chinese acquiring firms needed more technological help from the acquired firms in the integration, which is explained in the next section (section 4.4). The data also expressed that weak combinative capability was regarded as another reason for the Chinese acquiring firms using their new integration mode. Finally, when it comes to the third dimension, as a privately-owned enterprise, a senior manager from firm A reported:

The strategy execution of our firm was one of the advantages in the integration of cross-border M&As. Our efficiency in strategy execution was very high in post-acquisition integration... If compared to some state-owned enterprises, we might be much better in strategy execution than them. They had to follow the process step by step in cross-border M&As. The decision chain was always very long, and for us, it was relatively very short. Therefore, our efficiency was relatively higher than them, and we also had stronger execution force (Participant S1, firm A).

For firms B and C, the participants also mentioned that the third dimension (strategy execution and effort) of their absorptive capacity was weaker than for privately-owned enterprises. Based on their understanding, a senior manager from firm B pointed out,

‘our [the progress of] cross-border M&As was too slow... we have some inertia of thinking... The [cross-border M&As] progress of privately-owned enterprises is much faster [than us] ... Their [privately-owned enterprises] execution force is possibly also better [than us] ...’ (Participant S10, firm B). The participants of firm C also reflected, ‘in the [cross-border] M&A, there were some restrictions on our management as a state-owned enterprise...’ (Participant S15, firm C).

In summary, all three Chinese acquiring firms have recognised that their combinative capabilities were significantly weak at that moment, which meant that the firms had weak absorptive capacity. Moreover, firms B and C also showed that their strategy execution and effort was weak. Therefore, with their weak absorptive, it has been demonstrated that they needed more technological help from the acquired firms in the post-acquisition integration, which is explained in the following section (section 4.4). In addition, the data also indicated that weak combinative capability meant that the weak absorptive capacity was regarded as another reason for the Chinese acquiring firms using their new integration mode. The examples of the direct quotes (included some quotes mentioned above) for the absorptive capacity of the Chinese acquiring firms are presented as follows.

**Table 6** Obstacle Three: Weak Absorptive Capacity in the Post-Acquisition Integration

Theme & Exemplifying Quote for Obstacle Three: Weak Absorptive Capacity in the Post-Acquisition Integration	Number of Senior Managers
<p><b>The First Dimension of the Absorptive Capacity: Prior Related Knowledge</b></p> <p><i>‘Since firms Aa1, Aa2 and us [firm A] were in the same industry for decades, so we knew Aa1 and Aa2 very well. At that moment, we knew the influential firms [include firms Aa1 and Aa2] in the industry as well... This has helped us a lot in learning and understanding firms Aa1 and Aa2, which was very important for the acquisitions... We felt that a cross-border M&amp;A deal seems like a marriage. If a man wants to marry a woman, he should know her very well such as some background information that includes culture, family, and character etc. Therefore, as for our firm A, when we intended to purchase the target firms Aa1 and Aa2 in Germany, we should know them well and deeply...’ (Participant S1, firm A).</i></p> <p><i>‘... The prior related knowledge about the target firm [firm Bb1] was extremely important for us to merge and acquire firm Bb1. At that moment, we have hired a consulting company to do the due diligence for us learning the target firm deeply. Moreover, due to that we had almost 20-year cooperation history with the target firm Bb1, both us and Bb1 already knew each other very well... I believe the prior knowledge about them [firm Bb1] was one of the key factors that make the cross-border M&amp;A of Bb1 being successful in so many years...’ (Participant S8, firm B).</i></p> <p><i>‘At that moment, there were several firms which want to acquire the target firm Bb1 around the world. Since Bb1 had 20-year cooperation history with us, so Bb1 also knew us very well and believed that we would be the best choice around all</i></p>	<p>14</p>

*the bidding companies. Subsequently, this acquisition has become a warmly successful deal till now. The history of 20-year cooperation between us has brought extremely important effects in the acquisition and thereafter integration' (Participant S9, firm B).*

### **The Second Dimension of the Absorptive Capacity: Combinative Capability**

*'... Since the [knowledgeable and technical] level of the acquired firms [firms Aa1 and Aa2] were a little higher than us, so it was difficult to combine their knowledge and technologies in the [post-acquisition] integration sometimes... Our [firm A] manufacturing, [industrial] process etc. must reach a certain level, then we can combine it [their knowledge and technologies] smoothly... When they [the acquired firms] did some [product] design for us, if our level cannot meet this requirement, such as a lower process of us, we cannot combine it. Even we cannot communicate with them on this [particularly] technological aspect...' (Participant S7, firm A).*

*'... However, when our technicians returned to China, the work which our technicians did became obviously worse than that in Germany.' (Participant S10, firm B).*

*'There are some advanced technologies. We can get [from firm Bb1]. However, because of our lack of R&D capabilities, we cannot absorb and combine them. In other words, we can get all the parts, but we cannot absorb and combine the internal [technologically] experience, principles and relationships. They are [stored] in the minds of German technicians. We cannot get them... It is similar to a situation that a student of primary school wants to learn a postgraduate thesis. This student knows the thesis is a good studying material, but he or she cannot absorb it... In other words, since we want to absorb and combine the technologies of firm Bb1 more effectively, so we need to improve our R&D capabilities as soon as*

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*possible during the process of the [cross-border] M&As. Only when we have strong capabilities, we can absorb and combine their technologies more effectively or easily...’ (Participant S10, firm B).*

*‘At present, we [firm C] have gotten all the [product] drawings and [process] handbooks, but we still need the technicians [of firm Cc1] ... Our [absorptive] capability is not strong enough. Therefore, we required that they [firm C] must send some of their skilled technicians to us. The technicians must often be sent [to us] ... The technicians must teach our workers... Thus, we have adopted our integration mode...’ (Participant S14, firm C).*

### **The Third Dimension of the Absorptive Capacity: Strategy Execution and Effort**

*‘... The strategy execution of our firm was one of the advantages in the integration of cross-border M&As. Our efficiency in strategy execution was very high in post-acquisition integration... If compared to some state-owned enterprises, we might be much better in strategy execution than them. They had to follow the process step by step in cross-border M&As. The decision chain was always very long, and for us, it was relatively very short. Therefore, our efficiency was relatively higher than them, and we also had stronger execution force...’ (Participant S1, firm A).*

*‘Our [the progress of] cross-border M&As was too slow... we have some inertia of thinking... The [cross-border M&As] progress of privately-owned enterprises is much faster [than us] ... Their [privately-owned enterprises] execution force is possibly also better [than us] ...’ (Participant S10, firm B).*

*‘... In the [cross-border] M&A, there were some restrictions on our management as a state-owned enterprise...’ (Participant S15, firm C).*

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## **4.4 Imitation Effects & Demonstration Effects for Chinese Acquiring Firms**

As mentioned above, the Chinese acquiring firms realised that they needed more technological help from the acquired firms in the post-acquisition integration. It was found that the imitation and demonstration effects from a close distance were significant for them in acquiring the new external knowledge from the acquired firms in the post-acquisition integration. It helped the Chinese acquiring firms absorb and integrate the acquired new knowledge more effectively in the context of their weak absorptive capacity. In case one, a senior manager from firm A stated that:

It was difficult to transfer several important technologies from firm Aa1 to our company... Our technical staff (engineers and workers) felt that it was quite hard to learn and understand the R&D and designing concepts and thoughts of firm Aa1 in Germany. Thus, we need more help... Therefore, we adopted our integration mode. Then, our workers have been taught and demonstrated hand to hand by the German technicians in China (Participant S4, firm A).

Therefore, in the light of the interview data, the Chinese technicians of firm A have received the teaching and demonstrating effects in a hands-on way from the German technicians in China. Through this teaching and demonstrating process, due to the fact that the Chinese technicians were learning and imitating the German products of firm Aa1, they also obtained imitation effects. Hence, the Chinese technicians have gained imitation and demonstration effects at an extremely close distance from the acquired firm Aa1. In case three, a senior manager from Bb1 also showed, ‘... through the observation of the German technician’s living habits and working pace... our

technicians could manufacture some almost same products as the German technicians...’ (Participant S10, firm B).

In case four, based on their experience, the senior manager has stated above, ‘...Therefore, we required that they [firm C] must send some of their skilled technicians to us. The technicians must often be sent [to us] ... The technicians must teach our workers... Thus, we have adopted our integration mode (Participant S14, firm C).

Moreover, in case one and two, a senior manager of firm A has articulated, ‘with this [new] integration mode, they [firms Aa1 and Aa2] have brought their advanced management and technologies to China [to firm A] ...’ (Participant S1, firm A).

Therefore, the imitation and demonstration effects from a close distance were notably important for the Chinese acquiring firms, with their weak absorptive capacity, in acquiring new external knowledge from the acquired firms in the post-acquisition integration. Hence, according to the interview data, the Chinese acquiring firms have adopted their new integration mode. The examples of the direct quotes (included the quotes mentioned above) for the imitation and demonstration effects for the Chinese acquiring firms are presented as follows (Table 7).

**Table 7** Imitation Effects & Demonstration Effects for Chinese Acquiring Firms

Theme & Exemplifying Quote for Imitation Effects & Demonstration Effects for Chinese Acquiring Firms	Number of Senior Managers
<p><b>Imitation Effects &amp; Demonstration Effects for Chinese Acquiring Firms</b></p> <p><i>‘... It was difficult to transfer several important technologies from firm Aa1 to our company... Our technical staff (engineers and workers) felt that it was quite hard to learn and understand the R&amp;D and designing concepts and thoughts of firm Aa1 in Germany. Thus, we need more help... Therefore, we adopted our integration mode. Then, our workers have been taught and demonstrated hand to hand by the German technicians in China ...’ (Participant S4, firm A).</i></p> <p><i>‘... through the observation of the German technician’s living habits and working pace... our technicians could manufacture some almost same products as the German technicians...’ (Participant S10, firm B).</i></p> <p><i>‘... Therefore, we required that they [firm C] must send some of their skilled technicians to us. The technicians must often be sent [to us] ... The technicians must teach our workers... Thus, we have adopted our integration mode (Participant S14, firm C).</i></p> <p><i>‘... with this [new] integration mode, they [firms Aa1 and Aa2] have brought their advanced management and technologies to China [to firm A] ...’ (Participant S1, firm A).</i></p>	9

## **4.5 The New Post-Acquisition Integration Mode of Chinese Acquiring Firms**

In this study, an interesting, unexpected and new phenomenon has emerged from the data analysis. The Chinese acquiring firms, firms A, B and C, have all adopted a new post-acquisition integration mode (the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode). Based on this experience, a senior manager stated, ‘We did not choose the traditional [post-acquisition integration] way which means, for example, changing members of the management team and control comprehensively, to integrate the acquired firms Aa1 and Aa2’ (Participant S1, firm A). This new post-acquisition integration mode by the Chinese acquiring firms is made up of three parts.

As for the first part, the Chinese acquiring firms have taken a non-dominant approach in the management of the acquired firms. However, they actually still cared about the acquired firms’ management and development. Therefore, in terms of the second part, they also showed a method of selective participation in the management and development of the acquired firms. It meant that: (1) Only the Chinese acquiring firms gave the necessary effort to set up the financial goals and the strategic development direction for the acquired firms; and (2) the Chinese acquiring firms established a regular reporting mechanism between themselves and the acquired firms.

With respect to the third part, the Chinese acquiring firms have then taken a reversed effortful approach. This meant that they have significantly given their full effort to ask and support the acquired firm (firms Aa1, Aa2, Bb1 and Cc1) to reversely establish a new firm including factories [as a subsidiary of the acquired firm] within their (the Chinese acquiring firms’) industrial parks in China. These subsidiaries have been coded as Aa1a, Aa2a, Bb1a and Cc1a, respectively, in the above sections of the Methodology

chapter (chapter three). For each part of this new integration mode, the quotes of the participants are shown separately in the next three sections (sections 4.3.1, 4.3.2 & 4.3.3).

Furthermore, based on this experience, a senior manager from firm A stated, ‘...our new integration mode has been influenced a lot by Chinese traditional culture...[we] are relatively tolerant to [the acquired] German companies...’ (Participant S1, firm A). Moreover, other senior managers, including S3, S4, S5, S7, S8, S10, S12 and S14, have also conveyed similar thoughts. For instance, according to their own understanding, participant S3 reflected that ‘...we have been significantly influenced by the [Chinese] traditional cultures...’ (Participant S3, firm A). In the light of their own experience, participant S4 also expressed that:

‘we have been impacted by Chinese traditional cultures... we do not want to take a tough attitude most of the time, and the effect of taking some compromise ways is still good. After all, we need the long-term cooperation [with the acquired firms]!’ (Participant S4, firm A)

Participant S7 also explained that, ‘this is actually related to our traditional culture. It refers to the inclusive attitude’ (Participant S7, firm A). Participant S8 of firm B mentioned, ‘...this is also related to Chinese cultural background...’ (Participant S8, firm B). Therefore, according to the interview data, it has been found that this new integration mode has been significantly influenced by Chinese traditional cultures. Subsequently, based on the characteristics of this new integration mode, as mentioned by the participants, the thoughts of Taoism, which is one the most important Chinese traditional cultures and philosophies, has gradually emerged in the researcher’s mind (Sun, 2016). The thoughts, which were using the lens of Taoist philosophy from China to interpret this new integration mode, has inspired the researcher. The explanation of

Taoism is presented in the discussion chapter (chapter five). The non-effort action has been formed as ‘Wu Wei’ in Chinese, and is based on Taoism (Slingerland, 2003). Based on Taoism within the Chinese tradition cultures, the opposite of the approach of ‘Wu Wei’ can be regarded as a ‘You Wei’ approach in Chinese, which refers to an effortful way (Sun, 2016). Thus, the researcher has borrowed Taoist philosophy to explain this new integration mode as a ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode.

#### **4.5.1 The First Part of the Integration Mode: A ‘Wu Wei’ Approach**

As mentioned above, the Chinese acquiring firms’ new integration mode was explained as a ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode. Its first part means that the Chinese acquiring firms have taken a non-dominant approach in the management of the acquired firms. Therefore, since the participants showed that they have been affected by traditional Chinese cultures, the first part can be seen as a ‘Wu Wei’ approach, which is explained in the discussion chapter (chapter five). Moreover, with mentioned in the sections above (sections 4.3.1 & 4.3.2), the reasons were found to be due to the obstacles mentioned above; the acquiring firms wanted to avoid the influences of national-level and organisational-level cultural differences, and to evade the effects of the perceived environmental uncertainty and the lack of managerial confidence. Consequently, they did not change anything of the acquired firms, or intervene in any of the daily work, or even in the management of the acquired firms in the post-acquisition integration. In other words, they adopted a ‘Wu Wei’ approach. In case three, a senior manager from firm B stated, ‘after the cross-border M&A of firm Bb1, we only owned Bb1, but we almost didn’t change anything of the management in

Bb1' (Participant S8, firm B). He also explained, 'at the initial phase of the post-acquisition integration, we set up a significantly main principle which refers to "Only participate [in the management of firm Bb1], Do Not Dominate [firm Bb1]" to guide our behaviours in the post-acquisition integration' (Participant S8, firm B).

Therefore, in case three, a mind-set of 'going with the flow' has emerged wherein firm B did not make any effort in the post-acquisition integration. The mind-set to 'go with the flow' is formed as 'Wu Wei' in one of the important Chinese indigenous philosophies: Taoism (Slingerland, 2003). Thus, the adoption of a 'Wu Wei' approach by firm B was obvious in case three. When it comes to cases one and two, the same phenomenon was described by a senior manager from firm A:

At that moment, a lot of investors asked me, 'in the post-acquisition integration, will you change the CEOs of the firms Aa1 and Aa2?', 'will you change the CFOs?' etc. My answer is that we will not change anything of the management team...we will use our own [new] integration mode...If the local German management team cannot manage it [firms Aa1 or Aa2] well, this will be much more impossible that the Chinese management team can manage it well (Participant S1, firm A).

According to this experience, this participant also interpreted the process in detail:

We did not choose the traditional [post-acquisition integration] way, which means that acquiring firms often change the management team of acquired firms and control acquired firms comprehensively, to integrate the acquired firms Aa1 and Aa2. In fact, if we did so, the staff of firms Aa1 and Aa2 would be very disgusted with us. Moreover, changing the entire management team cannot reach the goal

of the best control [management]. Actually, that would be counterproductive.

Hence, we did not select that way (Participant S1, firm A).

Similarly, in case four, a senior manager from firm C also articulated, ‘basically, we did not intervene any management of Cc1 in Australia after the cross-border M&A deal...’ (Participant S14, firm C). Another senior manager of firm C also reported, ‘... firm C is only supervising them [firm Cc1], rather than directly managing them. The principle [of firm C] is “Only Supervise, Do Not Participate [in the management of firm Cc1]”’ (Participant S15, firm C).

Moreover, based on this experience, a senior manager also mentioned, ‘with this [integration] mode, the effects of the cultural differences were not obvious that we did not find any significant barrier or harmful influences from the cultural differences between the acquired firm [firm Bb1] and us’ (Participant S8, firm B).

Therefore, in this thesis, it has been found that all three of the Chinese acquiring firms have utilised a ‘Wu Wei’ approach as the first part of their new integration mode.

#### **4.5.2 The Second Part of the Integration Mode: An Approach of Selective ‘You Wei’**

By adopting a ‘Wu Wei’ approach as the first part of their new integration mode, all the three Chinese acquiring firms have also shown an approach of selective participation in the management and development of the acquired firms in the interview data. The reason was that, in fact, they still cared about the acquired firms’ management and development. This approach of selective participation referred to that fact that: (1) The Chinese acquiring firms only gave the necessary effort to set up the financial goals and the strategic development direction for the acquired firms; and (2) the Chinese acquiring

firms established a regular reporting mechanism between themselves and the acquired firms.

According to Taoism within the Chinese traditional cultures, the opposite of the ‘Wu Wei’ approach can be regarded as a ‘You Wei’ approach in Chinese, which means an effortful way (Sun, 2016). Therefore, the second part of the Chinese acquiring firms’ new integration mode, it can be described in this study as a ‘Selective You Wei’ approach. As mentioned above, in the light of the interview data, this ‘Selective You Wei’ approach has two main meanings. With respect to the first meaning, most of the senior managers mentioned that although they did not intervene in any management of the acquired firms, they set up the financial goals and the strategic development direction for the acquired firms. They believed that this could be considered as a kind of selective and limited management measure. In cases one and two, a participant from firm A stated, ‘... we did not interfere in anything of their [the acquired firms’] management, and we only set up the financial goals and guide the strategic development direction for them [the acquired firms] ...’ (Participant S1, firm A).

In case three, a senior manager of firm B also articulated, ‘... we only establish the strategic development direction and the goals in finance for them [firm Bb1] in the management...’ (Participant S8, firm B). In terms of case four, a participant from firm C also commented that, ‘we [firm C] does not interfere in the management of firm Cc1. We just need their [firm Cc1] financial statement, and big [financial] issues need internal audits...’ (Participant S15, firm C).

The second meaning refers to the fact that firms A, B and C have established a regular reporting mechanism between themselves and the acquired firms. This reporting mechanism mainly means that each of the Chinese acquiring firms has sent one or two senior managers to their acquired firms overseas to be their long-term representative,

and these senior managers did not interfere in any management of the acquired firms, but only reported the status of the acquired firms to the acquiring firms directly and regularly. In cases one and two, a senior manager from firm A mentioned, ‘... the managers of us [firm A] in them [firms Aa1 and Aa2] send financial statements, financial status and monitoring data etc. regularly to us...’ (Participant S1, firm A). In case three, a participant from firm B maintained, ‘... we have sent a senior manager to Germany... if they [firm B] have some changes, we must know...because we need a channel for information...’ (Participant S10, firm B). In case four, a senior manager of firm C also noted:

We have sent two senior managers to Australia as the long-term representatives for us in the top management team, but most of the time they just played a role as advisers. They do not interfere in any management and operations of the [acquired] firm, and they only report to us regularly (Participant S14, firm C).

Therefore, these two meanings contribute to this ‘Selective You Wei’ approach followed by firms A, B and C. With respect to the third part of their new integration mode, the ‘Reversed You Wei’ approach is explained in the next section.

### **4.5.3 The Third Part of the Integration Mode: An Approach of Reversed ‘You Wei’**

With respect to the third part of the Chinese acquiring firms’ new integration, they have then adopted a reversely effortful approach. This refers to the fact that they have significantly given full effort to ask and support the acquired firm (firms Aa1, Aa2, Bb1 and Cc1) to reversely establish a new firm with factories (as a subsidiary of the acquired firm) inside their (the Chinese acquiring firms) respective industrial parks in China. These subsidiaries have been coded as Aa1a, Aa2a, Bb1a and Cc1a in the above Methodology chapter (chapter three). Thus, this approach involves effort being put into the reversed development of activities and approaches taken by the acquired firms back into the parent (acquiring) firms. This has been labelled the Reversed ‘You Wei’ approach.

Moreover, according to the interview data, the factory belonging to each new subsidiary must be highly similar to, or completely the same as, the original factory of the acquired firm in the foreign host country. Specifically, in cases one and two, firms Aa1a’s and Aa2a’s factories were designed to be completely the same as the original factories of firms Aa1 and Aa2, respectively. In cases three and four, the factories of firms Bb1a and Cc1a were required to be highly similar to those of Bb1 and Cc1, respectively. These new factories were regarded as the model factories for firms A, B and C by the senior managers. The senior managers believed that these new factories were able to provide the imitation and demonstration effects within a close distance for firms A, B and C. Subsequently, these imitation and demonstration effects helped firms A, B and C effectively assimilate the acquired new knowledge (including advanced technologies) from the acquired firms. Then, firms A, B and C effectively applied the new knowledge

to commercial ends. In the light of the interview data, firms Aa1, Aa2, Bb1 and Cc1 were seen as the ‘Son-level’ subsidiaries of firms A, B, and C by the majority of the senior managers. Therefore, firms Aa1a, Aa2a, Bb1a and Cc1a have been regarded to be their ‘Grandson-level’ subsidiaries by the senior managers.

In cases one and two, based on this experience, a senior manager from firm A explained this process in detail:

In the post-acquisition integration... we will not change anything of the management team [of firms Aa1 and Aa2] ... However, we needed to get their technologies and management skills... we will use our own [new] integration mode... we called the last part [of the new integration mode] as a reverse investment way [the ‘Reversed You Wei’ approach] ... It means that we have asked and supported the acquired firms Aa1 and Aa2 to establish the new two subsidiaries [firms Aa1a and Aa2a] in China. These new subsidiaries have the same factories as the original ones of firms Aa1 and Aa2 in Germany. The new subsidiaries [firms Aa1a and Aa2a] with their new factories are all located in our industrial park, and they are regarded as our ‘Grandson-level’ subsidiaries... Since the new subsidiaries are established by firms Aa1 and Aa2, so although we are in this relatively remote place, in fact, the senior managers of firms Aa1 and Aa2 often come to us to visit their subsidiaries with the new factories [firms Aa1a and Aa2a] ... Through this [new] integration mode, we have changed them [firms Aa1 and Aa2] from the passive management to the proactive management, so that they have brought their advanced technologies and management skills to China [to firm A] (Participant S1, firm A).

With respect to absorbing the newly acquired knowledge, this participant also stated , ‘... in other words, it can be regarded that we asked the acquired German firms [firms

Aa1 and Aa2] to set up model factories [firms Aa1a and Aa2a] in our industrial park, [therefore] we can easily learn all the things...’ (Participant S1, firm A). In case three, a senior manager of firm B also stated, ‘... then we [firm B] let them [firm Bb1] establish a new firm [firm Bb1a] in our industrial park... In this way, our technologies have been improved, since we directly involved with them [firm Bb1a] ...’ (Participant S10, firm B). In case four, a senior manager from firm C also reported that, ‘we asked firm Cc1 to establish a new firm [firm Cc1a] with the highly similar factory [as that of firm Cc1] in China... We can learn the technology from the technicians of firm Cc1a in a close distance...’ (Participant S14, firm C).

Some senior managers also mentioned that a lot of the skilled workers and technicians in firms Aa1a, Aa2a, Bb1a and Cc1a were from the factories of firms A, B and C. In other words, the skilled workers and technicians of firm Aa1a are composed of the skilled workers and technicians selected from both firm Aa1 and firm A. The same situation occurred for Aa2a, Bb1a and Cc1a. Moreover, the senior managers also pointed out that, since many skilled workers and technicians of firm Aa1a were selected from firm A, these skilled workers and technicians have returned to the factories of firm A or visit firm A’s factories regularly for transferring technologies and management skills. As firm Aa1a is in the industrial park of firm A, these activities of transferring technologies and management skills were very easy and convenient to accomplish for firm A. The same circumstances took place for firms B and C. Hence, the advanced technologies and management skills have been effectively transferred to firms A, B and C. In cases one and two, a senior manager from firm A explained:

Basically, most of the technical employees [include skilled workers and technicians] of the new ‘Grandson-level’ factories [the factories of firms Aa1a and Aa2a] were directly selected from the factories of our firm A. Therefore, the

selected German technical employees from firms Aa1 and Aa2, with the [selected] employees from firm A together constituted the whole technical team of the ‘Grandson-level’ factories. (Participant S1, firm A).

Another senior manager also stated:

We used the reverse investment [the ‘Reversed You Wei’ approach] ... since many technicians of the ‘Grandson-level’ firms [firms Aa1a and Aa2a] were selected from firm A, so these technicians, as the main force, worked, manufactured products, and participated in projects together with the German technicians [selected from firms Aa1 and Aa2] on the completely same assembly line and facilities as that in Germany. Our technicians had chances to learn, understand and absorb the new external knowledge within the factories of the ‘Grandson-level’ firms comprehensively, easily, and quickly. Subsequently, the knowledge has been transferred from the factories of the ‘Grandson-level’ firms to the factories of our firm A through employee internal sharing, employee communication and sometimes even employee exchange. This helped us learn, absorb and transfer knowledge from the acquired firms effectively and efficiently (Participant S3, firm A).

In case three, a senior manager from firm B also mentioned, ‘in this new firm [firm Bb1a], many technicians were selected from firm B. A lot of them were the core technicians in firm B... We can learn [the technologies of] them through this platform...’ (Participant S10, firm B). In case four, a senior manager of firm C showed that, ‘...in the new firm [firm Cc1a], most of the workers and technicians were selected from firm C...’ (Participant S15, firm C). Another senior manager from firm C also pointed out that, ‘... we can learn the technologies through the hand to hand [step by step] teaching and demonstrations by the [Australian] employees... After a period of time, we got the

technologies [of firm Cc1a and Cc1] ...' (Participant S16, firm C). Therefore, this 'Reversed You Wei' approach provided significant imitation and demonstration effects at a close distance for the Chinese acquiring firms. Although their absorptive capacities were weak, the Chinese acquiring firms have absorbed and integrated the acquired new knowledge effectively, through this 'Reversed You Wei' approach.

Moreover, some participants mentioned that firms Aa1, Aa2, Bb1 and Cc1 were also willing to establish firms Aa1a, Aa2a, Bb1a and Cc1a in China. A senior manager stated:

Because the new firms [firms Aa1a and Aa2a] were set up by the acquired firms [firms Aa1 and Aa2], so they [firms Aa1 and Aa2] has a proactive attitude to us [firm A]. In fact, the main markets of these German firms [firms Aa1 and Aa2] were limited to the range of Germany before we acquired them. With this way [the 'Reversed You Wei' approach], they [firms Aa1 and Aa2] also became international enterprises. This was a win-win strategy (Participant S2, firm A).

Another senior manager suggested, '...establishing firm Bb1a has provided the big opportunities in huge Chinese market for firm Bb1, especially after the financial crisis...' (Participant S10, firm B). Therefore, this 'Reversed You Wei' approach was a win-win strategy for both the Chinese acquiring firms and the acquired firms. Furthermore, based on this experience, a senior manager concluded:

With this our integration mode [the 'Wu Wei, Selective You Wei, & Reversed You Wei' integration mode], we kept the business of the German acquired firms, and we also maintained their own operation situation. Within the cross-border M&As, the main growth for us is not only the international acquisitions but also the subsequent increase of our products in Chinese domestic markets. We really got the effects of 'one plus one is bigger than two'. The most important

expectation of us was that we could realise a post-acquisition integration in China. Therefore, we have a strategy of ‘M&As in Global, but Integrating in China’. The brightest spot is ‘Integrating in China’. In fact, this has changed the acquired firms from a passive attitude to a proactive attitude. The effects were very good (Participant S1, firm A).

Finally, as the whole new integration mode of the Chinese acquiring firms, the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode has been interpreted in the above sections. The examples of the direct quotes (included the quotes mentioned above) for this new integration mode of the Chinese acquiring firms are presented as follows.

**Table 8** The ‘Wu Wei, Selective You Wei, & Reversed You Wei’ Integration Mode of Chinese Acquiring Firms

Theme & Exemplifying Quote for the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ Integration Mode of Chinese Acquiring Firms	Number of Senior Managers
<p><b>The First Part of the ‘Wu Wei, Selective You Wei, and Reversed You Wei’ Integration Mode: A Wu Wei Approach</b></p> <p><i>‘At the initial phase of the post-acquisition integration, we set up a significantly main principle which refers to “Only participate [in the management of firm Bb1], Do Not Dominate [firm Bb1]” to guide our behaviours in the post-acquisition integration... With this [integration] mode, the effects of the cultural differences were not obvious that we did not find any significant barrier or harmful influences from the cultural differences between the acquired firm [firm Bb1] and us’ (Participant S8, firm B).</i></p> <p><i>‘At that moment, a lot of investors asked me, “in the post-acquisition integration, will you change the CEOs of the firms Aa1 and Aa2?”, “will you change the CFOs?” etc. My answer is that we will not change anything of the management team...’ (Participant S1, firm A).</i></p> <p><i>‘... We did not choose the traditional [post-acquisition integration] way, which means that acquiring firms often change the management team of acquired firms and control acquired firms comprehensively, to integrate the acquired firms Aa1 and Aa2. In fact, if we did so, the staff of firms Aa1 and Aa2 would be very disgusted with us. Moreover, changing the entire management team cannot reach the goal of the best control [management]. Actually, that would be counterproductive. Hence, we did not select that way...’ (Participant S1, firm A).</i></p>	12

*'Basically, we did not intervene any management of Cc1 in Australia after the cross-border M&A deal...' (Participant S14, firm C).*

*'...firm C is only supervising them [firm Cc1], rather than directly managing them. The principle [of firm C] is "Only Supervise, Do Not Participant [in the management of firm Cc1]"' (Participant S15, firm C).*

*'We fully trust them [the acquired firms]. In the meantime, maintaining the advantages of the acquired firms...' (Participant S1, firm A).*

*'We almost did not change anything on the aspect of the human resource [of firm Bb1]' (Participant S8, firm B).*

*'The three mainly original senior managers [ of firm Bb1 which consist of the top management team] are still at their initial positions during the post-acquisition integration' (Participant S10, firm B).*

*'We believed that the [local] German management team could create the best management for the firm Bb1...Based on reliance, we trusted them [the local German management team] very well. Indeed, they did not live up to our trust, and their management was very good. On this aspect, the cooperation between them and us was very pleasant...' (Participant S12, firm B).*

**The Second Part of the 'Wu Wei, Selective You Wei, and Reversed You Wei' Integration Mode: An Approach of Selective 'You Wei'**

*'... we did not interfere in anything of their [the acquired firms'] management, and we only set up the financial goals and guide the strategic development direction for them [the acquired firms] ...' (Participant S1, firm A).*

*'...we only establish the strategic development direction and the goals in finance for them [firm Bb1] in the management...'*

*(Participant S8, firm B)*

*'we [firm C] does not interfere in the management of firm Cc1. We just need their [firm Cc1] financial statement, and big [financial] issues need internal audits...'* (Participant S15, firm C).

*'... the managers of us [firm A] in them [firms Aa1 and Aa2] send financial statements, financial status and monitoring data etc. regularly to us...'* (Participant S1, firm A).

*'... we have sent a senior manager to Germany... if they [firm B] have some changes, we must know...because we need a channel for information...'* (Participant S10, firm B).

*'we have sent two senior managers to Australia as the long-term representatives for us in the top management team, but most of the time they just played a role as advisers. They do not interfere in any management and operations of the [acquired] firm, and they only report to us regularly'* (Participant S14, firm C).

### **The Third Part of the 'Wu Wei, Selective You Wei, & Reversed You Wei' Integration Mode: An Approach of Reversed 'You Wei'**

*'... In the post-acquisition integration... we will not change anything of the management team [of firms Aa1 and Aa2] ... However, we needed to get their technologies and management skills... we will use our own [new] integration mode... we called the last part [of the new integration mode] as a reverse investment way [the 'Reversed You Wei' approach] ... It means that we have asked and supported the acquired firms Aa1 and Aa2 to establish the new two subsidiaries [firms Aa1a and Aa2a] in China. These new subsidiaries have the same factories as the original ones of firm Aa1 and Aa2 in Germany.*

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*The new subsidiaries [firms Aa1a and Aa2a] with their new factories are all located in our industrial park, and they are regarded as our “Grandson-level” subsidiaries... Since the new subsidiaries are established by firms Aa1 and Aa2, so although we are in this relatively remote place, in fact, the senior managers of firm Aa1 and Aa2 often come to us to visit their subsidiaries with the new factories [firms Aa1a and Aa2a] ... Through this [new] integration mode, we have changed them [firms Aa1 and Aa2] from the passive management to the proactive management, so that they have brought their advanced technologies and management skills to China [to firm A] ...’ (Participant S1, firm A).*

*‘... then we [firm B] let them [firm Bb1] establish a new firm [firm Bb1a] in our industrial park... In this way, our technologies have been improved, since we directly involved with them [firm Bb1a] ...’ (Participant S10, firm B).*

*‘We asked firm Cc1 to establish a new firm [firm Cc1a] with the highly similar factory [as that of firm Cc1] in China... We can learn the technology from the technicians of firm Cc1 in a close distance...’ (Participant S14, firm C).*

*‘Basically, most of the technical employees [include skilled workers and technicians] of the new “Grandson-level” factories [the factories of firms Aa1a and Aa2a] were directly selected from the factories of our firm A. Therefore, the selected German technical employees from firms Aa1 and Aa2, with the [selected] employees from firm A together constituted the whole technical team of the “Grandson-level” factories.’ (Participant S1, firm A).*

*‘... we used the reverse investment [the ‘Reversed You Wei’ approach] ... since many technicians of the “Grandson-level” firms [firms Aa1a and Aa2a] were selected from firm A, so these technicians, as the main force, worked, manufactured products, and participated in projects together with the German technicians [selected from firms Aa1 and Aa2] on the completely same assembly line and facilities as that in Germany. Our technicians had chances to learn, understand and*

*absorb the new external knowledge within the factories of the “Grandson-level” firms comprehensively, easily, and quickly. Subsequently, the knowledge has been transferred from the factories of the “Grandson-level” firms to the factories of our firm A through employee internal sharing, employee communication and sometimes even employee exchange. This helped us learn, absorb and transfer knowledge from the acquired firms effectively and efficiently...’ (Participant S3, firm A).*

*‘... in this new firm [firm Bb1a], many technicians were selected from firm B. A lot of them were the core technicians in firm B... We can learn [the technologies of] them through this platform...’ (Participant S10, firm B).*

*‘... in the new firm [firm Cc1a], most of the workers and technicians were selected from firm C...’ (Participant S15, firm C).*

*‘... we can learn the technologies through the hand to hand [step by step] teaching and demonstrations by the [Australian] employees... After a period of time, we got the technologies [of firm Cc1a and Cc1] ...’ (Participant S16, firm C).*

*‘Because the new firms [firms Aa1a and Aa2a] were set up by the acquired firms [firms Aa1 and Aa2], so they [firms Aa1 and Aa2] has a proactive attitude to us [firm A]. In fact, the main markets of these German firms [firms Aa1 and Aa2] were limited to the range of Germany before we acquired them. With this way [the ‘Reversed You Wei’ approach], they [firms Aa1 and Aa2] also became international enterprises. This was a win-win strategy’ (Participant S2, firm A).*

*‘...establishing firm Bb1a has provided the big opportunities in huge Chinese market for firm Bb1, especially after the financial crisis...’ (Participant S10, firm B).*

*‘... Through the new firm (firm Cc1a), firm Cc1 also can get the advantages of the huge market in China...’ (Participant*

<i>S14, firm C).</i>	
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## **4.6 Summary**

In summary, this chapter presented the emergent themes of the four motivations for the Chinese cross-border M&As, the obstacles in Chinese post-acquisition integration, the imitation and demonstration effects for the Chinese acquiring firms, and their new ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode. Through reviewing the extant literature, the next chapter has discussed all the findings. The implications for literature and theory, as well as for practice and future research are also presented.

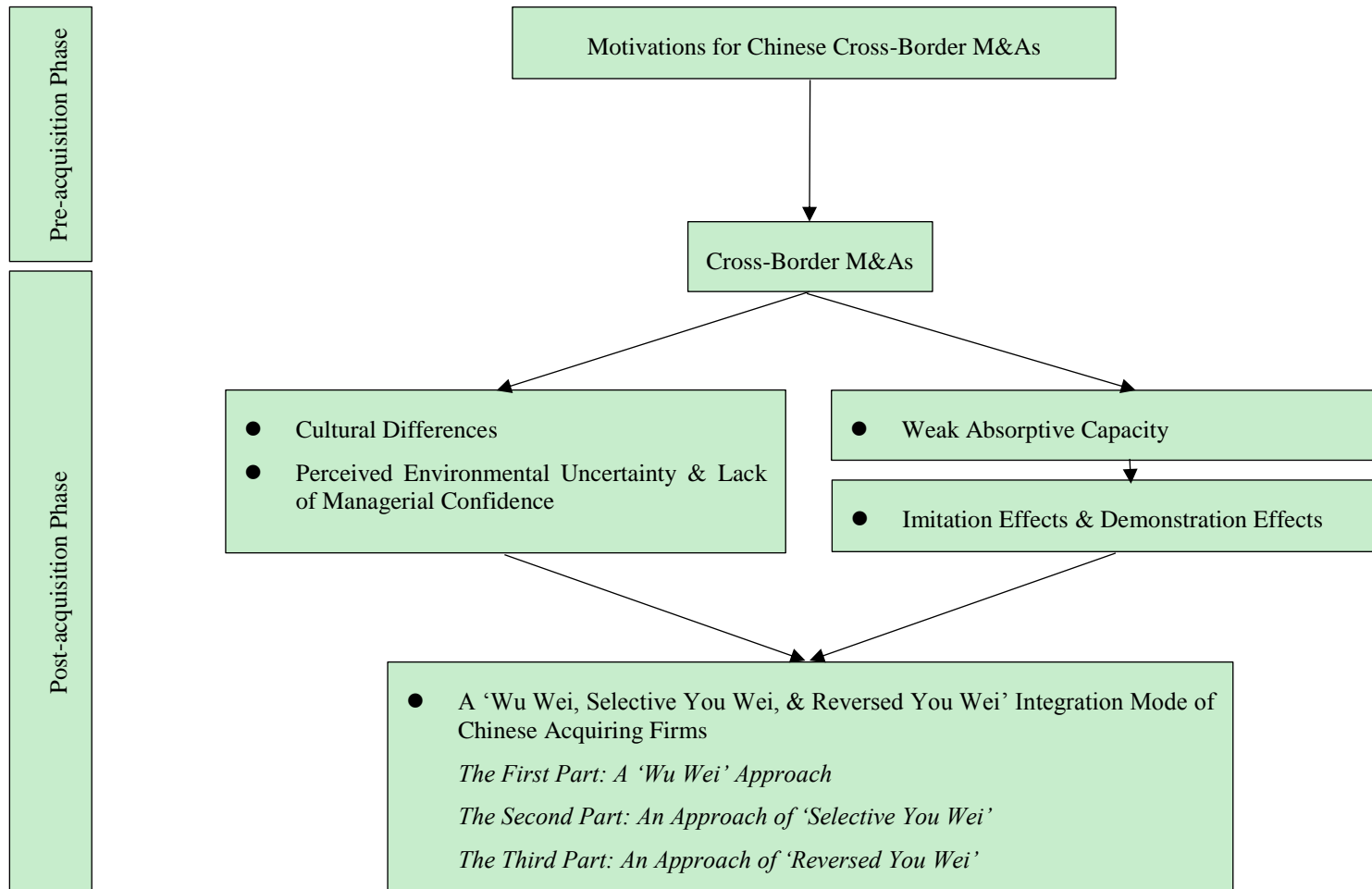
# 5 Discussion

## 5.1 Introduction

This study set out to examine how cultural differences and absorptive capacity impact Chinese acquiring firms' post-acquisition integration mode in cross-border M&As. This chapter contains a discussion of the results of this research. The discussion shows a synthesis of the comprehensive data and the descriptions in the preceding chapters. It illustrates the motivations of the Chinese acquiring firms, especially Chinese medium-high-technology manufacturing enterprises, implementing cross-border M&As, the obstacles within post-acquisition integrations, and a new post-acquisition integration mode adopted by the Chinese enterprises examined in this study. The contributions of this study to the current research on cross-border M&As' integration are in three ways. Firstly, this study attempts to expand and supplement the existing literature about post-acquisition integration of cross-border M&As in developed economies by acquiring firms from emerging economies. A new integration mode has been found, which has been notably adopted by Chinese acquiring firms. This new integration mode indicated a high level of management autonomy for acquired firms in developed economies. Secondly, as the integration mode emerged it became clear that a lens of Taoism can be adopted. As one of the most important Chinese traditional cultures, Taoism could be utilized to interpret this new integration mode as the 'Wu Wei, Selective You Wei, & Reversed You Wei' integration mode. There is a scarcity of literature adopting Taoism to introduce the post-acquisition integration mode of Chinese cross-border M&As. This study realises the contributions to the expansion and prosperity of the existing related

research. Significantly, a model ('Wu Wei, Selective You Wei, & Reversed You Wei' integration mode) has been developed in this thesis, which is presented from a perspective of Chinese acquiring firm, and can be applied to the existing related studies. Thirdly, this thesis found, and has provided, several new elements and insights into the existing related studies. In this study, perceived environmental uncertainty and lack of managerial confidence have emerged. Furthermore, with weak absorptive capacity, the needs of imitation effects and demonstration effects for Chinese acquiring firms have also been observed in this thesis. There is a scarcity of literature that has mentioned perceived environmental uncertainty and lack of managerial confidence, and these needs of imitation effects and demonstration effects for Chinese MNEs in the research area of cross-border M&As from emerging economies. Figure 1 shows the new integration model of the Chinese acquiring firms, which refers to the 'Wu Wei, Selective You Wei, & Reversed You Wei' integration mode in Chinese cross-border M&As.

**Figure 1** The ‘Wu Wei, Selective You Wei, & Reversed You Wei’ Integration Mode of Chinese Acquiring Firms



## **5.2 Implications for Literature & Theory**

### **5.2.1 Motivations for the Chinese Cross-border M&As**

During the past decades, due to the constraints of entry modes operating in foreign countries, cross-border M&As were an extremely rare occurrence for Chinese firms. In the 1980s, the wave of joint venture forms emerged and in the 1990s this was followed by a wave of wholly-owned foreign subsidiaries (WOFSs) (Liu & Woywode, 2013). Prior research found that cross-border joint ventures were changed into the WOFSs form for Chinese firms, with the institutional environment having been changed by the Chinese government (Puck, Holtbrugge, & Mohr, 2009).

Firstly, according to the findings, there were four main motivations for Chinese acquiring firms examined in this thesis attempting cross-border M&As. The four motivations included industry complementarity, knowledge asset-seeking, technological capability and innovative capability.

With respect to industry complementarity, in cases one, two and three, the senior managers believed that China and Germany have a high potential for industry complementarity, which is in line with prior research (Liu & Woywode, 2013). They explained that Germany has many firms with advanced technology, and China has the advantages of cheap labour costs and huge market potential. Liu and Woywode (2013) stated that the potential of the industry complementarity between China and Germany is huge. In case four, the senior managers also showed a considerable industry complementarity between China and Australia. In terms of knowledge asset-seeking, the participants mentioned that some key technologies of know-how within their industries were held by the acquired firms in Germany and Australia. These key technologies were significant to them in strengthening their competitive advantages in

their industries around the world. This is also in line with the previous research (Deng, 2010a; Liu & Woywode, 2013). Deng (2010a) showed that in order to seek knowledge or strategic assets, more and more Chinese firms are adopting the method of cross-border M&As. Also, due to the needs of industry complementarity and knowledge asset-seeking, a lot of Chinese firms have been eager to attempt cross-border M&As (Deng, 2009; Liu & Woywode, 2013).

When it comes to the motivations of technological capability and innovative capability, the senior managers have highlighted these two motivations in this study. They articulated that the cross-border M&As have obviously improved their firm's technological capabilities and innovative capabilities. Since firms want to acquire technological capabilities, M&As have become one of the main ways for them to obtain technological capabilities in dynamic markets around the world (Coff, 1999; Ranft & Lord, 2000). In particular, innovative capability has been stressed by the participants from the Chinese acquiring firms, which is in line with Bauer et al. (2016). These researchers pointed out that, as a major motivation, firms want to acquire innovative capability through the approach of cross-border M&As (Bauer et al., 2016). Therefore, it has been found that industry complementarity, knowledge asset-seeking, technological capability and innovative capability were the four main motivations for the Chinese acquiring firms, and especially for Chinese medium-high-technology manufacturing enterprises in cross-border M&As in this study. The senior managers also regarded these four motivations as the four initial goals of their cross-border M&As. Based on their prior knowledge about the industry, the target firms then gradually emerged in their plans of cross-border M&As.

After the acquisition of the targets, these Chinese investors started to enter the phase of post-acquisition integration. Subsequently, the senior managers of the Chinese

acquiring firms recognised several obstacles that they must face and overcome during the process of post-acquisition integration, as discussed in the following sections.

## **5.2.2 Obstacles in the Chinese Post-Acquisition Integration**

During the process of post-acquisition integration, there were several obstacles that the Chinese acquiring firms had to experience and overcome. In this thesis, the Chinese acquiring firms recognised that the main obstacles, which included three aspects in the post-acquisition integration that are described and compared below with the literature.

### **5.2.2.1 Obstacle One: National-level and organisational-level cultural differences**

Obstacle one refers to the cultural differences between the Chinese acquiring firms and their acquired firms with two dimensions; national-level cultural differences, and organisational-level cultural differences. According to the interview data, the senior managers recognised that the cultural differences between the target firm and the acquiring firm were able to cause obstacle effects in the post-acquisition integration of their cross-border M&As. The reason for the one-third to one-half failure rate of M&As is focusing especially on the goals of strategy and finance, rather than the shortages of management after the integration (Hall & Norburn, 1987; Stahl & Mendenhall, 2005), and because cultural, staff and psychological problems have been underrated by these M&As (Rees & Edwards, 2009). Subsequently, it has been found in this study that the national-level cultural differences were mainly reflected in the differences in language, values and characteristics. With respect to the organisational-level culture differences, the obstacle was notably different practices and routines between the Chinese acquiring firms and the target firms.

Therefore, they have adopted their own new integration mode (the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode, which will be discussed in the following sections) in the post-acquisition integration to avoid the obstacle effects of national-level and organisational-level cultural differences. National-level culture differences are often regarded as a fundamental obstruction to integration in cross-border M&As (Datta & Puia, 1995; Morosini et al., 1998). However, with the new integration mode, the participants stated that the national-level cultural differences were not only regarded as an obvious obstacle for them, but also seen as a chance for mutual learning and the improvement of their innovation in the post-acquisition integration. This is in line with Kogut and Singh (1988), who have shown that it would be beneficial for the merged entity to be from countries with large national culture differences.

The managers have paid more attention to the organisational-level cultural difference and reported that the organisational-level cultural differences were a primary obstacle for them because of the significantly differing practices and routines between Chinese firms and the target firms in the post-acquisition integration. As for prior research, scholars have also shown that organisational-level culture differences that include different practices and routines would be a significant obstacle in the integration process and knowledge transfer, and also cause high integration costs between the target firm and the acquirer (Bauer et al., 2016; Rottig et al., 2016). Moreover, this research revealed that there were also some benefits received by Chinese acquiring firms from organisational-level culture differences in the post-acquisition integration. Kogut and Singh (1988) stated that different styles of practices and routines due to organisational culture differences would be beneficial to the merged firm. Besides this, innovation and R&D activities are usually related to these practices and routines (Morosini et al., 1998). In the thesis, the Chinese acquiring firms have drawn advantages from the target firms,

such as the normative and rigorous perspective and mindset of the organisational culture, and the advanced management skills, among other factors.

In summary, although the cultural differences have brought some benefits to the Chinese acquiring firms, the barrier influences of the cultural differences have still overwhelmed the beneficial effects and, in short, the obstacles of national-level and organisational-level culture differences were serious and obstructive for the Chinese companies in the post-acquisition integration within their cross-border M&As. Therefore, the senior managers have adopted a ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode to avoid barrier influences of the national-level and organisational culture differences. This new integration mode will be explained in the following sections.

#### **5.2.2.2 Obstacle Two: Perceived Environmental Uncertainty & Lack of Managerial Confidence**

According to the interview data, due to the national-level and the organisational-level cultural differences, the different employee protection systems and laws, and dealing with the new external environment of the host countries, unpredictability and unfamiliarity occurred for the senior managers interviewed in this study.

This unpredictability and unfamiliarity not only resulted in the perceived environmental uncertainty of the senior managers, but also the lack of managerial confidence in managing the acquired firms in the host countries. As for perceived environmental uncertainty, when the decision-makers of an organisation realise the feature of unpredictability in their environment, perceived environmental uncertainty occurs (Buchko, 1994; Milliken, 1987). Perceived environmental uncertainty will happen

when the understanding of the main events or trends occurring in the external environment is unpredictable and the decision-makers lack confidence, or when the decision-makers feel that the probabilities cannot be assigned to the possibility of the changes and/or specific, special and unusual events happening (Milliken 1987). When the available information is different from the required knowledge, perceived environmental uncertainty occurs (Zhang, Majid & Foo, 2012). The management team of acquiring and acquired firms will enter into a management structure with difficulty and trouble because of the high level of wishes, uncertainty and high workloads (Sinkovics, Zagelmeyer, & Kusstatscher, 2011). Subsequently, due to this unpredictability and unfamiliarity, the senior managers in this study showed a lack of managerial confidence in managing the target firms in the host countries. Most importantly, they did not believe that they or other Chinese senior managers could manage the acquired firms well. Furthermore, they also explained that most of them were inexperienced in managing acquired firms in foreign countries before their cross-border M&As, which is consistent with the current literature, as few Chinese acquiring firms currently have cross-border M&A experiences (Liu & Woywode, 2013). Thus, the important shortage of prior managerial experience in cross-border M&As has further aggravated the lack of managerial confidence experienced by the senior managers in managing the acquired firms in the host countries. Therefore, the perceived environmental uncertainty and the lack of managerial confidence was found to be the second obstacle for the Chinese acquiring firms in the process of post-acquisition integration. In the words of a senior manager of firm A, 'if the local German management team cannot manage it [the acquired firm Aa1 or Aa2] well, this will be much more impossible that the Chinese management team can manage it well' (Participant S1, firm A). Due to this uncertainty, the senior managers were confident

that only the original local management team was able to create the best management and operations for the acquired firms in the host countries. Thus, they have retained the original management team of each acquired firm.

Finally, there is a scarcity of literature on perceived environmental uncertainty and the lack of managerial confidence of senior managers of acquiring firms in cross-border M&As. Generally, uncertainty in the different kinds of arenas needs to be faced by managers within companies. For instance, all the changes in material resources, labour and interrelationships between companies, and also the coordination and compromise of companies' and individual objectives, combine to form an uncertain environment; in particular, managers must operate in this environment (Breckenridge & Taplin, 2009). In different industries and the different phases of each industry lifecycle, the perceived environmental uncertainty is different, so the level at which different firms recognise the importance of the external environment can differ at the individual level, and each firms' response to the environment will also differ (Abels, 2002). This finding of perceived environmental uncertainty and lack of managerial confidence of senior managers of acquiring firms in cross-border M&As is one of the contributions of this study to the literature of cross-border M&As from emerging MNEs.

Finally, in the face of the perceived environmental uncertainty and the lack of managerial confidence, the senior managers of the Chinese acquiring firms have utilised the 'Wu Wei, Selective You Wei, & Reversed You Wei' integration mode in their cross-border M&As.

### **5.2.2.3 Obstacle Three: Weak Absorptive Capacity in the Post-Acquisition Integration**

According to the theories relating to absorptive capacity, companies tend to improve their rival advantage through acquiring strategic resources or knowledge under the restriction of their absorptive capacity (Deng, 2010a). Within the post-acquisition integration, on the aspect of assimilating advanced technologies and management skills from the acquired firms, the Chinese acquiring firms started to perceive their weak absorptive capacity. Absorptive capacity generally means that a companies' ability of being able to perceive the value of the novel, outside knowledge, absorb it and use it to commercial ends (Cohen & Levinthal, 1990). Simultaneously, dynamic capability refers to "the capacity of an organization to purposefully create, extend, or modify its resource base" (Helfat et al., 2007, p.4). It has been widely accepted that the absorptive capacity of a firm can symbolise its dynamic capability (Deng, 2010a; Hitt et al., 2001; Lane et al., 2001). Absorptive capacity has been seen as a function of the resolution of previous companies' questions, and it comes from stores of knowledge in these companies (Kogut & Zander, 1992). Lane et al. (2006) pointed out that the conception of absorptive capacity has been described as a potential theme in the management of international strategy, and various organisational occurrences; for example, organisational learning, knowledge assimilation and transmitting, strategic leagues, and operating results have been explicated by researchers with applying absorptive capacity. Thinking about the most notable evolution of absorptive capacity and the most related characteristics on the basis of cross-border M&As, a model of absorptive capacity that includes three crucial dimensions that form absorptive capacity, has been recommended by Deng (2010a). Each dimension is defined by some organisational elements (Cohen & Levinthal, 1990; Kim, 1998; Lane et al., 2001; Lei & Hitt, 1995; Shimizu et al., 2004;

Van Den Bosch et al., 1999; Zollo & Singh, 2004). The first dimension is the capability to comprehend and recognise the acquired strategic assets, and prior related knowledge would be regarded as the main factor for the first dimension (Kim, 1998; Shimizu et al., 2004). The second dimension refers to the capability to integrate and synthesise the acquired strategic asset, with combinative capabilities regarded as the major factor (Van Den Bosch et al., 1999; Zollo & Singh, 2004). The third dimension describes the capability to transform and apply the acquired strategic assets, with strategy execution and effort as the principal factor (Deng, 2010a; Lane et al., 2001; Hitt et al., 2001). In this thesis, it was found that the Chinese acquiring firms realised their shortcomings in absorptive capacity. Almost all the senior managers of the Chinese firms implied that the absorptive capacity of their firms is weak for assimilating new and external acquired knowledge from the target firms. Specifically, this study found that all three Chinese acquiring firms lacked the capability of the second dimension that primarily refers to combinative capabilities to absorb and integrate the acquired technologies. As for the major factor of this dimension, combinative capabilities help firms compound and acquire new knowledge (Van Den Bosch et al., 1999; Zollo & Singh, 2004). According to the rationale within previous studies, combinative capabilities combine resources in new ways and are regarded as an effective governance mechanism within absorptive capacity. If acquiring firms lack these capabilities, it is difficult for them to assimilate and integrate the attractive strategic assets (Deng, 2010a; Jansen et al., 2005; Kogut & Zander, 1992; Van Den Bosch et al., 1999; Zollo & Singh, 2004). If firms could accomplish the effective combination and interaction of complementary resources, innovation success would be more easily achieved (King et al., 2003). Moreover, scholars have identified a lack of experience and the individual capability of Chinese firms in cross-border settings and advanced engineering (Liu & Woywode, 2013).

Furthermore, as state-owned enterprises, firms B and C also showed the third dimension (strategy execution and effort) of their absorptive capacity was weaker than for privately-owned enterprises. They felt that their strategy execution and effort was weak in their cross-border M&As, which was another negative feature of their weak absorptive capacity.

In conclusion, due to the fact that all three Chinese acquiring firms in this study have recognised that their combinative capabilities were significantly weak this meant that they have weak absorptive capacity. Firms B and C also indicated that their strategy execution and effort was weak. Hence, it was difficult for them to absorb and integrate the new and external acquired knowledge, and this cannot be ignored as the top management teams of the Chinese acquiring firms showed that their firms require imitation effects and demonstration effects within a close distance from the acquired firms. Depending on the imitation and demonstration effects at a close distance, the senior managers of three Chinese acquiring firms believed that their companies could effectively absorb and integrate the acquired knowledge from the acquired firms. Particularly, for the Chinese acquiring firms, the imitation effects are significantly important for organisational learning (Chang, Ho, Tsai, Chen & Wu, 2017). Subsequently, these Chinese senior managers adopted the 'Wu Wei, Selective You Wei, & Reversed You Wei' integration mode to receive the imitation and demonstration effects easily and effectively in their cross-border M&As. Thus, their weak absorptive capacity was regarded as another reason for the Chinese acquiring firms to use this new integration mode.

### **5.2.3 Imitation Effects & Demonstration Effects for Chinese Acquiring Firms**

As outlined previously, according to the interview data, the Chinese acquiring firms found that the imitation and demonstration effects at a close distance (face-to-face) were notably important for them in acquiring the new external knowledge from the acquired firms in the post-acquisition integration, due to their weak absorptive capacity. In prior research, for example, imitation actions, labour mobility, enhanced competition and vertical linkages have been identified as several methods for foreign knowledge spread (Jude, 2016). Foreign companies are considered to own several kinds of specific resources, especially knowledge, that can lead to increases in productivity, and help them increase efficiency so that it is higher than that of domestic companies (Jude, 2016). The efforts that local companies put into imitating the more advanced production methods can be lessened because of demonstration effects, especially through the application of reverse engineering (Wang & Blomstrom, 1992). Moreover, local companies can hire the workers who have been trained in foreign companies to increase their productivity (Fosfuri, Motta, & Ronde, 2001).

It is highly possible that companies will imitate other companies to achieve the goal of retaining competitiveness or decreasing the potential risk of unexpected consequences when they meet uncertainty (DiMaggio & Powell, 1983). In particular, in this study it has been found that, for Chinese medium-high-technology manufacturing enterprises, the imitation effects are significantly important for the Chinese acquiring firms within organisation learning (Chang et al., 2017). For example, in prior research, scholars found, that in the first stage, Huawei engineers learned through reading textbooks and imitating leaders' specific technology in the industry. With the continuous

implementation of these learning methods, as long as Huawei possessed the ability to imitate the products of the leaders within the industry, this company was prepared to search advice and guidance outside to improve the current products manufactured by the leaders of the industry in the second stage (Chang et al., 2017). The technology of the foreign partners has been absorbed by the Chinese companies, which then imitate the foreign partners' products, play their low-cost advantage, and consequently manufacture competitive products. This has helped Chinese companies achieve competitive success worldwide, as well as their high status in a manufacturing industry that belongs to a global value chain (Yu, Yan, & Assimakopoulos, 2015). Therefore, the imitation and demonstration effects at a close distance were important and noteworthy for the Chinese acquiring firms with weak absorptive capacity in order for them to acquire the new external knowledge in the post-acquisition integration. Moreover, as time went on, the imitation of the Chinese acquiring firms helped them assimilate and apply the acquired knowledge effectively, and then also contribute to their innovation. In the process from imitation to innovation, through continuous organisational learning and systematic development in R&D capacity, firms improve their status step-by-step. The level of novelty and originality belonging to the innovation gradually improved, and in the end, firms create not only original innovations, but also good novelties (Yu et al., 2015). However, how they can benefit from the imitation and demonstration effects at a close distance from the acquired firms was a problem for the senior managers in this study. The answer was that the Chinese acquiring firms had adopted an approach of 'Reversed You Wei', which is the third part of the 'Wu Wei, Selective You Wei, & Reversed You Wei' integration mode (Figure 1).

## **5.2.4 The ‘Wu Wei, Selective You Wei, & Reversed You Wei’ Integration Mode of Chinese Acquiring Firms**

In the light of the interview data, a new phenomenon has gradually emerged in this study. That is, the Chinese acquiring firms, firms A, B and C, have all adopted a new post-acquisition integration mode (the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode), when compared with the traditional post-acquisition integration methods. In the extant literature from Western countries, the traditional method of post-acquisition integration has a significant supposition of ‘giving full effort’ (Sun, 2016).

As for the first part of this new integration mode, the Chinese acquiring firms have taken a non-dominant approach in the management of the acquired firms. However, since they actually still cared about the acquired firms’ management and development, in the second part, they also expressed a way of selective participation in the management and development of the acquired firms. The meaning was that: (1) The Chinese acquiring firms only gave the necessary effort to set up the financial goals and the strategic development direction for the acquired firms; and (2) the Chinese acquiring firms established a regular reporting mechanism between themselves and the acquired firms.

Finally, when it comes to the third part, the Chinese acquiring firms have taken a reversed effortful approach. This means that the Chinese acquiring firms have significantly given their full effort to ask and support the acquired firm (firms Aa1, Aa2, Bb1 and Cc1) to reversely establish a new firm including factories (as a subsidiary of the acquired firm) within their (the Chinese acquiring firms) industrial parks in China. These subsidiaries have been coded as Aa1a, Aa2a, Bb1a and Cc1a, respectively, in the Methodology chapter (chapter three).

Moreover, through the interview data, it has been found that this new integration mode has been affected significantly by Chinese traditional cultures. Then, based on the features of this new integration mode, as described by the participants, the ideas of Taoism, which is one the most important Chinese traditional cultures and philosophies, has gradually emerged in the researcher's mind. The thoughts, which were using the lens of Taoist philosophy from China to interpret this new integration mode, have inspired the researcher. Thus, this thesis has borrowed Taoist philosophy to explain this new integration mode as a 'Wu Wei, Selective You Wei, & Reversed You Wei' integration mode. This new integration mode could be the most significant contribution of this study.

#### **5.2.4.1 The First Part of the Integration Mode: A 'Wu Wei' Approach**

For the first part, this 'Wu Wei' approach means that the Chinese acquiring firms have taken a non-dominant approach in the management of the acquired firms, such as the daily work/tasks. The reasoning for this is that, because of obstacles one and two mentioned above, the acquiring firms wanted to avoid the barrier influences of national-level and organisational-level cultural differences, and to also evade the obstacle effects of the perceived environmental uncertainty and the lack of managerial confidence. Therefore, they used this 'Wu Wei' approach. Under this approach the managers did not change anything or interfere in any way in the acquired firms. The method is similar to the 'light touch' approach, which is in line with the prior research (Liu & Woywode, 2013). This study has contributed in interpreting it as the first part of the 'Wu Wei, Selective You Wei, & Reversed You Wei' integration mode with utilising a lens of the significantly traditional Chinese culture of Taoism. Although Sun (2016) first mentioned the concept of 'Wu Wei' approach in her research, this study has expanded

and supplemented the ‘Wu Wei’ mode to the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode, significantly as adopted by the Chinese acquiring firms in this study.

During recent years, a novel post-acquisition integration method has been used by multinational enterprises from emerging-market. This method has been regarded as a hybrid mode, at the middle position of the symbiosis and preservation modes (Liu & Woywode, 2013). It is also identified as a ‘partnering way’ from a cooperation perspective (Kale & Singh, 2009; Kale, Singh, & Raman, 2009). Cogman and Tan (2010) argue that it can be seen as a ‘light-touch approach’ from a post-acquisition integration level view.

In this study, the reconstruction of the post-acquisition integration mode for the Chinese acquiring firms is an important theoretical contribution to the research of cross-border M&As. Taoism as one of the most important traditional Chinese cultures, influences the thoughts and the mindset of Chinese individuals to a large degree (Xing & Sims, 2012). Xing and Sims (2012) also stated that Chinese managers adopted Taoism’s fundamental thoughts in a commercial environment. As mentioned previously, the Chinese acquiring companies wanted to avoid the influences associated with national-level and organisational-level cultural differences, the perceived environmental uncertainty, and the lack of managerial confidence. It appears that the Chinese acquiring firms follow this ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode when conducting the cross-border M&As, which has also been thought to be the best integration mode by Chinese firms.

For the first part of this mode, the approach of ‘Wu Wei’ was also regarded as the best and the most intelligent approach for managers in dealing with the acquired firms. In response to contradictions, Chinese multinational enterprises (MNEs) accept acquired

firms directly and are involved in a 'go with the flow'-directed integration procedure (Sun, 2016). The mindset to 'go with the flow' has affected most of the Chinese managers in a peaceful manner. To 'go with the flow' refers to not acting or taking non-effort action, which has been formed as 'Wu Wei' in Chinese based on the Taoism (Slingerland, 2003). Chatzkel and Ng (2013) also stated that in Taoism, 'action-less or doing nothing' is the core of 'Wu Wei', which is explained as water going at a low speed due to water's nature of yielding. As the nature of mobile water can cut and polish hard stones due to its characteristics of being soft and yielding, Taoism argues that the energy of 'go with the flow' is huge (Chatzkel & Ng, 2013). In Taoism, the 'go with the flow' way adopts a tolerant and inclusive attitude, and an adapting perspective to face conflicts and antinomy when Taoist meets antithesis. The thought of 'go with the flow' also indicates that it is not completely antithetic between 'other' and 'self', but presents as being interdependently antithetic. In the problem resolving procedure, the thoughts do not encourage operators to polarise the objective actualities and choices that belong to strategies into small 'either/or' parts, but it helps operators to achieve a balanced settlement for polarities (Chen, 2002). Based on the traditional Chinese 'go with the flow' view, the post-acquisition integration is shown as an effortless and Wu Wei procedure, and this procedure is formed in the idea of the rapprochement of collisions (Sun, 2016).

Chinese MNEs' subjective recognition on the integration has been described as an intense level of contradiction to a large extent if compared to one of the companies from the developed economies (Sun, 2016). Chinese managers used to deal with negative issues through self-reflexivity rather than being inclined to force any kinds of circumstances in a commercial environment (Xing & Sims, 2012). In this study, the Chinese acquiring firms did not appear to focus solely on efficiency or underrate the

participation of acquired firm's managers within traditional structural integration. On the contrary, the Chinese acquiring firms prefer a long-term view, and cherish the involvement and input of the acquired firm, which is consistent with the prior research (Sun, 2016). The Chinese acquiring firms behaved with a high-level respect and a trusting attitude towards the acquired firms. This shows a kind of tolerant and inclusive thought process with the aim of being harmonious. At this point, for the Chinese companies, the integration of cross-border M&As in developed countries can be considered part of a traditional Chinese 'Wu Wei' management philosophy, which is in line with previous findings (Sun, 2016). Moreover, the logic underpinning this integration procedure is consistent with the core ideas of Chinese Taoist philosophy: 'Wu Wei' or 'go with the flow'. One of the senior managers pointed out, 'at the initial phase of the post-acquisition integration, we set up a significantly main principle which refers to "Only participate [in the management of firm Bb1], Do Not Dominate [firm Bb1]" to guide our behaviours in the post-acquisition integration' (Participant S8, firm B). This might explain the concept of 'Wu Wei' integration from a philosophical aspect. Consequently, Chinese cross-border M&A integration is conceptualised as a 'Wu Wei' procedure based on Chinese Taoist philosophy (Sun, 2016). Therefore, the post-acquisition integration mode of the Chinese acquiring firms showed a traditional 'Wu Wei' procedure, and 'Wu Wei' also performed as their first part of the 'Wu Wei, Selective You Wei, & Reversed You Wei' integration mode.

With this 'Wu Wei' approach, the Chinese acquiring firms have almost successfully avoided the majority of the influences of the national-level and organisational-level cultural differences. One of the senior managers explained confidently and happily, 'with this [integration] mode, the effects of the cultural differences were not obvious that we did not find any significant barrier or harmful influences from the cultural

differences between the acquired firm [firm Bb1] and us' (Participant S8, firm B). When it comes to the obstacle of the perceived environmental uncertainty and lack of managerial confidence, a senior manager stated, 'we fully trust them [the acquired firms]. In the meantime, maintaining the advantages of the acquired firms...' (Participant S1, firm A). Another senior manager also articulated, 'we believed that the [local] German management team could create the best management for the firm Bb1...' (Participant S12, firm B). The Chinese firms believed that if they want to keep the advantages of the acquired firms in all aspects, maintaining all the original statuses including retaining the original management team and technical employees, especially the core technicians and engineers, is the only way to do this. Therefore, adopting this 'Wu Wei' approach helped them avoid the obstacle effects of the perceived environmental uncertainty and lack of managerial confidence to a large extent.

On the opposite side of representative structural integration that applies the advantages, pushing forward reform and overcoming the antinomy, the 'go with the flow' view and 'Wu Wei' procedure allows Chinese MNEs to keep a low profile from a more forward-looking perspective (Sun, 2016). Furthermore, that was the reason that the Chinese companies not only realised the obvious barrier impact from the cultural differences, but also received some benefits from the cultural differences. The core mind refers to this 'go with the flow' way. All three Chinese firms tended to learn from the acquired firms under most situations when they were faced with cultural differences during the post-acquisition integration.

In summary, in this study the Chinese acquiring firms have been found to adopt the 'Wu Wei' approach as the first part of the 'Wu Wei, Selective You Wei, & Reversed You Wei' integration mode. The second part is examined in the following subsection.

#### **5.2.4.2 The Second Part of the Integration Mode: An Approach of Selective ‘You Wei’**

With taking a ‘Wu Wei’ approach as the first part of the new integration mode, the data suggested that all three Chinese acquiring firms also indicated an approach of selective participation in the management and development of the acquired firms. This was due to the fact that they still cared about the acquired firms’ management and development in the future. This effortless approach (the ‘Wu Wei’ approach) of Chinese acquiring firms should never be applied in a laissez-faire way (Sun, 2016). This approach of selective participation included two meanings. The first meaning is that although the Chinese acquiring firms did not interfere in any management of the acquired firms, they only put in the necessary effort to set up the financial goals and strategic development direction for the acquired firms. In this way, the senior managers participate in the board in advising the acquired firms and providing a strategic development direction for the acquired firms (Liu & Woywode, 2013). Liu and Woywode (2013) further explained that with the strategic development direction which is provided by the senior managers of the acquiring firms, the managers of acquired firms have management autonomy in the process of decision making. The acquired companies could not make development strategies without Chinese acquiring companies’ authorisation (Sun, 2016). That is to say, Chinese acquiring firms have the right to refuse the commercial plans of the acquired firms if the plans are not consistent with the Chinese acquiring firms’ long-term developmental direction (Sun, 2016).

Simultaneously, the Chinese acquiring firms established a regular reporting mechanism between themselves and the acquired firms, which is the second meaning. This reporting mechanism mainly refers to the fact that each Chinese acquiring firm has sent one or two senior managers to each target firm in the host country as a long-term

representative. However, these Chinese senior managers did not interfere in the management of the acquired firms, but only reported the status of the acquired firms to the acquiring firm directly and regularly. Previous research mentioned that the Chinese acquiring firms only dispatched a restricted number of managers to the acquired firms (Sun, 2016). These Chinese managers were concerned both for the acquired firms and were also responsible for reporting to the acquiring firms (Sun, 2016).

In the light of the Taoism within Chinese traditional culture, the opposite to the approach of ‘Wu Wei’ can be regarded as a ‘You Wei’ approach in Chinese, which refers to an effortful way (Sun, 2016). In Taoism, the approaches of ‘Wu Wei’ and ‘You Wei’ are an interdependently harmonious relationship, and both of the ‘Wu Wei’ and ‘You Wei’ approaches include each other. Therefore, the ‘You Wei’ approach is necessary for the Chinese acquiring firms in the post-acquisition integration. Hence, the second part of the Chinese acquiring firms’ new integration mode can be explained as a ‘Selective You Wei’ approach in this study. The Chinese acquiring firms regarded this ‘Selective You Wei’ approach as a sort of limited and selective management measures. Chinese MNEs intervened via the back door of acquired firms to achieve long-term vision in Chinese cross-border M&As (Sun, 2016).

#### **5.2.4.3 The Third Part of the Post-Acquisition Integration Mode: An Approach of Reversed ‘You Wei’**

As for the third part of the Chinese acquiring firms’ new integration mode, they have adopted a reversed effortful approach to end the process. This means that they have focussed significant effort on asking and supporting the acquired firm (firms Aa1, Aa2, Bb1 and Cc1) to reversely establish a new firm with factories (as a subsidiary of the

acquired firm) in the Chinese acquiring firms' respective industrial parks in China. In the Methodology chapter (chapter three), these subsidiaries have been separately coded as Aa1a, Aa2a, Bb1a and Cc1a. Hence, this reversed effortful approach has been labelled an approach of Reversed 'You Wei'.

In the meantime, through the interview data, it is seen that the factories belonging to each new subsidiary were expected to be highly similar or completely the same as the original factories of each acquired firm in the host country. These new factories were seen as the model factories for the Chinese acquiring firms by the senior managers. The Chinese acquiring firms used to regard the acquired firms as their 'Son-level' subsidiaries, and also look upon these new subsidiaries of the acquired firms as their (the Chinese acquiring firms') 'Grandson-level' subsidiaries. On the one hand, with the factories of the 'Grandson-level' subsidiaries having been set up in the industrial parks of the Chinese acquiring firms, this arrangement has provided an opportunity for organisational learning at an extremely close distance. On the other hand, due to these 'Grandson-level' factories being required to be highly similar or completely the same as the original ones in the foreign host country, this configuration has supplied important imitation and demonstration effects for the Chinese acquiring firms. The senior managers believed that these new factories were able to provide the imitation and demonstration effects at a close distance for firms A, B and C. Consequently, these imitation and demonstration effects helped the Chinese acquiring firms to effectively assimilate the newly acquired knowledge (included advanced technologies) from the acquired firms. Subsequently, they applied the new knowledge to the commercial ends in an efficient manner. In fact, an ability to develop a knowledge system to expand the innovations of procedure and best practice, with the final goal of manufacturing

innovative goods and services is the competitiveness of an international manufacturing enterprise (De Meyer & Vereecke, 2009).

Moreover, many of the skilled workers and technicians of the ‘Grandson-level’ factories (the factories of firms Aa1a, Aa2a, Bb1a and Cc1a) were drawn from the factories of firms A, B, and C. In other words, for instance, the technicians and skilled workers of firm Aa1a consist of the technicians and skilled workers selected from both firm Aa1 and firm A. Therefore, these skilled technicians and workers returned to the factories of firm A or visited firm A’s factories regularly for the purpose of transferring the newly acquired knowledge. Trained employees can bring newly advanced management skills when they move back to local companies due to a range of different reasons (Fu, 2012). These were also part of the imitation and demonstration effects at a close distance. Since firm Aa1a is located in the industrial park of firm A, these activities of transferring the new knowledge were very convenient and easy to accomplish for firm A. In terms of firms B and C, the same situation existed. Thus, within these circumstances, the newly acquired knowledge has been more effectively transferred to the Chinese acquiring firms. The flow of trained employees back to local firms not only offers an opportunity for transferring information but also make capability transfer easier, which further assists in knowledge-building (Kim, 1997). The technological capabilities of the Chinese acquiring firms have shown a significant increase during this ‘Reversed You Wei’ approach. The senior managers are able to gain assistance from a more thorough comprehension of the approach factories use to communicate in order to produce and transfer knowledge, and finally to not only create innovation through balancing factories portfolios but also improve efficiency to the maximum level possible through properly pinpointing the resources of production (De Meyer & Vereecke, 2009). As for the majority of cross-border M&As around the world,

the acquiring firms have always believed that they are stronger than the target firms. Hence, the target firms are often foisted with the products, process and strategies of the acquiring firms (Sinkovics et al., 2011). However, the Chinese acquiring firms performed significantly differently in their cross-border M&As.

In summary, through this ‘Reversed You Wei’ approach, although their absorptive capacities were weak, the Chinese acquiring firms were still able to absorb and integrate the acquired new knowledge effectively because of the imitation and demonstration effects at a close distance. In other words, this ‘Reversed You Wei’ approach has been creatively adopted by the Chinese acquiring firms to compensate for their weak absorptive capacity for assimilating and integrating the new and external acquired knowledge effectively.

Besides this, establishing the ‘Grandson-level’ subsidiaries also provided three main benefits for the acquired firms themselves. Within this configuration, the first benefit was that the acquired firms could enter the huge Chinese market with help from a great partner; the Chinese acquiring firm. The Chinese acquiring firms helped them perceive and understand the huge Chinese market. In particular, the Chinese companies supported the acquired firms to overcome the institutional challenges to operating in China. The second benefit was that they could leverage the advantage of the cheap labour costs in China. The third benefit was that because of this arrangement, the acquired firms have become more international through having a subsidiary in China. Therefore, through the interview data, this ‘Reversed You Wei’ approach was also considered to be a win-win strategy for both the Chinese acquiring firms and the acquired firms. The senior managers believed that this approach had changed the acquired firms from having a passive attitude to a proactive attitude in the post-

acquisition integration. Consequently, the acquired firms have proactively brought the key knowledge to the Chinese acquiring firms in China.

Moreover, the prior research on the experience of East Asian Tigers regarding the advancement of technology implies that the firms, as the latecomers in the industry, have implemented a strategic change from imitation to innovation, when the firms plan to change the position of their backward technology to being more advanced (Hobday, 1995; Hobday, Rush, & Bessant, 2004; Yamamura, Sonobe, & Otsuka, 2005). Firms improve their condition step-by-step through continuous organisational learning and systematic development in R&D capacity, in the procedure of moving from imitation to innovation (Yu et al., 2015). Prior research treats the firm's ability to innovate as a continuous range from pure imitation to pure original innovation end-to-end, rather than treating imitation and innovation as two absolutely contradictory extremes. Through continuous organisational learning and systematic development in R&D and technical capacity, the companies achieve the shift in their status step-by-step. Eventually, the companies have the ability to carry out innovation with originality in addition to great product novelty, as the progressive improvement in the level of novelty and originality belongs to the innovations of the companies (Yu et al., 2015). Therefore, through this 'Reversed You Wei' approach, with the imitation and demonstration effects at a close distance, the Chinese acquiring firms have not only improved their technological capability, but have also promoted their innovative capability. Finally, with the 'Wu Wei, Selective You Wei, & Reversed You Wei' integration mode, the Chinese acquiring firms have enhanced their competitiveness in the relevant industries around the world. This new integration mode is the most significant academic contribution of this study. As a senior manager summarised:

With this our integration mode [the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode] ... the main growth for us is not only the international acquisitions but also the subsequent increase of our products in Chinese domestic markets...The most important expectation of us was that we could realize a post-acquisition integration in China. Therefore, we have a strategy of ‘M&As in Global, but Integrating in China’. The brightest spot is ‘Integrating in China’. In fact, this has changed the acquired firms from a passive attitude to a proactive attitude (Participant S1, firm A).

### **5.3 Implications for Practice**

Based on the interview data, within this new integration mode, the ‘Wu Wei’ and ‘Selective You Wei’ approaches mainly supported the Chinese acquiring firms in avoiding the obstacle influence of cultural differences, the perceived environmental uncertainty and the lack of managerial confidence to a large extent. Therefore, as latecomers to international competition, Chinese MNEs can attempt the ‘Wu Wei’ and ‘Selective You Wei’ approaches during post-acquisition integration in the future. Kale et al. (2009) mentioned that in order to realise synergies strategically and selectively, MNEs from emerging economies choose a non-menacing and step-by-step approach. Therefore, in order to receive the value from cross-border M&As as time goes on, MNEs of emerging economies keep a long-term perspective in their cross-border M&As (Kumar, 2009). Furthermore, Chinese MNEs should also improve their absorptive capacity through enhancing their combinative capability. Specifically, Chinese acquiring firms should improve their own R&D capability, so that they can absorb newly acquired knowledge effectively. It will then be easier for Chinese MNEs

to eliminate the perceived environmental uncertainty and complement their managerial confidence in managing the acquired firms in host countries. Adopting professional services from consulting companies within host countries can be an efficient way forward for Chinese MNEs. In particular, the understanding of cultural differences, laws, employee protection systems and the new external environment of the host countries should be the focus of the Chinese MNEs. With respect to the approach of ‘Reversed Wu Wei’, it primarily helped the Chinese acquiring firms absorb and integrate the newly acquired knowledge effectively, despite their absorptive capabilities being weak. Hence, as for knowledge asset-seeking deals of Chinese cross-border M&As, this approach can be a functional and useful method for Chinese acquiring firms, and particularly for Chinese medium-high-technology manufacturing enterprises, in the future. This approach can also be seen as a win-win strategy for both Chinese acquiring firms and acquired firms. However, the business cost of this approach should be considered by acquiring companies in the future.

## **5.4 Implications for Future Research**

Since this is exploratory research, this thesis has studied an emerging area in cross-border M&As, so it requires future research. For future research, firstly, the side of acquired firms needs to be focused on to investigate more insights of this ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode from the perspective of the acquired firms. Researchers could collect qualitative data from senior managers of acquired firms in future research. In particular, according to the interview data, as the senior managers identified that the acquired firms were also willing to establish new

subsidiaries in China, this approach of 'Reversed You Wei' can be a win-win strategy so the objective views of acquired firms are required in future research.

Secondly, this study suggests the need for more valuable evidence and information testing of the 'Wu Wei, Selective You Wei, & Reversed You Wei' integration mode to determine whether or not this framework can be generalised to cases associated with emerging MNEs. The third part (the 'Reversed You Wei' approach) especially needs to be further tested in future research of Chinese cross-border M&As, as this study appears to be the first to explore this approach. Thirdly, in regard to the mind-set of the decision-makers of the Chinese acquiring firms, the influence of Taoism and other Chinese traditional cultures, particularly Confucianism and Buddhism, requires investigation to obtain more insights in the future. Fourth, other emerging elements in this study demand further investigation into Chinese cross-border M&As, such as perceived environmental uncertainty, lack of managerial confidence, and imitation and demonstration effects.

# 6 Conclusion

## 6.1 Introduction

This thesis aims to study the impact of cultural differences and absorptive capacity on Chinese acquiring firms' post-acquisition integration mode in cross-border M&As. This research has been conducted through interviews with 16 Senior Managers from 3 Chinese medium-high-technology manufacturing enterprises in China. Specifically, this thesis has investigated the motivations of Chinese cross-border M&As, obstacles in the post-acquisition integration, and imitation and demonstration effects and a model has been derived and labelled the 'Wu Wei, Selective You Wei, & Reversed You Wei' integration mode. This thesis has also discussed why Chinese medium-high-technology manufacturing enterprises have adopted this creative integration mode. There is a scarcity of literature that focuses on the process of post-acquisition integration of Chinese cross-border M&As. This thesis aims to answer the following question:

How do cultural differences and absorptive capacity impact the post-acquisition integration mode of Chinese acquiring firm in cross-border M&As within developed economies?

## 6.2 The Study and Its Findings

With respect to this study and its findings, the main findings of this thesis were that Chinese acquiring firms had used a new integration mode in their cross-border M&As. In the post-acquisition integration of Chinese cross-border M&As, there were four

major motivations for Chinese MNEs; industry complementarity, knowledge asset-seeking, technological capability, and innovative capability. All the participants from the three Chinese acquiring firms have proved that the cross-border M&As have significantly improved their technological capability and innovative capability through adopting their ‘Wu Wei, Selective You Wei & Reversed You Wei’ integration mode in the post-acquisition integration.

As for the obstacles that have been faced by the Chinese MNEs, there were three aspects:

(1) The national-level and organisational-level cultural differences between the acquired firms and the Chinese acquiring firms; (2) the perceived environmental uncertainty and lack of managerial confidence for the Chinese acquiring firms; and (3) weak absorptive capacity of the Chinese acquiring firms in the post-acquisition integration. This thesis initially focused on the influence of national-level and organisational-level cultural difference and absorptive capacity on the post-acquisition integration mode in Chinese cross-border M&As. Subsequently, the national-level and organisational cultural difference, and the weak absorptive capacity, have been found to be the obstacles, as highlighted in the interview data. Interestingly, as the second obstacle, the perceived environmental uncertainty and lack of managerial confidence have gradually emerged in the findings, and has previously received little attention by researchers in post-acquisition integration and cross-border M&As from emerging economies. Besides this, with their weak absorptive capacity, the needs of imitation effects and demonstration effects for Chinese acquiring firms have been observed from the interview data. Few previous studies have mentioned these needs in the research area of cross-border M&As from emerging economies.

Then, a new post-acquisition integration mode, labelled the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode, has emerged from the qualitative data

analysis of this study. All three Chinese medium-high-technology manufacturing enterprises have adopted this integration mode in the post-acquisition integration of their cross-border M&As in Germany and Australia. Both of these countries are developed economies. Most of the participants indicated that this integration mode has, to a great extent, supported them in avoiding the influence of cultural differences, perceived environmental uncertainty and lack of managerial confidence. Moreover, with this integration mode, the Chinese acquiring firms have also obtained some benefits from cultural differences if compared to the traditional integration mode, which has been signified by the senior managers. This new integration mode also helped them complement the disadvantages of their weak absorptive capacity. Specifically, through the third part of this new integration mode (the ‘Reversed You Wei’ approach), although their absorptive capacities were weak, the Chinese acquiring firms have effectively absorbed and integrated the acquired new knowledge. Consequently, the Chinese cross-border M&As have not only improved their technological capability, but have also promoted the innovative capability of the Chinese acquiring firms. Finally, with the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode, the Chinese acquiring firms have enhanced their competitiveness in the relevant industries around the world.

### **6.3 Significance and Relevance of the Research Study**

This study attempts to realise the contributions to the literature of Chinese cross-border M&As in three ways. Firstly, this thesis attempts to expand and supplement the extant literature about post-acquisition integration of Chinese cross-border M&As in developed economies. It has found that a new integration mode was significantly

adopted by Chinese acquiring firms. This integration mode showed a high level of management autonomy for acquired firms residing in developed economies. It is attractive that this whole integration mode seems notably different from the traditional integration modes reported in the extant literature. The traditional integration mode means that the integration should be designed from top to bottom, placing the acquiring firm centrally in this process (Haspeslagh & Jemison, 1991). It also emerged that this integration mode not only helped Chinese MNEs avoid the obstacles involving the influence of cultural differences, perceived environmental uncertainty and lack of managerial confidence, to a considerable extent, but also complemented the disadvantages of their weak absorptive capacity in the post-acquisition integration. Furthermore, through this new integration mode, this study has also demonstrated some benefits from cultural differences that were found by Chinese MNEs.

Secondly, as the integration mode emerged it became clear that a lens of Taoism could be adopted. This is one of the most significant Chinese traditional cultures, and it could be used to interpret this new integration mode as the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode. Although it is not the first research that has utilised Taoism to introduce the post-acquisition integration of Chinese cross-border M&As, this study contributes significantly to the immature literature base in this area through its Chinese acquiring firm perspective. Most importantly, this study appears to be the first to develop a model such as the ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode for understanding Chinese cross-border M&As.

Thirdly, this study also offered and investigated several new elements and insights. For example, the perceived environmental uncertainty and lack of managerial confidence have emerged in the interview data of this thesis, which has been noticed by few researchers exploring the post-acquisition integration of cross-border M&As by

emerging MNEs. Moreover, with the weak absorptive capacity, the needs of imitation effects and demonstration effects for Chinese acquiring firms have been observed in this study, which has also been mentioned by few researchers investigating cross-border M&As from emerging economies.

## **6.4 Limitations**

With respect to the limitations of this study, some limitations need to be paid attention to. In the first place, the side of the acquired firms needs to be considered. Although this study focused on Chinese acquiring firms, the interview data of acquired firms would be a reasonable and valuable response for testing the findings of this thesis, particularly this ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode. Secondly, since this study is exploratory qualitative research, quantitative research is required. It can help researchers test whether the findings can be generalised to further Chinese cross-border M&As or in cross-border M&As from other emerging economies. Thirdly, since the cases of this study are limited to three main countries (China, Germany and Australia), the results possibly cannot be extended to Chinese cross-border M&As occurring in countries with different cultures.

## **6.5 Conclusions**

With the development of China, the phenomenon of Chinese cross-border M&As has become increasingly attractive in management research. Due to the motivations, such as industry complementarity, knowledge asset-seeking, technological capability and innovative capability, Chinese companies have attempted cross-border M&As in

developed economies. In the face of obstacles in Chinese cross-border M&As, such as cultural differences, perceived environmental uncertainty, lack of managerial confidence and weak absorptive capacity, the Chinese acquiring firms have adopted a ‘Wu Wei, Selective You Wei, & Reversed You Wei’ integration mode to avoid the obstacle influences as much as possible, and to effectively assimilate and integrate the newly acquired knowledge from their acquired firms. Finally, with this new integration mode, Chinese acquiring firms survived in the Chinese cross-border M&As.

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# Appendices

## Appendix A: Participant Consent Form



### PARTICIPANT CONSENT FORM - INDIVIDUAL

**Project Title:** Post mergers and acquisitions and firm innovation: the role of cultural differences and absorptive capacity.

**Researcher Names:** Muzhi Zhao (Student researcher), Dr Yulong (David) Liu (Main Supervisor), Dr Shane Scahill (Co-Supervisor).

- I have read the Information Sheet and have had the details of the study explained to me. My questions have been answered to my satisfaction, and I understand that I may ask further questions at any time.
- I understand the nature of the research and why I have been asked to participate in the study.
- I agree to the interview being sound recorded.
- I understand the recording of the interview can be stopped at any time on request by me.
- I understand that my participation is completely voluntary.
- I understand that I may request a summary of the results from this project to be emailed to me.
- I agree to participate in this study under the conditions set out in the Information Sheet.

**Signature:** ..... **Date:** .....

**Full Name - printed** .....

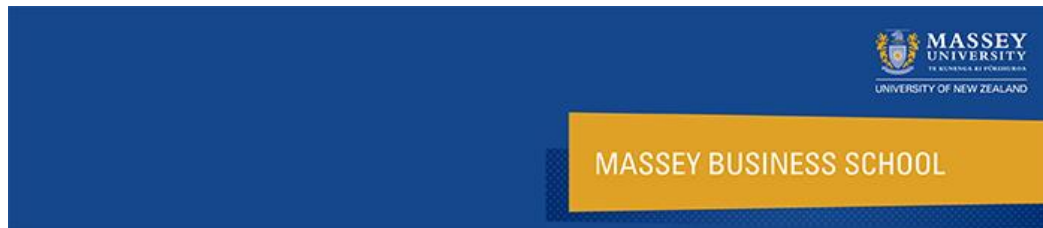
**Email:** .....

***This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researchers named above are responsible for the ethical conduct of this research.***

***If you have any concerns about the conduct of this research that you wish to raise with someone other than the researchers, please contact Dr. Brian Finch, Director, Research Ethics, telephone 06 356 9099 ext. 86015, email: [humanethics@massey.ac.nz](mailto:humanethics@massey.ac.nz)***

*Final version to ethics – 16<sup>th</sup> October 2016*

## Appendix B: Participant Information Sheet



# PARTICIPANT INFORMATION SHEET

## Post mergers and acquisitions and firm innovation: the role of cultural differences and absorptive capacity

### Researchers:

I (Muzhi Zhao) am the researcher of this study and I am a Master student researcher from the School of Management, Massey Business School at Massey University, Auckland, New Zealand.

### Project Description

This research aims to investigate the effects of cross-border mergers and acquisitions (M&As) on the acquiring firm's innovation, particularly with regards cultural differences, absorptive capacity and post M&A integration. Through this study, the main research question how cultural differences and absorptive capacity influence acquiring firm's innovation during the cross-border M&A integration will be explored. Case study, as the methodology of this research, will help explore insights into cross-border M&As and innovation within acquiring firms from emerging economies. Case studies can provide richness of information and valuable insights, and address how and why questions (Yin, 2013). Furthermore, due to the fact that it gives opportunities for replication and comparison, the multiple case study approach will be adopted in this research. This is qualitative research which will involve interviewing managers of the Chinese multinational companies. Approximately 16 Senior Managers involved with M&A, Innovation, Research and Development, Human Resource, Financial and Marketing departments of the firms will be interviewed in Shanghai, Beijing and Ningguo, China over four to five-week period.

### An Invitation

As an employee of multinational companies, you are invited to share your views/understandings about the effects of cross-border mergers and acquisitions on the innovation of acquiring firm. We are hoping to conduct approximately 16 interviews to generate key understandings about how cultural differences, absorptive capacity and the integration (which occurs after cross-border M&As) influence acquiring firm's innovation.

I would like to interview you in person for between 45 minutes and one hour. The interviews will be audio recorded, then transcribed verbatim by me and returned to you for checking and editing if you choose. When you are happy with the transcript data it will be analysed using standard qualitative data analysis techniques. The electronic data that is collected will be kept secure on a password protected computer for two years following completion of the thesis then deleted.

Information about you will remain confidential to the researchers and identifying details about you or the organization for which you work will be removed from the transcript and any publications generated from this research. We will use pseudonyms and a numbering system instead of your name.

There are benefits to you participating in this study. There is a chance to share your views on the effects of cross-border mergers and acquisitions on firms' innovation. Your views will be collectively analysed to gain a better understanding of how cultural differences, absorptive capacity and post-acquisition integration influence the acquiring firm's innovation.

### **Participant's Rights**

You are under no obligation to accept this invitation. If you decide to participate, you have the right to:

- Decline to answer any particular question;
- Withdraw from the study up until the point at which the data is being analysed and interpreted which should be approximately 2 months after your interview;
- Ask any questions about the study at any time during participation;
- Ask for the recorder to be turned off at any time during the interview;
- Provide information on the understanding that your name will not be used unless you give permission to the researcher;
- If you wish, you will be given access to a summary of the project findings when it is concluded.

The researcher's details are below. Please contact the researcher if you have any questions about this project.

### **Project Contacts**

**Student Researcher:** Muzhi Zhao  
**Mobile:** +64 21 204 8389  
**Email:** [M.Zhao1@massey.ac.nz](mailto:M.Zhao1@massey.ac.nz)

**Main Supervisor:** Dr Yulong (David) Liu  
[School of Management, Albany Campus](#)  
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**Co-Supervisor:** Dr Shane Scahill  
[School of Management, Albany Campus](#)  
**Phone:** +64 9 414 0800 ext. 43394  
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### **Ethics**

***This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researchers named above are responsible for the ethical conduct of this research.***

***If you have any concerns about the conduct of this research that you wish to raise with someone other than the researchers, please contact Dr. Brian Finch, Director, Research Ethics, telephone 06 356 9099 ext. 86015, email: [humanethics@massey.ac.nz](mailto:humanethics@massey.ac.nz)***

Participant Information Sheet 16<sup>th</sup> October 2016

## Appendix C: Massey University Ethics Approval



Date: 03 August 2016

Dear Muzhi Zhao

Re: Ethics Notification - **4000016520** - **Post mergers and acquisitions and firm innovation: the role of cultural differences and absorptive capacity.**

Thank you for your notification which you have assessed as Low Risk.

Your project has been recorded in our system which is reported in the Annual Report of the Massey University Human Ethics Committee.

The low risk notification for this project is valid for a maximum of three years.

If situations subsequently occur which cause you to reconsider your ethical analysis, please go to <http://rims.massey.ac.nz> and register the changes in order that they be assessed as safe to proceed.

Please note that travel undertaken by students must be approved by the supervisor and the relevant Pro Vice-Chancellor and be in accordance with the Policy and Procedures for Course-Related Student Travel Overseas. In addition, the supervisor must advise the University's Insurance Officer.

**A reminder to include the following statement on all public documents:**

*"This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researcher(s) named in this document are responsible for the ethical conduct of this research.*

*If you have any concerns about the conduct of this research that you want to raise with someone other than the researcher(s), please contact Dr Brian Finch, Director - Ethics, telephone 06 3569099 ext 86015, email [humanethics@massey.ac.nz](mailto:humanethics@massey.ac.nz).*

Please note, if a sponsoring organisation, funding authority or a journal in which you wish to publish requires evidence of committee approval (with an approval number), you will have to complete the application form again, answering "yes" to the publication question to provide more information for one of the University's Human Ethics Committees. You should also note that such an approval can only be provided prior to the commencement of the research.

Yours sincerely

**Research Ethics Office, Research and Enterprise**  
Massey University, Private Bag 11 222, Palmerston North, 4442, New Zealand T 06 350 5573; 06 350 5575 F 06 355 7973  
E [humanethics@massey.ac.nz](mailto:humanethics@massey.ac.nz) W <http://humanethics.massey.ac.nz>

Human Ethics Low Risk notification

Dr Brian Finch  
Chair, Human Ethics Chairs' Committee and Director (Research Ethics)

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## Appendix D: Interview Guide



### Interview Guide

#### Section One: Demographic Data

1. What is your age? (Please circle the appropriate value)

20-25 years      26-35 years      36-45 years

46-55 years      56-65 years      >65 years

2. What is your ethnicity? (e.g. European, Asian, Chinese, Japanese, Korean etc.)

3. What is your current position in this multinational firm?

4. How many years have you been working in this firm?

5. What is the geographical location of your workplace?

#### Section Two: The Influence of Cross-border M&As

6. As for your opinion, what is the main impact of the cross-border M&As on acquiring firm? How do they influence the acquiring firm?

7. And how do you think the cross-border M&As affect acquiring firm's innovation outcome?

Would you like to talk about this point specifically?

#### Section Three: Cultural Differences

##### National-level Cultural Differences

8. In terms of the cross-border M&As, because the target firms are from different countries, so there will be national cultural differences between target firm and acquiring firm.

Would you like to talk about how national cultural differences influence acquiring firm within the integration after the M&A?

9. And how do the differences impact its innovation output? Please tell me some detailed information.

### **Organizational-level Cultural Differences**

10. In the meantime, due to the fact that there are also organisational cultural differences (e.g. different styles of practices and routines) between target firm and acquiring firm, therefore, how do you think these differences will influence acquiring firm within the post-acquisition integration?

11. And how do these differences affect the innovation outcome? Would you like to talk about this specifically?

### **Section Four: Integration**

12. After the process of cross-border M&A, the post-acquisition integration usually can be thought about in terms of human integration and task integration (Bauer et al., 2016; Birkinshaw et al., 2000; Shrivastava, 1986). Human integration belongs to organizational cultures and values. It aims to create a shared identity and satisfaction among the employees from both organizations (Ashforth & Mael, 1989; Hinds & Mortensen, 2005).

Would you like to tell me about how these national cultural differences might influence human integration?

13. And how do organizational cultural differences impact human integration?

14. Task integration represents the transferring and sharing capabilities and resources (Bauer et al., 2016). Do you think national cultural differences affect task integration? If so, in what ways? If it is not, why not?

15. And how do organizational cultural differences influence task integration?

## **Section Five: Absorptive Capacity**

### **The First Dimension: Prior Related Knowledge**

16. If acquiring firm has prior related knowledge about target firm, do you think this will influence the post-acquisition innovation with cultural differences? If so, how?

### **The Second Dimension: Combinative Capability**

17. If acquiring firm can effectively acquire and compound new knowledge from the external environment (Zollo & Singh, 2004), do you think this will impact post-acquisition innovation in the context of cultural differences? If so, how?

### **The Third Dimension: Strategy Execution and Effort**

18. If the acquiring firm is good at applying external knowledge that includes the ability to share knowledge within the organization, then to integrate it with the organization's activities and to generate new knowledge from it (Lane et al., 2001, p. 1157), will this affect post-acquisition innovation under cultural differences? If so, in what ways?

## **Section Six: Other Factors**

19. Do you believe there is any other factor influencing acquiring firm's innovation after cross-border M&A's process? If so, what are other factors?

20. How do these other factors affect the innovation?

(If interviews would have some extra flexible time, the following questions will be asked as well)

### **Knowledge Transfer**

21. Knowledge transfer that occurs between target firm and acquiring firm is also very important for post-acquisition innovation, especially the transfer of knowledge such as the accumulated practical skill or expertise that helps one do something smoothly and efficiently (Zander & Kogut, 1995). And the knowledge tends to be socially complex, embedded, and tacit between target firm and acquirer (Barney, 1991; Nonaka, 1994; Sarala & Vaara, 2010).

How do you think national cultural differences impact the knowledge transfer between target firm and acquiring firm?

22. And how do organizational cultural differences influence the knowledge transfer?

23. How does the acquiring firm make knowledge transfer effective and efficient in the post-M&A integration?