Chinese M&A in Germany: Integration Approach and International Corporate Strategy

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ABSTRACT

This study analyzes the relationship between integration approaches and international corporate strategies of Chinese mergers and acquisitions (M&A) of German firms. Further, the question if the choice of the post-M&A integration approach can be seen as the consequence of organizational responses to different isomorphic pressures is examined. Drawing on the institutional theory the focus is on two research questions ‘How does international corporate strategy influence post-M&A integration approach choice?’ and ‘What impact has the post-M&A integration approach on performance?’ By applying the in-depth case study method, the derived hypotheses are tested across a sample of twelve Chinese M&A in Germany. The analysis of differences in the management of global vs. multinational firms showed very coherent patterns mirroring the different integration approaches: Absorption facilitates internal isomorphism applied by firms pursuing a global strategy, while preservation facilitates external isomorphism used by multinational strategy firms. This study examines internal and external isomorphism in order to understand the impact of conforming forces on emerging market firms engaged in M&A activities in developed countries. Summing up, this paper concludes with relevant contributions for theory and practice in the context of emerging market firms in particular and for international business in general.

Keywords: Chinese M&A in Germany, integration strategy, international corporate strategy, in-depth case studies, emerging market firms
PROBLEM AND OBJECTIVE

China’s presence on the world’s markets has become a solidly welded integral part of today’s economy. The rise of Chinese firms’ globalization is readable from the ever increasing amount of Chinese outward foreign direct investment (OFDI). Mergers and acquisitions (M&A) have gradually become the main and preferred form of Chinese OFDI (UNCTAD, 2014). Taking a closer look at the development of China’s global outward M&A, three important observations can be made: 1. Compared to less than USD 3bn in 2004, Chinese firms continued to be an important driver of global M&A activity in 2014 with USD 53bn worth of completed deals whereof more than 60% were deals of USD 1bn and more. 2. While energy and materials acquisitions were a major factor fueling Chinese M&A over the past decade, in 2014, Chinese spending on extractive industries dropped sharply while financial services, real estate, technology, and brands gained considerably. 3. Regarding the host countries of Chinese M&A activities, since 2012 the majority is targeting developed economies, i.e., USA, EU 28, Canada, and Australia, while in 2014 the spending on European assets reached new record levels (Hanemann & Gao, 2015). Figure 1 shows all completed Chinese cross-border M&A transactions between 2004 and 2014.

Figure 1. Completed Chinese cross-border M&A transactions (Source: Haneman & Gao, 2015).
Besides being China’s largest European trading partner, Germany attracts the bulk of Chinese outward M&A within Europe. Whereas UK companies were the targets for several of the biggest Chinese M&A in 2012, Germany overtook all European counties, notably UK, the Netherlands, Italy and France, in terms of total deal volume in 2014 (Levinger, 2015).

According to Deloitte (2014), Germany’s technology-driven machinery building and automotive car parts sectors are particularly appealing to Chinese investors owing to advanced industrial technologies, strong sales and distribution networks, and international competitive brands. Latest examples are Hilite International, a Germany-based company operating in the development and manufacturing of automotive system solutions, that was acquired by AVIC Electromechanical Systems, Columbus Holding, a German company engaged in the design and sale of car safety seats and baby carriers, which was acquired by Goodbaby International Holdings, and KACO GmbH & Co. KG, the Germany-based company that has leading technologies in reducing emissions, that was taken over by Anhui Zhongding Sealing Parts Company.

The development of emerging market multinationals (EMNEs) was the subject of recent interest and also of numerous studies since the scope and pace of this phenomenon have been outstanding (Cuervo-Cazurra 2012, Guillen & Garcia-Canal 2012, Buckley et al. 2008), and particularly EMNEs’ acquisitions were all the more interesting (Rabbiosi et al. 2012, Zhang et al. 2011, Rui & Yip 2008). Given the expectation that there will be an increasing number of M&A by emerging market and especially Chinese firms in developed countries which represents a new layer of complexity in the field of M&A, some scholars point out that conventional wisdom is challenged and existing theoretical explanations need extensions (e.g., Marchand 2015, Birkinshaw et al. 2010, Chanda 2007). Notably EMNEs’ unique characteristics including their macro-level investment determinants like institutional frameworks, government policies, and contextual factors are not yet appropriately considered
The level of analysis of the majority of these studies was the subsidiary and the focus was often laid on how country-specific factors (Klossek et al. 2012), industry-specific factors (Williamson & Raman 2011), or firm-specific factors (Buckley et al. 2007) influence the subsidiary’s decisions and thus success (Holtbrügge & Kreppel 2012). But studies taking the headquarters as second level of analysis and determinant into account are rare (Finkelstein 2012). A key explanatory variable for firms’ internationalization choices (Harzing 2002, Davis et al. 2000) which has been surprisingly overlooked by most extant research (Shimizu et al. 2004) is the headquarters’ international corporate strategy. Considering the headquarters’ international corporate strategy allows us to respect the often-cited idiosyncrasies of EMNEs’ internationalization (like government support or institutional escapism) as well as to count in the specific contextual conditions. Hence, this study examines international corporate strategies to capture extensively the various institutional pressures which affect the headquarters’ and consequently the subsidiary’s behaviors and outcomes.

One key success factor of cross-border M&A which has been examined from different perspectives is post-M&A integration. In order to attain the expected value from the M&A, an adequate and effective integration is indispensable (Gomes et al. 2013, Schweiger & Goulet 2005; Inkpen et al. 2000). But as post-M&A integration encompasses multiple dimensions and affects different areas, it can be regarded as a major challenge. The few existing studies about Chinese M&A in developed countries (Liu & Woywode 2013; Liu & Waldemar 2011; Deng 2009) state that so far Chinese M&A showed very mixed results regarding success rate and that the post-M&A integration is a poorly understood topic.

Against this background, drawing on the institutional theory this study examines the relationship between international corporate strategy and post-M&A integration. Specifically, we focus on two research questions: “How does international corporate strategy influence the
post-M&A integration approach choice?” and “What impact has the post-M&A integration approach on performance?” By analyzing the differences of the management of *global* vs. *multinational* firms we reveal differences in responses to internal and external institutional pressures which in turn lead to different integration approaches (*absorption* vs. *preservation*). As we use international corporate strategy as determinant of post-M&A integration approach choice and subsequent management of the subsidiary, this study extends the applicability of institutional theory. The institutional theory in this study suggests that the choice of the post-M&A integration approach is the consequence of organizational responses to isomorphic pressures arising from both a firm’s internal parent firm’s practices and routines as well as its external environment (DiMaggio & Powell 1983). In applying the “institutional duality” approach (Kostova & Roth 2002, Harzing 2002), we investigate the internal and external isomorphism in order to understand the impact of conforming forces on emerging market MNEs in M&A activities in developed countries.

The paper is organized as follows. After outlining the theoretical perspective, the hypotheses will be derived. Then the case-study methodology and the results will be presented. The discussion will be followed by the concluding section containing contributions, limitations and implications for theory and practice.

**THEORY AND HYPOTHESES**

*Institutional Theory*

Institutional theory deals with the influences of the systems that surround organizations and hence shape their behaviors and decisions (Scott 2001). Institutions can be defined as constraints that structure human interactions and can be both formal, such as laws and regulations, and informal, such as social norms and conventions (North 1990). In order to be
considered acceptable and legitimate organizations like firms tend to conform to these institutions (DiMaggio & Powell 1983). A central tenet of the institutional theory is that firms that share the same environment will employ similar practices and thus become isomorphic with each other (Kostova & Roth 2002). By alignment with other organizations in a given institutional context, firms gain legitimacy, social acceptance and necessary resources for sustaining their operations in a competitive environment (Suchmann 1995).

Generally, there are two branches of institutional theory: “Institutional economics” which has an economic orientation and concentrates on the design of efficient macro-level institutional frameworks (Coase 1998; North 1990), and “neoinstitutional organization theory” which has a sociological orientation and is concerned with isomorphic pressures that shape firm behavior (Scott 2001; DiMaggio & Powell 1983). Although both institutional theoretical perspectives emphasize the influence of the institutional environment on firm strategy, the majority of studies examining EMNEs’ internationalization strategies applied the institutional economics perspective (e.g., Luo et al. 2010, Deng 2009, Boisot & Meyer 2008, Buckley et al. 2008) to either investigate government-industry relations (Peng 2012), state controls and regulations (Yang 2009), institution quality (Lu et al. 2014, Ramamurti & Sing 2009), or political instability (Delios & Henisz 2000). Examples of the few studies which employed the sociological perspective examined how shared norms and values motivate firms’ internationalization practices (Hessels & Terjesen 2010, Cheng & Yu 2008) or if isomorphic pressures vary with different ownership advantages (Li & Ding 2013, Chan & Makino 2007).

As foreign subsidiaries of EMNEs are exposed to multiple levels of internal institutional pressures coming from the parent firm and as each host country constitutes a distinct external institutional context, the neoinstitutional organization theory seems especially suitable to analyze the factors leading to isomorphism.
MNEs constitute the internal institutional environment in which their subsidiaries are embedded in, and by defining the appropriate ways of acting exert a certain level of pressure on them to conform to these norms and practices (Kostova & Zaheer 1999; Westney 1993). The search for internal consistency and legitimacy drives MNEs’ strategic behaviors (Oliver 1991), structural characteristics (Meyer 1987), and organizational change (Greenwood et al. 1994). The role of external institutions in affecting organizational decisions and behaviors was found to be crucial (Shimizu et al. 2004). These external institutions include home and host governments, local interest groups, agencies, professions, laws, courts, and public opinion (Davis et al. 2000). To gain legitimacy of host countries, MNEs’ subsidiaries comply and adapt to the local institutional demands. This way, the structure and behavior of firms become institutionalized through isomorphic pressures (Rosenzweig & Singh 1991). This “institutional duality” approach of internal and external institutions describes the simultaneous existence of distinct sets of isomorphic pressures on MNEs’ subsidiaries (Kostova & Roth 2002).

The distinction of internal and external institutions served as basis for the examination of various strategic internationalization decisions. Under the conditions of uncertainty, some scholars argue that entry mode represents an organizational form which is appropriate for the firm’s motivation to gain legitimacy (Delios et al. 2008). The choice of ownership structure for foreign subsidiaries was regarded as the social identity through which a foreign subsidiary conforms to internal and external institutional pressures (Davis et al. 2000), and even exchanges ownership for legitimacy from local markets and parent firms (Chan & Makino 2007). The choice between joint venture and wholly owned subsidiary cannot only be considered a matter of equity control, but also a matter of contextual factors (Henisz 2000). The establishment mode choice (greenfield vs. acquisition) as another important strategic entry mode decision can also be examined by the neoinstitutional perspective. The obligation
to comply to both internal and external claimants is coined as tension between forces for
global integration and national responsiveness (Prahalad & Doz 1987). Building on this
argumentation, Harzing (2002) showed that establishment mode choice was significantly
explained by the institutional duality.

Despite the acceptance of the institutional environment as one critical factor in the
international business research field (Dunning & Lundan 2008), the impact of institutional
pressures on international corporate strategy and post-M&A integration approach is largely
unexplored.

**International Corporate Strategy and Post-M&A Integration Approach**

Based on Perlmutter’s (1969) original work on classifying MNEs’ international strategies into
ethnocentric, polycentric and geocentric, various typologies of international corporate
strategies were much discussed in the international management literature (Caligiuri & Stroh
The variables taken into account for constructing these typologies are environment/industry,
strategy, structure, and systems and processes (Harzing 2000). Since Bartlett (1986) and
Prahalad & Doz (1987), most studies referred to a continuum of
‘integration/coordination/globalization’ advantages versus
‘differentiation/responsiveness/localization’ advantages in describing the firms’ strategies.
Firms pursuing a high level of globalization of competition which focus on economies of
scope and scale via standardized products with a strong home country orientation are called to
have a *global* strategy (Welge 1996). Firms which have a low level of globalization compete
predominantly on the domestic level, adapt their products to various local markets, can be
categorized by a decentralized network with relatively autonomous subsidiaries, and are
called to have a *multinational* strategy (Bartlett & Ghoshal 1992). Global and multinational
strategies vary in terms of control and coordination mechanisms used, autonomy granted as well as organizational responses to different isomorphic pressures (Harzing 2002). The post-M&A integration process is highly critical for the success of most acquisitions (Weber et al. 2011, Stahl & Voigt 2008) and a potential major challenge (Gomes et al. 2013): the greater the integration of the two formerly separated firms, the greater the coordination and control necessary to implement it successfully (Shimizu et al. 2004). Without an adequate and effective integration, the expected value cannot be derived (Schweiger & Goulet 2005). On the one hand, the appropriate amount of integration must be chosen as a total lack as well as too much integration may both lead to M&A failure (Weber & Schweiger 1992), and on the other hand, different motivations and different contexts have to be reflected (Angwin 2012). Owing to the complexity of post-M&A integration, various contingency frameworks were developed focusing either on the extent of integration (Schweiger & Weber 1989, Howell 1970), cultural alignment (Nahavandi & Malekzadeh 1988), task and human dimensions (Birkinshaw et al. 2000), or the intended synergies (Haspeslagh & Jemison 1991). This last typology which is best-known has received empirical support from e.g., Angwin & Meadows (2009), Child et al. (2001), Chatterjee et al. (1992), and was further developed by e.g., Liu & Woywode (2013), Weber et al. (2011) and Almor et al. (2009). According to Haspeslagh & Jemison (1991), the choice of the integration approach depends on the need for strategic interdependence for capability transfer and the need for organizational autonomy. A high need for strategic interdependence and a low need for organizational autonomy leads to absorption, while a low need for interdependence and a high need for autonomy is called preservation. Absorption indicates a high level of integration where the boundaries of acquirer and target firm are dissolved and the target firm’s autonomy is minimized. Preservation represents a low level of integration in which the target firm is managed at arm’s length and hence retains its autonomy.
By linking this post-M&A integration scheme with international corporate strategy, we argue that particular corporate strategies facilitate either a high or low level of integration and hence either internal or external isomorphism. Global strategy firms look for a high level of globalization and a low level of localization, while multinational strategy firms strive for the opposite. As Harzing (2002) and Davis et al. (2000) emphasize this means for isomorphism that global firms concentrate on internal isomorphism coming from the parent firm, and multinational firms focus on external isomorphism from the respective host country.

As Olie (1994) pointed out the post-M&A integration is characterized either by the adjustment to the parent firm-specifics or the host country-specifics. This in turn requires either a high level or a low level of task and human integration (Buono & Bowditch 1989). Accordingly, the use of integrating mechanisms, such as mixed project teams, joint staff meetings, personnel rotation as well as frequency of communication with the headquarters is extensive or confined (Birkinshaw et al. 2000). Equally, the level of control mechanisms applied is either high or low (Schweizer 2005). One integrating mechanism which concurrently determines the magnitude of control and autonomy is the deployment of expatriates in terms of scope and importance (Minbaeva & Muratbekova-Touron 2011).

While a great extent of integration and a high degree of interdependence enables the exploitation of common resources, a low level of integration not only retains a high level of autonomy but also the exploration of the acquired capabilities (Puranam et al. 2006). Subsidiaries that conform to the headquarters’ norms and specifications with full consolidation of operations, structures and cultures do this in order to gain the headquarters’ legitimacy, whereas subsidiaries that align with the external institutions strive for differentiation to achieve or sustain a competitive advantage (Yang 2009).
Table 1 summarizes the characteristics of the two opposing post-M&A integration approaches.

<table>
<thead>
<tr>
<th>Absorption</th>
<th>Preservation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal isomorphism</td>
<td>External isomorphism</td>
</tr>
<tr>
<td>Adjust to firm-specific institutions</td>
<td>Align with country-specific institutions</td>
</tr>
<tr>
<td>High level of integration</td>
<td>Low level of integration</td>
</tr>
<tr>
<td>Extensive use of integrating mechanisms</td>
<td>Confined use of integrating mechanisms</td>
</tr>
<tr>
<td>High level of control mechanisms</td>
<td>Low level of control mechanisms</td>
</tr>
<tr>
<td>Low level of autonomy</td>
<td>High level of autonomy</td>
</tr>
<tr>
<td>High level of expatriate presence</td>
<td>Low level of expatriate presence</td>
</tr>
<tr>
<td>Enables exploitation of resources</td>
<td>Retains exploitation of capacities</td>
</tr>
<tr>
<td>Conformity to gain HQ's legitimacy</td>
<td>Differentiation to retain comparative advantage</td>
</tr>
</tbody>
</table>

Table 1. Post-M&A integration approaches.

Following these findings, we suggest that the choice between these two distinct post-M&A integration approaches of absorption and preservation is designated by the international corporate strategy (global or multinational) and therefore hypothesize:

**Hypothesis 1:** Firms with a global strategy tend to choose absorption as post-M&A integration approach.

**Hypothesis 2:** Firms with a multinational strategy tend to choose preservation as post-M&A integration approach.

**Post-M&A Integration Approach and Performance**

As M&A are undertaken within different contexts and for different reasons, post-M&A integration approaches need to reflect these differences in order to obtain the desired outcomes (Gomes et al. 2013). The institutional contexts which consists of social, financial and political institutions mold the choice and development of corporate governance mechanisms (Hitt et al. 2004, Newmann 2000) and of strategic orientations (Child et al. 2001)
as mentioned above. Hence, these institutions play a decisive role in affecting post-M&A performance (Yang & Stoltenberg 2014).

Larsson & Finkelstein (1999) suggested that the degree of integration has a direct effect on performance. But they claimed only a single-sided effect that is that the greater the integration the better the performance by ignoring contextual conditions and situational factors. But in some cases, a high level of integration has a detrimental effect e.g., by destroying the innovative capabilities of the acquired firm (Graebner 2004, Ranft & Lord 2002, Birkinshaw et al. 2000) or by increasing the change and coordination costs (Teerikangas & Very 2006, Slangen 2006), or is even unnecessary (Puranam et al. 2009). Similarly, a too little integration can hinder the realization of synergies and thus influence performance in a negative way (Cording et al. 2008, Homburg & Bucerius 2006). Therefore, we argue that depending on the environmental and institutional circumstances, the appropriate level of integration has to be chosen therewith the intended performance can be achieved.

Previous studies emphasize the choice between absorption and preservation as important initial decision that further shapes fine-grained integration actions (Zollo & Singh 2004, Ranft & Lord 2002, Pablo 1994) which taken together substantially influence post-M&A performance. By including the institutional pressures the headquarters as well as the host countries exert on subsidiaries which first result in distinct international corporate strategies and then in distinct integration approaches, we are able to examine if these interaction effects also influence the performance.

Following these arguments we suggest:

_Hypothesis 3a: Absorption as post-M&A integration approach has a positive effect on performance for global firms._
Hypothesis 3b: Preservation as post-M&A integration approach has a positive effect on performance for multinational firms.

Figure 2 summarizes our hypotheses and depicts our research framework.

Figure 2. Research framework

METHODOLOGY

Method and data

In order to test our hypotheses we chose the in-depth multi-case study method. By using several complementary sources of data we aimed to examine the underlying reasons of post-M&A integration choice and its impact on performance. As case studies are recommended when knowledge is based on scarce empirical research (Eisenhardt & Graebner 2007), we followed Spigarelli et al. (2013) and Liu & Woywode (2013) in investigating the integration of Chinese cross-border M&A and deliberately chose this exploratory approach. Hence, we were able to study this contemporary phenomenon in a real context where no clear boundaries between the phenomenon and the context exist, and therefore met Yin’s (2003) criteria of usage of case studies. We applied a comparative case analysis method targeted to capture the complexity and richness of Chinese cross-border M&A for which in-depth case studies are the preferred method (Eisenhardt 1989). In order to analyze the most appropriate cases for the comparative study, we chose the purposive case selection approach (Seawright & Gerring 2008). To assure the heterogeneity of the Chinese acquiring firms that took over firms located
in Germany, we included cases that vary in terms of industry, firm size, ownership type, deal year and size with the purpose of representing the variety of Chinese cross-border M&A.

The data of this study were collected from different sources. First, we used SDC database provided by Thomson One Banker, which has been widely used in M&A research (Sun et al. 2010, Lin et al. 2009, Yang 2009) to identify M&A transactions between 2001 and 2014 of acquirer firms registered in China and target firms located in Germany. Second, we looked through published articles and reports, news, press releases, websites, company announcements and annual reports to gather the relevant information. Only strategic asset-seeking M&A were considered because they are very likely to pursue post-M&A integration activities (Liu & Woywode 2013). The main data constraint was in terms of in-depth description of post-M&A integration which lead to the exclusion of numerous cases. An overview of the final sample is given in table 2. The collected data are all of the same range, quantitatively and qualitatively. The quantity of collected data meets the order of magnitude used in our area of research (Marchand 2015, Weber et al. 2011).

<table>
<thead>
<tr>
<th>Case</th>
<th>Industry</th>
<th>Firm size / #employees acquirer</th>
<th>Ownership type acquirer</th>
<th>Deal size</th>
<th>Deal year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Industrial machinery</td>
<td>5.000</td>
<td>SOE</td>
<td>6 mio. €</td>
<td>1997</td>
</tr>
<tr>
<td>2</td>
<td>Conglomerate</td>
<td>15.000</td>
<td>Private</td>
<td>5 mio. €</td>
<td>2001</td>
</tr>
<tr>
<td>3</td>
<td>Electronics</td>
<td>50.000</td>
<td>SOE</td>
<td>7 mio. €</td>
<td>2002</td>
</tr>
<tr>
<td>4</td>
<td>Conglomerate</td>
<td>15.000</td>
<td>Private</td>
<td>10 mio. €</td>
<td>2002</td>
</tr>
<tr>
<td>5</td>
<td>Industrial machinery</td>
<td>18.000</td>
<td>SOE</td>
<td>8 mio. €</td>
<td>2004</td>
</tr>
<tr>
<td>6</td>
<td>Textile machinery</td>
<td>2.200</td>
<td>SOE</td>
<td>26 mio. €</td>
<td>2005</td>
</tr>
<tr>
<td>7</td>
<td>Industrial machinery</td>
<td>6.000</td>
<td>SOE</td>
<td>35 mio. €</td>
<td>2005</td>
</tr>
<tr>
<td>8</td>
<td>Renewable energies</td>
<td>20.000</td>
<td>Private</td>
<td>54 mio. €</td>
<td>2008</td>
</tr>
<tr>
<td>9</td>
<td>Electronics</td>
<td>33.000</td>
<td>Private</td>
<td>629 mio. €</td>
<td>2011</td>
</tr>
</tbody>
</table>
Table 2. Final sample

<table>
<thead>
<tr>
<th></th>
<th>Automotive components</th>
<th>5.500</th>
<th>Private</th>
<th>721 mio. €</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Construction machinery</td>
<td>90.000</td>
<td>Private</td>
<td>357 mio. €</td>
<td>2012</td>
</tr>
<tr>
<td>12</td>
<td>Automotive industry</td>
<td>38.000</td>
<td>SOE</td>
<td>738 mio. €</td>
<td>2012</td>
</tr>
</tbody>
</table>

Our analysis followed established procedures and techniques for case study analysis. The insights provided by the archival secondary data were compared to the knowledge in extant research. This replication logic supports multiple cases analysis in building a better understanding of a relatively new domain and in supplying direct application of the information (Yin 2003).

Construct definition and measurement

*International corporate strategy.* Based on constructs taken from previous studies that measured the orientation of competition and achievements (Caligiuri & Stroh 2006, Harzing 2000, Bartlett & Ghoshal 1989) we classified the Chinese acquiring firms into global and multinational. The international corporate strategy is either focused on global competition and economies of scale (global firms) or on domestic competition and local differentiation (multinational firms).

*Post-M&A integration approach.* After an extensive review of post-M&A integration literature, five integrating mechanisms were selected to indicate the chosen integration approach: extent of control mechanisms (Child et al. 2001, Calori et al. 1994), level of autonomy (Lubatkin et al. 1998, Hambrick & Cannella 1993), usage of expatriates (Minbaeva & Muratbekova-Touron 2011, Herbert et al. 2005), structural changes (Liu & Woywode 2013, Deng 2010) and cultural changes (Stahl & Voight 2008; Bjoerkman et al. 2007). A high or low degree of the respective mechanism displays the level of post-M&A integration (absorption vs. preservation).
Post-M&A performance. This was a quantitative measure of the financial post-M&A performance. The data were taken from the SDC Thomson database. In using accounting measures of post-M&A performance (ROA and ROS) we followed the widely used practice in cross-border M&A research (Gomes et al. 2013, Tuch & O’Sullivan 2007, King et al. 2004). We calculated the ROA and ROS for three years before and after the acquisition in order to obtain meaningful and comparable figures.

FINDINGS AND DISCUSSION

International corporate strategy. After searching through all relevant company data, the Chinese acquiring firms were categorized into global vs. multinational. Seven Chinese firms are pursuing a global strategy, five have a multinational strategy. Statements like “we pursue a unified, China-centered strategy” or “a strong headquarters orientation” clearly indicate global firms, while statements like “we adapt to local market needs” and “necessity for dispersed structure for local requirements” pointed to multinational strategy firms.

Post-M&A integration approach. By looking at the extent of application of five integration mechanisms, we classified the cases into the two distinctive post-M&A integration approaches absorption and preservation. Out of the seven Chinese firms that follow a global strategy, four chose absorption as post-M&A integration approach and three had chosen preservation. Form the five Chinese cases with a multinational strategy, four chose preservation and only one chose absorption as integration approach.

The extent of control mechanisms used was extensive in case 1, 2, 3, 4 and 8 and encompassed operational as well as strategic control, many control committees and regular control visits from the Chinese parent firms. The opposite was found in case 5, 6, 7, 9, 10, 11, and 12 where no operational control was executed, only strategic meetings (quarterly or yearly) took place with the participation of the Chinese managers, and the feeling of Chinese
control was largely absent. Regarding the level of autonomy granted to the German subsidiary, the five cases with absorption revealed very low levels of autonomy, removed decision-making power in terms of product portfolio, human resources, productivity goals and social policies. Contrary, in the seven cases of preservation high levels of autonomy were kept and independent actions in financial, administrative and managerial regards were found. Chinese involvement was restricted to headquarters-level decisions, as illustrated in case 7 where only four out of 56 decisions were made by the Chinese. The usage of expatriates was limited throughout. The ratio of Chinese expatriates to total employees was always below 10%, the number of Chinese in the board of directors mostly one, in two cases two. These Chinese CEOs only complemented the German top management team which were mostly kept as a whole and did not replace them. The Chinese expatriates’ roles and responsibilities were mainly confined to communication flows to the parent firm and more representative in nature. The range of post-M&A structural changes was wide. The absorption cases experienced large restructuring especially in manufacturing processes, product developments and sales forces. In three cases, the whole production was outsourced to China which resulted in the lay-off of the majority of employees. The other extreme of structural changes could be seen in the preservation cases where few to very few changes were made, mostly in purchasing. The efforts of the Chinese acquirers to maintain the German products and its brands independent lead to this reserved behavior. Concerning cultural changes case 1, 2, 3 and 8 showed some interventions. The China-centralized decision-making was perceived by the Germans as nontransparent and inflexible. The issues stemming from intercultural differences in the communication styles (direct vs. indirect) were even reinforced by weak English language skills and often ended in distrust and frustrations. On the contrary, the preservation cases did not encounter much of cultural changes. Cultural diversity, respect of cross-cultural differences and mutual understanding were the informal rules to follow. The purpose of
constantly learning from and hence adapting to the German side was set priority by the Chinese. Hence hypothesis 1 can only partly be supported, while hypothesis 2 can largely be confirmed. One possible reason for the partial support of hypothesis 1 might be the change in the Chinese parent firms’ behavior over time. As recently highlighted by scholars, like Marchand (2015) or Lyles and colleagues (2014), Chinese firms internationalization is characterized by fast evolvement and quick learning. By taking a closer look at the investment years, our results show that four out of five cases with absorption took place between 1997 and 2002, hence at the very beginning of Chinese overseas M&A activities. After these first M&A experiences, the vast majority of Chinese acquirers chose a preservation integration. Another possible explanation might be that the Chinese parent firms realized the rather negative media coverage and perception of affected German stakeholders, and thus the need to conform more to external institutional pressures in order to gain their legitimacy.

Post-M&A performance. The examination of the post-M&A performance revealed unexpected results. Three out of four cases with global strategy that chose absorption as integration approach were insolvent after a timespan between one and a half and three years. The forth case with a global strategy and absorption did comparatively well in the three years directly after the acquisition but was also insolvent two years later. Thus, hypothesis 3a cannot be supported. All four companies with multinational strategies which chose preservation as integration approach showed very stable and solid post-M&A performance throughout the time interval of three years after the acquisition. The one case with a multinational strategy which chose absorption as integration approach was insolvent two years after the acquisition. Therefore, hypothesis 3b can be confirmed. Table 3 gives an overview of our findings. As mentioned above, our results show a clear time distinction regarding the chosen post-M&A integration approach and the subsequent performance: into an early phase from 1997 to 2002 and a later phase from 2004 to 2012. The early M&As are
characterized by absorption done by global firms which all failed. This strongly contradicts previous studies that advocate a preservation approach with little changes for the target at the beginning of EMNEs’ outwards M&A, and only a fuller absorption in their later phase (Kale & Singh 2012, Yuen 2012, Kumar 2009). Also opposing to Williamson and Raman (2011), our study indicates that M&A which were undertaken later followed the preservation approach with quite good performances. Hence, our results cannot support studies suggesting that EMEs develop more interventionist integration approaches with the course of time and with the gaining of experience (Marchand 2015), but indicate just the opposite.

<table>
<thead>
<tr>
<th>Case</th>
<th>International corporate strategy</th>
<th>Post-M&amp;A integration approach</th>
<th>Post-M&amp;A performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Global</td>
<td>Absorption</td>
<td>Insolvent in 1998</td>
</tr>
<tr>
<td>2</td>
<td>Global</td>
<td>Absorption</td>
<td>Insolvent in 2003</td>
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<tr>
<td>3</td>
<td>Multinational</td>
<td>Absorption</td>
<td>Insolvent in 2004</td>
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<tr>
<td>4</td>
<td>Global</td>
<td>Absorption</td>
<td>Insolvent in 2005</td>
</tr>
<tr>
<td>5</td>
<td>Global</td>
<td>Preservation</td>
<td>Stable and positive</td>
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<tr>
<td>6</td>
<td>Global</td>
<td>Preservation</td>
<td>Stable and positive</td>
</tr>
<tr>
<td>7</td>
<td>Global</td>
<td>Preservation</td>
<td>Increasing and positive</td>
</tr>
<tr>
<td>8</td>
<td>Global</td>
<td>Absorption</td>
<td>Insolvent in 2013</td>
</tr>
<tr>
<td>9</td>
<td>Multinational</td>
<td>Preservation</td>
<td>Positive</td>
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<tr>
<td>12</td>
<td>Multinational</td>
<td>Preservation</td>
<td>Increasing and positive</td>
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</tbody>
</table>

Table 3. Findings
CONTRIBUTIONS, LIMITATIONS AND IMPLICATIONS

The aim of this study was to analyze the integration approaches of Chinese M&A of German firms, their international corporate strategies, and the impact on performance of this relationship. Using the in-depth case study method we show that the choice of post-M&A integration approach can be seen as the consequence of organizational responses to different institutional pressures. Furthermore, it is demonstrated that absorption facilitates internal isomorphism, whereas preservation facilitates external isomorphism.

An important theoretical contribution of this study is that it shows the relevance of distinct institutions for post-M&A integration of emerging market firms. By dividing institutional pressures into internal and external ones, we follow the institutional duality approach and extend its applicability to conforming forces of EMNEs’ mergers and acquisitions in developed countries. As we see international corporate strategy as determinant for post-M&A integration choice we emphasize the varying strength of isomorphic pressures on EMNEs. Thus, this study contributes to the growing body of studies about emerging market firms and supports the notion that existing theories need some modification for explaining their internationalization (e.g., Alon et al. 2011, Luo & Tung 2007). Another theoretical contribution of this paper relates to the role of resource exploration. While some studies (Kale & Singh 2012; Kumar 2009) stress that EMNEs’ M&A in developed countries aim to explore and gain new resources rather than exploit their advantages and that this exemplifies a situation which existing theories fail to explain, our study shows that institutional influences can account for their behavior. The specific M&A context decides about the role the acquirer has to take in order to be able to explore the desired resources like technology or knowledge.

An important practical implication of this study lies in showing the underlying reasons for the choice of post-M&A integration approaches. As numerous studies emphasize that EMNEs’
and especially Chinese MNEs’ internationalization cannot be understood without consideration of the institutional context (Peng 2012, Luo et al. 2010, Yamakawa et al. 2008), our study indicates that Chinese headquarters’ institutions exert pressures on the subsidiary, but the most widely spread of fears of German stakeholders of employee lay-offs and loss of technology did not come true (except very few very early cases of takeovers). The Chinese side is interested in good long-term relationships based on mutual understanding offering opportunities to learn in many aspects, such as managerial and technical knowhow. The German side could also benefit in several regards, e.g., easy access to the Asian market and solid financial support. The domestic institutions did influence the Chinese acquirers, too. After initial mistakes, the host country’s institutions could make clear that the key for sustainable success is an effective integration of the acquired resources.

We acknowledge some limitations of this study which suggest future research directions. This study is solely based on secondary data. Future studies could use survey data to analyze the nature of managerial practices in the post-M&A integration phase. Despite several suggestions (e.g., Marchand 2015, Nayir & Vaiman 2012) the number of studies about this topic is quite small. The collection of primary data would also allow for considering different investment motives of Chinese firms. For example, it might be argued that firms with strategic asset-seeking, market-seeking or efficiency-seeking motives follow different internationalization patterns (Dunning, 1998; Buckley et al., 2007; Makino et al., 2002) which should also be considered in different integration approaches. Further, this study concentrates on OFDI only from one emerging country, i.e. China. Future studies could analyze and compare the relationship between post-M&A integration approach choice and international corporate strategy for firms from other countries. This would enable us to see whether our results are specific for Chinese firms or apply to firms from other emerging markets as well.
REFERENCES


