

Cultural conflicts and integration in Chinese enterprises' cross-border mergers and acquisitions

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Abstract: An increasing number of merger and acquisitions have failed in recent years, this research has analyzed the cross-border M&A between BenQ and Simens, and cross-border M&A between Haier and Sanyo, these two case studies, to investigate the cultural integration strategies. The researcher has concluded suggestions for the future cross-border merger and acquisition, such as conducting a comprehensive assessment of cultural differences between two parties, selecting the suitable and efficient cultural integration strategy based on the real situation and cost of different integration strategies, focusing on the synergy effect and positive side of cross-border cultural difference, establishing their own corporate culture and behavioral norms shared in both two firms.

1. Introduction

1.1 Different entry modes of international trade

As the competition becomes more intensive in the international market, the globalization trend becomes more obvious and international business becomes more popular than before. In the current global market, an increasing number of enterprises have carried on business away from their home countries, because the international business could provide higher profits and more market opportunities for companies. As Moon et al[1] stated in their study, the international trade not only provide high financial returns, such as economies of scale and quick access to foreign market, but also provide technology transfer and capacity pooling at the same time. When expanding business into foreign market, there are different entry modes could be selected by the company based on the real situation of the company. These entry modes include export, licensing, franchising, joint ventures, wholly-owned subsidy, merger and acquisitions and so on. Establishing strategic joint venture and merger and acquisitions with other companies are two frequently used entry modes. The joint venture means two companies have made an agreement between them, these two enterprises not only undertake potential and gains in the future, but also conduct economic activity together [2]. This entry mode is typically used by small and medium-sized enterprises. Another frequently used entry mode is merger and acquisitions [3]. Under the merger and acquisitions entry mode, there are three types of mergers: horizontal merger which means two partner companies are situating in the same competitive market and they have similar products and target customers, after this merger and acquisition, two firms will gain larger market share totally; vertical merger and acquisition which

carried between supplier and the company, for instance, the cone supplier and ice cream maker; conglomeration which means the merger and acquisition between two companies which have no common business areas [3] Comparing to the joint venture entry mode, merger and acquisition mode is always carried by relatively large firms, because they have enough financial resources to acquire target company. In the study of Dunning in 1988, if the firms merge and acquire another company, they could use target company's production lines, factories and their information about foreign target market. Based on the transaction-cost theory, carrying on international trade could cut the generated costs from business transaction and production [4]. From the perspective of resource-based theory, when firms conduct international trade, they could gain resources at lowest price or get valuable resources which their home countries are lack of. In addition, cooperating with other companies or acquiring with other companies could pool both expertise and resources together at the same time [5].

1.2 The trend of Chinese enterprises' M&A

Currently, the world has become a large global trade body as more and more enterprises conduct international trade. Based on the data from the report launched by World Trade Organization, the global merchandise exports value has exceeded 15 trillion dollars in 2016 [7]. With the globalization trend and fast China's economic development, an increasing number of Chinese companies have started cross-border M&A, in order to get easy access to strategic assets, integrate different type of resource and improve competitive advantages From the statistics launched by Chinese Ministry of Commerce, the overall turnover of cross-border M&A in China was nearly 200 million dollars in 2018. After 16 years, the total turnover value of cross-border M&A in China has reached more than 800 billion dollars. And the turnover value of Chinese merger and acquisitions have occupied more than 40% of Asia-Pacific and more than 15% of the total global merger and acquisitions transaction value [9].

1.3 The failure of merger and acquisitions caused by cultural conflicts

Although the merger and acquisition entry mode has been used frequently by multinational enterprises to expand their business into foreign markets or penetrate into new markets, a large amount of merger and acquisition cases have noted disappointing results. The value of merger and acquisition is increasing sharply, the failure rate of cross-border merger and acquisition is high at the same time. From the research of Schoenberg and Bruner , nearly 50-80% merger and acquisition transactions have failed in both exante (for instance, accumulative abnormal returns) and ex post (for instance, increases in revenues or net profits). These failure exists in both strategic and financial level. As Yu et al stated in their study, selecting entry mode is just the first step, how to integrate the current resources, transfer these resources into competitive advantages and ensure the growth of the company should be the next step. There are a large amount of factors affect the post merger and acquisition integration, such as organizational factors which include the structure of enterprises, working experience, cultural distance and the size of firms, macro environmental factors, micro environmental factors and so on. This high failure rate and failed cases have attracted attention of scholars from different countries. They have investigated different reasons to explain this phenomenon, and the different challenges faced by the companies when they merger and acquire with target companies. For instance, Morosini et al have investigated the relationship between national cultural distance and cross-border acquisition performance, Datta et al have investigated the different factors affect influencing wealth creation from mergers and acquisition, Barmeyer and Mayrhofer have analyzed the positive effects of cultural management on the success of M&A, Jingqin and Huapeng have investigated the importance of culture integration on cross-board merger and acquisition of China's enterprise through analyzing case of Lenovo acquisition IBM, and so on.

Among their researches, most of them have found that cultural diversity has played an important role in the success of merger and acquisition. In the study of Trompenaars, the basis of success in international trade is to understand both our own culture and expectations about how other individuals 'should' think or act' and other individuals' behaviors. In other words, national culture and organizational culture of both acquiring company and acquired company make contribution on the success of the international business. Moreover, the cross-culture issues not only exist in international trade which needs to change product design, marketing strategies based on the cultural differences, but also may arise in various business contexts such as cross-border M&A, cross-border joint ventures and strategic alliances. In addition, as Sinkovics, Zagelmeyer and Kusstatscher stated in their study, after merger and acquisition, employees always have anxiety, stress and negative attitudes, their feelings are always led by the cultural differences of leaders from acquiring firms or acquired firms. Thus, the cultural variety is potential to lead dysfunctional outcomes in a large extent.

1.4 The rationale of conducting this research

Due to the fact that countries' specific cultural differences are more obvious than corporate cultural differences, the acquiring firms are always more culturally sensitive after merger and acquisition. The different cultural background of acquiring firm and acquired firm will arise cultural conflicts between these two firms so as to reduce the efficiency of operation and even lead to the failure of merger and acquisition. Thus, the cultural integration becomes more important than before when firms conduct international business. A lot of researchers have found that national cultural differences always reflect obvious and huge differences in shared values of staffs and these differences may lead serious culture clashes in both acquiring firm and acquired firm.

However, the current studies of cultural impacts on merger and acquisition are still inconclusive and the related researches on Chinese merger and acquisitions are in a small amount. Considering the current fast development of Chinese merger and acquisitions and the high failure rate of Chinese enterprises, our research will help enterprises who have already faced cultural conflicts or enterprises who have planned to conduct merger and acquisitions. In addition, after our research analysis, these enterprises could gain more understanding on the effects of cultural conflicts, the importance of cultural integration and recommendations for future merger and acquisitions in Chinese enterprises.

1.5 Aims and objectives

Although an increasing number of Chinese enterprises have conducted merger and acquisition to enter foreign market, the failure rate of this entry mode is still higher than other modes. And more and more scholars have found that cultural conflict is one important reason to explain this phenomenon, thus, how to conduct efficient culture integration in the Chinese enterprises' cross-border M&A should be paid more attention. Based on this situation, our research aims to investigate the current situation of cultural conflicts and integration in Chinese enterprises' cross-border mergers and acquisitions. There are three objectives need to achieved in this dissertation: the first one is how cultural conflicts affect the operation and success of Chinese enterprises' cross-border M&A; the second objective is to investigate whether Chinese enterprises conduct cultural integration after they face these conflicts, if they do, which strategy and management practices they use to integrate cultural differences; the third objective is to provide a lot of suggestions to the current Chinese enterprises who have conducted merger and acquisitions or planned to conduct merger and acquisitions on the cultural conflict and cultural integration aspect.

1.6 The structure of following sections

In order to reach the research aim and objectives, our dissertation has structured in the following sequence: the second section will illustrate the different literature related to our research topic from three different fields that are culture definition and cultural dimension, cultural conflicts in the cross-border M&A and cultural integration in cross-border M&A; the third section is research methodology part which will illustrate our research philosophy, research approaches and data collection; after collecting data, the fourth section will describe our findings and conduct data analysis in details; the final section will draw a conclusion for the whole research paper.

2. Research Methodology

In order to achieve our research aim which is investigating the current situation of cultural conflicts and integration in Chinese enterprises' cross-border mergers and acquisitions, this section will illustrate the research methodology part for our research paper. Selecting the suitable research methodology and efficient tools to conduct research could ensure that we will collect valuable data and information. This section includes four parts that are different research approaches and research strategies, the suitable research methods for our dissertation and the reasons of the research method selection, the data collection process and the limitations of this our research methodology.

2.1 Research approach

Before we select research strategies or tools to collect our data, which type of research approach should be considered by the researcher firstly. In other words, which type of research approach is still playing an influential role on the future success of collecting valuable data efficiently. There are two main types of research approach we could select, inductive and deductive research approach. The deductive research approach is suitable for the research topic which needs to test the hypotheses, and the inductive research approach is always used to give more creative thinking or ideas towards the research topic. In addition, the deductive research approach could be used in the research paper which compare their collected data with information from previous literatures. In other words, if the research paper aims to investigate whether these collected data are shown in the same line with the previous literatures, this research paper could use deductive research approach in their study. On the contrary, inductive research approach needs the researcher to explore more facts and details on their research issues. Due to the fact that our research paper aims to investigate the current situation of cultural conflicts and integration in Chinese enterprises' cross-border mergers and acquisitions and we have not put any hypotheses in our study, the inductive research approach is suitable for us.

2.2 Research strategy

Qualitative and quantitative research strategies are the following research strategies under the inductive and deductive research approach, respectively. Both qualitative and quantitative research strategies are used to investigate the social issues.

2.2.1 Qualitative research strategy

The qualitative research strategy could help the researcher to learn the essence of one social issue or social phenomenon in details.

From the study of Landsheer and Boeije in 2010, conducting qualitative research strategy could help the researcher to gain more detailed and valuable information and data in their research topic. Under the qualitative research strategy, conducting interviews, analyzing case studies, and reviewing

literatures to collect information are the three main tools. Firstly, interviews are almost in two types, structured interview which has a list of prepared questions for the interviewees, and the semi-structured interview which has a short list of prepared questions and change questions based on the reaction of interviewees. Comparing to the structured interviews, the semi-structured interviews will give more space to the interviewees to express their ideas and thoughts on the research topic, and the time length of the semi-structured interview may be longer than structured interview. However, conducting interview also has disadvantage, the interview process is time-consuming.

Another useful tool is case study which means the researcher could read and analyze the data and information from case studies. The case studies could be defined as the analysis of one individual, one company, one industry or even one issue in details. As Grix stated in his study, the case study is always used by the scholars to analyze the story, history, success and even failure or challenges of one company or one industry. The case study likes a report which includes a large amount of information on the research object.

2.2.2 Quantitative research strategy

The quantitative research strategy has been defined as a strategy which has used different numerical tools, such as Excel, STATA, Matlab, SPSS and others, to analyze or calculate the data. As Bryman and Bell stated in their study, the quantitative research strategy is always used to test hypotheses of research papers through using analytical tools. The quantitative research strategy could give clear data interpretation and data analysis to both researchers and readers. In addition, the researcher could also use their data analysis to compare with analysis of other scholars' research. Under the quantitative research strategy, collecting secondary data from the international database or collecting primary data from distributing questionnaires should be two main tools [10]. Comparing to the interview method, the data collection process is relatively short under quantitative research strategy.

2.3 The suitable method for our research topic

For achieving our research aim and objectives, we have carried on qualitative research strategy in our research paper. Due to the fact that we aim to investigate the current cultural conflict situation and possible cultural integration strategies, we need more creative ideas and new thoughts on our research topic. In addition, qualitative research strategy could help us to explore the essence of the social issues, and give us more details and deeper understandings on the research topic. Among different tools of qualitative research strategy, we have used case study method in our research. There are mainly three reasons to explain our selection on research tool. Firstly, the case studies incorporate a large amount of details and information on the specific merger and acquisition. The scholars have expressed the merger and acquisition transaction in details from the background of two parties to the history and successful or failure factors of merger and acquisition transaction. Like Yin stated in his study, the case study research tool will help the researchers to gain deeper investigation and analysis on the specific social issues or phenomenon over a longer period of time.

The second reason is that we have limited access to reach or communicate with the managers or leaders who carried on merger and acquisition transactions. Due to the fact that we are the university students and we have few of social relations, we have limited opportunities to interview with the key managers who are responsible for merger and acquisition transaction. However, case studies are the scholars use their own social relations or reputation to carry on investigation in the specific company. Using the case studies prepared by the scholars will provide us valuable data in an efficient way. Moreover, the case studies are easily gained by the researcher, we could get access of valuable case

studies through our library or online websites. This easy access of important information have saved our time to interview or consult with professionals in a large extent.

The last reason is that a large amount of literatures related to our research topic have used case study research tool and qualitative research strategy. For example, Panibratov [6] has used BenQ and Siemens, HSBC merger and acquisition cases in his study to investigate the cultural conflicts effects. After referring their research experience, we have selected the similar research strategies and tools in our study. These literatures have analyzed the market entry strategy of sharing economy companies in chinse market as well. We could referred these scholars' research experiences in our own research method.

2.4 Data collection process different data resources, different cases and why choose these cases the description of these cases

We have gained our case studies from our library or online websites. Currently, there are a lot of consultant websites published their case studies which are valuable and contained a lot of important information. For instance, Boston consulting website and Daxue consulting website are two famous consulting websites we could refer. Through reviewing these case studies which analyzed the famous merger and acquisition transactions, we could gain more details on the transaction process, the cultural challenges and risks faced by both acquiring and acquired parties, and their solutions or failure measurements on cultural integration. We could refer their history to provide suggestions for companies who plan to carry on cross-border merger and acquisition transaction in the future.

We have selected two case studies in our research paper that are: Haier merged and acquired Sanyo in 2011 and the merger and acquisition between BenQ and Siemens in 2005. Among these two selected cases, Haier seems have successfully carried on cultural integration between Haier and Sanyo. However, BenQ has failed to integrate their culture with acquired firms, so as to suffer a large extent of financial loss. Thus, through comparing one success and one failure stories, we could compare and summarize the important points of cultural integration strategies.

2.4.1 The introduction of M&A between Haier and Sanyo

The merger and acquisition between Haier and Sanyo could be considered as one successful case. Haier has integrated the different culture from Haier and Sanyo efficiently and smoothly, thus, we have selected this successful story as our first case study material. At 18th October, 2011, Haier and Sanyo signed an acquisition agreement which Haier acquired Sanyo's washing machines and household refrigerators business in Japan, Indonesia, the Philippines and Vietnam[8]. According to the agreement, Haier formally acquired Sanyo Electric Co. Nine subsidiaries in the whole world.

Haier Group was founded in 1984. In 2012, Haier Group has a global turnover of 163.1 billion yuan. It has more than eighty thousand staffs in 17 countries. Haier's users are located in more than 100 countries and regions in the world, and it has become the first brand of white household appliances in the world [8]. Sanyo Electric Appliance Group is a 60-year-old large-scale enterprise, which belongs to Panasonic Group. It is an international enterprise providing advanced technology and products of environment, energy in commercial and civil fields. With its long history and high-quality brand, Sanyo Electrical Appliances Group has a great market share in the Japanese and Southeast Asian markets. However, in 2008, under the influence of the US financial crisis and the Japanese earthquake, Sanyo has been in a continuous state of loss since 2009 [8]. Haier has injected their own corporate culture into the Sanyo.

2.4.2 The introduction of M&A between BenQ and Siemens

BenQ has been founded in 1984, and its Telecom's headquarters is located in Taiwan, with a total of 13,000 employees. The company have been recognized by the public in 1996 [6]. Now, BenQ is one of the largest manufacturers in the world. Its production factories are located in different countries, such as Suzhou, Taoyuan, Penang, Malaysia and Mosicali, Mexico. BenQ's sales have covered Asia, Europe and America. BenQ has carried on business in different areas, such as digital display, mobile phones, personal computers, digital series and computer peripheral broadband series. In 2003, the company's annual net income was NT\$7.5 billion, and its sales in 2004 amounted to NT\$178.3 billion [6]. In the same year, BenQ has acquired the mobile phone line of Siemens which has ranked sixth position in the global mobile phone market.

At 8th June 2005, BenQ officially acquired Siemens' global mobile phone business line through using 350 million euros. BenQ acquired five-year rights to use the Siemens brand, while Siemens held a 2.5% share in BenQ for 50 million euros [6]. The aim of this M&A is that BenQ plans to quickly occupy the European market with the help of Siemens brand effect and sales channels. For Siemens, the transfer of mobile phone business to BenQ can completely escape away from huge financial loss of its mobile phone business in order to maximize shareholder benefits.

However, the merger and acquisition between BenQ and Siemens is completely failed. In 2005, BenQ lost \$279 million in the fourth quarter and \$307 million in the whole year. In the second quarter of 2006, BenQ's market share dropped from 5.5% to 3%. In August of 2006, BenQ Mobile filed for bankruptcy in German courts. In March of 27, 2007, BenQ, which was in financial crisis, sold 100 million shares of Youda shares, bringing BenQ 4.76 billion NT dollars in cash. All in all, BenQ has lost 800 million euros on its acquisition of Siemens mobile phones business line[6].

2.5 Limitations of research

In our research paper, there are still a lot of limitations in our study. Firstly, we have used two case studies in our research, the cross-border merger and acquisition transaction between BenQ and Siemens, and the cross-border merger and acquisition transaction between Haier and Sanyo, these two case studies may describe the specific stories of these two cross-border merger and acquisition transaction. As Yin stated in his study, the case study always provides information and analysis on one specific industry or one company, thus, the case study method leads to low reference value for some industries or companies. The suggestions learnt from these two cross-border merger and acquisition transaction may have less information for the cross-border merger and acquisition transaction between different countries. In other words, our case study analysis cannot give a relatively comprehensive analysis to the companies from different countries and different industries, when they want to conduct cross-border merger and acquisition transaction. The different countries have different cultural background, and the different industries or different companies have their own corporate culture, our suggestions may have stronger reference significance for the home appliance industry and mobile phone industry. From another perspective, as the society is progressing, the cultures of different countries and different industries have experienced a certain extent of changes as well. Our suggestions on the cultural integration strategy may be suitable for the case studies we have investigated.

3. Results and discussion

After analyzing the different strategies of acquiring firms to solve challenges from cultural differences, we have concluded four main points to carry on effective cultural integration between acquired firms and acquiring firms.

The first one is conducting a comprehensive assessment of cultural differences between two parties from different perspectives. In cross-border merger and acquisition, the acquiring enterprises should spend more time and energy to evaluate the cultural background of acquired firms, in order to lay a cultural foundation for the future acquisition plan. In addition, the culture evaluation not only learns the corporate culture of both acquiring and acquired firms, but also learn the cultural background of the different countries of acquired firms and acquiring firms. Like Haier and Sanyo, two companies are from Asian culture, and both of them are affected by the Confucianism. When considering the actual execution of cultural evaluation, the acquiring firms could set up a cultural assessment team, which directly participates in the whole process of merger and acquisition transaction and cultural integration plan. Or acquiring firms could also employ professional consulting companies to assist. This cultural assessment team or consultant could collect relevant information about cultural differences between the two parties of merger and acquisition transaction. The focus of the cultural difference research may include the core values, management style, behavioral norms and other aspects of the enterprise, as well as national cultural differences. Except collecting the main cultural information through second-hand data, the cultural evaluation team could also collect more details and accurate information through questionnaires, interviews and other methods. Fully understand the strengths, weaknesses and different types of the original culture of acquiring and acquired firms, and comprehensively and meticulously analyze the elements of the two parties' culture. Through comparing these cultural elements and evaluating the cultural differences between the acquiring and acquired firms, the acquiring firms could predict the possible cultural conflicts in the future, and analyses the obstacles and opportunities of the merger and acquisition transaction. If the cost of cultural integration is lower than the future profits, the company could acquire other firms, if not, the merger and acquisition should be cancelled. Except examining and evaluating the cultural factors, enterprises can not only learn the cultural differences between the two sides of mergers and acquisitions, but also find the key factors affecting the synergistic effect.

After the evaluation process, selecting the suitable cultural integration mode should be another important task. As stated above, the four cultural integration modes could be selected by the companies. Based on the real situation and cost of different integration strategy, the acquiring firms need to select the suitable and efficient one. Most of people think that the best integration mode should be the integration of corporate culture between the two sides of the merger and acquisition. However, from the experience of Haier's merger and acquisition, whether it is integration or injection, companies need to start from the perspective of the enterprise itself, which is not necessarily the best way, but must be the most suitable for the enterprise itself. Suitable cultural integration model can effectively speed up the M&A formation process and make the process smoothly. Therefore, when making the cultural integration decisions, firms should be cautious and choose it according to the cultural characteristics of both sides and the shared value in different countries. At any time, based on the real integration steps and cultural changes, companies should adjust the integration strategy.

The third suggestion is paying more attention on the synergy effect which has brought from the cross-cultural difference. The cultural difference not only brings the risks and challenges to the companies, they could also bring a lot of advantages and fresh blood to the companies as well. For instance, for the Sanyo, the injected corporate culture, reformed wage system, mark system and promotion system have enhance the efficiency of employees in a large extent. Thus, in the current society, the understanding the cultural differences in cross-border mergers and acquisitions tends to unilaterally emphasize the negative side of cultural differences (like cultural conflicts), but fail to see its positive side. In fact, cross-culture is also an advantage, which can bring new opportunities for the development of enterprises after mergers and acquisitions. If the enterprises could make full use of this cross-cultural advantage in merger and acquisition transaction and carry on cultural integration

effective, the enterprises offset the negative effect of cultural conflict, form a good cultural atmosphere and enhance the competitiveness of enterprises in a large extent.

The last one is establishing their own corporate culture and behavioral norms shared in both two companies. At the beginning, the acquiring firm should enrich the connotation of enterprises, and constantly create new corporate culture, in order to better carry out cultural integration in the merger and acquisition, and achieve success. Like Haier which has their own corporate culture, this powerful culture and management system is avoiding to be submerged by other firms. In other words, if the acquiring firm has relatively weak and less mature corporate culture, the acquired firms may drive the culture of acquiring firm. Like BenQ, Siemens has famous strong corporate culture, however, BenQ, is weak in absorbing and even changing Siemens culture. At the end, the cultural integration between BenQ and Siemens is failed and BenQ suffered a large amount of financial resources.

4. Conclusion

From analyzing the cross-border M&A between BenQ and Simens, and cross-border M&A between Haier and Sanyo, we find that the cultural differences of different countries and corporate cultural differences have largely affected the management style, promotion and wage system in the whole company. Thus, after facing these cultural conflicts, most of acquiring companies choose to conduct cultural integration strategies after their cross-border merger and acquisition transaction. Due to the fact that there are a limited amount of researches on the cross-border M&A between Chinese companies and other parties, our paper has used qualitative research strategy and case study research tool to investigate the current situation of cultural conflicts and integration in Chinese enterprises' cross-border mergers and acquisitions.

Through analyzing the successful story of Haier and failure story of BenQ, we have concluded four suggestion for the Chinese companies who plan to carry on cross-border merger and acquisition transactions. The first one is conducting a comprehensive assessment of cultural differences between two parties from different perspectives, before conduct cross-border merger and acquisition transactions. The evaluation contents should include: the differences of core values, management style, behavioral norms and other aspects of both enterprises and the different cultural backgrounds of the two parties as well. Another suggestion is to select the suitable and efficient cultural integration strategy based on the real situation and cost of different integration strategies. The third suggestion is focusing on the synergy effect and positive side of cross-border cultural difference. Due to the fact that the cultural difference could bring a lot of advantages and fresh blood to the companies, the enterprises could make full use of these cross-cultural advantages in merger and acquisition transaction, so as to form a good cultural atmosphere and enhance the competitiveness of enterprises. Finally, the last one is establishing their own corporate culture and behavioral norms shared in both two firms. And the acquiring firm should form their strong corporate culture, in order to avoid their culture absorbed by the culture of acquired firm.

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