

Mergers and Acquisitions Between Western Companies and Chinese State-owned  
Enterprises

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## Abstract

This research investigates acquisition activities carried out between Western companies and Chinese state-owned enterprises (SOEs), focusing on the influences of acquisitions on identity, culture and commitment of the target SOE employees. The managerial factors that influence the acquisition integration are investigated and their relationships with the post-acquisition performances of the target SOEs are explored. There are three research questions: How do acquisitions influence the identity, culture and commitment of the target SOE employees? What are the factors that determine an employee's post-acquisition identification? What are the relationships between acquisition management and post-acquisition performance? Case studies are adopted as the main research methodology in order to provide an in-depth answer to these research questions. Statistical analysis is used in order to provide clear evidence of the factors influencing post-acquisition identification and the effect of acquisitions on the performance of SOEs.

The findings of this research indicate that acquisitions have significant negative effects on the performance of target SOEs and these negative effects are mainly due to inappropriate managerial strategies adopted by Western acquirers. Further, although not significant, a positive correlation between acquisition management and acquisition performance has been found in this research, a finding which is in line with the prediction of theories and consequently, supports the assumption that acquisition management contributes to acquisition performance. All factors (pre-acquisition identification, cultural incompatibility, communication, a sense of continuity, fast reform and negative emotion) are significantly related to post-acquisition identification when age, education, salary, size, employee position and organisational tenure are controlled. Different from previous studies, which found that the individual-organisation relationship influences employees' organisational identification in the Western context, this research finds that social relationship is a vital factor in influencing Chinese employees' identification. Also, social relationship is a unique

factor fostering Chinese employees' positive identity, but not the shared social identity as has been found in the Western context. These findings imply that social relationship is a distinct factor in fostering employees' organisational identification in China and consequently, in predominantly collectivistic countries.

Further, this research shows that the point held in previous studies that out-group is not necessarily discriminated against in collectivistic cultures when group membership is salient due to the collectively-oriented feature is not applicable in acquisitions because people of collectivistic cultures show a strong in-group identity, a strong motive to distinguish insiders (i.e. in-group members) from outsiders (i.e. out-group members), and a strong resistance to uncertainty. These responses are driven by the characteristics of collectivistic culture such as collective-orientation and high uncertainty avoidance.

Three particular issues emerged that may be useful for acquisition management in China. The first is the recruitment of employees at the post-acquisition stage. Selecting people as managers of post-acquisition organisations cannot be based only on their ethnic groups or multi-language capability, but also on other factors. To run post-acquisition companies, it is better to employ people who are professionals in the industry with multi-cultural working experience than those returned overseas Chinese who have been away from China for a long time and ethnic Chinese who lack managerial experience in China. The second issue is that middle-aged and older employees find it difficult to accept changes due to their deeply rooted culture. Younger employees can more easily accept the changes than middle-aged and older employees because their values are more or less in accordance with those of Westerners. The third issue is that due to the fact that the M&As do not require employees to completely abandon or change their old identity, and social relationship is a unique factor in fostering organisational identification in China, these factors contribute to a sense of continuity perceived by Chinese employees and consequently lead to a positive correlation between pre- and post-acquisition identification in the acquired SOEs, which are positioned as having dominated status in acquisitions. The implications are discussed at the end of this thesis.

Key words: mergers and acquisitions, Chinese state-owned enterprises, social identity theory, self-categorization theory, organisational identification, culture, organisational commitment.

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## List of Definitions

Mergers: the combination of two or more companies into one legal entity (Vishwanath, 2007; Vernimmen et al., 2009).

Acquisitions: the combination of different-sized companies in which one company is typically much larger than its counterpart (Vishwanath, 2007).

Social identity: “that *part* of an individual’s self-concept which derives from his knowledge of his membership of a social group (or groups) together with the value and emotional significance attached to that membership” (Tajfel, 1978, p. 63).

Self-concept: “the set of cognitive representations of self available to a person” (Turner et al., 1987, p. 44).

Group: “a collection of individuals who perceive themselves to be members of the same social category, share some emotional involvement in this common definition of themselves, and achieve some degree of social consensus about the evaluation of their group and their membership of it” (Turner and Giles, 1981, p. 7).

Self-categorization: “a set of related assumptions and hypotheses about the functioning of the social self-concept (the concept of self based on comparison with other people and relevant to social interaction)” (Turner et al., 1987, p. 42).

Depersonalization: “the process of ‘self-stereotyping’ whereby people come to perceive themselves more as the interchangeable exemplars of a social category than as unique personalities defined by their individual differences from others” (Turner et al., 1987, p. 50).

In-group favouritism: group members mentally extending and strengthening the

favourable aspects of their group (Greene, 2004).

Out-group derogation: group members tend to increase the superiority of their own group through increasing the inferiority of out-groups (Greene, 2004).

Positive social identity: an identity positively assessed by the people who identify with that identity (Breakwell, 1978).

Organisational identification: “the perception of oneness with or belongingness to an organization, where the individual *defines* him or herself in terms of the organization(s) in which he or she is a member” (Mael and Ashforth, 1992, p. 104).

Culture: a set of shared principles, norms, values, beliefs and expectations cohering people into a group (Kilmann et al., 1985).

National culture: “the collective programming of the mind acquired by growing up in a particular country” (Sarala, 2010, p. 4).

Power distance: the level of acceptance of unequal power in a society (Hofstede, 1980).

Uncertainty avoidance: the extent to which a nation can endure uncertainty (Hofstede, 1980).

Individualism versus collectivism: the level of association between an individual and other people (Hofstede, 1980).

Masculinity versus femininity: the role distribution between men and women in a society (Hofstede, 1980).

National cultural difference: the extent to which the cultural discipline is different

between countries (Kogut and Singh, 1988).

Organisational culture: a set of ideologies, philosophies, expectations, and obligations shared by members (Denison, 1990; Schwartz and Davis, 1981).

*Guanxi*: “a set of interpersonal connections that facilitates exchanges of favors between people” (Bian, 1997, p. 369).

Organisational commitment: the extent to which employees feel a strong responsibility to stay with the organisation.

Affective commitment: employees perceive a positive emotional attachment to and intertwinement with the organisation (Meyer and Allen, 1991).

Continuance commitment: employees perceive high costs associated with losing organisational membership (Meyer and Allen, 1991).

Normative commitment: employees’ sense of obligation to continue to stay with an organisation (Meyer and Allen, 1991).

Organisational justice: “an employee’s perception of the fairness of exchange he or she has with an organization in relation to rewards and procedures” (Hopkins and Weathington, 2006, p. 479).

Distributive justice: the fairness perceived by an employee is determined by the comparison of the ratio of output to input with that of other employees (Folger, 1977; Folger, and Konovsky, 1989).

Procedural justice: the fairness of process adopted to allocate the outcomes (Folger, 1977; Folger, and Konovsky, 1989; Jamaludin, 2011).

Interactional justice: “the fairness of the fairness of the interpersonal treatment the individual receives from the decision maker” (Jamaludin, 2011, p. 62; see also Aryee et al., 2002).

Hope: “a cognitive set that is based on a reciprocally derived sense of successful (a) agency (goal-directed determination) and (b) pathways (planning of ways to meet goals)” (Snyder et al., 1991, p. 571).

The *perceived necessity* of the merger: employees’ perceived reason for the merger being driven by survival and/or growth of the organisation (Boen et al., 2005).

Case study: an empirical investigation of a phenomenon within its real life context using multiple sources of evidence (Yin, 1994).

Return on assets (ROA): The ratio of the net profit after tax and interest to total assets.

Return on net assets (RONA): The ratio of net profit after tax and interest to the total of fixed assets and net working capital.

Return on capital employed (ROCE): The ratio of net profit before interest and taxation to the sum of share capital, reserves and long-term loans.

Triangulation: “a validity procedure where researchers search for convergence among multiple and different sources of information to form themes or categories in a study” (Creswell and Miller, 2000, p. 126).

# Chapter 1: Introduction

This chapter begins with an introduction to the background of merger and acquisition (M&A) activities taking place between Western companies and Chinese SOEs. The literature on this topic will be briefly reviewed in order to highlight the main issue, and the aims and objectives of this research. The chapter will then outline the rationale for the research methodology, the main findings and the main contributions of this research, followed by an overview of each chapter.

Mergers are referred to as the combination of two or more companies into one legal entity (Vishwanath, 2007; Vernimmen et al., 2009). Acquisitions are defined as the combination of different-sized companies in which one company is typically much larger than its counterpart (Vishwanath, 2007). International M&As, which are the combination of domestic M&As and foreign direct investment (FDI) (Pan, 2006), result from global economic integration. The fundamental purpose of engaging in international M&As is survival and success in a highly competitive world. This purpose is particularly strong for the companies in developing countries, such as Chinese firms. As China quickens the pace in integrating into the world economy in order to restructure and develop the national economy, an increasing number of multinational corporations are putting Chinese firms on the priority list when they decide to do international M&As. Besides economic restructuring, nationwide industrial reform, especially the state-owned sector reform, is a stimulator boosting the cross-border M&As in China. Meanwhile, economic emergence and attractive investment environment and opportunity make China serve as an appropriate outflow destination for cross-border investors. Therefore, the international M&As of Chinese SOEs have basically emerged due to three reasons: China's intention to restructure and develop the national economy in general, its intention to reform SOEs in particular, and its promising platform for business investment.

Why are the international M&As of Chinese SOEs interesting? First, China has become

the 'hot' international M&A market and it has the world's largest population and, therefore, the effects of international M&As on Chinese employees are important to cross-border M&A studies and practices. Second, SOEs account for the majority shares in China's economy. As the increasingly frequent cross-border M&As take place between multinational corporations and Chinese SOEs, the effect and performance of this kind of M&As need to be examined. Third, due to China's economic background, SOEs are influenced more strongly by China's traditional culture and China's institutional environment and they report more problems than other kinds of Chinese firms such as joint ventures and private companies. The M&As of Chinese SOEs tend to be tough cases for multinational corporations. Thus, the international M&As of Chinese SOEs are an interesting, important and unique topic for research.

## **1.1 Background**

As mentioned above, the international M&As of Chinese SOEs are caused by three factors: China's intention to restructure and develop the national economy in general, the intention to reform SOEs in particular, and its promising platform for business investment. Economic restructuring and economic development have been the key tasks for the Chinese government since the Reform and Open Door Policy - a basic state policy - was adopted in 1978. Besides domestic reforms, the state has made efforts to attract foreign capital through improving infrastructure, enhancing legal protection for investors, and gradually extending the areas accessible to the outside world. These have encouraged foreign investors to merge with or acquire Chinese firms. In addition, the importance of the non-public economy (including self-employed businesses, private businesses and foreign investment businesses) in reforming and stimulating China's economy has been gradually become a focus for the government. After Jiang Zemin (the former President of China) proposed that the goal of China's economic reform was to establish a socialist market economy (Jiang, 1992), a major breakthrough was made in 1997 when the central government stated that China's basic economic system for the current stage was for the public economy to maintain a dominant position and also to

develop various types of economies side by side (Jiang, 1997). The new basic economic system was hailed as a milestone in China's economic restructuring because the status of the non-public economy was raised from 'the complement of public economy' (Jiang, 1992) to 'the important part of China's economy' (Jiang, 1997), which indicated that the non-public sector would coexist with and be jointly developed with the public sector in China. Following the new basic economic system, China's government addressed the necessity of encouraging, supporting and guiding the development of the non-public economy in China, especially the importance of encouraging foreign firms to participate in economic restructuring and SOE reform (Zhu, 2001; Jiang, 2002).

A regulation called the *Several Opinions of the State Council on Encouraging, Supporting and Guiding the Development of Individual and Private Economy and Other Non-Public Sectors of the Economy* (The Central People's Government of the People's Republic of China, 2005) was promulgated in 2005. The notion of this regulation was to clean up institutional obstructions for the development of the non-public sector and to build an equal market status and competition between the public and non-public economy. Detailed strategies are specified in this regulation, such as relaxing market permission, increasing financial support, improving social services, and protecting legal rights for non-public businesses and employees. In particular, this regulation encourages the non-public sector to engage in the reorganisation and transformation of SOEs through M&As and other possible avenues. Developing an open economy and raising the status of the non-public economy has provided foreign firms with a macroeconomic environment for making M&As in China, which has significantly boosted China's M&A market.

As a part of economic reform, the restructuring of state-owned sectors and SOEs is the key task for the Chinese government. China had been in a planned economy since 1949 when China was formally established. In this economic system, SOEs were fully governed by the state. For example, the Chinese government was responsible for operating SOEs, allocating resources, arranging the employment quotas and setting

production quotas. The Chinese government was also responsible for buying all SOEs' products and selling them to the market. As China's economy reformed from a planned to a market-oriented economy, the central government was not able to run such a large number of SOEs because almost all domestic firms were SOEs in the planned economy. Additionally, the government realised that the development of SOEs would be impeded if all of them were governed and operated directly by the state so that it was necessary to increase the autonomy and the authority of SOE managers and to make firms become relatively independent economic entities (The Central People's Government of the People's Republic of China, 1984). In the process of economic transition, those SOEs which were established in the planned economy have shown drawbacks such as inefficiency, ineffectiveness, an incapability of rapid change (Sun, 2000), obsolete managerial skills, out-of-date technologies, a shortage of financial resources and the lack of incentive and capability to compete in the market. Supporting all SOEs' development was tough work for China's government due to the insufficient financial resources possessed by the government and consequently, the SOEs were confronted with difficulties in operation, development and survival. Considering the vital role of the state-owned sector in the Chinese economy, the restructuring of state-owned sectors and SOEs has become the key task for the state. During more than 30 years' reform, the separation of government functions from enterprise management in order to make firms operate independently, be responsible for their own profits and losses, and become real corporate entities had been the long-term strategy for SOE reform.

A more recent strategy (*zhuadafangxiao* in Chinese) put forward by the Chinese government has been to control large-sized SOEs and adopt a flexible policy towards smaller ones. The purpose of this strategy is to transform large-sized SOEs into standard corporations while withdrawing control over small SOEs and reforming them through, for example, reorganisation, M&A and leasing. To achieve this goal, China's government is withdrawing state-owned capital from competitive sectors, which has resulted in a huge number of M&A opportunities for foreign investors. This is because at least 4 trillion yuan (yuan: the name of a unit of the Chinese currency) (£400 billion)



need to be spent on the reform of the number of 0.4 million Chinese SOEs (Gao and Xu, 2010). In addition, of all SOEs, only between 80 and 100 giant corporate groups remain in China and most of the others are ready to sell (Luo, 2007). This means that at least 2.5 trillion yuan (£25 billion) state-owned assets will be withdrawn from the competitive sectors (Liao et al., 2004). However, China's domestic investors and state banks are not able to afford such a vast amount of capital (Gao and Xu, 2010; Woodard and Wang, 2004) and they do not have the corporate experience to merge or acquire SOEs (Liao et al., 2004) so foreign corporations will be important actors in M&As. Detailed principles, rules and strategies concerning the restructuring of SOEs are specified in *The Decisions on Several Key Issues Regarding the Reorganisation and Development of State-owned Enterprises Made by the Central Committee of the Communist Party of China* (China, 1999) which was promulgated in 1999.

Besides China's intention to restructure and develop the national economy in general and the intention to reform SOEs in particular greatly stimulate the international M&As of Chinese SOEs, Western corporations' willingness to enter the Chinese market also stimulating the international M&As of Chinese SOEs because China serves as an appropriate outflow destination for cross-border investors. There are three reasons for this. The first reason is that compared to other developing countries, China provides a better environment for foreign investors in labour-intensive manufacturing (Eichengreen and Tong, 2007). China, as the world production factory (Liu and Ng, 2010), has become well-known for its low labour costs (Cheetham et al., 2006; Blanchard, 2007) and Western countries seek to acquire Chinese SOEs by virtue of pursuing low labour costs. According to statistics, the cost of a typical Chinese production worker is 53 cents per hour while the cost of a typical American production worker is \$15.00 (Blanchard, 2007). Component costs in China are around 20% - 30% lower than in Eastern Europe (Cheetham et al., 2006). The huge cost difference between China and Western countries attracts multinational corporations to invest in China.

The second reason Western firms want to come to China is that China's emergence

provides a promising platform for business investment. As an up-and-coming country in Asia, China contributes about a quarter of world GDP growth and six per cent of world exports (Eichengreen and Tong, 2007). Additionally, China has a huge amount of market potential. Investors who possess market power in China are more likely to deter competitors and achieve economies of scale (Cooke, 2006). Thus, acquisitions of Chinese companies not only expand Western investors' markets in China, but also in Asia and even world-wide. China, as Western investors' strategic pivot, is a reliable base. As Toth et al. (2008) states:

More comfortable with market risk, facing aggressive plans for business in China by their competitors and determined to make this market a more significant component of their global operations, U.S. multinationals embraced M&A in China. While not free of risk, M&A has proved to be the best means by which to achieve strategic growth in China. (p. 14)

The third reason Western firms want to come to China is that China provides an attractive investment environment for investors. This is derived from China's long-term experience as a host nation to attract foreign investments (Tse et al., 1997) since 1978 when China government adopted the Reform and Open Door Policy. The Reform and Open Door Policy has provided protection for multinational corporations investing in China, and China has changed its attitude toward foreign investors from prohibition to a more relaxed approach (Gao and Xu, 2010). For example, China has promulgated a series of regulations and laws for investors to reduce their investment risks and increase their investment confidence (Tse et al., 1997). Also, the 1997 Asia financial crisis and the 2008 global financial crisis have strongly confirmed that China is able to provide a relatively stable institutional and political environment for investors. Enderwick (2007) points out:

China's advantage is more than simply low labour costs. Indeed, labour costs in the textile industry are lower in countries such as India or Indonesia than they are in

China. Rather, China has built a strong competitive advantage based on a number of factors, including higher productivity; economies of scale; access to raw materials and competent suppliers; advanced equipment brought in through investments from Japan, Taiwan, Hong Kong, and South Korea; and access to buyers, designers, and logistics in other parts of Greater China. (p. 44)

Seeing attractive investment opportunity in China and showing their willingness to enter the Chinese market, Western investors have considered the best way to enter China and M&As have become an appropriate route for them. This is because acquisitions, which are characterised by their high-speed entry, are the quicker method for foreign investors wanting to enter the target market compared to greenfield investment (Wang, 2009; Gilroy and Lukas, 2006). They are also the ways to save costs (Raff et al., 2009), lower uncertainty (Gilroy and Lukas, 2006), reduce risk (Wang, 2009), strengthen market power with the decrease of competition (Gilroy and Lukas, 2006) and possess the key resources of other companies (Wang, 2009). For example, empirically, in a new country it would take a long time to develop presence. It would also cost a great deal to start up their own subsidiaries from zero, such as building subsidiaries, assigning expatriates to target firms, and searching, poaching and employing intellectual people from the labour market and other companies. M&As provide acquirers with a quick way to establish their presence in a new country through assuming targets' business responsibilities. It is especially useful for acquiring intangible assets such as reputation, skilled workers, market knowledge and customer relationships. Further, M&As of Chinese SOEs provide acquirers with privileges because historically, SOEs have been entitled to enjoy many advantages and privileges such as resource allocation, market power, governmental protection and a special relationship with the government. Western companies will quickly possess these advantages and privileges with relatively low risks once they take over the business responsibilities of Chinese SOEs. Although they must pay a great deal to M&As, they possess these advantages and privileges, which are valuable assets. Hence, M&As, as a high-speed means of entry with cost saving, risk reduce and resource strength, is highly favoured by Western companies as 'the quicker,

the better' is their common strategy in China.

In summary, China's intention to restructure and develop the national economy in general, the intention to reform SOEs in particular, and China's attractive investment environment and opportunity stimulate the international M&As of Chinese SOEs.

The emerging of cross-border M&As in China is later than that in Western countries due to China's specific economic system. Chinese researchers hold different views on the division of the developmental stages of cross-border M&As in China (e.g. Luo, 2007; Ren et al., 2008; Han et al., 2004). Based on their point of views, this research divides the development of foreign M&As of Chinese SOEs into three stages: the exploratory stage, the stable development stage and the enhancement stage. The first stage is the exploratory stage (1992 - 1998). This stage can be divided into two phases. The first phase is the vigorous development phase (1992 - 1995). China maintained a high GDP growth rate (more than 10%) between 1992 and 1995, and became an attractive investment destination for multinational corporations (Han et al., 2004). Increasing share capital to hold controlling stakes in joint ventures, and transferring Chinese SOEs into joint ventures and holding controlling stakes were the two main M&A methods in this phase (Han et al., 2004). The second phase of the first stage is the low development phase (1995-1998). China promulgated the *Notice Regarding Suspension of Transfer of State-owned Shares and Legal Person Shares in Listed Companies to Foreign Investors* (The Central People's Government of the People's Republic of China, 1995) in 1995 due to the need to protect the development of China's stock market and prevent the loss of state-owned assets. According to this legislation, it is forbidden to transfer state-owned shares and legal person shares in listed companies to foreign investors until a regulation regarding the transfer of state-owned shares and legal person shares in listed companies is put into effect. Foreign M&As of Chinese firms were in a slump in the following six years (Ren et al., 2008).

The second stage in the development of foreign M&As of Chinese SOEs is called the

stable development stage (1998 - 2001). China promulgated *Interim Provisions on Introducing Foreign Investment to Asset Restructuring of State-owned Enterprises* (Invest in China, 1998) on September 14, 1998 (it came into force on the date of promulgation). This legislation specifies the principles, procedures and verifications of asset restructuring of SOEs, which provides a basic guide for foreign firms carrying out M&As with Chinese SOEs. The establishment of foreign-invested stock companies in China, the issuance of stocks by foreign-invested stock companies and, the acceptance of the noncirculating shares of listed companies within China by foreign-invested enterprises (including foreign-invested stock companies) have been legislated (China Securities Regulatory Commission, 2001) since October 8, 2001. This legislation provides a guide for foreign firms entering China's stock market and investing in Chinese listed companies. These two regulations sent a signal to the world that China was going to open up its M&A market.

The third stage in the development of foreign M&As of Chinese SOEs is called the enhancement stage (2001 - present). The entrance of the World Trade Organisation (WTO) changed China's M&A market at its root. This is because Chinese firms and China's securities market, which had been in a relatively independent environment, have been gradually integrated into the process of globalisation so that the world has seen a tremendous development potential and a fantastic exceptional business potential in China (Han et al., 2004). In its commitments to the WTO, China has gradually opened more sectors to the outside world, including more state-owned sectors, and has put into effect a set of regulations regarding foreign M&As. These have led to a dramatic surge in cross-border M&As of Chinese firms. For example, the legislation *Issues Relevant to the Transfer of State-owned Shares and Legal Person Shares in Listed Companies to Foreign Investors* (China Securities Regulatory Commission, 2002a), was promulgated on November 1, 2002 (came into force on the date of promulgation). This legislation replaced the *Notice Regarding Suspension of Transfer of State-owned shares and Legal Person Shares in Listed Companies to Foreign Investors* in 1995, which meant that Chinese listed SOEs could open up to foreign investors again.

Further legislation, *Provisional Measures on Administration of Domestic Securities Investments of Qualified Foreign Institutional Investors* (China Securities Regulatory Commission, 2002b) (came into force on December 1, 2002) was promulgated on November 5, 2002. The third law, which is called *Interim Provisions on Introducing Foreign Investment to Reorganise State-owned Enterprises* (State Administration of Foreign Exchange, 2002) (came into force on January 1, 2003) was promulgated on November 8, 2002. These three laws, which reduce restrictions on foreign investment in state-owned shares and legal person shares, are milestones in China's M&A market because they show that Chinese companies have opened up to foreign firms completely (Yao, 2008). The laws also provide foreign investors with a sound institutional environment, which is boosting international M&As in China (Ren et al., 2008).

*Interim Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (State-owned Assets Supervision and Administration Commission of the State Council, 2003a) (came into force on April 12, 2003) was promulgated on March 7, 2003. *Interim Measures for the Management of the Transfer of State-owned Property Rights* (State-owned Assets Supervision and Administration Commission of the State Council, 2003b), which specifies the supervision and management of transfer of state-owned property rights, transfer procedures, approval procedures and legal obligations, was promulgated on December 31, 2003 and came into force on February 1, 2004. These regulations not only provide legal protection and a guide for foreign investors, but also signify the push for cross-border M&As in China. The international M&As of Chinese companies have boomed since 2005 (Ren et al., 2008; Yao, 2008). U.S. companies account for more than 30 per cent of total cross-border M&As in China, followed by EU companies, which account for about 27 per cent; and ASEAN, Japan and other countries, which constitute the remaining stakeholders in Chinese M&As (Yao, 2008). The new era of cross-border M&As of Chinese SOEs has come.

## **1.2 Extant Literature**

The increasingly frequent and broad cross-border M&A activities have attracted much interest from Chinese researchers. Chinese researchers generally focus on two areas. The first area, which concerns the effects of cross-border M&As on China, has drawn the majority of researchers' attention and discussion. Some researchers argue against M&As because they are concerned with the security of China's economy, the safety of state-owned assets and the survival of national industries (e.g. Gao, 2006; Yang, 2007; Gu, 2006). Other researchers hold a positive attitude toward M&As. Wang (2006) argues that the competition from foreign-owned enterprises and private companies boosts SOEs' success: foreign investors not only bring capital, technology and managerial skills into China, but also have driven the transition of China's economy. Liao et al. (2004) point out that the loss of state-owned assets can be avoided if cross-border M&As are well managed, and the efficiency of public ownership will be improved by cross-border M&As, which make a great contribution to the development of China's economy. The second area of Chinese research focuses on the background, development and incentive of cross-border M&As of Chinese firms and Chinese SOEs (Ren et al., 2008; Han et al., 2004; Liao et al., 2004; Yao, 2008). For example, researchers point out that multi-national corporations making cross-border M&As of Chinese firms are motivated by market power, market position, complementary resource and market share (Ren et al., 2008). There are two limitations in the literature on foreign M&As of Chinese SOEs. First, Chinese research in this area is generally based on a macro-level investigation, which leaves firm-level studies under-investigated. In reality, some topics are important for M&A management in practice such as the influence of international M&As on target SOE employees and on SOE performances. A firm-level investigation is useful for exploring detailed and specified phenomena involved in cross-border M&As, which is helpful for theory building. The second limitation in the literature on foreign M&As of Chinese SOEs is that studies so far lack a clear and systematic strategy for cross-border M&A management. There is significant research on the transnational management of wholly foreign-owned enterprises and joint ventures but little research on M&A management of SOEs. This may in part be due to the methodological limitations mentioned, i.e. that the majority of studies are based on the

macro-economic level but not on the firm-level. Considering that there are an increasing number of international M&As taking place between Western companies and SOEs, it is necessary to establish a management strategy based on firm-level studies.

Research on cross-border M&As has been well developed in Western countries, and focuses primarily on financial performance, employee attitudes and behaviours, integration strategy and human resource management. Studies on human factor issues in M&As are generally based on social identity theory, self-categorisation theory, culture and organisational commitment. Results indicate that employees typically refuse to abandon their old identity and are reluctant to accept a new one (Haunschild et al., 1994; Seo, 2001; Terry and Callan, 1998), and their post-merger identification is positively correlated with organisational citizenship behaviours and negatively correlated with turnover intentions (Van Dick et al., 2004b; Van Dick et al., 2006). More importantly, the majority of mergers fail due to the lack of cultural compatibility (Cartwright and Cooper, 1993). Although Western researchers have well-developed research on cross-border M&As, their studies also have limitations and problems. The major problem is that current studies generally focus on Western countries but evidence from emerging economies such as China has received little emphasis (e.g. Cooke, 2006). The question of ‘How international M&As influence people of interdependent culture?’ is under-studied.

The limitations in the literature on cross-border M&As of Chinese SOEs form the initial motivation of this research. That is, standing at a firm-level to investigate the effects of acquisitions on Chinese SOEs bases on social identity theory, self-categorisation theory, culture and organisational commitment. After reviewing the literature on social identity theory, self-categorisation theory, culture and organisational commitment in M&As, several limitations and problems of extant literature were found, which form this research’s objectives and research questions. A general demonstration of the formation of research objectives and research questions is shown as follows.



M&As have become important and popular business strategies for corporate expansion and development. There are many reasons for organisations making M&As. The basic reason is that companies can obtain added value - merger synergies from business combination (Brealey et al., 2006; Palepu et al., 2003), which can be achieved from economies of scale, economies of vertical integration, complementary resources, eliminating inefficiencies and industry consolidation (Brealey et al., 2006). However, empirically, M&As are a difficult and complex strategy which are highly susceptible to failure. The failure rate of achieving anticipated financial goals is more than 50 per cent (Cartwright and Cooper, 1993; Panchal and Cartwright, 2001) and, according to some researchers, more than three quarters (Marks and Mirvis, 2001). For instance, a report from KPMG revealed that 83 per cent of M&As failed to create shareholder value (KPMG, 1999). Recent reports also showed the pessimistic attitude toward the success of international acquisitions (e.g. Moeller and Schlingemann, 2005). The high failure rate of cross-border acquisitions reveals the difficulty in effective management of this type of deals for multinational corporations (Reus and Lamont, 2009).

Researchers have carried out extensive studies across different theories and areas to explore and identify factors that influence M&A performance. In the field of finance, researchers stress the method of payment (e.g. Travlos, 1987; Franks et al., 1988; Walker, 2000). Studies in strategic management focus on the types of M&As (i.e. related M&As or conglomerate M&As) (e.g. Lubatkin, 1987; Seth, 1990; Agrawal et al., 1992; Campa and Kedia, 2002; Lubatkin, et al., 1997). Scholars in organisational research are primarily concerned with post-acquisition integration (e.g. Lakshman, 2011; Birkinshaw et al., 2000; Shrivastava, 1986; Zollo and Singh, 2004; Vaara, 2003). Research in human resource management addresses strategies for human resource management throughout different stages of M&As (e.g. Schuler and Jackson, 2001; Bramson, 2000; Ivancevich et al., 1987). Recently, researchers have moved their attention to the human side as neither the finance nor the strategy field provide sufficient explanations for the high rate of M&A failure (Mohibullah, 2009). Researchers argue that the lack of success of M&As is often ascribed to human factors

(e.g. Blake and Mouton, 1985; Bruckman and Scott, 1987; Guerrero, 2008) because at an individual-level, M&As are perceived as involving tremendous organisational change which has significant influences on employees (Van Dick et al., 2004b; Van Vuuren et al., 2010; Terry and Callan, 1998). Employees perceive inter-group differences in the new organisation (Jetten et al., 2002), they feel uncertainty and stress (Schweiger and Denisi, 1991; Marks and Mirvis, 1992), they suffer cultural differences (Buono et al., 1985; Mohibullah, 2009; Baughn and Finzel, 2009) or culture incompatibility (Cartwright and Cooper, 1993), they experience a reduced commitment to the new organisation (Schweiger and Denisi, 1991), and they show intention to leave the organisation (Bastien, 1987; Ashford et al., 1989). These influences can be explained by social identity theory, self-categorization theory, culture and organisational commitment.

Social identity theory (Tajfel, 1978) and self-categorization theory (Turner et al., 1987) explain social group process and individuals' intra- and inter-group perceptions and behaviours. They indicate that individuals derive self-enhancement when they define themselves in a social category because their self-concept is primarily derived from membership in that social group and social category (Terry et.al, 1999). Thus, individuals are more likely to perceive similarities with group members, and to distinguish differences with out-group members (Terry et al., 1999; Terry and Callan, 1998); and are more likely to favour the in-group over the out-group (Van Knippenberg, 1978; Terry and Callan, 1998). The importance of social identity theory is that it provides people with a good perspective on and resolution of organisational problems (Ellemers et al., 2003). Organisational identification, which applies social identity theory and self-categorization theory to an organisational context, explains how and why employees identify with a company, how their behaviours and attitudes are influenced by organisational identity, and what kinds of intra- and inter-group behaviours they tend to show when faced with organisational change. Mergers induce the conflict of corporate identities (e.g. Melewar and Harrold, 2000) because either absorbing a new organisation or being incorporated into another organisation is a

challenge for organisational identity (Van Dick et al., 2004b) as it threatens the continuity and stability of employees' old identities (Bartels et al., 2006) and triggers inter-group challenge (Hogg and Terry, 2000). Employees, thus, suffer uncertainty and stress and tend to refuse M&As. Empirical studies on identity have found that employees' post-merger identification is influenced by pre-merger identification (Van Knippenberg et al., 2002; Van Leeuwen et al., 2003; Van Dick et al., 2004b) and the sense of continuity (Van Knippenberg et al., 2002; Van Dick et al., 2004a; Van Dick et al., 2004b) or continuation (Van Leeuwen et al., 2003) they perceived between the pre- and post-merger organisation.

Another issue involved in M&As is culture. Culture makes people within a group show similar group stereotype-based practices and behaviours (Zhu and Huang, 2007). Researchers argue that compared to financial or strategic influences, cultural integration is a more important contributor to merger success (Larsson and Lubatkin, 2001; see also Daks, 2009) because cultural difference causes 'cultural ambiguity' (Datta, 1991) and post-acquisition conflict (Sarala, 2010), so that cultural integration determines the extent to which M&A expectations can be achieved (Cartwright and Cooper, 1993). Cross-border M&As not only induce problems and differences in organisational culture, but also in national culture (Larsson and Lubatkin, 2001; Barmeyer and Mayrhofer, 2008; Zhu and Huang, 2007) and therefore, they are more difficult tasks than domestic M&As.

M&A activities also link to organisational commitment. Organisational commitment (Porter et al., 1974; Allen and Meyer, 1990) guides employees' behaviour (i.e. stay with an organisation or leave). This is related to perceived organisational support (Van Knippenberg and Sleebos, 2006; Shore and Wayne, 1993), job satisfaction (Bateman and Strasser, 1984; Van Knippenberg and Sleebos, 2006), job performance (Meyer et al., 1989), employee turnover and absenteeism (Somers, 1995; Cotton and Tuttle, 1986; Steel and Ovalle, 1984; Van Knippenberg and Sleebos, 2006). A high level of commitment to an organisation is more likely to be associated with an intention to stay

with the organisation. M&As lower employees' commitment to the new organisations (Buono et al., 1985; Ivancevich et al., 1987; Schweiger and Weber, 1989), which decreases job performance and increases employee turnover.

Although significant progress has been made both empirically and theoretically in investigating identity, culture and organisational commitment in the M&A context, a number of problems and limitations have remained in the extant literature. First, although human and psychological issues in M&As have become important topics in recent years, finance and market studies still dominate the M&A literature with a high focus on the U.S. and U.K. (Cartwright and Schoenberg, 2006) and therefore, human-resource-related problems either draw little attention from researchers or are under-managed (Vaara, 2002), especially in the studies of non-Western countries. Existing studies lack an empirical investigation on how international M&As affect people of interdependent culture, as they primarily focus on European and American cultures. Hence, what we know about human nature is based on Western culture (Triandis, 1988; Triandis, 1999; Markus and Kitayama, 1991), thus leading to a generalization problem (Triandis, 1999). This may be responsible for the high rate of failure in practice though various studies investigating M&A success. In fact, researchers have realised this problem and pointed out that although there have been plenty of studies investigating the factors that determine the success or failure of mergers, the still high failure rate indicates the potential for further development, especially in the human resources management of target companies (Yalabik, 2009).

The second problem and limitations remaining of the extant literature is that studies on the factors determining employees' post-M&A identification are limited to several factors, such as pre-M&A identification (e.g. Bartels et al., 2009), a sense of continuity (e.g. Ullrich et al., 2005; Van Knippenberg et al., 2002), group status (e.g. Fischer et al., 2007; Boen et al., 2006; Terry and O'Brien, 2001) and in-group bias (e.g. Terry and Callan, 1998) and therefore, extant studies fail to provide sufficient understanding of the determinants in employees' post-M&A identification. More importantly, the factors influencing post-M&A identification for employees from target companies who are

positioned as having dominated status in M&As is an under-studied issue. As researchers have argued:

Although research on the sense of continuity has enriched our understanding of identity-based processes during corporate mergers, it has not yet solved one fundamental problem: how to increase post-merger identification for employees belonging to the low-status or dominated merger partner. (Giessner et al., 2011, p. 339).

Therefore, investigating the factors influence employees' post-acquisition identification of target companies fills the blank in M&A literature.

The third problem and limitations in the extant literature are the lack of theoretical and practical understanding of acquisitions (Hitt et al., 1998) and the under-studied issue on the factors influencing acquisition performance (King et al., 2004; Cording et al., 2008). This is because current research themes (e.g. finance, strategic management, organisational research and human resource management) exist and are being examined independently with very little combination across over. Although researchers have acknowledged the importance of human factors in M&A performance and they have examined the link between human factors and overall performance, such as executive turnover (e.g. Cannella and Hambrick, 1993), employee resistance (e.g. Larsson and Finkelstein, 1999), and culture and acculturative stress (e.g. Reus and Lamont, 2009; Chatterjee et al., 1992; Steigner and Sutton, 2011; Very et al., 1996), research on the relationship between management performance and M&A performance still draws few researchers' attention.

### **1.3 This Research**

To fill the gap and investigate under-studied issues, this research investigates acquisitions that are carried out between Western companies and Chinese SOEs,

focusing on the influences of acquisitions on human factors. There are two purposes for this research: investigating the effects of acquisitions on Chinese SOEs at the firm level and exploring the links between acquisition management and acquisition performance. Accordingly, there are three objectives for this research. The first objective is to build a picture of how cross-border acquisitions impact on Chinese SOE employees. The second objective is to verify the managerial factors that influence the acquisition integration of Chinese SOEs. The third objective is to explore the relationships between acquisition management and acquisition performance. There are three research questions: How do acquisitions influence the identity, culture and commitment of the target SOE employees? What are the factors that determine an employee's post-acquisition identification? What are the relationships between acquisition management and post-acquisition performance?

The methodology for this approach was to adopt a questionnaire-based approach using two Chinese SOEs in a pilot study and an interview-based case study method with observations of four Chinese SOEs in the main study. Results indicate that acquisitions have a significant negative effect on the performance of Chinese SOEs and this is mainly due to the inappropriate acquisition managerial strategies conducted by Western acquirers. The insufficient communication, cultural incompatibility, continuity decrease, speedy changes as well as negative emotion among employees violate the necessity of acquisition perceived by employees, break the social relationship and group stereotype that are deeply rooted in the pre-acquisition organisation and consequently lead to identity erosion and employee disturbances. In addition, the violation of group stereotype functions as transforming self and manifests as questioning self, struggling to accept self, a sense of loss of self and refusing the new stereotype as protecting the old self. All these reduced employees' identification with the post-acquisition organisations. The inappropriate acquisition managerial strategies also affected employees' social exchange and consequently impacted on their commitment to the new organisations. All these negative effects decreased post-acquisition performance. These results indicate that acquisitions of Chinese SOEs are a challenge for Western firms and should be

carefully planned.

A particular finding of this research is that social relationship is a vital factor in influencing Chinese employees' identification but not, as found in the Western context, the individual-organisation relationship. Also, the social relationship is a unique factor fostering Chinese employees' positive identity, but not the shared social identity as found in the Western context. The social relationship forms a unique dimension in the Chinese context and consequently, in collectivistic cultures. This finding not only extends existing knowledge on identity across cultures, but also indicates important empirical and practical implications for managing employees' identification in China and even in collectivism dominant countries. Further, this research shows that the point held in previous studies that out-group is not necessarily discriminated against in collectivistic cultures when group membership is salient due to the collectively-oriented feature of collectivistic culture is not applicable in acquisitions because people of collectivistic culture show a strong in-group identity, a strong motive to distinguish insiders (i.e. in-group members) from outsiders (i.e. out-group members) and a strong resistance to uncertainty. The contradictory findings between this research and previous studies may be due to the fact that previous studies have been largely based on theoretical analysis but few studies have adopted in-depth studies on cross-border M&As in non-Western countries like China. Hence, the case studies adopted by this research add value to the extant literature on cross-border M&As, especially in the non-Western context.

This research also exposes several key points of interest which may be useful for acquisition management. The first is post-deal recruitment. It is better to employ people who are professionals in the industry with multi-cultural working experience to run post-acquisition organisations than those returned overseas Chinese who have been away from China for a long time and ethnic Chinese who lack managerial experience in China as it is useful for establishing social relationships with employees of target SOEs and therefore, their identification. The second issue relates to age. Middle-aged and

older employees have difficulty in accepting changes due to a deeply rooted culture, whereas, young employees find it easier to accept the changes because their values are more or less in accordance with those of Westerners. The third point of interest is that due to M&As not requiring employees to completely abandon or change their old identity and Chinese employees' organisational identification is fostered by social relationship, a sense of continuity is perceived by Chinese employees in post-acquisition organisations and consequently contributes to a positive correlation between pre- and post-acquisition identification in the acquired SOEs, which are positioned as having dominated status in acquisitions.

This research makes four contributions to the literature on cross-border M&As in general and studies on M&A of Chinese SOEs in particular. First, this research extends the study frontier to China – an emerging Eastern economy which is also the world's most populous nation. The primary limitation and problem remaining in extant literature is that, as researchers have argued, generally what is known about human nature is based on Western culture (Triandis, 1988; Triandis, 1999; Markus and Kitayama, 1991) because there are few examples from developing countries (Chen and Findlay, 2003) and existing theoretical analyses, laboratory experiments and empirical studies on social identity theory, self-categorization theory, organisational identification, culture and organisational commitment are primarily based on Western countries. To fill the gap between these theories and their effects on non-Western developing countries, this research was carried out in China, where the culture and institutional environment are largely different from those in Western countries. To the best of my knowledge, there is no study investigating the identity and organisational commitment of Chinese employees in the M&A context. Studying people's behaviours across cultures provides an important view for managers who engage in cross-cultural management (Adler et al., 1986) and adds knowledge to M&A studies.

Second, this research investigates several issues that have not been explored in previous studies. Given that the factors influencing post-M&A identification for employees from



target companies who are positioned as having dominated status in M&As is an under-studied issue, this research includes new factors (cultural incompatibility, communication, fast reform and negative emotion) to examine their influences on this kind of employee. Two of these factors are often ignored by previous studies (fast reform and negative emotion). Results confirm that these factors influence post-acquisition identification and therefore, expand our knowledge to social identity theory in the M&A context.

The third contribution this study has made is that it explores the relationships between acquisition management and acquisition performance. The results indicate that acquisition management has a significantly negative effect on the post-acquisition performance of target SOEs and consequently provides empirical evidence to support the view that managerial strategies do contribute to post-acquisition performance. Furthermore, this result not only adds evidence to the literature on the factors influencing acquisition performance, which is an under-studied issue in previous studies as discussed above, but also extends our understanding of acquisitions and broadens our knowledge to consider the ways of improving acquisition performance.

The fourth contribution this study has made is that, as a methodological contribution, this research chooses an interview-based case study as the main research methodology by the virtue of making up methodological limitations existing in previous studies. The majority of previous studies on social identity theory, self-categorization theory, organisational identification and organisational commitment are primarily based on quantitative analysis, such as questionnaires and surveys (e.g. Van Knippenberg et al., 2002; Van Dick et al., 2006; Van Dick et al., 2004b; Becker, 1992; Allen and Meyer, 1990), theoretical analysis (e.g. Ashforth and Mael, 1989; Van Knippenberg, 2000; Ellemers et al., 2004; Reicher, 2004), and laboratory experimentation (e.g. Mullin and Hogg, 1999; Jetten et al., 1999; Billig and Tajfel, 1973; Moghaddam and Stringer, 1988; Snyder et al., 1986; Sachdev and Bourhis, 1985; Ellemers et al., 1993; Ellemers et al., 1988; Ellemers et al., 1992). These studies lack in-depth research on the impacts of

M&As on employees. A qualitative methodology such as a case study may be helpful as it investigates an object's behaviours and emotions more deeply than a quantitative method does (Westgren and Zering, 1998) so that it is able to catch people's real perspectives, thoughts, attitudes and behaviours, which may be difficult to acquire by quantitative methods. It is also a way to find out the factors that are beyond what is currently known about the subject. The emergence of the issue of fast reform and the contradictory findings between this research and previous studies on people's attitude toward out-group members are a good example.

## **1.4 Chapter Layout**

This research comprises six chapters, including the present chapter – Chapter 1: Introduction. This chapter introduces the background of cross-border M&As of Chinese SOEs, including the reasons for the rapid development of international M&As of Chinese SOEs and the development stages of this kind of M&A. Previous studies on this topic are reviewed, followed by the aims, objectives, methodology, main findings and main contributions of this research. The second chapter is the Literature Review. Three issues will be reviewed. The first is identity and categorization, which comprise social identity theory, self-categorization theory and organisational identification. Previous studies on identity and categorization in M&As will be reviewed. The second area to be reviewed is culture, which comprises national culture and organisational culture. Literature on cultural issues in the M&A context will be discussed. The third issue to be investigated is organisational commitment. Previous studies on organisational commitment will be reviewed. The problems and limitations of previous studies on identity, culture and organisational commitment will be discussed at the end of this chapter. The third chapter will outline the Methodology. This chapter will explain the reasons for choosing a multiple case study as the main methodology for this research and identifying cases for the pilot study and main study. It will also demonstrate the means of data collection and data analysis, and verify the reliability and validity of the data. In the fourth Results chapter, the findings of the pilot study and the

main study will be presented. The fifth chapter is the Discussion. This chapter will discuss the main findings and identify factors which Western firms should be aware of if they decide to do M&As with Chinese SOEs. The sixth chapter is the Conclusion. This chapter will stress the main issues, objectives, research questions, key findings and key contributions of this research. It will also outline the implications for acquisition management, identify the limitations of this research and give suggestions for possible future research.

# Chapter 2: Literature Review

## Introduction

This chapter will review the theoretical and empirical background of this research, including social identity theory, self-categorization theory, organisational identification, culture and organisational commitment, and their roles in M&As. There are three aims of this chapter: to review the theoretical and empirical studies on identity and categorization, culture and organisational commitment; to discuss the limitations and problems of previous studies; and finally, to draw the hypotheses for this research.

One point that should be clarified here is that this research acknowledges the difference between mergers and acquisitions but uses them interchangeably in the Literature Review chapter. This is due to two reasons. First, researchers (e.g. Ullrich et al., 2005; see also Šliburytė, 2005) argue that although a merger refers to the combination of two firms with equal status, this is not usually the case as one firm inevitably takes the dominant position while the other takes the dominated position (i.e. power differential) in a new organisation. From this viewpoint, mergers are similar to acquisitions. Second, previous studies have usually treated mergers and acquisitions interchangeably in the management field. This is in part due to the fact that the influences of mergers on employees, such as on culture, identity and commitment, often overlap with those of acquisitions. Employees from a dominated status (merged or acquired firm) show approximately the same behaviours, attitudes and psychological traumas in both situations. Therefore, this research follows Sarala's method (2010), which establishes a theoretical analysis based on M&A literature but investigates acquisitions in an empirical study.

## 2.1 Identity and Categorization

### 2.1.1 Social Identity Theory and Self-categorization Theory

Social identity is defined as “that *part* of an individual’s self-concept which derives from his knowledge of his membership of a social group (or groups) together with the value and emotional significance attached to that membership” (Tajfel, 1978, p. 63). Self-concept refers to “the set of cognitive representations of self available to a person” (Turner et al., 1987, p. 44). A group is “a collection of individuals who perceive themselves to be members of the same social category, share some emotional involvement in this common definition of themselves, and achieve some degree of social consensus about the evaluation of their group and their membership of it” (Turner and Giles, 1981, p. 7). Simply speaking, a social group is a collection of people (two or more) who share the same self-definition and perceive themselves as members of a common social category (Hogg and Abrams, 1988). According to social identity theory, the self-concept is comprised of two unique aspects: personal identity, concerning a person’s own characteristics and his/her inter-personal relations; and social identity, concerning the group’s characteristics to which an individual belongs (Ashforth and Mael, 1989; Crocker and Luhtanen, 1990). These two distinct aspects are the bases of self-definition for individuals (Giessner et al., 2011; Giessner, 2011). Self-categorization theory, as the extension of social identity theory (Terry et al., 2001), “is a set of related assumptions and hypotheses about the functioning of the social self-concept (the concept of self based on comparison with other people and relevant to social interaction)” (Turner et al., 1987, p. 42). Different from social identity theory, which stresses the motivational dimension (Van Leeuwen and Van Knippenberg, 2003), self-categorization theory emphasises the cognitive dimension (Terry, 2003; Van Leeuwen and Van Knippenberg, 2003). It underlines how much an individual identifies with a category (Ashforth and Mael, 1989), stresses the categorization process and its impact on an individual’s self-concept (Sherman et al., 1999).

Social identity theory and self-categorization theory have been widely used to study the grouping perceptions and behaviours of human beings and inter-group relations. From the view of social identity theory and self-categorization theory, people’s behaviours are largely governed by identities (Herriot and Scott–Jackson, 2002). People define their

social position through being a member of a group, which is formed by the process of social categorization (Van Knippenberg, 1984). Social identity theory and self-categorization theory provide clear answers to two questions: why people are similar to in-group members but different from out-group members; and finally, how people perceive in-group members and out-group members. These questions can be explained by in-group similarity and out-group differences, in-group favouritism and out-group derogation and, inter-group relations. The following sections will review the literature on these issues.

As researchers have pointed out, social identity theory not only portrays group process, but also answers how being a member of a social group impacts on an individual's attitudes and perceptions (Greene, 2004) because it indicates that an individual's self-definition is derived from his/her membership in a social group and the value and emotional significance attached to that social group (Turner, 1999). The derivation of self-concept from membership in a social group causes two typical individual's grouping perceptions and behaviours -- in-group similarity and out-group differences, and in-group favouritism and out-group derogation. The occurrence of in-group similarity and out-group differences are due to the fact that a person's self-concept derives from group membership, which infers that an individual's self-concept is influenced by his/her social group and thus, his/her self-concept is congruent with and rooted in a group to which he/she belongs, but different from that of the out-group. From the perspective of self-categorization theory, this is due to the process of depersonalization. Depersonalization (e.g. Hogg, 1987; Turner et al., 1987; Terry, 2003; Hogg and Hains, 1996) refers to "the process of 'self-stereotyping' whereby people come to perceive themselves more as the interchangeable exemplars of a social category than as unique personalities defined by their individual differences from others" (Turner et al., 1987, p. 50). Hogg and Terry (2000) point out:

Social categorization of self—self-categorization— cognitively assimilates self to the ingroup prototype and, thus, depersonalizes self-conception. This transformation of self is the process underlying group phenomena, because it brings

self-perception and behavior in line with the contextually relevant ingroup prototype. (p. 123)

After depersonalization, an individual becomes a social identity-evaluated self but not a personal self and he/she derives satisfaction from the group (Hogg and Mullin, 1999). Also, people are not unique, multidimensional individuals, but rather are the representations of the group prototype (Hogg and Terry, 2000; Hogg and Hains, 1996). As Sherman et al. (1999) state:

Once self-categorization has occurred, the individual comes to perceive him or herself as indistinguishable from and interchangeable with other members of the category (and increasingly different from members of contrasting categories). Through this depersonalization process, the importance of the individual's *personal* identity is diminished, and the importance of the person's *social* identity is increased. The consequence is self-stereotyping...that is, the person assumes that the attributes stereotypic of the group are also characteristic of the self. (p. 88)

Further, individuals act in accordance with the values, norms and beliefs associated with the social identity to which he/she belongs (Reicher, 2004). The more an individual attaches himself/herself to a group, the more he/she identifies with the group, and the more likely he/she is to think, act and behave in line with the values, norms, and beliefs of the group (Van Knippenberg and Van Schie, 2000). Given that a social identity, which is a set of rules, norms and agreements adopted by a group, varies between groups (Postmes, 2003), so people's thoughts, attitudes and behaviours vary accordingly. Taking on different groups' stereotypes increases the similarity that individuals perceived with in-group members and enlarges the differences that individuals perceived with out-group members, so that in-group similarity and out-group differences occurred.

These in-group similarity and out-group differences cause in-group favouritism and

out-group derogation. In-group favouritism refers to group members mentally extending and strengthening the favourable aspects of their group (Greene, 2004), while out-group derogation occurs when group members tend to increase the superiority of their own group through increasing the inferiority of out-groups (Greene, 2004). From a psychological point of view, in-group favouritism and out-group discrimination result from the interaction between psychological processes and social identity (Hogg and Abrams, 1988). Once people identify with a group, they perceive their futures as being psychologically intertwined with the group (Ashforth and Mael, 1989) and therefore, they are likely to favour their group (Terry and Callan, 1998). These grouping perceptions and behaviours are particularly strong among high identifiers (Terry et al., 1999).

These two kinds of individual's grouping perceptions and behaviours -- in-group similarity and out-group differences, and in-group favouritism and out-group derogation -- cause inter-group relations. A typical example is people's motivation to pursue a positive identity. A positive social identity or positively valued distinctiveness, which is the determinant of individuals' inter-group behaviour (Turner et al., 1987; Tajfel, 1978), is associated with in-group favouritism and out-group discrimination (Van Knippenberg, 1978). People are motivated to pursue a positive social identity (Tajfel, 1978; Turner et al., 1987; Breakwell, 1978), which is the central point of social identity theory (Van Knippenberg, 1984; Van Knippenberg, 1978). A positive social identity is an identity positively assessed by the people who identify with that identity (Breakwell, 1978) and it derives from shared social identity because the shared social identity leads to altruism as one perceives other group members' needs as his/her own (Turner, 1984). This is because social identities "provide a common interpretive framework encompassing a view about how the group is defined in relation to other groups, and is embedded in a common perspective on group history or a shared sense of future direction" (Postmes, 2003, p. 86-87). They make groups different from each other, which is the same as personal identity making people different from each other (Reicher, 2004). When individuals define themselves as 'we' rather than 'I', they tend to make themselves



different from and superior to people from other groups because they obtain a sense of self-enhancement from that differentiation (Haslam, 2003). That is, the in-group similarity stimulates an individual's positive social identity. Further, a positive social identity is formed through inter-group comparison (Turner, 1999), in which people favour their own group and perceive differences between their group and other groups (Deschamps, 1984), and they believe that they can maintain a positively valued identity from group norms and stereotypes (Terry, 2003). This is a process of establishing or preserving a positive distinctiveness (Haslam, 2003; Turner et al., 1987; Doosje et al., 1999; Lemaine et al., 1978; Giles, 1978) of one's own group. A group, is therefore perceived as a collection of individuals who share the same features (Tajfel, 1978) through inter-group comparisons, in which social identity provides members with a positive psychological distinctiveness (Oakes et al., 1998; Billig and Tajfel, 1973). Once an individual perceives himself/herself as identical to a group (Hogg and Abrams, 1988) and that group achieves positive outcomes, members are endowed with a feeling of self-worth (Sherman et al., 1999) so that they are more likely to stay with the group; otherwise, they will join other groups with more positive distinctiveness (Turner et al., 1987). Hence, the positive social identity (or the positively valued distinctiveness) is a factor determining an individual's inter-group behaviour: to keep current group membership or to seek membership of other groups (Tajfel, 1978).

To sum up, social identity theory explains that a significant part of one's self-concept is derived from his/her social group and varies between groups. People's definition of themselves as part of different social groups stimulates their perception of in-group similarity and out-group difference. The in-group favouritism, out-group discrimination and other behaviours associated with adherence to one's group and in-group norms are called "groupy behaviours" (Hogg and Abrams, 1988, p. 3), which guides individuals' grouping process and their intra- and inter-group perceptions and behaviours. However, social identity theory does not provide a detailed explanation about the relationship between self-concept and group behaviour and this can be explained by self-categorization theory (Hogg and Terry, 2000). Self-categorization theory reveals

that personal identity is not the only one influencing self but that collective identity also influences self through depersonalization of one's self-perception (Turner, 1999). More importantly, after depersonalization, the self is referred to as collective self, which lies at the heart of self-categorization theory. The impacts of group membership is centralised on this collective self (Van Knippenberg and Ellemers, 2003) because being members of a group means that people perceive each other as group members but not individuals (Terry et al., 2001) and their thoughts, feelings and actions are embodied in a group prototype (Terry, 2003; Hogg and Hains, 1996). In practice, social identity theory interacts closely with self-categorization theory in influencing an individual's behaviour (Van Dick et al., 2006; Postmes, 2003; Hogg and Abrams, 1988): social identity provides people with a group in which an individual's self-categorization is determined by a group prototype (Hogg and Abrams, 1988) while social categorization provides a process in which an individual's thought and behaviour are effected by social identity (Postmes, 2003). More often, researchers apply social identity theory and self-categorization theory to membership in organisations to examine employees' membership in an organisation and their intra- and inter-organisation perceptions and behaviours.

### **2.1.2 Organisational Identification**

An organisation provides members with an identity once people identify with the organisation (Van Knippenberg and Van Schie, 2000). Organisational identification is embodied in social identity theory (Bartels et al., 2006) and it is a special type of social identification (Ashforth and Mael, 1989; Van Knippenberg and Van Schie, 2000; Mael and Ashforth, 1995), in which social identification is "the perception of oneness with or belongingness to some human aggregate" (Ashforth and Mael, 1989, p. 21). Researchers define organisational identification in different ways. Most of them define organisational identification as a cognitive construct. For example, the most widely used definition is defined by Mael and Ashforth (1992), who referred to organisational identification as "the perception of oneness with or belongingness to an organization, where the individual *defines* him or herself in terms of the organization(s) in which he

or she is a member” (Mael and Ashforth, 1992, p. 104). There are three features for organisational identification: what employees see as the essence of the organisation; what employees perceive as distinctiveness of the organisation and; what employees perceive as continuity of the organisation (i.e. linking the organisation’s past to present) (Albert and Whetten, 1985).

Organisational identification influences members’ behaviour as it provides group members with a sense of satisfaction regarding their self-concept (Van Dick et al., 2004a), which is the same as the influence of social identity (Van Knippenberg and Van Schie, 2000). It provides people with a distinctiveness for defining in an organisation and provides members with an image of ‘who they are’ (Van Leeuwen and Van Knippenberg, 2003; see also Ashforth and Mael, 1989). Because of this self-defining and self-enhancement, high organisational identification leads to low employee turnover (Van Dick et al., 2006; Cartwright and Schoenberg, 2006; Van Knippenberg et al., 2002) because the more a person identifies with an organisation, the more an organisational perspective he or she takes (Van Knippenberg and Van Schie, 2000; Van Knippenberg et al., 2002), the more organisational values, norms, attitudes and beliefs he or she adheres to (Ashforth and Mael, 1989; Van Knippenberg, 2000) and the more organisational interest he or she acts (Van Knippenberg, 2000; Van Knippenberg and Van Schie, 2000; Van Knippenberg et al., 2002) so that he/she is less likely to move to other organisations. Following the notion of positively valued social identity, researchers have pointed out that individuals’ identification is determined by positively valued achievements but not pragmatic rewards (Brown, 1969) because peer recognition and collective achievement positively contribute to their self-concept (Van Dick et al., 2006).

Organisational identity not only influences the people who have been employed by a company, but also determines the people who will be employed. On the one hand, people choose an organisation due to pursuing a sense of intertwinement (Haslam et al., 2000) and belongingness (Alvesson, 2000). When an individual perceives other group members as himself/herself, he/she tends to psychologically attach himself/herself to that group’s fate (Smith, 1999). A sense of intertwinement is formed through working at

a particular organisation (Haslam et al., 2000) and a sense of belongingness is then formed when individuals perceive a shared social identity with other members after being recruited by an organisation (Alvesson, 2000). A commonly shared self-concept stimulates an employee's motivation to act on behalf of the organisation, achieve collective goals and maintain loyalty (Ellemers et al., 2004). On the other hand, people who are identical to the prototype of an organisational identity are more likely to be employed by that organisation (Herriot and Scott-Jackson, 2002). Through the process of application, selection and working for an organisation, people derive a sense of who they are from the organisation (Schneider, 1987).

To sum up, organisational identification provides employees with a positively valued distinctiveness. Since people identify with an organisation, they derive an image of 'who they are' and a sense of belongingness and intertwinement so that they are more likely to conform to organisational values, norms and behaviours and are less likely to leave the organisation.

### **2.1.3 M&As and Identity and Categorization**

A merger, from a social identity viewpoint, refers to a process of combining two social groups into a new one through re-categorization (Van Knippenberg et al., 2002). In other words, M&As cause a 'change' in identity and membership in old group and induce the interaction between 'old' and 'new' identity and group membership. "Changes to social identities often require a redefinition of the meaning of that identity for the self as well as a reformulation of the relationship between the self and others in the group" (Jetten et al., 2002, p. 282). Re-categorization is not an easy process because self-categorization is a psychological orientation which provides group members with self-definition, self-esteem and a sense of belongingness. More importantly, people define themselves as members of a social group because they can preserve a positive social identity or a positively valued distinctiveness from that group. The changes which threaten a group's distinctiveness are more likely to be refused by people, especially by high identifiers (Ellemers, 2003). For an acquired group, an acquisition is a process in

which people are forced to abandon their old distinctiveness and accept a new one. In other words, the old group's stereotype and positive contributions are threatened, as well as the group members' self-concept, self-esteem and collective pride so that conflicts and stress are more likely to take place in the acquired groups. Meanwhile, the interaction between 'old' and 'new' identity and group membership often leads to conflict and confusion among group members. For high identifiers, the relationship between self and an out-group is negative when they perceive a high inter-group conflict and the relationship is positive when they perceive a low inter-group conflict (Riketta and Sacramento, 2008). For them, the breaking of a group's rules is the same as the breaking of their own rules (Van Dick et al., 2006). Hence, the interaction of two groups sharing different social identity causes social identity salient and inter-group conflicts.

Besides the change of old identity and membership and the interplay between 'old' and 'new' identity and group membership, researchers have found that 'us' versus 'them' motives are more likely to take place in mergers (Terry and Callan, 1998) and can last for a long time (Haunschild et al., 1994). Tajfel (1978) pointed out:

[I]nteraction between socially derived value differentials on the one hand and the cognitive 'mechanics' of categorization on the other is particularly important in all social divisions between 'us' and 'them'- that is, in all social categorizations in which distinctions are made between the individual's own group and the outgroups which are compared or contrasted with it. (p. 62)

Each group involved in an M&A can be treated as a cohesive group, in which the self-categorization process generates intra-group cohesion, positive peer recognition and inter-group differentiation (Hogg and Hains, 1996). The intra-group similarity, positive intra-group evaluation and inter-group differentiation result in in-group favouritism and out-group discrimination, so 'us' versus 'them' motives take place.

Organisations, as the specific form of groups, provide employees with identity. The topic of the impact of M&A activities on organisational identification has attracted many researchers' attention. Previous research on this issue has focused on three areas: (1) the effects of M&As on the organisational identification of employees (e.g. Haunschild et al., 1994). (2) the relationships between pre- and post- M&A identifications (e.g. Terry, 2003; Van Knippenberg et al., 2002; Van Dick et al., 2004b; Van Dick et al., 2006; Bartels et al., 2006; Bartels et al., 2009). (3) the relationships between identification and the emotions, job satisfaction, organisational citizenship behaviours and turnover of employees (e.g. Van Dick et al., 2004b; Van Dick et al., 2006; Olkkonen and Lipponen, 2006).

Consistent with what has been found in social identity theory, previous research reported that employees typically refused to abandon their old identities, were reluctant to accept new identities and resisted the changes of M&As (Haunschild et al., 1994; Seo, 2001; Terry and Callan, 1998). This is because, as discussed above, an acquisition is the process of integrating an organisation into another and taking on that organisation's identity as a new one. It induces a 'change' in the old organisation and causes interaction between 'old' and 'new' identities and group membership for target companies. If employees' adherent identity is not compatible with an organisational identity, they tend to stick to their adherent identity (Herriot and Scott-Jackson, 2002). Moreover, taking a new organisation's identity threatens employees' positive identity, such as self-esteem and collective pride. If people's positive identity is threatened, they tend to apply self-enhancement strategies, such as resistance to change in order to obtain or preserve their positive identity (Van Dijk and Van Dick, 2009).

In addition to the violation of employees' adherent identity and the threat of their positive identity, the 'change' in identity and membership of the old organisation and the interaction between 'old' and 'new' identities and group membership caused by M&As also create the loss of psychological attachment to the new organisation. As reviewed in the section on organisational identification, people choose an organisation

due to their need to pursue a sense of intertwinement and belongingness. Perceiving a shared social identity with other members, in turn, provides them with a sense of belongingness. Given that the acquisition often involves the abandonment of the old organisational identity for the employees of acquired companies, this breaks their shared identity and therefore, threatens sense of belongingness. In fact, researchers have argued that the loss of psychological attachment to an organisation is one of the most serious problems in mergers (Van Dick et al., 2004b) and the effect of psychological violations on employees in pre-mergers will be worsened by merger pressures (Bruckman and Peters, 1987).

The negative influences of M&As on employees' identification have sparked researchers' attentions to investigate the factors influencing employees' post-M&A identification. In general, the factors concentrate on pre-M&A identification (e.g. Bartels et al., 2009), a sense of continuity (e.g. Ullrich et al., 2005; Van Knippenberg et al., 2002), group status (e.g. Fischer et al., 2007; Boen et al., 2006; Terry and O'Brien, 2001) and in-group bias (e.g. Terry and Callan, 1998). More importantly, the discussion of relationships between these factors and post-M&A identification is often associated with the discussion of a sense of continuity. Studies have found that the extent to which employees identify with post-merger organisations strongly depends on the degree of a sense of continuity (Van Knippenberg et al., 2002; Van Dick et al., 2004a; Van Dick et al., 2004b) or continuation (Van Leeuwen et al., 2003) they perceive between the pre- and post-merger organisation. The failure of M&As is in part due to a sense of discontinuity perceived by employees after the merger (Ullrich et al., 2005) because a lack of a sense of continuity reduces the inclusion of an individual's self-defining category at the post-merger stage (Ullrich et al., 2005). Maintaining a sense of continuity is a helpful way to transfer employees' old identities to the new organisation, as has been proven in numerous studies. For example, following the notion of continuity, Van Dick et al. (2004b) found a positive relationship between identification with the pre-merger subunit and identification with the post-merger larger organisation. Therefore, scholars suggest that it is wise to preserve the old identity of pre-merger

organisations during M&As as this can maintain a sense of continuity in the eyes of the employees (Van Leeuwen and Van Knippenberg, 2003; Van Knippenberg et al., 2002; Van Leeuwen et al., 2003) rather than, as some researchers have argued, weaken the old and impose the new (Marks, 2006).

H1: Pre-acquisition identification is positively correlated with post-acquisition identification.

H2: A sense of continuity is positively correlated with post-acquisition identification.

## **2.2 Culture**

Culture is a set of shared principles, norms, values, beliefs and expectations cohering people into a group (Kilmann et al., 1985). It is embedded in the history of a group and it influences the attitudes and behaviour of group members (Chao, 1990). It is perceived as an effective assumption to deal with external and internal problems and is a guide to the right action to be taken by new members (Schein, 2004). Study by study, researchers have proven that culture plays a vital role in influencing the success of M&As. Basically, there are two kinds of cultures involved in international M&As: national culture and organisational culture. The following sections will review the literature on these two kinds of cultures and the effects of M&As on these two kinds of cultures.

### **2.2.1 National Culture and Organisational Culture**

National culture refers to “the collective programming of the mind acquired by growing up in a particular country” (Sarala, 2010, p. 4). “It defines the ‘shoulds’ and the ‘oughts’ of life that impregnate the minds of a country’s citizens, their ‘collective programming of the mind’” (Teerikangas and Very, 2006, p. S34). Hofstede (1980) divided national culture into four dimensions: power distance, uncertainty avoidance, individualism versus collectivism and masculinity versus femininity. He also provided definitions for



each dimension: power distance is the level of acceptance of unequal power in a society; uncertainty avoidance refers to the extent to which a nation can endure uncertainty; individualism versus collectivism is defined as the level of association between an individual and other people; masculinity versus femininity is the role distribution between men and women in a society (Hofstede, 1980). Later, Hofstede and Bond (1988) added a fifth dimension to Hofstede (1980)'s work, which is called 'Confucian Dynamism'. Confucian Dynamism portrays people's characteristics in Confucian culture: a long-term orientation underlies perseverance, thrift, ordering relationships based on status and having a sense of shame; whereas a short-term orientation emphasizes the past and the present, personal steadiness and stability, saving face, respect for tradition and reciprocation of honour (Hofstede and Bond, 1988).

National cultural difference refers to the extent to which cultural discipline is different between countries (Kogut and Singh, 1988). Researchers have investigated the national cultural differences between Western and Eastern countries based on the five cultural dimensions developed by Hofstede. For example, Hofstede and Bond (1988)'s study found that power distance, individualism versus collectivism, and masculinity versus femininity are the three dimensions distinguishing Western and Eastern culture. Of the dimensions, the individualism versus collectivism dimension has attracted much interest in cross-cultural studies. Many researchers argue that the difference between individualism versus collectivism is the 'self' (e.g. Shweder and Bourne, 1984; Markus and Kitayama, 1991; Miller, 1988). Western culture is characterised as individualistic with people believing that they are the unique, independent individuals in a society (Markus and Kitayama, 1991; Miller, 1988). According to this construal of self, the person is viewed as a tightly bounded entity (Markus and Kitayama, 1991; Miller, 1988). Some researchers have called this kind of self the "*independent construal of the self*" (Markus and Kitayama, 1991, p. 226) or "*idiocentric*" (Triandis, 1999, p. 128). In contrast to Western culture, in East Asian cultures the self is perceived as interdependent and undifferentiated from others (Shweder and Bourne, 1984; Markus and Kitayama, 1991). In these cultures, people are used to being regulated (Shweder and Bourne, 1984).

They feel at ease in belonging to social groups and their behaviours conform with others (Markus and Kitayama, 1991). The concepts of this culture are less boundary-oriented (Miller, 1988). Some researchers have called this kind of self the “*interdependent construal of the self*” (Markus and Kitayama, 1991, p. 227); or “*allocentric*” (Triandis, 1999, p. 128). In general, people from a collectivistic culture focus on smooth interpersonal relations, reciprocity (Restubog et al., 2007), being nice and are courteous and forgiving (David, 1993).

Organisational culture is a set of ideologies, philosophies, expectations, and obligations shared by members (Denison, 1990; Schwartz and Davis, 1981). It is embedded in an organisation’s history and is important for an organisation’s survival (Denison, 1990; Schein, 1985) and success (Kilmann, 1985). Every organisation has an organisation-specific culture (Buono et al., 1985) and this culture is difficult to change because it provides members with a sense of continuation and stability (Blake and Mouton, 1985). Wilkins and Patterson (1985) state:

[C]ulture is hard to change when it is deeply held. Because of long experience, people often are unable to see alternatives easily. Many will have developed personal stakes in the current way of operating and thus do not want to change. And when those who have both a long history and a personal stake in current ways are powerful, they do not have to change, and they can enforce their reticence on the company. (p. 270-271)

Organisational culture is influenced by the national culture. This is because organisations are “socially constructed” (Biggart, 1992, p. 44) or “institutionally constructed” (Wilkinson, 1996, p. 430) -- they are embedded in a unique context when they are established (Björkman and Yuan, 2001), they are created through people’s social activity and interaction (Bate et al., 2000; Biggart, 1992), and they are supported by the social and cultural environments in which they are moulded (Scott and Christensen, 1995). Thus, Hofstede (1980)’s four dimensions of national culture can be

applied to organisational culture. In high power distance countries, organisations are more likely to adopt a hierarchical structure in which subordinates are told what to do, while in low power distance countries, organisations are more likely to adopt a flat structure in which subordinates' opinions are consulted before a decision is made (Šliburytė, 2005). In high uncertainty avoidance countries, people take a lot of time planning and the process of decision-making is slow, while in low uncertainty avoidance countries, it is not necessary to plan and the managerial style is concentrated on flexibility (Šliburytė, 2005). In individualistic countries, personal performance is highly promoted and employees' loyalty to organisations only remains as long as their demands are achieved, while in collectivistic countries, assignments are distributed to the group rather than individuals and group members take responsibility for the assignments and share rewards (Very et al., 1996). Further, employees of collectivistic countries tend to act on the group's interest even if their interests are not consistent with group's interest (Šliburytė, 2005). In high masculinity countries, employees work long times and complete the job on time, and their working motivation is greatly stimulated by tangible rewards, while in femininity countries, employees' motivations are stimulated by social needs rather than by achievement needs, and flexible work hours are adopted to help employees deal with personal and family obligations (Very et al., 1996).

Individuals' behaviours, beliefs, expectations and satisfactions are shaped strongly by organisational culture (Schwartz and Davis, 1981; Buono et al., 1985) as norms are a set of 'right things' agreed by employees so that an individual will be forced to change his/her behaviour immediately if he/she behaves differently from the way organisational norms indicate (Kilmann, 1985). Therefore, culture also acts as a social 'glue' which ties organisational members together (Cartwright and Cooper, 1993). Kilmann et al. (1985) distinguish three kinds of cultural impacts: the direction of impact is the way that culture leads an organisation to follow; the pervasiveness of impact is the extent to which the culture is shared and prevails among employees; the strength of impact is the degree to which culture generates pressure on employees.

### **2.2.2 M&As and Culture**

M&As involve cultural adaption and cultural change: either acquiring firms or acquired firms are confronted with adapting an old culture to new one but acquired firms typically face more adaptations than their counterparts. Given that culture provides the basis for human life (Tanure et al., 2009) and it is a key factor in determining the extent to which an employee matches a firm (Yusoff, 2011), cultural adaption is one of the most problematic tasks for humans and it is one of the most problematic aspects in post-acquisition integration (Tanure et al., 2009). The cultural adaption and cultural change, at their roots, are due to the cultural difference between the companies involved in M&As. This is because, considering an extreme example, it is not necessary to change if two companies share a very similar culture. Thus, cultural adaption and cultural change reside in cultural difference.

Empirical studies have found that organisational cultural differences link to post-acquisition conflict (e.g. Sarala, 2010; Weber and Camerer, 2003; Weber et al., 1996; Vaara et al., 2012). This can be explained by three theoretical reasons. First, the extent to which cultural incompatibility exists between two firms is a primary reason for implementation problems as employees' behaviours, thoughts and actions vary between organisations which then lead to conflicts (Olie, 1994). Cultural differences also affect management practices (Barmeyer and Mayrhofer, 2008), which is another source for generating conflicts. The second reason that explains organisational cultural differences linking to post-acquisition conflict is 'cultural ambiguity', which is the uncertainty regarding whose culture dominates (Datta, 1991). Cultural ambiguity violates the day-to-day routine of work and the concept of 'how we do things' and therefore, leads to conflicts. Third, organisational cultural differences increase conflicts due to inter-organisation contact. Inter-organisation contact is the extent to which the cultures of two organisations come into contact (Nahavandi and Malekzadeh, 1988) and it is determined by M&A strategies. In unrelated mergers, there is little demand for the combination of two firms and acquiring firms only integrate the financial systems of

acquired firms, which leads to little inter-organisational contact; in related mergers, however, the acquiring firms are more likely to integrate the culture of the target firms into their own which leads to extensive inter-organisation contact (Chatterjee et al., 1992; Nahavandi and Malekzadeh, 1988; see also Shrivastava, 1986). Considering that integration requires contact between employees of two firms (Nahavandi and Malekzadeh, 1988), the more contacts take place, the more changes occur. Employees of target firms are affected more strongly than those of acquiring firms because they conform to the system of acquiring firms (Jemison and Sitkin, 1986). In sum, given the firm-specific feature of organisational culture, cultural differences are the inevitable problems associated with M&As. A high level of organisational cultural differences is associated with a high level of conflict during post-acquisition integration (Jemison and Sitkin, 1986).

Researchers, thus, often refer to M&As as a “cultural clash” (Larsson and Lubatkin, 2001, p. 1574), which causes high executive turnover in the acquired companies (Hambrick and Cannella, 1993) and strong negative emotions among employees such as depression, anxiety and loss of self-confidence (Bruckman and Peters, 1987). For instance, Weber and Schweiger (1992), based on previous studies, summarised the influences of cultural differences of a top management team (TMT) on an acquired TMT in M&As as characterised by (1) stress, distrust and irritation in working with acquirer’s TMT; (2) negative responses to the acquirer and its TMT; and (3) negative responses to cooperate with the acquirer’s TMT.

Cultural differences and cultural clashes are more significant in cross-border M&As than domestic M&As because cross-border M&As involve both national and organisational cultural differences (Šliburytė, 2005). As Olie (1994) pointed out:

International mergers not only face firm-specific ... sources of diversity, but also obstacles that are unique to the cross-national situation. International mergers are more likely to bring together people with different values and beliefs about the work place ... More so than in a national setting, this may imply that a common

frame of reference that may serve as a coordination mechanism is missing. In addition, these cultural differences as manifested in dress codes, ways of behaving or language tend to reinforce the boundaries between two organizational groups dividing them into ingroups and outgroups, thus hindering the psychological integration of members into the new organization. (p. 384)

This 'cultural difference' or 'cultural fit' between the acquiring and the acquired firms has drawn many researchers' attentions (e.g. Sarala, 2010; Vaara et al., 2012; Weber and Shenkar, 1996; Olie, 1994; Buono et al., 1985). The rationale behind these analyses is that the extent to which cultural differences exist between firms links to the success or failure of acquisitions (Cartwright and Cooper, 1993; Morosini and Singh, 1994). Study by study, researchers have argued that the majority of mergers fail due to the lack of cultural compatibilities (Cartwright and Cooper, 1993) or common values (Van Oudenhoven and De Boer, 1995), which induce acculturative stress and have a negative impact on human resource management and acquisition performance (Schoenberg, 2000). In their case study, Buono et al. (1985) found that preserving and influencing the dominant cultures of companies involved in a merger and creating unified belief systems are important factors in determining merger success. Seeing the importance of culture in M&As, researchers argue that compared to financial or strategic influences, cultural integration is a more important contributor to merger success (Larsson and Lubatkin, 2001; see also Daks, 2009) because it determines the extent to which M&A expectations can be achieved (Cartwright and Cooper, 1993).

The importance of culture has been recently introduced into finance studies. Research has found a positive relationship between culture and organisational performance. Specific to organisational accounting performance, organisational culture has a significant impact on organisational performance (Yusoff, 2011; Ezirim et al., 2010) and effectiveness (Denison and Mishra, 1995; Catană and Catană, 2010). For example, Ezirim et al. (2010)'s study indicate that the positive relationship between organisational culture and organisational accounting performances can be achieved

when organisational culture is compatible with managerial values, behaviour and attitudes. Based on previous studies and considering the negative effects of cultural differences, this research assumes a negative relationship between cultural incompatibility and the acquisition accounting performance because cultural incompatibility destroys the organisational culture of target firms after the acquisitions so that it is not compatible with managerial values, behaviours and attitudes and it interrupts employees' perceptions of 'how we do things'. These influences impede the positive contribution of organisational culture made to organisational performance. Indeed, a negative association between cultural incompatibility and M&A stock-based performance has been proven by previous studies (e.g. Chatterjee et al., 1992; Datta, 1991). For example, the perceived cultural differences of an acquired top management team have a strong negative effect on shareholder gains of acquiring firms (Chatterjee et al., 1992). Similar findings have been concluded in studies of international settings. Researchers have found that the more similar the national cultures between two firms, the better the acquisition outcomes (e.g. Datta and Puia, 1995; Krug and Hegarty, 1997).

H3: Cultural incompatibility is negatively correlated with performance.

### **2.2.3 Chinese Culture and M&As**

There are significant cultural differences between Western countries and China (Zhu and Huang, 2007). This is because Chinese culture is definitely Confucian Dynamism because China is the country where Confucianism originated, and is therefore characterised by harmony, loyalty, egalitarianism, reciprocity, care more for a 'person' than 'thing', and *guanxi* (i.e. relationships or connections). The characteristics of Chinese people and Chinese organisations are influenced strongly by Confucianism (Biggart, 1992; Chao, 1990). Ahmed and Li (1996) demonstrate the features of Chinese culture based on Hofstede and Bond's (1988) five cultural dimensions. They state: Chinese people show typical Confucian traits such as long-term orientation, thrift, perseverance and a sense of shame; China is a high power distance country where

decision-making is highly centralised because Chinese people respect seniority and hierarchy (see also Lockett, 1988); Chinese culture is characterised by collectivism in which people are collectively-oriented; Chinese culture inclines to masculinity because protecting one's face and maintaining harmonious interpersonal relationships are important for Chinese people, which make them sensitive and emotional; regarding the motive of risk avoidance, it is high in China. The significant cultural differences between Western countries and China are evident in previous studies. For example, Ralston et al. (2008) carried out a study to compare managerial work values across four countries: the United States, Russia, Japan, and China. They found that U.S. managers showed significant individualism while the Chinese managers show significant collectivism. In addition, U.S. managers showed significantly higher scores on the dimension of openness-to-change than the managers from other three countries, while Chinese managers showed significantly higher scores on the dimension of security than the managers from other three countries. Their results indicate a significant cultural difference between China and Western countries on the perception of the self (i.e. collectivism and individualism) and uncertainty avoidance (i.e. openness-to-change and security).

Further, cultural distance causes moral differences between China and Western countries (Tang and Zhang, 2010). *Guanxi* is a typical example. *Guanxi* is an important means of ensuring success in business in China. It "literally means relationship or relation, but its essence is a set of interpersonal connections that facilitates exchanges of favors between people" (Bian, 1997, p. 369). It is a primarily informal and unofficial social institution in China (Parnell, 2005). However, the notion of *guanxi* is complex so it is difficult to be understood by Westerners. For instance, gift giving is often used to establish and develop *guanxi*, but it is thought to be illegal for Western people as it seen as corruption. In addition, *guanxi* provides people or organisations with a privilege (the so-called 'back door') to achieve their purposes quicker than in normal circumstances but this 'privilege' cannot be exposed (Parnell, 2005).



National cultures shape organisational cultures. Chinese SOEs have taken Chinese traditional culture and internalised it as their own. For example, the value, leadership styles and managerial cultures of SOEs are characterised by having harmony, centralised decisions, human kindness, reciprocity, egalitarianism and close interpersonal relationships. To fulfil tasks, the company emphasises collective achievement but not an individual's contribution. However, the transfer of ownership to Western firms results in the change of organisational culture. As dominated groups in acquisitions, employees from SOEs are more likely to suffer a strong culture clash and cultural imposition from Western acquirers, which will lead to cultural incompatibility and conflicts. Consequently, employees will strongly resist new cultures and protect their old ones. Furthermore, previous studies have reported that the older the organisations, the more difficult it is for them to undertake reform (Ding and Akhtar, 2001) and mergers (Haunschild et al., 1994). This is because old organisations typically use traditional managerial strategies, form deeply rooted norms and regulations and have high barriers to change (Ding and Akhtar, 2001). People in old organisations are more likely to maintain strong relationships with in-group members and weak relationships with out-group members (Haunschild et al., 1994). Thus, old organisations and older employees are difficult to change in M&As.

SOE employees are more likely to suffer a high level of work pressure and job insecurity in post-acquisition organisations. This is because traditionally, employees of Chinese SOEs enjoy a permanent employment contract, life-time job security and a stable salary with welfare. These benefits are called an 'iron rice bowl', and have been rooted in SOEs for decades. It is China's unique enterprise model and it is even distinct from other Asian countries' (Ding et al., 2000). The 'iron rice bowl' leads to little threat of losing jobs and low working pressures for employees. It tightly ties employees to organisations and makes employees highly dependent on them (Sheehan et al., 2000). A low work pressure in SOEs also results from the fact that an employee's salary is not linked to his/her job performance but to other factors like seniority and position, so that employees typically lack working motives and a sense of competitiveness. M&As incur

cultural changes and organisational restructuring. The restructuring of organisations leads to changes in the working environment such as job arrangement, positions and work flow. The breaking of the 'iron rice bowl' destroys employees' job security as well as their dependency on the organisation, leading to a sense of loss, uncertainty, anxiety and anger during organisational change. More importantly, they will lose an easy working environment and their working pressures will be significantly increased.

Another feature of Chinese SOEs is the Party Organisation. It is a specific department of Chinese organisations, which is unknown for Western firms. The Chinese Trade Union is different from trade unions in the West because it is under the leadership of the Communist Party and it is responsible for allocating welfare for employees, but not for organising strikes. In China, SOEs are more in favour of Trade Union activities and the Workers' congress than joint ventures (Ding et al., 2000). Due to cultural differences, these two areas may be downsized, which may incur anger and resistance among employees.

## **2.3 Organisational Commitment**

Organisational commitment is a key factor in management and organisation research (Lok et al., 2005) and it has been defined by researchers in different ways. The Organisational Commitment Questionnaire (OCQ) (Porter et al., 1974), which is a commonly used tool to measure organisational commitment (Reichers, 1985), refers to organisational commitment as the extent to which a person identifies strongly with and belongs to a particular organisation (Porter et al., 1974; Mowday et al., 1982; Mowday et al., 1979). Doosje et al. (1999) propose the same definition for group commitment as for in-group identification: the level of importance for employees in terms of strong ties with group members. Wiener (1982), who follows the identification approach, defined organisational commitment as internalised motives to achieve organisational aims and interests. He argued that identification is a part of commitment. According to these definitions, there are three characteristics that are embedded in organisational

commitment: a strong belief in and adoption of organisational orientation and values, a desire to put in effort to represent the organisation and a willingness to keep membership (Porter et al., 1974; Mowday et al., 1979; see also Mowday et al., 1982). However, these definitions are problematic because they do not distinguish identification from commitment. Some definitions are the same as the definition of organisational identification (e.g. Doosje et al., 1999) (Ashforth and Mael, 1989) whereas others conceptualize organisational commitment regarding identification (e.g. Porter et al., 1974; Mowday et al., 1979; Mowday et al., 1982) (Gregory and James, 2005). In fact, identification and commitment are different (Ellemers et al., 2003). Mael and Tetrick's study (1992) suggests that although organisational identification is correlated with organisational commitment, they are two distinct constructs. The authors point out that organisational identification is a cognitive perception, while organisational commitment is an affective construct, which significantly overlaps with job satisfaction, organisational satisfaction and job involvement (Mael and Tetrick, 1992). Individuals commit to an organisation and internalise organisational goals and values through identification (Ashforth and Mael, 1989). Therefore, organisational commitment is the totality of the affection and behaviour an employee shows to an organisation, resulting from organisational identification. Although some researchers distinguish organisational commitment from organisational identification (e.g. Ashforth and Mael, 1989; Gregory and James, 2005; Ellemers et al., 2003), they do not provide a definition for organisational commitment and therefore, the definition is still unclear. Based on previous definitions and arguments, this research defines organisational commitment as 'the extent to which employees feel a strong responsibility to stay with the organisation'.

Allen and Meyer (1990) developed a three-component conceptualization of organisational commitment: affective commitment, continuance commitment and normative commitment, which derive from affective attachment, perceived costs and obligation respectively. Affective commitment exists when employees perceive a positive emotional attachment to and intertwinement with the organisation (Meyer and

Allen, 1991). It is a multiple mind-set because it is developed in various ways (e.g. emotion, identification and value) with the feature of desiring to pursue actions to achieve organisational goals (Meyer and Herscovitch, 2001).

Continuance commitment is when employees perceive high costs associated with losing organisational membership (Meyer and Allen, 1991). This is based on side-bets and the quality of the alternatives (Allen and Meyer, 1990). According to Becker (1960), the effect of side bets on an individual's activity in an organisation is shown through three ways. (1) the prevailing cultural expectations where people think that a man should not frequently change his job and the person who does so is unstable and untrustworthy; (2) the operation of impersonal bureaucratic arrangements where people find that they may lose a considerable amount of money in the firm's pension fund if they leave their current job; (3) the process of individual adaption to social positions where an individual may find that his behaviour is consistent with one social position but not with others. Alternatively, employees tend to increase their commitment to the company if they are provided with benefits that cannot be obtained in other firms, such as helping them balance their work and family duties (Lee et.al. 2008). Rusbult and Farrell's study (1983) found that employees with smaller investment size and more alternative choices are more likely to leave the organisation. Their study also found that the most important factor in influencing an employee's turnover decision is his/her job commitment. To sum up, both high tangible costs (e.g. pension fund) and high intangible costs (e.g. cultural expectations) associated with leaving the current organisation effect an employee's continuance commitment.

Normative commitment is employees' sense of obligation to continue to stay with an organisation (Meyer and Allen, 1991), in which organisational commitment is seen as an employee's duty (Allen and Meyer, 1990). This implies that people pursuing a course of action are not motivated by personal benefit, but by moral force (Wiener, 1982). This sense of obligation also comprises a need for reciprocity (Meyer et al., 2002), in which employees offer commitment to the organisation and in turn, receive a

reward from the organisation (Oliver, 1990). Studies find that moral obligation (Prestholdt et al., 1987) or personal normative beliefs are the strongest predictors significantly influencing intentions (Schwartz and Tessler, 1972).

To summarise, as Allen and Meyer (1990) pointed out:

[E]mployees with strong affective commitment remain because they *want* to, those with strong continuance commitment because they *need* to, and those with strong normative commitment because they feel they *ought* to do so. (p. 3)

A point that should be clarified here is that affective commitment, continuance commitment and normative commitment are the components of, but not types of, commitment (Allen and Meyer, 1990; Meyer and Allen, 1991). The totality of these three commitments constitutes an individual's commitment (Allen and Meyer, 1990; Meyer and Allen, 1991). Therefore, organisational commitment is an employee's intention to stay with an organisation, which consists of affective, continuance and normative dimensions.

Organisational commitment has a positive effect on an organisation. Researchers pointed out: "Commitments in workplace can take various forms and, arguably, have the potential to influence organizational effectiveness and employee well-being" (Meyer and Herscovitch 2001, p. 299). Studies have found that organisational commitment is related to (1) attitudinal, affective and cognitive aspects, such as job involvement, job satisfaction, job performance and job tension (e.g. Bateman and Strasser, 1984; Van Knippenberg and Sleebos, 2006; Porter et al., 1974; Hrebiniak and Alutto, 1972; Stevens et al., 1978; Stone and Porter, 1975; Meyer et al., 1989); (2) employees' behaviours, such as job search, employee turnover, absenteeism, and performance effectiveness (e.g. Clegg, 1983; Hom et al., 1979; Angle and Perry, 1981; O'Reilly and Caldwell, 1981; Bluedorn, 1980; Morris and Sherman, 1981; Marsh and Mannari, 1977; Porter et al., 1974; Steers, 1977; Somers, 1995; Cotton and Tuttle, 1986; Steel and Ovalle, 1984; Van Knippenberg and Sleebos, 2006); (3) role conflict and role ambiguity

(e.g. Morris and Sherman, 1981); (4) perceived organisational support (e.g. Van Knippenberg and Sleebos, 2006; Shore and Wayne, 1993); (5) an employee's personal features, such as age, sex and job tenure (e.g. Angle and Perry, 1981; Hrebiniak and Alutto, 1972; Steers, 1977; Sheldon, 1971) and (6) organisational justice, trust and hope (e.g. Jamaludin, 2011; Cohen-Charash and Spector, 2001; Hopkins and Weathington, 2006). Summarising previous studies, organisational commitment is related to two main factors: job satisfaction and organisational justice and hope.

Job satisfaction relating to organisational commitment is supported by the rationale that job satisfaction feeds employees' self-esteem and therefore, improves one's attitude toward the organisation, as reflected by organisational commitment (Van Knippenberg and Sleebos, 2006). Job satisfaction is associated with a range of factors such as job characteristics, rewards and work setting. Thus, as Mathieu and Zajac (1990) argued:

Employees' level of commitment to an organization may make them more eligible to receive both extrinsic (e.g. wages and benefits) and psychological (e.g. intrinsic job satisfaction and relationships with coworkers) rewards associated with membership. ( p. 171)

Further, researchers have pointed out that job satisfaction forms a perception of side-bet for employees because employees tend to internalise the distinctiveness of the job through working for an organisation (Stevens et al., 1978). This side-bet increases employees' continuance commitment and prevents employees from moving to other organisations.

Organisational justice and hope also influence organisational commitment. Organisational justice refers to "an employee's perception of the fairness of exchange he or she has with an organization in relation to rewards and procedures" (Hopkins and Weathington, 2006, p. 479). Employees compare their balance between the contribution they made to (i.e. input, e.g. work effort) and the benefit they receive from (i.e. outcome,

e.g. pay) the organisation with other employees' balance (Cowherd and Levine, 1992). When a similar balance is perceived, equity is established; but when a difference is perceived, employees tend to reduce the inequity in three ways: (1) changing their perceptions of input and outcome; (2) changing either their input or outcome and (3) leaving the organisation (Cowherd and Levine, 1992).

There are three types of organisational justice: distributive justice, procedural justice and interactional justice. Distributive justice indicates that the fairness perceived by an employee is determined by the comparison of the ratio of output to input with that of other employees (Folger, 1977; Folger, and Konovsky, 1989). It is realised when an employee's expected outcomes are consistent with the actual outcomes (Clay-Warner et al., 2005), and it concentrates on the fairness of reward relative to job performance (Greenberg, 1986). When employees consider that injustice exists, they may hurt the organisation through counterproductive work behaviours (Hopkins and Weathington, 2006; Cohen-Charash and Spector, 2001). Procedural justice refers to the fairness of process adopted to allocate the outcomes (Folger, 1977; Folger, and Konovsky, 1989; Jamaludin, 2011). Whether an unfavourable outcome provokes employees' negative responses is determined by the behaviours of decision makers: when an unfavourable outcome is associated with an unfair decision, employees are likely to feel angry toward decision makers (Brockner and Wiesenfeld. 1996). Interactional justice refers to "the fairness of the interpersonal treatment the individual receives from the decision maker" (Jamaludin, 2011, p. 62; see also Aryee et al., 2002). This is achieved through sharing information with employees (Jamaludin, 2011) and it is related to the quality of communication, such as honesty, respect and politeness (Cohen-Charash and Spector, 2001). Interactional justice is influenced by the interpersonal treatment of decision makers, it is thus correlated with cognitive, affective and behavioural reactions toward decision makers, which is *the direct supervisor or source of justice* (Cohen-Charash and Spector, 2001). "The perception of the supervisor as supportive and respectful of subordinates' dignities in the interaction process will improve perceived interactional justice and positively influence subordinates' trust in supervisor" (Wat and Shaffer,

2005, p. 409). Empirical studies have found that fairness links to organisational commitment (e.g. Brockner et al., 1992). For example, Brockner et al. (1992)'s study found that employees with high commitment to an organisation are more likely to experience a significant decrease in commitment when they perceive an unfairness. Hope is "a cognitive set that is based on a reciprocally derived sense of successful (a) agency (goal-directed determination) and (b) pathways (planning of ways to meet goals)" (Snyder et al., 1991, p. 571). Employees with high hopes for being treated well by the organisation are more likely to show negative reactions when they receive unfair treatment (Brockner et al., 1992).

### **2.3.1 M&As and Organisational Commitment**

M&As lower employees' commitment to the new organisations (Buono et al., 1985; Ivancevich et al., 1987; Schweiger and Weber, 1989). The majority of studies focus on the effect of M&As on affective commitment and have found that M&As have a strong, negative effect on affective commitment (e.g. Mottola et al., 1997; Klendauer and Deller, 2009). There are several factors contributing to this negative effect. The first factor is the existence of a threat in mergers (Mottola et al., 1997). The inter-group difference results in inter-group competition (Brewer, 1979) and therefore, leads to a threat of losing job status and job security (Mottola et al., 1997). The motivation to reduce this threat results in the decrease of organisational commitment and employees leaving (Mottola et al., 1997). Also, the membership in a pre-merger organisation (i.e. acquired or acquiring organisation) causes employees' perception of a merger to vary between organisations (Schoennauer, 1967; Matteson and Ivancevich, 1990). For instance, target companies are inferior and less powerful than acquiring firms (Levinson, 1970; Mirvis, 1985). Employees from acquired firms have lower post-merger expectations for power, job security and autonomy than those from acquiring firms and therefore, they are more likely to suffer a higher threat than those from acquiring firms (Rentsch and Schneider, 1991), which decreases their affective commitment.

The second factor contributing to the negative effect of M&As regarding affective



commitment is organisational justice. Mergers violate organisational justice, which can be seen in three aspects, namely distributive justice, procedural justice and interactional justice. Distributive justice is violated through decreasing the outcomes of employees while maintaining or even increasing their input in mergers (Klendauer and Deller, 2009). For example, changes and employee turnover increase other employees' workload without increasing their benefits (Klendauer and Deller, 2009). Procedural justice is violated through making unfair decisions as the acquiring firms typically autocratically make decisions in acquisitions (Blake and Mouton, 1983). The interactional justice is violated due to inefficient interpersonal treatment. Managers are often unwilling to communicate with employees about the mergers, which leads to uncertainty among employees and employees' tendency to believe rumours (Schweiger and Denisi, 1991), therefore, causing distrust and lowered commitment.

Research has found that employees' affective commitment significantly predicts the performance of M&As (e.g. Buono et al., 1985; Cartwright and Cooper, 1993; Kramer et al., 2004; Mirvis, 1985; Weber et al., 1996). This is because organisational commitment impacts employees' behaviours, that is, the more employees commit to the organisation, the lower their intentions to leave the organisation, the higher the performance they show and the stronger the motivation to co-operate with co-workers (Jetten et al., 2002; Becker and Billings, 1993; Ellemers et al., 1998; Mathieu and Zajac, 1990). Highly committed employees like to take on organisational norms, display organisation-oriented behaviour (Doosje et al., 1999) and stay in an organisation in order to fulfil organisational goals and interests (Porter et al., 1974). Studies on organisational commitment in M&As indicate that organisational commitment plays an important mediating role between M&A ethics and job performance and it takes time to cultivate, especially in the process of mergers (Lin and Wei, 2006). The failure of fulfilling organisational obligations at the post-M&A stage destroys employees' commitment, which leads to a higher employee turnover (Bellou, 2008). Therefore, employees with a high commitment to an organisation are more likely to demonstrate a better job performance, which contributes to acquisition performance.

H4: Organisational commitment is positively correlated with performance.

Further, working conditions links to an employee's job performance and consequently influences organisational performance. Previous studies have pointed out that work stress is correlated with mental and physical health problems, absenteeism, job satisfaction, and turnover intension (Siu, 2002; Ganster and Schaubroeck, 1991; Sullivan and Bhagat, 1992). These psychological traumas and employee behaviours affect an organisation's normal operation and therefore, destroy performance. Job satisfaction will minimise these negative effects and hence, increases performance. Thus, job satisfaction is positively correlated with acquisition performance.

H5: Job satisfaction is positively correlated with performance.

## **2.4 Problems and Limitations of Previous Studies**

Despite previous research progress and existing knowledge, there is a need for more research. The first limitation and problem remaining in previous studies is the little evidence of the effect of cross-border acquisitions on Chinese employees, especially on social identity, culture and organisational commitment and therefore, the question of how cross-border M&As influence employees from interdependent cultures is an uninvestigated issue. Given that Chinese culture is characterised by collectivistic and different from that in the West, people's identity and commitment tends to be different from that of Westerners. For example, Sun and Wang (2009) argue that the meaning and internal structure of organisational identification in the Chinese context are different from those of Western countries. This is because organisational identification, which has been developed in the Western context, underlies the individual-organisation relationship because Western culture is characterised by individualistic but Chinese culture is collectivistic, in which the self is social oriented. Hence, they argue that the characteristics of organisational identification in China are different from those in Western countries (Sun and Wang, 2009). Some other researchers argue that

organisational identity may be more important for Chinese employees due to the Chinese collectivistic culture (Liu et al., 2011).

Moreover, due to the Chinese culture being influenced by Confucianism and characterised by loyalty, harmony and collective orientation, researchers (Siu, 2002) argue that commitment to their organisation is a unique feature of Chinese employees. This is in part due to the fact that the notion of organisational commitment is the social exchange generated between employees and organisation. The reciprocity, which is the central point of exchange, is practised by the Chinese as social norm (Liu et al., 2011). Therefore, organisational commitment is a unique feature of Chinese employees due to Chinese culture. Further, Chinese culture explains the high affective commitment and normative commitment showed by Chinese employees. Considering that Chinese culture is based on Confucianism, a harmonious relationship with co-workers, group cohesion and stable co-worker relationships thus cultivate employees' willingness to work with each other and to work for their organisations, so that Chinese employees have high affective commitment. The feature of loyalty makes Chinese people perceive loyalty as a moral force to be adhered to, which leads to a high level of normative commitment (Cheng and Stockdale, 2003). Additionally, Chinese people tend to explain their relationship with groups by morality because they are collectively-orientated and this is particularly strong for SOEs (Zhao and Zhang, 2005), which also contributes to a high normative commitment. Empirical studies have found that the affective commitment and normative commitment of Chinese employees are significantly higher than those of other countries' employees (Cheng and Stockdale, 2003). Also, continuance commitment is higher in the sample of SOEs than in the sample of foreign investment enterprises (FIEs) because SOEs provide a life-time working opportunity and long-term developmental chances (Wang, 2004) for employees, which increase the costs associated with leaving the organisation.

Therefore, due to the cultural difference between China and Western countries, the influence of acquisitions on employees tends to be different and hence, acquisition

management in China may be different from that in Western countries. Thus, investigating the identity and organisational commitment of Chinese employees in the M&A context is an important and unique issue which contributes to existing knowledge.

The second limitation and problem of previous studies is regarding to the factors influencing post-acquisition identification. Identity and categorization have drawn researchers' interest to investigate employees' identity in the M&A context. The leading authors in this area are: Van Dick, Van Leeuwen, Van Knippenberg (Van Knippenberg, Daan), Ullrich and Ellemers. They have made remarkable theoretical and empirical contributions to the field. However, there are limitations and problems of their studies and other researchers' studies. The major problem in previous studies is that studies on the factors determining employees' post-M&A identification are limited to several factors, such as pre-M&A identification (e.g. Bartels et al., 2009), a sense of continuity (e.g. Ullrich et al., 2005; Van Knippenberg et al., 2002), group status (e.g. Fischer et al., 2007; Boen et al., 2006; Terry and O'Brien, 2001) and in-group bias (e.g. Terry and Callan, 1998). Although in recent years researchers have been concerned with the question of 'what are the factors influencing employees' identification with the post-M&A organisation?', they have still focused on these factors and therefore, what we know about post-M&A identification is limited and insufficient. Considering that M&As are the process of interacting 'new' with 'old', researchers have argued:

This interplay between 'new' and 'old' makes the question of what factors are related to post-merger identification of interest theoretically, because the answer to this question does not immediately follow from earlier studies of the determinants of social and organizational identification. This is not to say that factors that have been shown to affect identification ... will not affect post-merger identification. They most likely will, but other, more merger-specific factors most probably assert an influence as well. (Van Knippenberg et al., 2002, p. 234)

More importantly, the ways of increasing post-merger identification for employees from

target companies who experience the most influence in mergers is an important issue (Giessner et al., 2011; see also Giessner, 2011). Considering that organisational identification is important because it influences employees' willingness to take an organisational perspective (Van Knippenberg and Van Schie, 2000; Van Knippenberg et al., 2002), to adhere to organisational values, norms, attitudes and beliefs (Ashforth and Mael, 1989; Van Knippenberg, 2000), to act on organisational interest (Van Knippenberg, 2000; Van Knippenberg and Van Schie, 2000; Van Knippenberg et al., 2002), to internalise organisational goals as their own (Ellemers et al., 2004), to co-operate with other organisational members (Dutton et al., 1994), to influence the attractive image of the organisation (Bhattacharya et al., 1995), and to stay with the organisation, it is particularly important and useful to explore the factors that influence the post-acquisition identification of acquired companies. To follow Van Knippenberg et al. (2002)'s call for and to broaden our knowledge about post-M&A identification, this research proposes that several M&A-specific factors may influence post-M&A identification of employees from target companies.

The first factor is the acquirers' communication. Van Dick et al. (2006)'s study has revealed clear implications underlying the importance of communication in establishing post-merger identification. Given that the necessity of M&As is not often clearly explained to employees (Giessner, 2011), ineffective and inadequate communications cause rumour and uncertainty among them, which leads to high employee turnover and employees' resistance to changes during M&As (Bastien, 1987; Messmer, 2006). The *perceived necessity* of the merger refers to employees' perceived reason for the merger being driven by survival and/or growth of the organisation (Boen et al., 2005). Considering that mergers induce significant organisational changes, clear communication about the necessity of mergers is therefore necessary as it provides employees with a helpful way to cope with uncertainty and identity loss (Giessner, 2011). Studies have shown that the perceived necessity of the merger has a positive effect on post-merger identification (Boen et al., 2005; Ullrich et al., 2005) because perceiving the necessity of a merger reduces employees' uncertainty and fosters their

identity with the new organisation (Giessner, 2011). In addition, communications which provide a clear view of the reasons and goals of the merger increase the employees' common fate during the process, decreasing their motive to pursue self-enhancement and reduce their uncertainty (Ullrich et al., 2005) and also bridging the continuity employees perceived between the pre- and post-merger organisations. Therefore, communications, such as providing the necessity of an M&A, presenting the major changes of M&A strategy and introducing a new identity are useful ways to decrease rumour and uncertainty among employees, increase employees' perception of what the organisations will be like after the M&As and increase their acceptance of the new identity. Such communication from acquirers is particularly useful and effective in building up post-acquisition identification as it increases the trust and reliability perceived by employees from target companies.

H6: Communication is positively correlated with post-acquisition identification.

The second factor that this research proposes influences post-acquisition identification of employees from target companies is negative emotion. Although previous research investigates the negative emotions that are derived from decreased identification (e.g. Van Dick et al., 2004b; Van Dick et al., 2006), they neglect the influence of those negative emotions on identification, such as the threat of one's rights and an unclear personal and organisational future. Indeed, M&As are highly emotional events but the studies on the role of emotion in M&As are few (Sinkovics et al., 2011; Kiefer, 2002), especially in international M&As (Sinkovics et al., 2011). Moreover, the extant literature does not acknowledge that very emotional events, such as M&As call for the attention of several fields including psychology and cultural and human resource management (Sinkovics et al., 2011). To fill the gap between the emotional and psychological dimension, this research proposes that negative emotion links to post-acquisition identification. This argument is supported by two reasons.

The first reason is that acquisitions cause negative emotion like uncertainty, which

decreases employees' identification with post-acquisition organisations. According to social identity theory, individuals identify with a group due to their motivation of pursuing self-enhancement and reducing uncertainty about their feelings, attitudes, perceptions, self-concept and social categorization (Hogg and Terry, 2000; Giessner, 2011; Hogg and Mullin, 1999). M&As threaten employees' security needs (Cartwright and Schoenberg, 2006), which provokes negative emotion. For example, the common problem caused by mergers is the employees' uncertainty about their personal and organisational future (DiFonzo and Bordia, 1998; Marks and Mirvis, 2001; Schweiger and DeNisi, 1991). This uncertainty causes a high level of pre-merger identification instead of post-merger identification (Gleibs et al., 2008; Haunschild et al., 1994), which is a problem as merger integration is then interrupted (Haslam, 2001). Furthermore, negative emotion like uncertainty decreases employees' organisational identification due to two reasons: job insecurity stimulates people's personal identity and an unclear future of the organisation threatens employees' feeling of belongingness (Ullrich et al., 2005). These two influences impede employees' willingness to abandon their old identity and accept a new one, which affect their post-acquisition identification.

The second reason that negative emotion links to post-acquisition identification is out-group discrimination. Previous studies have shown that perceived similarity leads to attraction (Van Oudenhoven and De Boer, 1995; Newcomb, 1961; Hogg and Abrams, 1988). The principle behind this notion is that self-categorization not only induces a perceived similarity between group members which leads to a positive evaluation, favour and an attraction between group members; but also induces a perceived dissimilarity with out-group members, which leads to dislike and unattractiveness (Hogg, 1987; Hogg and Abrams, 1988). Once the group is acquired by a dislike and unattractive out-group, negative emotions arise, which derogates employee' attachment to the new identity and increases their resistance to accept new identifications.

H7: Negative emotion is negatively correlated with post-acquisition identification.

The third factor that this research proposes influences post-acquisition identification of employees from target companies is cultural incompatibility. Organisational culture relates to organisational identity. This is because an individual's motive is determined by his/her sense of 'who he/she is' in the society (Haslam, 2003) and organisational identity provides employees with an answer of 'who they are'. The more an individual attaches himself/herself to an organisation, the more he/she identifies with the organisation, and the more likely he/she is to think, act and behave in accordance with the values, norms, and beliefs associated with that organisational identity (Van Knippenberg and Van Schie, 2000). Such values, norms and beliefs are provided by organisational culture because organisational culture is a set of values, beliefs, expectations and norms shared by employees of a particular organisation. It provides employees with a guide of 'how they do things'. Given that an individual's self-concept is depersonalized by the group prototype, so an employee's organisational identity is influenced by organisational culture. In fact, researchers have argued that the concept of organisational identity is closely linked to that of culture though they are different (Maguire and Phillips, 2008). In their view, culture is "a context within which interpretations of organizational identity are formed" (Hatch and Schultz, 1997, p. 357). This point of view was evident in a case study carried out by Maguire and Phillips (2008). Therefore, a strong organisational identity is often associated with a strong organisational culture.

Acquisitions typically break the organisational culture of target firms. The violation of organisational culture threatens the organisational guide of 'how we do things' and affects the values, norms, and beliefs associated with that organisational identity. These negative effects threaten employees' self-concept and self-esteem and therefore reduce employees' identity. Hence, it can be proposed that there is a negative relationship between cultural incompatibility and organisational identification. From an identity-building perspective, some researchers have stated the effect of organisational and national cultural differences on identity-building in M&As (e.g. Maguire and



Phillips, 2008; Vaara, 2003; Terry, 2001; Van Knippenberg and Van Leeuwen, 2001). The notion of the identity-building process is that individuals are more likely to associate similarity with attractiveness and trustworthiness (Terry, 2001; Van Knippenberg and Van Leeuwen, 2001) and the identity-building process takes place during the process of organisational change (Ashforth and Mael, 1989; Cornelissen et al., 2007). The association of similarity with attractiveness and trustworthiness leads to in-group bias and inter-group rivalry which are more likely to be engendered in mergers because of uncertainty and ambiguity (Terry, 2001; Van Knippenberg and Van Leeuwen, 2001). Thus, employees' identification with post-acquisition organisations will be reduced.

Although researchers have pointed out and shown evidence of the relationship between organisational identity and organisational culture (e.g. Maguire and Phillips, 2008; Hatch and Schultz, 1997) and the relationship between cultural differences and social conflicts (e.g. Sarala, 2010; Vaara et al., 2012), they have not tested the relationship between organisational cultural difference and organisational identification. To fill the gap and following Maguire and Phillips (2008)'s call for of an in-depth investigation on the influence of cultural distance on post-merger identity, this research assumes a negative relationship between cultural incompatibility and post-acquisition identification.

H8: Cultural incompatibility is negatively correlated with post-acquisition identification.

The third limitation and problem in previous studies is the paucity of studies on the relationships between acquisition management and acquisition performance of the target companies. Researchers have argued that many acquisitions are a failure, inferring the lack of theoretical and practical understanding of acquisitions (e.g. Hitt et al., 1998). King et al. (2004) conducted a meta-analysis study measuring acquisition performance (abnormal returns, return on assets, return on equity, return on sales) by including most

commonly used variables in the M&A literature [conglomerate acquisitions, related acquisitions, method of payment (cash or equity), and prior acquisition experience] and found that the cumulating results of these variables do not influence post-acquisition performance. Based on these findings, they argued that unidentified mediators are driving variance in acquisition performance and therefore the factors in determining acquisition performance are largely under-investigated (King et al., 2004). They then called for the development of additional theory on this issue, as well as for changes in M&A study methods because these make a significant contribution to existing knowledge (King et al., 2004). Given the importance of human side management in M&As, the unidentified variables are more likely to be management strategy in M&As. Indeed, this assumption has been supported by previous studies though this topic has still drawn little researchers' attention. In general, previous studies have found that human factor links employees' negative reactions to negative M&A performance (Sarala, 2010). For example, executive departure is correlated with negative accounting performance and stock performance (Cannella and Hambrick, 1993); employee resistance links to reduced synergy realisation (Larsson and Finkelstein, 1999). Studies on this issue have concluded that the vital factors that determine the success or failure of acquisitions are employees and their reactions toward acquisitions (Panchal and Cartwright, 2001; Cartwright and Cooper, 1990; Cartwright and Cooper, 1993; Marks and Mirvis, 2001; Van Dick et al., 2006; see also Sarala, 2010). Although researchers have acknowledged the importance of human factors in M&A performance and they have examined the link between human factors and overall performance, studies on the relationship between management performance and M&A performance are still rare. In fact, very recently, researchers have argued that the lack of examination and theoretical frameworks on the relationship between M&A management (e.g. human capital, acquisition integration) and acquisition performance is a key theoretical and empirical limitation in M&A studies (Siegel and Simons, 2010; Cording et al., 2008). Basically, acquisition performance is measured by two indicators: stock performance and accounting performance. There are plenty of studies assessing the effects of M&As on the stock market performance and accounting performance of listed firms due to the

difficulty in obtaining financial information from non-publicly traded firms (Siegel and Simons, 2010), thus leaving the influences of M&As on accounting performance of non-publicly traded firms less explored. This is problematic because, as researchers have argued:

M&A effects on firm financial performance were shown to be either insignificant or negative when accounting measures of an acquiring firm's financial performance were examined. This may be ... the simple fact that not enough studies have used accounting measures. (King et al., 2004, p. 196)

Hence, finding out the relationship between managerial performance and an organisation's accounting performance is important for acquisition management in practice. To fill the gap, this research proposes that acquisition management influences the accounting-based performance of target SOEs. Acquisition management of this research is measured by post-acquisition identification, communication, cultural incompatibility, a sense of continuity, job satisfaction, negative emotion and organisational commitment. This is because, drawing from theories and extant literature, it is proposed that all these factors are correlated with acquisition performance. As discussed above, the more a person identifies with an organisation, the more an organisational perspective he or she takes, the more organisational values, norms, attitudes and beliefs he or she adheres to, and the more organisational interest he or she acts so that he/she is less likely to move to other organisations. Given that employees derive a feeling of distinctiveness and satisfaction from organisational identity, which is important for their working performance (Alvesson, 2000), identification thus brings benefits to an organisation because it links to group productivity and performance (Haslam, 2003) and therefore, post-M&A identification brings benefit to the M&A integration (Giessner et al., 2011). Empirical studies have found that post-merger identification is positively correlated with an employee's organisational citizenship behaviour as employees like to put extra effort into their organisation (Van Dick et al., 2006). Not identifying with the post-merger organisation affects organisational goals

and reduces post-merger performance (Gleibs et al., 2010). Thus, post-acquisition identification has a positive relationship with acquisition performance. Considering that post-acquisition identification largely depends on the sense of continuity employees perceive between the pre- and post-acquisition organisation through which employees transfer their pre-acquisition identification to post-acquisition organisation, the more similarity employees perceive, the more pre-acquisition identification will be transferred to the post-acquisition organisation and the less day-to-day working will be affected. Therefore, a sense of continuity has a positive relationship with acquisition performance.

H9: Post-acquisition organisational identification is positively correlated with performance.

H10: A sense of continuity is positively correlated with performance.

Communication is another factor influencing acquisition performance. Ineffective and inadequate communication causes rumours and uncertainty, which leads to high employee turnover, reduced performance and employees' resistance to changes during M&As (Bastien, 1987, Messmer, 2006). Employees leaving, especially key employees leaving, makes a loss for a company because it threatens a company's memory (Cascio, 2002) and damages organisational innovation (Richtnér and Åhlström, 2006; Drew, 1994; Dougherty and Bowman, 1995). Critical skills may be lost which may influence its problem-solving and team-building (Richtnér and Åhlström, 2006). In addition, unstable transfer, such as employee disturbances, may affect an organisation's normal operation, which destroys performance. Therefore, communication is positively correlated with performance.

H11: Communication is positively correlated with performance.

Emotion, as discussed above, has received little awareness from researchers in previous studies although some researchers have realised this limitation (e.g. Sinkovics et al.,

2011; Kiefer, 2002). Researchers have recently argued that emotions are an important phenomenon in M&As and play a vital role in determining M&A performance, especially in cross-border M&As (Sinkovics et al., 2011) because negative emotions, such as fear, anger, grief, jealousy, loss of morale and uncertainty reduce productivity (DiFonzo and Bordia, 1998; Sinkovics et al., 2011). Furthermore, negative emotion impedes employees' willingness to accept changes and to work in the new organisation. Employee disturbances may also take place so that organisational daily operation will be affected, which influences organisational performance.

H12: Negative emotion is negatively correlated with performance.

## **Summary**

This chapter has reviewed the theoretical and empirical literature on five theories/issues: social identity theory, self-categorization theory, organisational identification, culture and organisational commitment. This chapter also identifies three limitations and problems of previous studies. These limitations and problems are formed into research hypotheses and research aims. The details are as follows:

Social identity theory and self-categorization theory explain people's inter- and intra-group behaviours and perceptions. Once an individual identifies with a group, he/she will think, act and behave in accordance with the goals, interests, values and norms associated with the group and he/she will favour in-group members and disparage out-group members. Mergers cause conflict of corporate identities as it changes identity and membership in the old organisation and leads to the interaction between the 'old' and 'new' identity and group membership. These negative effects threaten the positive social identity and sense of belongingness employees derived from the old organisations and therefore, threaten the continuity and stability of employees' old identities. This triggers inter-group challenges so that employees tend to adhere to their old identity and reject changes when they are confronted with M&As. In particular,

employees from acquired companies are more likely to suffer an identity threat, which leads to a high level of pressure and resistance. The hypotheses in this section are:

H1: Pre-acquisition identification is positively correlated with post-acquisition identification.

H2: A sense of continuity is positively correlated with post-acquisition identification.

Cultures, which intertwine with individuals' perceptions, behaviours and attitudes historically, guide people's conceptions and social behaviours. This is the most important issue in M&As as the majority of M&As fail due to cultural incompatibility. The hypothesis in this section is:

H3: Cultural incompatibility is negatively correlated with performance.

Organisational commitment is the totality of the affection and behaviour an employee shows to an organisation. It comprises affective commitment, continuance commitment and normative commitment, which derive from affective attachment, perceived costs and obligation respectively. It is determined by job satisfaction, organisational justice and hope. M&As reduce employees' commitment to the new organisations due to the occurrence of threats and the violation of organisational justice. This research defines organisational commitment as the extent to which employees feel a strong responsibility to stay with the organisation. The hypotheses in this section are:

H4: Organisational commitment is positively correlated with performance.

H5: Job satisfaction is positively correlated with performance.

There are three limitations and problems remaining in previous studies. The first is that

there is little empirical evidence relevant to the effect of international M&As on employees from collectivistic cultures. Considering the cultural difference between China and Western countries, the influence of acquisitions on employees tends to be different and therefore, leads to different acquisition management in China. Hence, investigating the identity and organisational commitment of Chinese employees in the M&A context is an important and a unique issue which contributes to existing knowledge.

The second limitations and problems of previous studies is that what we know about the factors in influencing post-M&A identification is limited and insufficient. This research extends boundaries to include more factors that may influence post-acquisition identification. The hypotheses in this section are:

H6: Communication is positively correlated with post-acquisition identification.

H7: Negative emotion is negatively correlated with post-acquisition identification.

H8: Cultural incompatibility is negatively correlated with post-acquisition identification.

The third problem of previous studies is the lack of research on the relationships between acquisition management and acquisition performance of the non-publicly traded companies. This research proposes that acquisition management, which includes post-acquisition identification, communication, cultural incompatibility, a sense of continuity, job satisfaction, negative emotion and organisational commitment, are related to post-acquisition performance. The hypotheses are:

H9: Post-acquisition organisational identification is positively correlated with performance.

H10: A sense of continuity is positively correlated with performance.

H11: Communication is positively correlated with performance.

H12: Negative emotion is negatively correlated with performance.



# Chapter 3: Methodology

## Introduction

This chapter will introduce the methodology for this research, including the kind of methodology used, the reasons for the choice of this methodology and how these methods were designed and conducted. In general, this study adopts a case study as the main research methodology. A questionnaire-based pilot study was carried out as a preliminary test. Quantitative method is used in order to provide a clear evidence of the factors influencing post-acquisition identification and the effect of acquisitions on the performance of SOEs in a nine-year period around the acquisition year.

## 3.1 Case Study Methodology

A case study was chosen as the main methodology for this research. A case study is an empirical investigation of a phenomenon within its real life context using multiple sources of evidence (Yin, 1994). It aims to obtain a first-hand view on the objects (Yin, 2004) through providing an on-site data collection method (Yin, 2004) which ensures the validity and reliability of the data. The advantage of case studies is their in-depth ability to investigate objects within the real world (Yin, 2004) and their ability to examine a less-investigated area (Fruhling and Keng, 2007). Besides that, case studies investigate targets, target related groups and their interactions (Tellis, 1997a). There are three types of case studies: exploratory, descriptive and explanatory (Yin, 2003). The exploratory method can be adopted when little is known about an area (Gerring, 2004) and the research aim is to explore the area (Kuo et al., 1999). In other words, the exploratory method is pertinent when research addresses ‘what’ questions (Yin, 2009). The descriptive method can be chosen when the research is going to answer ‘what happened’ questions (Yin, 2004). The explanatory method aims to answer ‘how’ and ‘why’ questions (Yin, 2004; Yin, 2009). Therefore, case studies are characterised by: an

in-depth investigation of real-life phenomena to address exploratory, explanatory and descriptive research questions through first-hand data collection. A multiple case study methodology is chosen by this research, which is justified by three reasons.

First, the purposes and research questions of this research are based on and developed from the limitations and problems remaining in the extant literature. In other words, this research aims to investigate and answer several issues that are less-investigated in previous studies. For example, this research includes new factors to explore influences on post-acquisition identification of employees from target companies. This research also stands at a firm-level to investigate the impact of cross-border acquisitions on employees from a non-Western country - China, which has received little attention from researchers in M&A studies. As mentioned above, the advantage of case studies is their ability to examine a less-investigated area which is 'exploratory', so that case studies are an appropriate method for this research to explore either new or under-studied issues. Specific to research objectives and research questions, the objectives of this research are to build a picture of how cross-border acquisitions impact on Chinese SOE employees, to verify the managerial factors that influence the acquisition integration of Chinese SOEs and, to explore the relationships between acquisition management and acquisition performance. The research questions include: How do acquisitions influence the identity, culture and commitment of the target SOE employees? What are the factors that determine an employee's post-acquisition identification? What are the relationships between acquisition management and post-acquisition performance? With the exception of the last research objective and research question, the motives behind the first two research objectives and research questions are to answer 'How' and 'What' questions, which are explanatory and exploratory in nature and thus, they support the use of case studies. Also, this research does not intend to 'prove' issues, but to explore and develop new issues on M&As in order to provide fresh insights and understanding. Therefore, case studies offer in-depth view for research aims and research questions.

Second, this research chooses a multiple case study approach as the main research methodology due to its ability to enhance the research findings through cross-case

comparisons (Yin, 2004). It is also helpful for establishing a robust theory based on a variety of empirical findings and to broadly explore the research questions (Eisenhardt and Graebner, 2007). In contrast to a single-unit study, a multiple-unit study is able to test hypotheses with strong confidence (Gerring, 2004) because within-case analysis and cross-case analysis are suitable for finding out the similarities among all cases and exploring the peculiar characteristics for each case.

Third, this research chooses a multiple case study approach as the main research methodology due to its intention to address the methodological limitations in the literature on, especially, cross-border M&As. The majority of existing studies on social identity theory, self-categorization theory, organisational identification and organisational commitment are primarily based on theoretical or quantitative analysis and they therefore lack an in-depth investigation on human behaviours and reactions. For example, studies on social identity theory and self-categorization theory are often based on theoretical analysis (e.g. Ashforth and Mael, 1989; Van Knippenberg, 2000; Ellemers et al., 2004; Reicher, 2004) and laboratory experimentation (e.g. Mullin and Hogg, 1999; Jetten et al., 1999; Moghaddam and Stringer, 1988; Billig and Tajfel, 1973; Snyder et al., 1986; Sachdev and Bourhis, 1985; Ellemers et al., 1993; Ellemers et al., 1988; Ellemers et al., 1992). The paucity of case study-based research on cross-border M&A studies is a methodological problem in the existing literature, which limits empirical findings. Compared to quantitative methodology, qualitative methodology, such as case studies, provides researchers with a mechanism to collect more information and get a deeper view on objects during data collection. It is useful for identifying unexpected issues, tracking down the root of problems and giving appropriate suggestions and solutions. Considering that this research focuses on the influences of acquisitions on target SOE employees in identity, culture and commitment, on-site interviews and first-hand data are valuable sources to investigate the research questions. Hence, this research chooses an interview-based case study methodology to examine the effects of acquisitions on Chinese SOEs and employees.

The fourth reason for the choice of a multiple case study methodology is that first-hand data is the only and the most reliable source to collect information regarding company profiles, acquisition information and financial resources for this research because the objects of this research are non-listed SOEs. Therefore, compared to derived data, first-hand data is more useful, valid and reliable for this research.

To sum up, this research chooses a multiple case study methodology and rejects other approaches due to four reasons. First, this research is exploratory and explanatory in nature, which is in line with the use of case study methodology. Second, a multiple case study methodology has the ability to enhance the research findings through cross-case comparisons. Third, a multiple case study is chosen with the aim of filling the gap between M&A studies and qualitative methodology. Fourth, this research chooses a multiple case study due to the research objects (i.e. non-listed SOEs), which determine that first-hand data is the only and the most reliable source for this research. Therefore, compared to other methods, a multiple case study methodology is more appropriate and useful for this research to achieve the research purposes and to address the research questions rather than methods such as large-scale questionnaires and surveys. Statistical methods (e.g. correlation and regression) will be used to test the hypotheses, including the factors determining an employee's post-acquisition identification and the relationships between acquisition management and the acquisition performance. These statistics provide clear evidence for the research findings.

## **3.2 Cases**

### **3.2.1 Case Selection**

Cases are chosen from the Ministry of Commerce of the People's Republic of China, which is responsible for the official approval of cross-border M&As in China. Case selection is based on four criteria. First, SOEs are manufacturers. This is because cross-border M&As of Chinese SOEs initially started with the manufacturing industry and it is still one of the favourite industries for foreign firms making M&As with

Chinese SOEs. In addition, a large number of SOEs are manufacturers and therefore investigating SOEs from manufacturing industry is representative. Second, Western acquirers are restricted to the U.S., the U.K. and their relevant countries because of cultural homogeneity. The U.S., the U.K. and their relevant countries have a similar culture and thus their managerial culture, leadership style and value are similar. This homogeneity leads to similar post-acquisition management, which does not violate the research results. Third, Chinese SOEs are restricted to the same region as Chinese culture slightly varies between different regions. In general, Southern China shows a more open culture than Northern China because it opened up to the world earlier and more deeply than the Northern region. The traditional Chinese culture manifests more strongly and deeply in Northern China than in the Southern region so this research has chosen the SOEs located in Northern China. The fourth criteria is that the research investigates acquisition activities carried out between 2004 and 2006 because, as indicated in the Introduction chapter, China's international M&As market has boomed since 2003. This period provides more available candidates for case selection than other periods.

In total, six SOEs from the manufacturing industry have been chosen as research cases. This research conducted a pilot study as a preliminary test and separated it from the main study. This is because the purposes of the pilot study for this research were to test whether respondents showed a good understanding of questions, to see whether some key points were missed out or whether other new issues emerged and to choose key points for the following in-depth main study. Two of the cases were assigned to the pilot study and others were assigned to the main study. One of the pilot companies (hereinafter referred to as 'Company A') was acquired by a U.S. company in 2004, the other (hereinafter referred to as 'Company B') was acquired by an Irish company in 2006. Both Company A and Company B were transferred to wholly foreign-owned enterprises after the acquisitions. Four cases, which were investigated for the main study, were all acquired by U.S. companies between 2005 and 2006 and transferred to wholly foreign-owned enterprises after the acquisitions. The detailed descriptions for

those cases investigated in the main study are shown as follows.

### **3.2.2 Case Description**

#### **3.2.2.1 Case One**

The SOE of Case One (hereinafter referred to as ‘Company H’) was established in 1969 and it employed 2,300 staff before the acquisition. It had been the economic backbone of local city and it is the only manufacturer of the sector to which it belongs in the province. Its biggest market was in America as the 40 per cent of its products were sold to America, as in North America. 20 per cent of its products were sold to other countries and almost all the rest of its products (30 per cent to 40 per cent) were sold within China.

Company H chose the acquisition due to three reasons. First, it expects to expand its market share. The acquirer is a globally well-known company whose market share covers North America, Europe and Asia. Company H will expand its overseas market through the acquirer. Second, it desires financial support. Company H could not maintain production before the acquisition due to external environmental influences such as rising raw material prices. Under such circumstances, it was confronted with two options: to go bankrupt or to be acquired. Unlike bankruptcy, acquisition would mean employees’ jobs would be retained. The third reason for choosing the acquisition is that Company H has co-operated with the acquirer since 1996 and is therefore well-acquainted with the acquirer.

The acquirer chose Company H as a target for four reasons. First, although Company H did not operate well, it possesses outstanding research and development (R&D) staff and has a high manufacturing ability. Second, the acquirer has maintained a close relationship with Company H because of long-term co-operation and it bought 70 per cent of Company H’s products. Third, the market positioning of Company H, which is ‘A variety of types and a small batch of production’, is the same as the acquirer’s.

Fourth, the acquirer realised that purchasing products from other companies was not a sustainable method for corporate expansion; instead, establishing its own manufacturers is an appropriate strategy for corporate development. Company H, as a supplier, was the first choice for the acquirer.

The acquisition was carried out in June, 2006. After the acquisition, Company H had 1,300 employees and the ownership was transferred from state-owned to wholly foreign-owned. The acquirer controlled the final decision-making of Company H. It appointed two expatriates as General Manager and Deputy General Manager; and recruited a Chinese employee as Chief Engineer and two Chinese Canadians as Technical Director and Chief Finance Officer (CFO).

### **3.2.2.2 Case Two**

The SOE (hereinafter referred to as ‘Company X’) was established in 1936 and it employed 1,700 staff before the acquisition. It is ranked first in market share (in terms of output and revenues) in the sector in China with a market mainly based in China because China is the biggest producer and consumer.

Company X chose the acquisition expecting to receive financial support. This is because the local provincial government lacked sufficient money to support the company’s development since it had taken charge of Company X’s business. Company X had to rely on self-sufficiency. Although Company X is a leading manufacturer in the sector, it lacked development potential. Therefore, receiving financial support was a reason to choose an overseas company as the acquirer. The managers of Company X also hoped to receive advanced managerial skills to improve the firm’s development. The managers of Company X contacted and negotiated with the world’s top three manufacturing companies of the sector about M&A. These companies proposed the same terms and conditions: (1) To lay-off all technicians of Company X; and (2) To transfer Company X to their production base. However, Company X would not pay taxes to the local city government if it had to be transferred to the production base of a foreign firm. This

would be a tremendous loss to the local government and therefore Company X was unwilling to do it. Thus, it finally chose the current acquirer.

The acquirer chose Company X as their target for reasons of entering the Chinese market and expanding their Chinese market share. This is because China has a huge potential for expanding the acquirer's business and Company X is ranked first in market share in the sector in China. The acquirer will expand their market share in China through assuming operating responsibility for the business of Company X. It will occupy China's biggest market share and strengthen its capability to compete with other world-leading manufacturing companies. Besides market power, intangible assets possessed by Company X are important determinants of target selection for the acquirer.

The acquisition was implemented in May 2006. After the acquisition, Company X had 1,800 employees and the ownership was transferred from state-owned to wholly foreign-owned, with the acquirer controlling the final decision-making in Company X. It assigned an expatriate as General Manager to Company X at the initial stage of the acquisition but called back the expatriate later due to a cultural clash. Instead, the acquirer employed a CEO and several Chinese and foreigners to manage the company.

### **3.2.2.3 Case Three**

The SOE (hereinafter referred to as 'Company N') was established in 1965 and employed 410 staff before the acquisition. Company N chose an overseas company as the acquirer mainly because of six reasons: abundant capital, advanced technologies, up-to-date sales and service systems, sound reputation, extending their Chinese market share, and long-term co-operation with the acquirer. Besides those reasons, the board of directors of Company N wanted to sell the company in 2004 due to managerial conflicts between the board members over the solution to the bottle-neck effect of technology. As Company N and the acquirer had co-operated for a long time, Company N finally chose them.



The acquirer chose Company N as a target for four main reasons. (1) Market share. The acquirer would spend a long time expanding the Chinese market without acquisitions. (2) Workers and skilled workers. The acquirer planned to build a factory in Beijing and they had bought a piece of land. However, considering that it would take at least three years to train workers if they established a factory by themselves, they eventually chose to acquire Company N to save time. (3) Company N is a skilled training base, which has cultivated a lot of experts. The quality of these experts and trainees are the best in the local city. (4) Eliminating competitors. The acquirer provided drafts to Chinese companies for manufacturing products because it did not possess its own manufacturers in China. It had co-operated with Company N for fifteen years but found that Company N had many its product drafts. Additionally, the acquirer is an Original Equipment Manufacturer (OEM) who buys products from a supplier and incorporates or re-brands these products into new ones with its own name. Although Company N processed products for the acquirer, it was also a competitor.

The acquisition was undertaken in June, 2006. After the acquisition, Company N had 600 employees. The ownership was transferred from state-owned to wholly foreign-owned. The acquirer controlled Company N's final decision-making and appointed two expatriates to Company N, the Permanent President and a technician.

#### **3.2.2.4 Case Four**

The SOE (hereinafter referred to as 'Company Q') was established in 1958. It employed 1,500 staff before the acquisition. Company Q chose an overseas company as an acquirer due to five reasons: abundant capital, up-to-date technology, sound reputation, advanced corporate management, and Chinese market share expansion. Of these reasons, abundant capital, up-to-date technology, and advanced corporate management are the top three most important factors for acquirer selection. Additionally, the acquirer occupies a huge chunk of the market share in China and world-wide so the SOE was expecting to expand Chinese market share and even world market share after the acquisition.

The acquirer chose Company Q as a target for two reasons. (1) Products and prices. Compared to industry peers, Company Q has the best products with the highest prices in China. (2) Location and external environment. Company Q's location and external environment are the same as the acquirer's head office in the U.S.. The acquirer did not agree with establishing a joint venture with Company Q because it wanted to transfer Company Q to its wholly owned subsidiary. The acquisition was divided into three steps. According to the first acquisition agreement, the acquirer would complete the purchasing of the remaining shares of Company Q in the following three years. It finished the acquisition of Company Q in 2008.

The acquisition was implemented in March, 2005. After the acquisition, Company Q had 2,100 employees. The ownership was transferred from state-owned to wholly foreign-owned. The acquirer has controlled Company Q's final decision-making since the first acquisition. It replaced Company Q's Chairman and assigned one expatriate (who is a Chinese) to Company Q as the Permanent General Manager.

### **3.3 Data Collection**

Questionnaires were used to collect a company's basic information, the influences of acquisitions on employees, and financial information. Three kinds of questionnaires were designed for senior managers, junior managers and employees respectively. A financial questionnaire was designed for financial staff. The measurement of the influences of acquisitions on employees is the key part of the questionnaires as it relates to the research questions. The measurement covers pre-acquisition identification, post-acquisition identification, culture incompatibility, communication, a sense of continuity, job satisfaction, negative emotion and organisational commitment. Pre-acquisition identification was measured, in accordance with Van Dick et al. (2004), with four items (e.g. 'I identify with...', 'I am glad to work for...'). Post-acquisition was measured with nine items based on Van Dick et al. (2004) and Ellemers et al. (1988)

(e.g. 'I identify with...', 'I am glad to work for...'). Culture incompatibility was derived from four items to assess national cultural incompatibility and organisational cultural incompatibility (e.g. 'I perceive national culture incompatibility', 'I perceive value incompatibility'). Communication was obtained with four items to evaluate the effectiveness and the efficiency of communication provided by Western acquirers (e.g. 'They communicate frequently with us', 'They present major changes regarding acquisition strategy'). The items for measuring a sense of continuity were developed based on existing scales (e.g. Bartels et al., 2006; Ellemers et al., 1988) with six items (e.g. 'The acquisition has very few consequences for me', 'I think that the post-acquisition group is much like the pre-acquisition group'). Job satisfaction was measured, in line with Van Dick (2004), with three items (e.g. 'I am generally satisfied with the kind of work I do in this job', 'I am satisfied with the feeling to do something meaningful with my job'). The nine items for assessing negative emotion were developed from Van Dick (2004) and based on the typical phenomena of merger syndrome (e.g. 'With respect to the acquisition I experience anger', 'With respect to the acquisition I experience fear'). Organisational commitment was derived from four items by measuring, in accordance with Meyer and Herscovitch (2001), the three dimensions of organisational commitment (affective commitment, continuance commitment and normative commitment) (e.g. 'I would be very happy to spend the rest of my career with this organisation', 'I would feel guilty if I left this organisation now'). These measurements were designed into a senior manager questionnaire, a junior manager questionnaire and an employee questionnaire respectively.

Specific to each type of questionnaire, the senior manager questionnaire is divided into four parts. The first part concerns the basic information of respondents such as position, age, organisational tenure and salary. The pre-acquisition information of the SOE is included in this part, including the year of establishment, the number of employees, employee information and organisational hierarchy structure. The second part was designed to collect information about the SOE during and after acquisition. It consists of three sections, covering acquisition purpose, organisational structure, culture, merger

syndrome, and communication. The third part covers pre-acquisition identification, post-acquisition identification, a sense of continuity, job satisfaction, negative emotion and organisational commitment. The fourth part aimed to collect acquisition assessments for both SOEs and Western companies, covering identity, culture, working environment, communication and organisational commitment. The types of questions include open questions (i.e. senior managers write down answers), multiple choice and assessment questions. Assessment questions are based on: (1) a Likert scale ranging from 1 which stands for 'strongly disagree' to 5 which stands for 'strongly agree'. (2) 5-scale marking, with 1 standing for 'very bad' to 5, which stands for 'excellent'. The advantages of using these assessments are that they are easy to understand and have good reliability because respondents are free to show their opinions (Cai and Wheale, 2004).

The junior manager questionnaire and employee questionnaire consist of four parts. The first part concerns the basic information of respondents such as position, age, organisational tenure and salary. The second part is about the information of the SOE during and after acquisition. Questions cover organisational structure, culture, merger syndrome, and communication. The third part covers pre-acquisition identification, post-acquisition identification, a sense of continuity, job satisfaction, negative emotion and organisational commitment. The fourth part collects acquisition assessments for both SOEs and Western companies, covering identity, culture, working environment, communication and organisational commitment. The questionnaire comprises open questions, multiple choice and assessment based on the Likert scale and 5-scale marking, which are the same as the senior manager questionnaire.

The financial questionnaire comprises questions covering: acquisition type, acquisition price, payment method, ownership structure and decision-making, and relationships between acquisition management and accounting performance. The types of questions include open questions, multiple choice and assessment based on the Likert scale and 5-scale marking, which are the same as those in the senior manager questionnaire.

The pilot study was undertaken by questionnaires in 2008. Each company was given two copies of the senior manager questionnaires, four copies of the junior manager questionnaires and twenty copies of the employee questionnaires. Each company was also assigned two copies of the financial questionnaires for the Chief Financial Officer (CFO) and a financial staff member. All questionnaires were mailed to the companies and then they were mailed back. The response rate was 100%.

According to the feedback from the initial stage of interview conducted in the main study, a new variable, which is fast reform, emerged as a strong determinant affecting employees in acquisitions. A new questionnaire regarding fast reform was designed and included in the main study to test its influence on post-acquisition identification and its relation with the post-acquisition performance. Fast reform was obtained with three items (e.g. 'A lot of reforms are carried out within a short time after the acquisition', 'I do not have enough time to catch up with changes').

H13: Fast reform is negatively correlated with post-acquisition identification.

H14: Fast reform is negatively correlated with performance.

Thus, in total nine managerial factors will be tested in the main study: pre-acquisition identification, post-acquisition identification, cultural incompatibility, communication, a sense of continuity, job satisfaction, fast reform, negative emotion and organisational commitment.

The main study was primarily conducted by face-to-face interviews in 2008. For each case, two senior managers, four junior managers including a CFO and ten employees (office workers and shop-floor workers) were interviewed, as well as two local government officials. Most senior managers who are interviewed participated in the acquisition negotiations. The information from junior managers (departmental managers

and plant supervisors) and employees was collected from both formal interviews and informal conversations. To obtain financial records, the CFO of each company was interviewed. Besides interviewing people who work for these companies, government officials who work at local government offices and who were responsible for the SOEs and maintained a close relationship with the SOEs at the pre-acquisition stage were also interviewed. According to Yin (1994), data can be collected by multiple sources such as documentation, archival records, interviews, direct observation, participant observation and physical artefacts. In this research, besides interviews, data was also obtained from documentation and archival records, such as financial statements, corporate brochures, official reports and propaganda DVDs. Direct observation and participant observation, such as attending top executives' meetings, were also used as a way to collect data.

Interviews were based on questionnaires which had been tested in the pilot study. Each one-to-one interview lasted about two hours. Questionnaires regarding pre-acquisition identity, post-acquisition identity, a sense of continuity, cultural incompatibility, communication, job satisfaction, fast reform, negative emotion and organisational commitment were distributed to interviewees at the end of each interview to examine acquisition management. Interview notes were checked and verified by interviewees in order to insure accuracy and increase data quality. Interview data was compiled in a case study database with each company forming about ten pages of written data.

There was one limitation of the data collection for this research and this was asking respondents about the pre- and post-identification simultaneously. A better way to collect information is to follow an acquisition from the pre-acquisition stage to the post-acquisition stage. However, this research decided to adopt the current method due to three reasons. First, it is rare to carry out pre-merger investigations in merger studies because companies are not willing to participate in research, especially at the pre-merger stage (Van Knippenberg et al., 2002). Second, acquisitions are important and impressive events and therefore employees are able to recall them completely and accurately (Schoenberg, 2006). Third, the questions regarding culture, identity,

communication and commitment in the three kinds of questionnaires (senior managers, junior managers and employees) overlap. Such ‘triangulation’ is a method to improve the validity and reliability of data in case studies. Therefore, this research adopted the method of collecting pre- and post-acquisition information at the same time.

One accounting ratio is chosen to assess the post-acquisition performance of target Chinese SOEs, which is return on assets (ROA). This is because the ROA is an important measure in assessing acquisition performance. Researchers (Meeks and Meeks, 1981) compared performance accounting ratios and concluded that ROA is the most qualified ratio for measuring M&A performance because it is less likely to be influenced by an estimation bias that is caused by the changes of leverage. Furthermore, ROA has been used in the management literature as the main measure of performance to examine M&As, such as Kusewitt (1985) and Barkema and Schijven (2008). Hence, it is acceptable to use ROA as a measure of accounting performance to study M&As in the management literature, so that this research chose ROA as the accounting variable to measure the post-acquisition performances of Chinese SOEs and to explore the relationships between acquisition management and acquisition performance. The ROA, which measures a company’s operating performance, is an indicator of “how efficient management is using its total assets to generate profits” (Wisner et al., 2008, p. 42). The higher the ratio, the more money is earned on less investment (Wisner et al., 2008). Return on net assets (RONA) and return on capital employed (ROCE) are used in a robustness check to evaluate the relationship between acquisition management and acquisition performance. RONA “provides information on how effective the business is in generating revenue from resources and management’s ability to control costs” (Hussey, 2011, p. 330). It provides the overview of the profitability performance (Hussey, 2011). ROCE “expresses the relationship between the operating profit generated during a period and the average long-term capital invested in the business during that period” (Atrill and McLaney, 2008, p. 189). “It compares inputs (capital invested) with outputs (operating profit). This comparison is vital in assessing the effectiveness with which funds have been deployed” (Atrill and McLaney, 2008, p. 190).

The accounting performances of SOEs (ROA, RONA and ROCE) are adjusted by industry peer performance, which are calculated by subtracting industry mean performance from each SOE's performance. The advantage of using this method is making firm performances 'clean' by adjusting for economy-wide factors. The industry peer performance is obtained from the National Bureau of Statistics of China.

The accounting performance of Chinese SOEs is assessed over nine years from four years prior to the acquisitions ( $T = -4$ ) to four years following the acquisitions ( $T = 4$ ) and centred on the acquisition year. This is because, as Yin and Davis (2007) point out, a reform often takes years to complete so that a multiple-year period is necessary. Also, this method is appropriate for measuring the performances of each single case (i.e. within-case analysis) and comparing the performances of all cases (i.e. cross-case comparison). Financial statements were obtained directly from the financial departments of SOEs. The definitions/descriptions of all variables for this research are provided in Table 1.

Following Antila (2006)'s approach, data analysis began with a thorough reading of the interview data part by part, one case at a time in order to form an overall view of stories. After reading, the interview data was coded case by case. The coding process followed Dutton and Dukerich (1991)'s approach, in which interview data was coded sentence by sentence into a theme list. The purpose of doing this is to "document and evaluate the degree and breadth of support for particular themes across informants" (Dutton and Dukerich, 1991, p. 524). The next step is grouping those themes sharing a similar meaning into a super-ordinate theme. This process follows Smith et al. (2009). In this research, there were four super-ordinate themes: perceived necessity and negative emotion, social relationship, group stereotype and social exchange. The themes and their relationships were then developed. The quotes that were chosen by this research reflect the common views of interviewees and the general storyline rather than ex parte aspects. Implicit sentences and wording (i.e. sentences and wording that interviewees were not specifically mentioned) were dropped from the coding as they cause



interpretive bias (Salk and Shenkar, 2001).

To analyse questionnaire data, the completion of questionnaires was firstly checked and then, all data was compiled in a database. Age, education, salary, position were coded into categories. Employee age was coded into three categories, with 1 standing for young employees whose age is lower than 29, 2 standing for middle age employees whose age is between 30 and 44 and 3 standing for older employees whose age is above 45. Education was coded into five categories, with 1 standing for doctoral degree, 2 standing for master degree, 3 standing for bachelor degree, 4 standing for junior college and 5 standing for below junior college. Salary, which is based on a monthly payment, was coded into five categories, with 1 standing for below 1000 yuan (£100), 2 standing for salary between 1001 yuan (£100.1) and 2000 yuan (£200), 3 standing for salary between 2001 yuan (£200.1) and 3000 yuan (£300), 4 standing for salary between 3001 yuan (£300.1) and 4000 yuan (£400) and 5 standing for salary above 4000 yuan (£400). Employee position was coded into three categories, with 1 standing for regular employee, 2 standing for junior manager and 3 standing for senior manager. Size and organisational tenure were nominal data.

### **3.4 Reliability and Validity**

Yin (1994) points out four tests that can be used to evaluate the quality of case studies: construct validity, internal validity, external validity and reliability. Internal validity is only for causal case studies and is therefore not relevant to this study. Construct validity is to form a chain of evidence, from which conclusions can be drawn from the initial research questions (Kuo et al., 1999). Such a chain of evidence derives from the feature of a case study, and is called triangulation (Tellis, 1997b). Triangulation is defined as “a validity procedure where researchers search for convergence among multiple and different sources of information to form themes or categories in a study” (Creswell and Miller, 2000, p. 126). The triangulation of evidence is used to support and prove the data from other sources (Tellis, 1997a) and to enhance the validity and reliability of the

study results (Nahid, 2003). Researchers use different sources of data to triangulate their subjective perceptions (Bonoma, 1985). In this research, construct validity is guaranteed by triangulation because data is collected from interviewing different levels of managers and employees, interviewing people who work at companies and local government, attending internal seminars, and collecting materials from public and private sources. External validity is strengthened using multiple case studies because, as researchers (e.g. Tellis, 1997b) have argued, it is difficult for single case studies to generate external validity. This research strengthens external validity as it adopts multiple case studies. Reliability is improved by creating a case study database (Antila, 2006). This research improves reliability through forming a case study database, which includes all information collected by this research. All in all, reliability and validity can be ensured through drawing consistent results from different methods and sources of data (Larsson and Finkelstein, 1999).

Cronbach's alpha coefficient was calculated to check the reliability of the scales that are measured in the questionnaires. Cronbach's alpha is a coefficient of reliability, which is commonly used as a measure of the internal consistency reliability of test scores for a sample (Pallant, 2005). Management papers generally use Cronbach's alpha to check the reliability of questions in questionnaires. Cronbach's alpha is defined as:

$$\alpha = \frac{K \bar{c}}{\bar{v} + (K - 1)\bar{c}}$$

where

$\alpha$  is Cronbach's alpha coefficient,

$K$  is the number of items,

$\bar{v}$  is the average variance,

$\bar{c}$  is the average of all covariances between the items.

The measures are considered reliable when the value of Cronbach's alpha coefficient is above 0.7 (Pallant, 2005). The Cronbach's alpha coefficient of each variable (pre-acquisition identification, post-acquisition identification, cultural incompatibility, communication, fast reform, a sense of continuity, job satisfaction, negative emotion and organisational commitment) that were assessed in the pilot study and the main study are shown in Table 2. The questionnaires show a good reliability as all values of Cronbach's alpha coefficient are above 0.7.

To sum up, this research is in accordance with the conditions of using case study methodology because it is exploratory and explanatory in nature. A questionnaire-based pilot study was conducted in order to check the applicability of questions and to see whether some key points were missed out or whether other new issues emerged and also to choose key points for the following in-depth main study. One-to-one interviews were the primary methodology for the main study. A quantitative method is adopted in order to investigate the factors determining post-acquisition identification, to evaluate acquisition management and to explore the relationships between acquisition management and acquisition performances. The detailed results are shown in Chapter 4.

## Chapter 4: Results

This chapter presents the findings of the pilot study and the main study. Considering that the aims of the pilot study are testing the applicability of the questionnaires and checking whether new information will emerge, the pilot study simply examines the influences of acquisitions on employees, and the relationships between various factors (pre-acquisition identification, cultural incompatibility, communication, a sense of continuity and negative emotion) and post-acquisition identification. The results section of the main study begins with the interview findings, focusing on four areas: perceived necessity and negative emotion, social relationship, group stereotype and social exchange. The statistical results will be given following the interview findings, including hierarchical regression to test the factors influencing post-acquisition identification, the ordinary least squares regression (OLS regression) and firm fixed effect regression to test the influence of acquisitions on SOE acquisition performance, and finally, correlation analysis to explore the relationship between acquisition management and acquisition performance.

### 4.1 Pilot Study

A picture of how cross-border acquisitions impact on Chinese SOE employees can generally be obtained from questionnaires. For instance, managers from both companies reported that the employees who they had taken charge of had already known something about the acquisitions before the first formal meeting was held. After receiving the acquisition information from formal meetings, employees reactions tended to be concentrated on ‘Are there any changes in our company?’ and ‘Do these changes affect my job?’ Some employees also reported ‘What should I do in the future?’ Meanwhile, junior managers from both companies reported that employees who they had taken charge of asked whether the acquisition would affect their jobs. Junior managers from Company A also reported that employees talked with them about stresses and worries. These reactions indicate that employees showed a high level of uncertainty and worry

about their roles in the new organisations. Job security was the factor causing most concern among employees. Furthermore, employees reported a strong ‘us’ versus ‘them’ dynamic. This is consistent with previous studies on social identity theory and self-categorization theory that people have more in common with group members, so that they tend to favour in-group members and discriminate against out-group members when they are confronted with M&As.

Two companies reported cultural changes in managerial culture/leadership styles, values and working style as they tended to be ‘Western stylish’. This culture clash caused worries about the risks after acquisition, difficult to accept the new managerial style of the acquirers and a high employee turnover. Employees from Company A also reported that they talked with managers about their stresses and worries.

Regarding jobs and responsibilities, two SOEs reported that the reporting style of managers (both senior managers and junior managers) had changed and responsibilities and jobs for different departments had been re-defined. Chinese managers had to report to acquirers after the acquisitions. Company A also reported that the jobs and responsibilities of employees, managers (both senior managers and junior managers) and departments had been changed. According to comments, employees suffered an extremely high working pressure after acquisitions. One particular point to note relates to the Party Organisation and the Trade Union. Company A still retained these departments but Company B downsized them. One possible reason is that Company A’s acquirer knew more about Chinese culture than that of Company B and therefore the employees of Company B showed stronger dissatisfaction than the employees of Company A. In fact, according to the assessments for the acquirers, the majority of participants (60.1%) from Company B reported that the compatibility of organisational culture gave the most dissatisfaction in the acquisition, while the participants of Company A thought the compatibility of organisational culture gave the most satisfaction in the acquisition. Thus, downsizing the Party Organisation and the Trade Union led to employee dissatisfaction with the acquisition and acquirer. Two companies

admitted that the compatibility of organisational culture was the most difficult part in the process of acquisitions.

Only Company B's acquirer provided communication with SOE employees during the acquisition and this communication led to a relative high score in employees' assessment. Participants from Company A, however, reported that the most dissatisfaction for the acquisition was with communication.

Table 3 provides basic information for variables, including number of observation, mean, median, minimum, maximum and standard deviation. Table 4 provides correlations between variables. The correlations show that post-acquisition identification is significantly positive correlated with the pre-acquisition organisation ( $r = 0.280, p < 0.05$ ), communication ( $r = 0.243, p < 0.1$ ) and a sense of continuity ( $r = 0.375, p < 0.01$ ). Post-acquisition identification is significantly negative correlated with cultural incompatibility ( $r = -0.387, p < 0.01$ ) and negative emotion ( $r = -0.520, p < 0.01$ ).

A hierarchical regression is chosen to obtain a deeper view on the extent to which each factor (pre-acquisition identification, cultural incompatibility, communication, a sense of continuity and negative emotion) contributes to explaining the post-acquisition identification after controlling for age, education, salary, size, employee position and organisational tenure. The reason for excluding organisational commitment from analysis is that, as discussed in the Literature Review chapter, organisational commitment is the behavioural and emotional outcome of organisational identity so that it cannot be considered as a predictor of post-acquisition identification. The reason for excluding job satisfaction from the analysis is that empirical studies have concluded that post-acquisition identification is correlated with job satisfaction because high organisational identifications facilitate positive evaluation of objects, such as job (e.g. Van Dick et al., 2004b; Van Dick et al., 2006). Although these researchers admitted that their study has limitations as they cannot rule out the causal effect of identification on

job-related attitudes, that is, the effect of job-related attitudes on identification (e.g. Van Dick et al., 2004b; Van Dick et al., 2006; see also Van Knippenberg and Van Schie, 2000), this research follows their point that post-acquisition identification influences job satisfaction as this point has been widely accepted by previous studies. The reason for putting organisational tenure into the control variables is to follow the method of previous studies (e.g. Bartels et al., 2009; Van Dick et al., 2004b) because extant research has shed light on a positive relationship between organisational tenure and organisational identification (e.g. Dutton et al., 1994; Van Dick et al., 2006; Cartwright and Schoenberg, 2006): an employee's identity is increased according to the period he/she stays with an organisation (Dutton et al., 1994; see also Haslam et al., 2003). The reason for putting employee position into the control variables is also to follow the method of previous studies (e.g. Van Dick et al., 2004b). Therefore, in hierarchical regression, the control variables are age, education, salary, size, employee position and organisational tenure, while the independent variables are pre-acquisition identification, cultural incompatibility, communication, a sense of continuity and negative emotion. To operate hierarchical regression, age, education, salary, size, employee position and organisational tenure are entered as control variables in the first stage. Then, other factors are entered as independent variables in the second stage. The results of hierarchical regression are shown in Table 5.

As shown in the hierarchical regression, Model 1, which only includes the control variables (age, education, salary, size, employee position and organisational tenure), explains 26.6 per cent of the variance ( $0.266 \times 100$ ). This model in general makes a significant contribution to post-acquisition identification ( $R^2 = 0.266$ ,  $p < 0.05$ ), which is the same for one of the six control variables: employee position ( $\beta = -0.598$ ,  $p < 0.05$ ). After including the independent variables, the model (Model 2) as a whole explains 56.8 per cent of the variance ( $0.568 \times 100$ ) of which 30.2 per cent ( $0.302 \times 100$ ) is explained by independent variables as an additional variance when the impact of control variables is controlled for. This is a statistically significant contribution because  $\Delta R^2 = 0.302$ ,  $p < 0.01$ . The model as a whole (which includes control variables and independent variables)

is significant [ $F(11, 40) = 4.788, p < 0.01$ ]. All independent variables are significantly related to post-acquisition identification so that H1, H2, H6, H7 and H8 are supported.

The pilot study verifies that the questionnaires in general were well understood by the participants. The preliminary results not only prove the research hypotheses in general, but also provide a basic view on the acquisition activities taking place between Western firms and Chinese SOEs.

## **4.2 Main study**

Based on the results of the pilot study, in-depth studies were carried out in four SOEs. The following section will present the results of the main study and explore what is common across cases and what is specific to each case.

### **4.2.1 Case One**

Most employees identified strongly with the pre-acquisition organisation because of the social relationship developed through long-term service to the company. The social relationship, which provided employees with a positive identity, strengthened in-group similarity, attraction and in-group favouritism and therefore, led to a sense of intertwinement and a sense of cohesion. As one employee reported:

*I have worked here for almost all my working life. I thought there was a close relationship between my fate and Company H ... all colleagues here were close friends. I like them because I know them and even their families very well ... we share similarities and we cultivated a sense of unity with each other.*

This comment in general provides the view that the close social relationship associated with colleagues and even their families strengthens employees' sense of intertwinement with the company. In particular, this comment indicates that the close social relationship feeds into employees' in-group favouritism and attraction ("*I like them because I knew*



*them and even their families very well*”). Such social relationship further increases employees’ sense of ‘familiarity’, shared similarity and a sense of cohesion (“*we share similarities and we cultivated a sense of unity with each other*”). Another employee commented how this social relationship provides him with a sense of familiarity and therefore, reduces his uncertainty and increases his sense of belonging:

*I feel a sense of belonging and certainty through working at Company H because I know how to co-operate with people from other departments, I know whom I need to contact when a problem arises ... there are so many things that I am familiar with ... I think working here represents who I am.*

The social relationship established through working at the company feeds into employees’ commonly shared identity and reduces their uncertainty of self-definition in a social category – Company H in this case (“*I know how to co-operate with people from other departments, I know whom I need to contact when a problem arises*”). The reduced uncertainty increases employees’ satisfaction and a sense of belonging because Chinese culture is characterised by high uncertainty avoidance.

Overall, employees showed a strong identification with the pre-acquisition organisation because social relationships provided them with a positive identity, reduced uncertainty, hence, leading to positive intra-group behaviours, such as in-group favouritism, cohesion and belonging.

Acquisition influenced employees’ identification with the post-acquisition organisation on the perceived necessity and negative emotion, social relationship and group stereotype. Detailed explanations will be given as follows.

#### **4.2.1.1 Perceived necessity and negative emotion**

The extent to which employees perceive the necessity of acquisition depends on the communication they received before and during the process of acquisition. In Case One,

the acquisition information was centralised within the top management of the two companies and neither the Chinese managers nor the acquirer formally informed Chinese employees of the acquisition at the pre-acquisition stage, such as presenting the major changes of acquisition strategy or holding periodic meetings with employees. Employees knew the information from rumours and other informal means. The widespread rumours and other unofficial information caused insecurity, anxiety, uncertainty, fear and stress among employees, which are the typical phenomena of merger syndrome. On the one hand, the insufficient communication induced anger among employees as they felt and saw that ‘something was happening’ but neither Chinese managers nor the acquirer formally communicated with them. On the other hand, the insufficient communication caused uncertainty, which was primarily presented by a compound feeling of a lack of clarity about the organisational future and personal fate. This made a difficulty for employees to face the acquisition and therefore, they tended to withdraw their attachment to the post-acquisition organisation and became psychologically isolated from it. As one interviewee responded:

*We have never been informed about the acquisition! We did not know what would happen in our company and we knew nothing about them (the acquirer)! In my personal view, I was very angry about this as I know something was happening but no one clarified it! So there were many rumours around me and I felt uncertainty, stress and fear. I was quite concerned about my job. I found it was difficult to deal with the acquisition and I did not feel much belonging to the new organisation.*

This comment highlighted the importance of job security for employees. Indeed, job-related uncertainties gave employees’ most concerns, concentrating on: ‘Are there any changes in our company?’ ‘Do these changes affect my job?’ ‘What should I do in the future?’ These uncertainties and worries lasted even after receiving the acquisition information.

After receiving the acquisition information, employees showed a negative attitude

toward the acquisition due to their sense of 'loss of control' and 'being dominated'. The sense of 'loss of control' and 'being dominated' caused employees' anger because they refused to be dominated by Westerners -- an out-group. A junior manager indicated:

*WE are Chinese, why we are controlled by THEIR foreigners?! Why can't we be controlled by a Chinese company?!*

This comment showed a strong 'us' versus 'them' motive: employees have more in common with Chinese workers who were perceived as in-group members so that they perceived more attractiveness with the in-group members and showed in-group favouritism, while they perceived dissimilarity with the Western acquirer who was perceived as out-group members so that they disliked and showed out-group discrimination. Further, as presented above, employees showed a strong identification with Company H before the acquisition because of their close social relationship. This strong in-group identity caused a strong in-group cohesion and out-group discrimination. This in-group favouritism and out-group discrimination caused employees' resistance to being dominated by the Western acquirer and their unwillingness to accept foreigners -- out-group members -- breaking their social relationship that had been established before the acquisition. As an employee reported:

*I like the way of working, I like the relationship associated with other employees and even with managers, I like everything in Company H. I really do not want our smooth working environment to be broken by foreigners. REALLY!*

The sentence "*I really do not like our smooth working environment to be broken by foreigners*" indicates that Chinese employees refused to accept the Western acquirer and resisted being dominated by them, not only due to out-group discrimination, but also due to uncertainty avoidance. Given that Chinese culture has high uncertainty avoidance as a feature, any change which may induce uncertainty -- 'smooth working environment to be broken' in this comment -- tends to be discriminated against by Chinese

employees. Discriminating against the Western acquirer impeded employees' willingness to accept the acquisition and pushed them back to the old identification, which lowered their identification with the post-acquisition organisation.

In general, inefficient communication before and during the process of acquisition failed to provide employees with a perception of the necessity of the acquisition. Due to a high identification with the pre-acquisition organisation, employees refused to accept the acquisition and the new identification from the acquirer because of their sense of 'being dominated' by an out-group and the motivation of uncertainty discrimination. This out-group derogation and uncertainty discrimination decreased employees' sense of belonging to the organisation and therefore, lowered their identification with the post-acquisition organisation.

#### **4.2.1.2 Social relationship**

Given that acquisition is a process of absorption of a target company into the acquirer, this absorption changes the external environment of the target company and therefore, its social relationships have to adapt. Also, acquisition changes the target company's internal social relationship due to the appointment of new group memberships (e.g. expatriates and new employees). The acquirer of Case One appointed two expatriates to Company H as General Manager and Deputy General Manager and also recruited a Chinese employee as Chief Engineer and two Chinese Canadians as Technical Director and Chief Finance Officer (CFO). The imposition of new group members generated the conflicts in the social relationship. The conflicts were firstly related to the lack of trust. A senior manager stated:

*As a senior manager, I have found difficulty in developing trust with them (the acquirer). They do not trust our Chinese managers and they believe their own actions are correct.*

A senior manager who was the General Manager of Company H before the acquisition showed his anger about the lack of trust on the part of the acquirer:

*I felt that I was not being properly respected! I had been the 'householder' of this company and I know everything about the company! But now, they (the acquirer) do not fully communicate with me! They always hide something! I do not know why! I am so angry! I am still a senior manager of this company! And I DO have rights to know about THIS company!*

The difficulty in developing trust with the acquirer makes Chinese managers wonder whether the reason may be status differences between Company H and the acquirer:

*I do not know why they (the acquirer) do not trust us. Is it because they bought our company and therefore they think they are superior?*

In fact, extant theories underlie the fact that the difficulty in developing trust with acquirers on the part of target companies is attributed to the status difference between them. This is because acquiring companies are normally superior and more powerful than target firms so typically the acquiring company's position has a dominant status while the target company's position is that of dominated status. This status difference strengthens the superiority and power of acquirers so they are more likely to stick to their decisions and lack trust in the target firms.

The violation of social relationships was also caused by the post-acquisition recruitment. The problems in communication and co-operation with new employees who were recruited after the acquisition made social relationships problematic. Although the acquirer appointed Chinese as managers and translators to bridge the cultural distance, it ignored an important point, which is that there are differences between returned overseas Chinese and local citizens in concepts and mind-set. Although these translators were good at English, they were not professionals familiar with the industry so that they did not know about technical matters. All new translators had to study academic words in the Technology Department for a period. All these impeded the day-to-day

communication and provoked employees' dissatisfaction. Comments from the Human Resources Chief are typical:

*The translators of Company H are all returned overseas Chinese. Yes, we cannot deny that they are Chinese but they lack an understanding of China. This is because they left China for a long time so their concepts have changed to that of Westerners. They often misunderstand when in communication with our employees. Furthermore, they do not know about technical things... so many employees complained about these problems and they think it is tiring to work with new staff.*

Employees' dissatisfaction toward new employees and their complaints about working with new employees violated their social relationships, which decreased their intertwinement with the post-acquisition organisations and therefore, their identifications. As a junior manager complained:

*It is so tiring working with new employees. Communications are not smooth, co-operation is terrible, interactions are bad ... they know little about the current situation of China! They, more or less, have changed to Westerners ... I really yearn for our old company and our old relationship. Yes, I admit that my identification is low.*

The violation of social relationships induced inter-group conflicts, which lowered Chinese employees' willingness to cohere with the post-acquisition organisation:

*... there are many conflicts taking place ... I have to say that the existing relationship between them and us is superficial. It is just like the relationship between a child and his/her step-mother.*

The word of “*superficial*” and the sentence of “*It is just like the relationship between a child and his/her step-mother*” indicate three meanings. First, it infers how employees perceive the relationship between themselves and the pre-acquisition organisation:

children and mother, and what affection employees show towards the pre-acquisition organisation: i.e. family-like. This indicates that Chinese employees perceive the organisation as a 'family' rather than a 'work place', which again, proves the importance of social relationship in fostering Chinese employees' identification. Further, a family-like organisation indicates what the working environment of pre-acquisition organisation looks like: harmony, cohesion and looking after each other, which are embodied in Chinese culture. This comment secondly describes the negative psychological consequences that employees presented to the post-acquisition organisation, such as isolation, the withdrawal of attachment, the decrease of affection and the loss of intertwinement and belonging. The third meaning indicated by this comment is inter-group conflicts. Suffice to say, this comment indicates that employees treated pre-acquisition organisation as a family, which induced their a series of negative psychological and attitudes toward the post-acquisition organisation and the conflicts perceived within the post-acquisition organisation. As one employee commented:

*I feel sad because our family-like atmosphere has been fading out gradually ... Frankly speaking, I do not feel that I put many THINGS in the new organisation ... there are so many conflicts and incompatibilities taking place between them and us.*

Although employees perceived the problem in the social relationship with the acquirer, they valued the social relationship with Chinese colleagues. A junior manager commented:

*I am very lucky that there has been no change in my department. All my subordinates have been retained. It is really a nice thing not just for me, but also for them (the subordinates) because we can work as before, we can communicate as before and we can socialise as before ... It is really a nice thing ... We feel that everything is still there.*

An employee who is one of the subordinates of the above junior manager reported:

*Yes, no change and everyone is here make me happy. No new employee has broken in and no one has left. I still work with the same colleagues and the same manager ... We are still together. Our relationship has been retained ... I still feel belonging ... I identify with the post-acquisition organisation.*

The above comments indicate the importance of maintaining employees in the organisation after the acquisition and it is particularly the case for acquisition management in Chinese companies as Chinese highly value the social relationship within the company. According to the comments, employees drew satisfaction from the maintaining of social relationship which fostered their sense of continuity between the pre- and post-acquisition organisation (“we could work as the same as before, we could communicate as same as before and we could socialise as same as before”, “We feel that everything is still there”, “I still work with the same colleagues and the same manager”, “We are still together”). The keeping of the original social relationship established in the pre-acquisition organisation maintained employees’ sense of belonging. All these are useful for identification transfer.

The second comment above shows the underlying two kinds of social relationships: the co-worker relationship and the management-employee relationship. Chinese employees highly value the social relationship with the management team due to the Chinese culture, in which people respect seniority and hierarchy and they are loyal to their superordinates. Given that the Chinese management team was retained in general, it is a way to keep employees’ social relationships in day-to-day work and maintain the management-employee relationship, which is a way for identification transfer. The following comments are typical:

*The retaining of the Chinese management team is a good thing for me as I have worked with our managers for quite a long time and I like working with them. For me, this is an important reason to stay here after the acquisition. I also think it is an important reason for perceiving similarity between the pre- and post-acquisition organisation and*



*maintaining my identification.*

*The retaining of our Chinese management team keeps my feeling of belonging and continuation because I still see and work with the same managers in my day-to-day work. What I identified with in the pre-acquisition organisation has been kept, so I still identify with this organisation.*

The keeping of social relationship and the maintaining of a sense of continuity were more evident at the bottom end of the hierarchy than at the top end because shop-floor workers still did the same jobs, they co-operated with the same colleagues and used approximately the same equipment. These ‘same things’ maintained the social relationship and the sense of continuity employees perceived at the post-acquisition organisation, which is useful for identity transfer.

Overall, the distrust and the problems of communication broke the family-like social relationship for Chinese employees and generated inter-group conflicts, which isolated Chinese employees’ attachment to the new organisation. The retaining of the original social relationships with Chinese co-workers, especially, with the Chinese management team is a useful way to keep employees’ identification as Chinese highly value the social relationship.

#### **4.2.1.3 Group stereotype**

Since Company H has experienced a set of reforms since the acquisition in order to conform to the acquirer’s system, some of its group stereotypes have been inevitably changed. In addition, conflicts took place in day-to-day work due to stereotype differences between China and the U.S.. The incompatibilities of group stereotype are primarily attributed to the violation of the ways of doing things, which is provided by culture.

Having been established for decades, the culture of Company H was influenced strongly

by Chinese traditional culture and SOE traditional culture, which is characterised by harmony, collectivism, centralised decisions and human kindness. As one respondent stated:

*Company H has been established for more than thirty years and it was influenced by Confucianism. Before the acquisition, employees maintained a harmonious and close relationship with each other, regardless of their positions. More importantly, people paid particular attention to human kindness.*

Due to the significant national cultural differences between the U.S. and China and the high organisational cultural differences between Company H and the acquirer, the acquisition has violated Company H's the ways of doing things. That is, employees' long-term attachment to the organisational stereotype was challenged and disrupted. According to the interviews, the majority of employees commented the incompatibility of culture and management as the most dissatisfaction in the acquisition.

The violation of group stereotype is firstly evident in fast reform, which accompanied with cultural imposition during and after the acquisition. Fast reform functioned as transforming self because employees struggled to make sure 'who they are' during the reform and felt a sense of loss of self. An employee reported her feelings during the process of fast reform:

*I found that our old company has been faded out gradually, which caused a strong sense of loss for me. I wondered who I was. It is like a child losing his/her mother.*

The sense of loss of self further resulted in employees' motivation to question self, struggle to accept self and go into denial to protect their old self:

*It was not pleasant to be a member of the post-acquisition organisation. I am used to working in the old company and I'm familiar with all the things such as organisational*

*norms, working styles, ways of solving problems and the work tempo. However, all these things have been changed since the acquisition. They (the acquirer) imposed new things on us. Such imposition resulted in widespread discontinuity, uncertainty and a diffuse feeling of loss. I often ask myself 'Where am I?' 'Am in Company H or Company G (the acquirer)?' ... I still identify with the old organisation.*

*I don't really identify with the new company much because ... imposition caused widespread discontinuities and uncertainties. We often ask 'What is next?' I realised that those changes were difficult for me to cope with.*

The questioning self and struggling to accept self (“Where am I”, “Am in Company H or Company G (the acquirer)”) led to employees’ tendency to deny the new identity in order to protect the old self. In addition, the fast reform caused uncertainty, confusion (“What is next?”, “Where am I”, “Am in Company H or Company G (the acquirer)”) and discontinuity among employees, which were also responsible for pushing employees back to old identification and eroding their post-acquisition identification (“I still identify with the old organisation”, “I don't really identify with the new company much”).

The violation of the ways of doing things is also demonstrated by the acquirer’s attitude toward the Party Organisation and the Trade Union. The Party Organisation and the Trade Union were downsized during the acquisition. Employees who are the members of the Communist Party (known hereafter as ‘Party members’) have not paid membership fees for six months. This downsizing of the Party Organisation threatened employees’ positive self-concept, which functioned as transforming self. The following comment shows employees’ feelings about the threat to their positive self-concept when they faced the downsizing of the Party Organisation:

*As a young employee, I became a Party member when I was an undergraduate student at university. I did my best to join in and I succeeded. I am very happy and I am proud*

*of that. However, the Party Organisation was unexpectedly downsized during the acquisition and therefore, I am going to lose my four-year Party member tenure. I do not want to lose it! I am very angry and disappointed! I do not know what I can do in the future!*

Employees felt pride and self-enhancement from joining the Party and the Party Organisation's downsizing threatened their self-enhancement, which caused their anger, sense of loss, disappointment and uncertainty. In fact, the downsizing of both the Party Organisation and the Trade Union resulted in letters and visits. This is *Xinfang* in Chinese and refers to "citizens, legal persons or other organizations giving information, making comments or suggestions or lodging complaints to the people's government at all levels and the relevant departments of the people's government at or above the county level through correspondence, These include e-mails, faxes, phone calls and visits, which are dealt with by the relevant administrative departments according to law" (State Bureau for Letters and Calls, 2005). Many employees went to Beijing to complain to the acquirer. These letters and visits showed the employees' resistance in protecting the old self in order to maintain their positive self-image.

The violation of the ways of doing things is thirdly evident in the breaking of the Chinese traditional values. For example, the adoption of a new salary structure broke the value of equalitarianism and the respect for seniority, which had a two-sided effect on employees. Managers are the beneficiaries, while those employees who work at the lower end of the hierarchy with high seniority in the organisation are not. They perceived the adoption as an unfair reform and therefore, were strongly dissatisfied. As a senior manager commented:

*Before acquisition, an employee's salary was measured based on position, skill and seniority. After acquisition, an employee's salary is measured based on his/her position only. It has no relationship with age and seniority ... Management wages were increased. Now, their salaries were 2 or 3 times as much as that of production*

*workers ... From this adoption, it clearly shows the value difference between them (the acquirer) and our Chinese: they focus on one's ability, responsibility and job content, while our Chinese pay attention not only to one's ability, responsibility and job content, but also to his/her seniority in the organisation because we respect this. This is our Chinese culture, isn't it? ... The much larger pay difference between management and production workers is totally different from our traditional values.*

Unexpectedly, value conflicts were not only brought by the acquirer, but also by the new Chinese generation. New employees who were recruited after the acquisition contributed to the severe shock felt by those dependent on the old concepts. Examples of comments are as follows:

*Value incompatibility is largely brought by them (acquirer) but also brought by new employees. New employees are primarily new graduates who are individualistic young people. Their concepts are different from those of our middle-aged people. For example, they desire a high salary and often job-hop. I cannot agree with their behaviours.*

*The employment concept of the current generation is different from that of our older generation. In our minds, people should work at a company for all their working lives without any complaints. The current generation, however, desire high salaries so job hopping is quite a common phenomenon among them. Given that young people are generally the only child in their family, they are the king or princess for their families. They enjoy a comfortable life and cannot bear hardships. Thus, most of them left the company due to the poor working environment ... I can tell you an extreme example. A new employee came to Company H on his first day, he wore a new uniform and walked around the plant. He never came back after 8 hours (his first day). I do not agree with their values and behaviours.*

The concept difference between the young Chinese generation and the older generation is a fact in China. As China quickens the pace in opening up to the world, it has

absorbed some foreign concepts. The young generation who have grown up in this environment have, more or less, accepted these concepts, so that their values are, more or less, different from the old ones. That is why they contribute to the shock felt by old generation.

The fourth factor that violated the ways of doing things is the decision-making, which is derived from leadership style/managerial culture and working style. The leadership style/managerial culture of Company H was characterised by directive because China is a high power distance country where decision-making is highly centralised and the authority is highly concentrated. The leadership style/managerial culture of the acquirer was characterised by democratic as the U.S. is a low power distance country where decision-making is decentralised and the authority is low concentrated (see also Šliburytė, 2005). Conflicts then took place as the acquirer tended to consult opinions from their Chinese subordinates but Chinese employees wanted to obey orders from the acquirer. A junior manager reported:

*The Chinese leadership style/managerial culture is characterised by centralised decision making, while the American leadership style/managerial culture is characterised by open ... Our Chinese respect superordinate and hierarchy. Questioning a superordinate's decisions means offence so it is not polite to question things that are proposed by the superordinate. So, that is why we obey the decisions made by the superordinate and do not doubt them. However, they (the acquirer) do not know that this is our culture. They complain that we lack initiative and we are reluctant to give opinions. It is totally unfair, isn't it?*

In addition, due to China being a high uncertainty avoidance country, managers are reluctant to make individual and risk decisions, while the U.S. is a low uncertainty avoidance country in which managers are involved more in decisions (Šliburytė, 2005). This cultural difference caused conflicts between Chinese managers and the acquirer. A senior manager reported:

*It is absolutely really harsh situation! They (the acquirer) often complain that we are not willing to take personal responsibility to give decisions and prefer the team members to shoulder the responsibility together. It is unfair! We are NOT unwilling to take personal responsibility to make decisions. The fact is that we have to consult other people's opinions and carefully investigate the potential risks before a decision is made. That is our Chinese ways of doing things!*

The violation of the ways of doing things is also evident in the ways of managing employees and controlling operation. For example, the acquirer would like to give autonomy to shop-floor workers as an incentive mechanism but the truth is that this method is not compatible with Chinese culture. A typical comment is:

*It is impossible to give autonomy to Chinese shop-floor workers due to their low quality. We need to set a series of standards to measure their performance. Otherwise, we cannot control our production quality.*

The above five factors show that cultural incompatibility is the primary factor generating the changes and the conflicts of group stereotype. This is responsible for the transforming self and therefore, linked to post-acquisition identification. The following comment described employees' motivation to deny the new value in order to protect the old self:

*Yes, I think the cultural incompatibility links to the decreased organisational identity ... the value incompatibility made me angry and confused because it threatened my rooted value and challenged the 'right' things that I used to stick to ... I cannot accept them (the new culture) ... It's not the organisation that I am familiar with ... so my identification with the new organisation decreased.*

*The new culture violated the old mind-set that I have stuck to for decades. It changed*

*my traditional ways of doing things in the organisation. This organisation is not our organisation. I am so tired of working here. My identification is low.*

These comments indicate that the group stereotype, like culture, represents the ‘right’ thing for employees because it is deeply rooted in the employees’ mind-set and it guides people’s ways of doing things in the organisation. The cultural incompatibility violated this deeply rooted stereotype and hence, challenged and threatened employees’ self-concept. Employees, thus, felt a sense of loss and tended to refuse the new stereotype to protect the old self (“*I cannot accept them (the new culture)*”) (“*This organisation is not our organisation*”) and consequently, this reduced their identification (“*my identification with the new organisation decreased*”, “*My identification is low*”).

However, some employees, especially young employees reported a contradictory view because they did not agree with some of the old stereotypes rooted in SOE and the imposition of new group stereotypes provided them with a positively valued identity. The typical comments are:

*Company H is a typical SOE so many traditional ideas can be found here such as equalitarianism and an easy working environment. However, I want to do something meaningful and challenging because I am a young man. I do not want to waste my time here. I think some of the norms changed by them (the acquirer) are good, such as introducing competition.*

*Old concepts are deeply rooted in employees’ minds, especially in middle-aged and older employees. I think those old concepts are too old to keep pace with this modern world. For example, we think competition is the most common thing nowadays and the concept of the ‘iron rice bowl’ is too old to be consistent with the current economic situation, but the old-age employees still adhere to this concept. Although I cannot identify with some of the changes that have been carried out by the foreigners (acquirer),*



*I think the input of new advanced concepts is a good thing.*

As shown above, the concept of young employees is more or less in accordance with those of Westerners, so it is easy for them to accept Western culture and they are more likely to derive a positive identity from Western culture and reported an identification increase. Therefore, the change of group stereotype functions as self-enhancement for young employees.

Overall, the acquisition changed the group stereotype of the target SOE, which was primarily focused on culture. The fast reform, the acquirer's attitude toward the Party Organisation and the Trade Union, the breaking of the Chinese traditional values, the conflicts in decision-making and the incompatibility in ways of managing employees and controlling operation were the major reasons which were responsible for the violation of the group stereotype. The violation of the group stereotype functions as transforming the self for employees as employees felt a sense of loss and refused to accept the new stereotype in order to protect the old self. These negative effects decreased their post-acquisition identification. However, due to the value difference between the young Chinese generation and the older generation, the young employees were more likely to derive a positive identity from the new group stereotypes brought by the acquirer.

#### **4.2. 1.4 Social exchange**

Employees' commitments to the new organisation have been affected since the acquisition. The decrease of employees' commitment to the new organisation is due to the organisational injustice employees perceived during and after the acquisition, which decreased their reciprocity to the post-acquisition organisation. The organisational injustice is firstly evident in the job area and concentrated on the conclusion of the new employment contract. Typically, employees in Company H had never been worried about their job before the acquisition because of the traditional SOE culture: employees were entitled to a long-term employment contract, either fixed-term (5 years) or

permanent. Moreover, according to China's labour law, the employer should provide a permanent employment contract for employees when at least one of three criteria is met: (1) the employee has been working for the employer continuously for ten years. (2) the employer starts carrying out an employment contract system the first time or when the employer (SOE) restructured and the employment contract has to be re-concluded, the employee has been working for the employer continuously for ten years and will retire within the next ten years. (3) when the employees agree to conclude the third consecutive fixed-term contract with the employer, a permanent employment contract must be concluded (The Central People's Government of the People's Republic of China, 2007). Due to China's labour law and traditional SOE culture, the majority of employees in Company H concluded either a fixed-term or permanent employment contract with the company before the acquisition. As a result of the acquisition, they had to conclude a new employment contract with the acquirer, which means that their long-term employment contract was broken and replaced by a short-term employment contract (one year for the first contract and two years for the second contract). The re-conclusion of employment contract with the acquirer increased employees' job insecurity and decreased their job satisfaction. As one employee explained:

*I was very satisfied with my secure job as it is difficult to conclude such a long-term employment contract with an organisation nowadays. The re-conclusion of the employment contract destroyed my job satisfaction. I am dissatisfied with my current job.*

According to this comment, the re-conclusion of the employment contract 'took away' employees' job security, which is difficult to obtain now and therefore, this led to procedural injustice. The following comments illustrated how employees perceived procedural injustice during the process of acquisition, how they felt a threat to their personal future in the new organisation, and how they acted in response to the injustice:

*Yes! My commitment has decreased since the acquisition due to the threat and*

*uncertainty of job security ... I worked here because I enjoyed permanent job security. However, the security has gone ... I have to conclude a new contract with them (the acquirer), a SHORT-TERM contract. I think it is unfair for us ... I do not know what my future will be ... I feel that it is meaningless to work here so I do not want to put my efforts into the new organisation. I want to leave here!*

*I never thought I would worry about my job security when I joined Company H! However, acquisition has left me with no job security and I am very worried about my future. Who knows whether I will still be working here next year? ... Insecurity makes me nervous. I wish I could escape and find another place.*

*I am so angry about the re-conclusion of the employment contract! I enjoyed a permanent employment contract before the acquisition ... I felt a sense of belonging ... I think it is what I deserve because I have worked here for 12 years! The re-conclusion of the contract broke my job security ... threatened my sense of belonging. I feel that my past efforts are NOT WELL acknowledged and I feel badly treated! I am beginning to worry about my future in the new organisation. It is unfair! Absolutely unfair! Why should I commit to them (the acquirer) when they treat us unfairly?*

These comments indicate how the procedural justice perceived by employees (job security) fed into employees' social exchange ("I think it is what I deserve because I have worked here for 12 years!") and how the procedural injustice derogated their social exchange ("I worked here because I enjoyed permanent job security. However, the security was broken", "I never thought I would worry about my job security when I joined Company H! However, acquisition has broken my job security and I am very worried about my future", "I feel that my past efforts are NOT WELL acknowledged and I feel badly treated!") and therefore, decreased their reciprocity to the organisation ("I feel that it is meaningless to work here so I do not want to put my efforts into the new organisation. I want to leave here!", "I wish I could escape here and find another place", "Why should I commit to them (the acquirer) when they treat us unfairly?").

That is, the re-conclusion of employment contract with the acquirer decreased employees' 'output' (i.e. the reward of job security from the organisation) and hence, violated the justice they perceived in the post-acquisition organisation and consequently, breaking their social exchange. Employees, thus, tended to lower their 'input' to the organisation, which is commitment.

The second factor that is responsible for organisational injustice is the downsizing of the Party Organisation. The downsizing of the Party Organisation induced the unfairness in the eyes of the employees, which violated the procedural justice and therefore, decreased employees' commitment. As one employee reported:

*The President of Company H is an American. Although he and the acquirer know the Trade Union, they do not understand the Chinese Trade Union and Party Organisation. I have been a member of the Party for two decades. I am not willing to see that my Party member status is going to be terminated because of acquisition! I do not know why they (the acquirer) downsized the Party Organisation. It is unfair for us!*

However, the social exchange also has been strengthened due to the increase of distributive justice and hope perceived by employees after the acquisition. The increase of distributive justice and hope were contributed by the recovering of Company H after the acquisition. Company H has had a status of semi-production since 2000 so that employees had to spend half a year at home. The situation would be better after the acquisition and thus employees showed a positive attitude toward the acquisition and said that they would like to work for the new firm. Moreover, the acquirer improved the 'hardware' of Company H, which also increased employees' hope of working at the company in the future. Some of the comments included the following:

*Our company has not run well since 2000 because of the increase in raw material prices. We have been in status of semi-production since 2000 so we were off work for half a month. However, now we can work for a full month and our wages have been*

*increased since the acquisition (this is due to the long working time but not due to an increase of salaries). Therefore, the acquisition is good news for us from this point of view and I would like to work here.*

*Although there have been some conflicts between foreigners and us, the current situation of our company is better than that of pre-acquisition. For example, they (the acquirer) have invested a large amount of money in upgrading our equipment and reconstructing the production line which are good for our company. Thus, I would like to make a commitment to them.*

*As a member of the Innovation Department, I think the acquisition has stimulated our innovation capability. Because of the experts who are employed by Company G (the acquirer) and the financial support from Company G, Company H now has better capability in new product innovation. So, I want to stay here.*

The increase of distributive justice and hope perceived by employees strengthened their social exchange with the post-acquisition organisation and therefore, strengthened their affective commitment to the organisation and their intention to stay with the organisation.

Compared to those employees who showed negative and positive social exchange attitudes, some employees showed a neutral attitude toward social exchange. That is, they held negative attitudes toward the acquisition but they have to stay with the organisation due to side-bet or/and morality. Given that Chinese employees highly value social relationships with co-workers and managers, leaving current organisation means leaving current social relationships, which perceived as a difficult thing by them. An employee commented:

*Frankly speaking, I do not like them (the acquirer). I felt a big shock and I witnessed conflicts during the acquisition. However, I have to work here because I am used to*

*working here. More importantly, many colleagues have stayed here and I am not sure whether I would work well in other companies and whether I could stay there.*

The side-bet also resulted from few alternative job choices. The few alternative job choices are more likely to be faced by those middle-aged and older employees who have a low level of certification:

*I am an old employee in Company H. I have worked here for all my working life. I just simply want to work until retirement. I do not want to experience such a big change. I am not happy to be a member of a new company. However, I do not want to leave here because I am too old to find a job in another company. I cannot compete with those people who have either qualification advantages or age advantages so I have to work here.*

The side-bet, which derived from social relationships and the few alternative job choices, formed continuance commitment.

The morality, which derived from Chinese culture of loyalty to managers and the organisation, formed normative commitment. Employees, especially middle-aged and older employees, show a high level of normative commitment to the new organisation due to Chinese culture and SOE culture. The most frequent comments are:

*I was educated to be loyal to the firm when I was young. This concept is still deeply rooted in my mind now. Although I am not satisfied with the acquisition, I think it is necessary to work here because there is a moral obligation.*

*I still stick to the concept of 'working for one company'. I think it is my responsibility to stay here.*

Overall, Case One presents that Chinese employees showed a high level of

identification with pre-acquisition organisation due to the social relationship. The social relationship provided employees with a sense of intertwinement, cohesion and belonging and certainty. Acquisition influenced employees' identification with post-acquisition organisation in three aspects: perceived necessity and negative emotion, social relationship and group stereotype. The extent to which acquisition influenced employees' commitment to the post-acquisition organisation depended on social exchange employees' experienced during and after the acquisition, which is primarily concentrating on organisational injustice. However, employees also showed affective commitment, continuance commitment and normative commitment to the post-acquisition organisation due to the increased distributive justice and hope perceived by employees, the side-bet and the morality. Employees who identified low with and committed low to post-acquisition organisation chose to leave. Although Company H has employed 600 new employees after the acquisition, the total number of employees has not increased because of an extremely high employee turnover. Leavers were mainly among: (1) Key technicians who have advanced technician certification. They left the company because other firms provided them with much higher wages than Company H. (2) New graduates. They are more or less individual-oriented people and they cannot endure hardship. Also, their employment concepts have changed. In general, middle-aged and older employees were more likely to be confronted with the trouble with identifying with the post-acquisition organisation than young employees due to the deeply rooted culture and identity.

#### **4.2.2 Case Two**

Employees drew a high pride from the prestige and the achievement of the company has made as Company X is a well-known company which is ranked first in the sector in China. As an employee reported:

*I do identify with Company X because I am so proud of working here as our company is a very well-known one in the sector. When I tell people that I work at Company X, I can see the admiration in their eyes.*

The prestige of Company X strengthened employees' self-esteem, increased their self-image, enhanced their positive distinctiveness and hence, increased their identification.

Employees' positive social identity also derived from the well-developed social relationships that formed through working at Company X. A junior manager illustrated how the family-like relationships developed:

*'Dense familial affection' are the best words to describe employees' relationship before the acquisition. This is because all shop-floor workers graduated from secondary technical schools and they were classmates. As technicians, they graduated from the same college so they were classmates there as well. In addition, some employees' families have worked at Company X from generation to generation. My father-in-law and my husband worked here as well. Such 'dense familial affection' bonds me with other employees and I feel a sense of belonging. I really identify with pre-acquisition organisation.*

Due to the social relationship in Company X was developed from classmates and family members, it formed "*dense familial affection*" as employee described and strongly tied employees together. The following comment further described how employees intertwined with each other and how they drew satisfaction from this social relationship:

*I felt good about my group and about myself as a member of my group before the acquisition. We have worked with each other for quite a long time. We know each other very well and our co-operation had formed a kind of 'tacit agreement'. There was a brilliant bond formed between people across departments. All people here like family members so I feel a sense of belonging. I do identify with pre-acquisition organisation.*

This comment shows that employees derived a sense of distinctiveness from the



family-like social relationship, which formed their satisfaction (“*I felt good about my group and about myself as a member of my group before the acquisition*”, “*There was a brilliant bond formed between people across departments*”) through a long-term service to Company X. This family-like social relationship increased the familiarity, cohesion and a sense of belonging perceived by employees and therefore, led to a high identification.

Overall, employees showed a strong identification with the pre-acquisition organisation due to the positive social identity they derived from working for a prestigious company and from family-like social relationships. As a result of high identification, employees perceived similarity, and felt a sense of cohesion and belonging to the company.

Acquisition influenced employees’ identification with the post-acquisition organisation through influencing the perceived necessity of acquisition, social relationship and group stereotype and inducing negative emotions among employees. Detailed explanations will be given in the following sections.

#### **4.2.2.1 Perceived necessity and negative emotion**

The extent to which the necessity of acquisition is perceived by employees depends on communication. In this case, the acquirer did not inform Chinese employees about the acquisition through for example, face to face communication or presenting the major changes in acquisition strategies and periodic meetings with middle managers and executive staff. Employees knew about the acquisition from rumours. Due to this inefficient communication, employees did not know why their organisation would be acquired. They often asked ‘Why acquisition?’ The following comments show employees’ questions about the reasons for acquisition:

*I really do not know why there’s going to be an acquisition. Is it because we made a loss? Terrible management? No market? Is it really necessary?*

*We are the best company in this sector. We have sound prestige. We are ranked first in the sector in China. Why are we being acquired? And why are we managed and controlled by foreigners?*

The lack of communication failed to provide employees with any idea of the necessity of acquisition, which made them doubt acquisition purpose. Besides the doubt, the failure to perceive the necessity of the acquisition induced employees' negative emotions such as worry, stress and uncertainty due to their unclear personal fate and organisational future. Such negative emotions prevented employees from accepting the acquisition. As one employee responded:

*So many worries and uncertainties are around me. Our organisation's future is unclear, my future is unclear, my career path is unclear, my job is unclear, everything is unclear. They (the acquirer) told us nothing! They (the acquirer) kept everything from us! What should we do? The only thing that we can do is resist. We want to stop the acquisition as it brings too much uncertainty for us. We would like go back to our normal working environment. That is what really belongs to us!*

This comment firstly indicates that the lack of communication, especially the failure to provide employees with information regarding the necessity of the acquisition led to employees' stress and worries regarding the lack of clarity and uncertainty of their personal fate and organisational future. This comment secondly illustrates how employees responded to such feelings – resistance to the acquisition in order to go back to their normal life, which provides them with a sense of certainty. This is in line with social identity theory as one of the purposes of identifying with a group is to reduce uncertainty associated with their feelings, attitudes, perceptions, self-concept and social categorization (Hogg and Terry, 2000). Failing to provide such certainty provoked employees' resistance so they stuck to their old identity (“*The only thing that we can do is resist*”, “*We would like go back to our normal working environment. That is what really belongs to us*”) and consequently, failed to foster their identification with the new

organisation. Therefore, the inefficient communication reduced employees' identification with the post-acquisition organisation through generating employees' doubt about the reasons for the acquisition and led to employees' sense of uncertainty. Thus, employees rejected the acquisition and adhered to their old identity. This resistance lasted even after they received the formal acquisition announcement from the company.

After receiving the acquisition information, employees generally showed a negative response to the acquisition as they perceived it as an activity of 'loss of control' and 'being dominated' -- they thought they were no longer the 'host' of the company. The sense of 'loss of control' caused a set of negative emotions such as shock, anxiety, uncertainty, fear and stress. A sense of uncertainty was primarily presented as a compound feeling of an unclear organisational future and personal fate. Employees did not know whether they would be laid-off or what their future would be in Company X; they did not know whether there would be some changes in the company; and they wondered what they should do in the future. Some interviewees also reported distraction on their job during that time. Such worry and uncertainty has lasted for a long time. A junior manager reported:

*After knowing about the acquisition, I thought that everything would be out of my control ... I had been the host of this company, but I would not be in the future ... I could not stop thinking about what I should do in the future. I could not stop thinking about my job, my career plan, my future and everything.*

The excessive thinking about one's personal future and role in the new organisation reflects employees' strong negative emotions such as uncertainty, worry and stress. All these resulted from 'loss of control'. Furthermore, the sense of 'loss of control' generated employees' anger because they refused to be dominated by an out-group. As presented above, the employees of Company X showed a strong identity with the company before the acquisition which caused strong out-group discrimination as

employees rebelled against being controlled by the Western acquirer. Acquisition, which was perceived as an ‘unfavoured event’, generated anger among employees and lasted throughout the process of acquisition. The most common words to describe the acquisition process were ‘difficult’, ‘tough’, ‘hard’ and ‘awful’. A senior manager described employees’ negative response to the acquisition:

*Company X entered into an acquisition agreement with the acquirer in 2006. The whole process was difficult and it was sometimes interrupted by employee disturbances. Both the Workers’ Representatives Congress and the first Trade Union Congress were interrupted by employee disturbances. Security guards and police had to come and suppress them. The second Trade Union Congress was held secretly and the police stayed in the company.*

Employees’ discrimination against the Western acquirer -- out-group -- impeded their acceptance of the acquisition and pushed them back to the old identity and in-group members. All these affected their identification with the post-acquisition organisation. As an employee responded:

*I really do not identify with the post-acquisition organisation because I do not want to be controlled by their foreigners. The new organisation is not our organisation any more ... I still like to stay with old employees (employees who worked at the company before the acquisition) and stick to the old things.*

In general, the lack of communication failed to provide employees with a perception of the necessity of the acquisition, which failed to foster their post-acquisition identification. Further, a strong in-group identity caused strong out-group discrimination so employees refused to be dominated by Western acquirer -- an out-group and therefore, showed strong negative emotions. These negative emotions decreased employees’ identification with the new organisation and led to high employee turnover. Some highly capable employees and those employees who had the opportunity to work at

other firms left the company.

#### **4.2.2.2 Social relationship**

Given that acquisition is a process of absorption of a target company into the acquirer, this process changes the external environment of the target company and therefore, its social relationships have to adapt. Furthermore, the absorption process changes the target company's internal social relationship due to the appointment of new group memberships (e.g. expatriates and new employees). The acquirer assigned an expatriate as General Manager to Company X at the initial stage of the acquisition. The imposition of new group members provoked conflicts in social relationships.

The violation of external social relationships resulted from the perception of 'being sold out'. Given that Company X is a well-known firm in the sector and dominates the Chinese market, acquisition, which perceived as 'being sold out' by employees, caused a sense of 'inferiority'. This affected employees' external social relationships. As a junior manager reported:

*It is a shame for me. I was so proud of telling everyone that I was working at Company X before (the acquisition). But now, everything has changed. I do not want to mention it to everyone else. I do not want to mention it when people ask.*

This comment shows that the acquisition was perceived as inferior and a shame event by employees which broke their positive identity derived from working at the pre-acquisition organisation and consequently, destroyed their positive self-image presented in the external social relationship.

The violation of internal social relationships resulted from the inappropriate manner toward employees' relationships adopted by the acquirer. The inappropriate manner caused the employees to have a hostile attitude toward the acquisition and the acquirer,

and decreased their cohesion with the post-acquisition organisation. A junior manager stated:

*The top manager was replaced by a foreigner after the acquisition. He does not understand us. He uses an American style to manage us. That is impossible! Some of us could not bear that so they moved to other companies. The top manager posted the leavers' photos on the company gate and does not allow them enter the company. However, he neglects the relationship between the leavers and the remaining employees. In fact, our relationship can never be broken! Therefore, although those leavers cannot enter the company, we meet with them in private ... Frankly speaking, the break offing down of relationships has affected my willingness to accept new things from the acquirer and decreased my cohesion with them (the acquirer).*

This comment shows two points: the importance of social relationships for Chinese employees and the lack of respect of Chinese social relationships, which provoked employees' dissatisfaction. Due to the strong tie between Chinese employees, the lack of respect of such social relationship psychologically isolated employees from the post-acquisition organisation and therefore, affected Chinese employees' identification after the acquisition (“*the breaking of relationships has affected my willingness to accept new things from the acquirer and decreased my cohesion with them (the acquirer)*”).

The violation of internal social relationships also resulted from the employee turnover. As shown above, employees of Company X showed a strong identification with the pre-acquisition organisation in part due to a family-like social relationship developed through a long-term service to the company. Employee turnover, which involves new employees joining in and old employees leaving, broke the family-like social relationship and therefore, affected employees' identification. An employee said:

*Do you think the relationship can be maintained if so many people come in and so many*

*people leave? I do not think so. Particularly, old employees leaving made me sad as our relationship, which has been developed over a long time, vanished. I felt that our original sense of 'group' was broken. So, how can I feel a sense of belonging? If I cannot feel a sense of belonging, how can I identify with the new company?*

After realising the problem of 'parachuting' managers into the company at the beginning stage of the acquisition, the acquirer then employed a CEO who generally did not intervene in the daily corporate management of the Chinese management team. This change stimulated Chinese employees' identification. Several interviewees responded:

*After calling back the foreign managers, I felt that our company is back though not completely. But, it is far better than before. No conflicts, no fighting and the old things have come back. I am quite happy with that.*

*I can say that 'yes, that is our company!' I found that many familiar things have come back. It is just like the company before the acquisition ... My identification has increased.*

'Leaving the company alone' seemed to be a useful acquisition strategy as it kept the old aspects of the target company. In other words, this strategy fostered the sense of continuity perceived by employees and hence, increased their identification.

The keeping of social relationship and the maintaining of a sense of continuity are also evident at the bottom end of the hierarchy because shop-floor workers still do the same jobs, they co-operate with the same colleagues and use approximately the same equipment. These 'same things' maintain the social relationship and the sense of continuity employees perceived in the post-acquisition organisation, which is useful for identity transfer.

In general, the acquisition violated Chinese employees' social relationships due to the

sense of ‘being sold out’, the lack of respect of Chinese social relationships and employee turnover. The violation decreased employees’ sense of belonging to the new organisation and therefore, lowered their identification.

#### **4.2.2.3 Group stereotype**

Due to the long organisational history, the culture of Company X was influenced deeply by Chinese traditional culture and SOE traditional culture, whose originals are in Confucianism. Since Company X experienced a set of fast reforms after the acquisition, in order to conform to the acquirer’s system, some of its group stereotypes inevitably changed. The conflicts then took place in day-to-day work due to the stereotype differences between China and the U.S.. The problem of group stereotype is primarily attributed to the violation of the ways of doing things, which is provided by culture.

The violation of the ways of doing things is firstly evident in fast reform. To quickly integrate Company X into their system, the acquirer ‘parachuted’ several expatriates into Company X at the beginning of the acquisition and quickly implemented a restructuring. The quick reform broke the normal day-to-day work for employees and generated a sense of discontinuity and negative emotions such as dissatisfaction, stress, confusion and anger, thereby reducing employees’ post-acquisition identification. A junior manager described how the change of organisational structure from vertical to flat caused a high level of complexity and confusion in day-to-day work:

*After acquisition ... the organisational structure changed from vertical to flat. However, it was too flat. Take my department, for example, my department was split from 3 offices into 8 offices after the acquisition ... This is a disaster! It caused lots of conflict and confusion at work. I do not know where to get the information that I need! I do not know which office is in charge of the thing that I want to process as some of the responsibilities between offices are ambiguous! I have to make several phone calls to find out the right office or the right people! ... I’ve perceived so many discontinuities ... how can I identify with them (the acquirer)?*



Given that the fast reform caused confusion, employees thus struggled with their roles, jobs and work life. An employee who worked in the same department as the above junior manager complained:

*The reforms always make me confused. I have worked in four offices within the past two years due to the frequent split! The office boundaries are always unclear because of split! Yes, I say, ALWAYS ... I have to struggle to make sure I know where I am, to make sure I know what my role is, to make sure I know what my duty is!*

This comment was repeated and the underlining of the word of “*always*” indicates a strong confusion and uncertainty perceived by employees. This respondent also repeated the term “*make sure*” several times to emphasise the feelings and attitudes regarding personal roles and duty during the fast reform. This infers that fast reform functions to transform self: employees tend to question self and struggle to accept self.

The violation of the ways of doing things is secondly evident in the break down of Chinese traditional values. For example, the adaption of the salary structure violated the Chinese value of egalitarianism and the respect for seniority. An employee’s salary was measured based on position, skill and seniority before the acquisition, but the new salary was only based on his/her position only after the acquisition. The restructuring of salary reduced the benefits of those employees who work at the lower end of the hierarchy with high seniority in the organisation. An employee complained:

*The conclusion of the new employment contract with them (the acquirer) is necessary as this is not our company, it is their foreigners’ company. BUT, I still think I was not appropriately respected and this is not our Chinese value! Yes, they (the acquirer) cannot take account of our seniority of the pre-acquisition organisation to the post-acquisition organisation because the current company is not the old company. BUT, couldn’t there be some ways to take account of our seniority in the pre-acquisition*

*organisation?*

This comment firstly showed a strong ‘us’ versus ‘them’ motive (“*our company*” versus “*their foreigners’ company*”). It also showed the employee’s contradictory attitude toward the break down of Chinese traditional values. This, actually, contributes to social identity. On the one hand, employees acknowledged that they had lost their identity – the deep rooted traditional Chinese value which is egalitarianism and the respect for seniority. On the other hand, the employees still identified with the old identity -- egalitarianism and the respect for seniority which provides them with the traditional ‘ways of doing things’ and it is perceived as the ‘right things’ for employees. Hence, employees are struggling between being taken over by a new self which violates their traditional value or to their old self. This struggle indicates that the violation of the group stereotype is functioning as transformation of self – employees struggle to accept self.

The restructure of salary was also shown by the actualisation of performance appraisal after the acquisition: an employee only received the 70% of their annual salary and the rest of their salary will be paid only if he/she passes the performance appraisal at the end of the year. This performance appraisal increased employees’ uncertainty and pressure, which violated Chinese traditional culture featured by high uncertainty avoidance. The negative comments were primarily from those middle-aged and older employees as they are more likely to stick to stability and uncertainty avoidance. As an employee said:

*Everything is unsure even salary! I do not know what exactly I will receive at the end of the year! This is not what we like! We like to know everything in advance ... I cannot see any hope and meaning to work here ... This is not OUR company any more.*

The sentences of “*I cannot see any hope and meaning to work here*” and “*This is not OUR company any more*” indicated employees intention to withdraw their identification

with the post-acquisition organisation.

The violation of the ways of doing things is thirdly evident in the decision-making, which is derived from the leadership style/managerial culture and working style. Company X was characterised by having centralised control and an autocratic leadership style and management due to the feature of high power distance, while the acquirer was featured by decentralised control and consultative management due to the feature of low power distance. Given that Chinese culture highly values 'face' (Wilkinson et al., 2005), people are, thus, reluctant to give opinions in public. The conflicts and embarrassment then took place as the acquirer tended to consult opinions from their Chinese subordinates but Chinese employees would like to obey orders from the acquirer. The following comments are typical:

*... as Chinese, we do not question the decisions made by top managers because it shows disrespect to superiors. However, the foreigners (the expatriates) asked me about my opinion of the decisions. I do not know how to answer so I just told them that I did not have any questions and doubts about the decisions. However, he did not believe me and said, 'I am sure you have something to say, come on, say it.' I was so embarrassed.*

*They (the acquirer) always complain to me that Chinese employees do not respond to the trainees in training class and are reluctant to participate in role-plays and presentations. The trainees, thus, do not know whether our employees understand the contents of the training. The only thing that I can do is tell them that this is Chinese culture as people are concerned about their 'face'.*

On the one hand, the conflicts of the group stereotype function as transforming self such as questioning self and struggling to accept self. On the other hand, employees, especially young employees reported that they acquired a positively valued identity from the new stereotypes. For example, the introduction of competitiveness (i.e. performance appraisal) drew positive comments from young employees. This is because

for young employees, accepting the new culture has been easier than for the middle-aged and older employees because their concepts are slightly more in accordance with those of Westerners and they accept changes and new ideas more easily than old-age employees. The following comments are typical:

*I think some of the values and norms brought by them (the acquirer), such as the competitive mechanism, is good. This is a market economy but not a planned economy so the older generation should change their ideas and accept new things.*

*I feel good to be a member of the post-acquisition organisation as I have learned a lot from them (the acquirer). I think their concept and values are more in line with nowadays but not inanimate and out of date like the SOE's concepts and values.*

Overall, the acquisition violated the group stereotype through breaking the 'ways of doing things' that is primarily provided by culture. The fast reform, the breaking of Chinese traditional values and the incompatibility in the decision-making were the major factors reducing employees' identification. The violation of group stereotype functions to transform self, such as questioning self and struggling to accept self. However, young employees are more likely to accept the new group stereotypes brought by the acquirer due to their values being more or less in accordance with Westerners'.

#### **4.2.2.4 Social exchange**

Employees' commitments to the new organisation have been affected since the acquisition. The decrease of organisational commitment to the new organisation is due to the unfairness and the injustice that employees perceived after the acquisition. In response to this, employees decreased their reciprocity to the post-acquisition organisation. The organisational injustice is firstly evident in the job area. A typical example of job dissatisfaction is the re-conclusion of the employment contract. Due to China's labour law and traditional SOE culture, the majority of employees in Company X had concluded either a fixed-term or permanent employment contract with the

company before the acquisition. As a result of the acquisition, they had to conclude a new employment contract with the acquirer, with a period of three years. This re-conclusion of the contract increased job insecurity and job dissatisfaction of those employees who had concluded a permanent employment contract with Company X before the acquisition. This was particularly the case for those middle-aged and older employees. An employee reported:

*I was never worried about my job in Company X before the acquisition. So I could put all my efforts into my work and was fully concentrated on my work because my attention could not be interrupted by worrying about my current job and searching for another job ... However, everything has changed since the acquisition. I have begun to worry my job, my future. I cannot fully focus on my work as I did before.*

According to this comment, the re-conclusion of the employment contract was perceived as unfair by employees because it broke the job security that employees derived from the pre-acquisition organisation and it caused uncertainty and the threat of personal future in the new organisation.

Further, the re-conclusion of the employment contract, in which the job content and position responsibility were re-defined and re-arranged, increased employees' work pressures and this was particularly true for junior and senior managers. Due to the traditional SOE culture and system, there was no pressure working in the SOEs and employees enjoyed an easy working environment. However, the working environment changed after the acquisition. 82 per cent of the middle managers and senior managers described their job as 'roasting over a fire' due to the dramatically increased work pressures and job insecurity. They have to work hard in order to keep their 'rice bowl' (i.e. one's livelihood). Comments from a junior manager are typical:

*Company X was a typical SOE, in which people adhered to old concepts and we worked in an easy environment without any competition and uncertainty. You did not need to*

worry about your job because you had an either a fixed-term or permanent employment contract with the company. However, jobs are more detailed now than they were in the pre-acquisition organisation. Western managers ask for lots of reports. Take my job, for example, I have to submit receivables reports every week and every month. I also need to give an analysis report if receivables are not received on time. In addition, Company X actualised a 'Customer Rating Assessment' after the acquisition. This is a new regulation that we have never used before. Now, our receivables norm is '3331' which means that we can receive the rest of 1% of receivables only if our machinery functions well within a one-year guarantee. These things increase my workload a lot. I feel there are heavy pressures.

The job insecurity and work pressures decreased employees' 'output' (i.e. the reward of job security from the organisation) and increased their 'input' (i.e. workload) and hence, violated the justice they perceived in the post-acquisition organisation. An employee indicated how unfair he felt it was and how he was strongly dissatisfied with the adaption:

*I think I can understand the reason for the conclusion of the new employment contract with them (the acquirer) after the acquisition because, after all, this is not our company any more. This is their company. But, I do feel that something is unfair for us. The re-conclusion of the employment contract makes me feel a 'new beginning'. Everything has to be started from the beginning. My length of service to Company X (pre-acquisition organisation) is irrelevant. I have to be positioned as having the same starting line with those guys who joined the Company X far later than me!*

This comment shows a strong 'us' versus 'them' motive ("our company" versus "their company"). Further, this comment shows that although this employee acknowledged the necessity of conclusion of the new employment contract with the acquirer, he then illustrated and underlined how unfair he felt it was. Moreover, this comment indicates that the re-conclusion of the contract is perceived as unjust for those employees who

had already worked for the company for a long time because the re-conclusion means their past was ‘thrown away’ and they had to face a “*new beginning*”.

The following comments further indicate the relationship between job security and employees’ organisational commitment:

*I never worried about my job security when I started working for Company X. The job security not only provides me with a sense of security, but also eliminates my worry ... and of course, I would like to do my best to work for the company. The acquisition has broken my job security and I am very worried about my future. Frankly speaking, I have begun to search for another job which can provide me with a sense of security.*

*I joined this company due to job security. Yes, that is the first and the most important thing for me. I am satisfied with job security in the pre-acquisition organisation. However, the job security was broken after the acquisition, which means that the most important thing for me was broken. The satisfaction has gone. I cannot see any point in working here. I’m not really committed to this organisation.*

The job security, which provides employees with a working insurance, is perceived as ‘welfare’ offered by the organisation. As reciprocity, employees tend to invest their commitment to the organisation. That is, social exchange is formed. The perceived injustice, derived from job insecurity, increased employees’ uncertainty. Employees perceived the injustice as the failure of offering ‘welfare’ by the organisation, so that they tended to decrease their commitment to the organisation to re-balance their social exchange. These comments further show that the job security is important for SOE employees and it provides employees with satisfaction because it eliminates uncertainty. Considering that Chinese culture is featured by high uncertainty avoidance, it is not difficult to understand why job security is so important for Chinese employees. The lack of job security decreased employees’ job satisfaction and therefore, increased their sense of injustice, lowered their commitment to the new organisation and even provoked their

intention to leave.

The second factor that contributed to the perceived unfairness and injustice is inefficient communication. The acquirer did not provide Chinese employees with any acquisition information at the pre-acquisition stage, which caused interactional injustice. Employees were angry about this and distrusted the new organisation. They withdrew their reciprocity and commitment to the organisation as a response to the unbalanced social exchange. As employees responded:

*I did not think I was fairly treated in the acquisition. They (the acquirer) hid information from us ... my friends who did not work in Company X even knew more about the acquisition than me. It is weird! They (the acquirer) did not treat us fairly, so why should I trust them and commit to them?*

*I really do not know why they did not inform us about the acquisition! I was longing for a formal explanation but I received nothing! ... I don't think I was fairly treated. Did they (the acquirer) forget that I AM a member of the company? I have the right to know what on earth is happening here!*

The third factor that contributed to the perceived unfairness and injustice is the reform that was autocratically implemented by the acquirer. Given that acquirers are typically positioned as having a dominant status in the acquisitions they normally control decision-making and they tend to make autocratic decisions. As demonstrated above, the acquirer carried out a fast reform after the acquisition through imposing new identities and culture on the Chinese employees. This activity was perceived as unjust by employees because they had no chance to make comments and complaints. Hence, their procedural justice was violated and their commitment was decreased. The following comments are typical:

*It is absolutely unfair! Yes, it is true that they (the acquirer) bought us. But, this does*



*not mean that they can do whatever they want even if they are superior to us! They should implement reform after considering our opinions ... Buying us does not mean transferring us completely to an American company!*

*They (the acquirer) make autocratic decisions. They do not respect us, so why should I respect and commit to them?*

Compared to those employees who showed negative social exchange attitudes, other employees showed a neutral attitude toward social exchange. That is, they held negative attitudes toward the acquisition but they had to stay with the organisation due to the side-bet or/and morality. The side-bet, which formed continuance commitment, derived from social relationship. Given that the employees of Company X highly value social relationships and they reported a deep bond with each other, leaving the current organisation meant leaving current social relationships, which was perceived as loss of something valuable by employees. An employee commented:

*I have developed a deep bond with other employees ... they helped me when I was in the worst situation ... I do not want to leave them.*

Further, given that Chinese employees particularly value the relationship with managers, the retaining of the Chinese management team was a way to maintain employees' commitment. One employee reported:

*I would like to say, working with our Chinese managers makes me happy because we have worked together for a long time and we know each other quite well ... Retaining the Chinese management team ... at least, means retaining my commitment.*

In addition to social relationships, few alternative job choices also contributed to the side-bet. Those middle-aged and older employees with a low level of certification showed a particular strong continuance commitment to the post-acquisition organisation

because of few alternative choices in the labour market. An employee commented:

*I am forty-five. I have to support my family. I have to afford my child's tuition fees. I also need to deposit enough money to support myself after retirement. Keeping the 'rice bowl' is the most important thing for us, isn't it? Therefore, I have to commit to the current company.*

The morality, which is derived from Chinese culture that is loyalty to managers and the organisation, formed a normative commitment. Employees, especially middle-aged and older employees showed a high level of normative commitment to the post-acquisition organisation due to traditional Chinese culture and SOE culture. They perceived it as a moral obligation to stay with the organisation whether good or bad. As one employee responded:

*My generation was educated with the concept that leaving the company when it is in difficult situation is not acceptable. People who engage in this behaviour are perceived as not being in accordance with Chinese culture. That is why I stayed with the organisation after the acquisition.*

Overall, Case Two demonstrated that the Chinese employees showed a high level of identification with the pre-acquisition organisation due to the prestige of the company and the family-like social relationship. These two factors strengthened employees' organisational identification through providing them with a sense of distinctiveness and therefore, a sense of intertwinement, cohesion, belonging and certainty. Acquisition influenced employees' identification with the post-acquisition organisation due to three reasons: perceived necessity and negative emotion, social relationship and group stereotype. In general, middle-aged and older employees were more likely to have trouble identifying with the post-acquisition organisation than young employees due to the deeply rooted culture and identity. The extent to which the acquisition influenced employees' commitment to the post-acquisition organisation depended on the social

exchange employees' perceived during and after the acquisition and it focused on organisational justice. However, employees also showed high continuance commitment and normative commitment to the post-acquisition organisation due to the side-bet and morality. Employees who had a low identification and commitment chose to leave.

### **4.2.3 Case Three**

A general picture of strong identification with the pre-acquisition organisation emerged. Due to Company N being a leading firm in the sector, employees derived a positive social identity from working there. For them, it enhanced their self-concept and self-definition. As an employee commented:

*Company N attracted me because of its reputation. Although I'm not a citizen of this province, I decided to work here because it is a leading company in this sector ... I was so proud of working here. My self-esteem was strengthened. Additionally ... rather than being just a company, Company N is like a big family. I think I am well suited to the other employees and I have things in common with them. I definitely identify with Company N!*

This comment indicates that positive identity is not only due to the prestige of the company, but also the social relationship – a family-like relationship. These two factors strongly increased employees' identification. A junior manager described how the family-like relationship formed:

*... the majority of employees from the old company were classmates. Some of the employees' families have worked in this company from generation to generation. Also, some of the employees' family members work at this company.*

The classmates, the families and family members intertwined with the social networks of Company N, which formed a special relationship between employees and thus, they were tightly knit. A senior manager further illustrated how the ex-Chairman of

Company N acted as the ‘householder’ of the company:

*Company N bought luxurious cars for the ex-Chairman, but he went to work by bus or the company’s bus every day. The office hours of Company N’s managers started at 8am and the office hours of production workers started at 7:30am. The ex-Chairman arrived at the company at 7:15am every day and went to the plant right away. He remembered all the hundreds of workers’ names. Although luxurious cars were bought for him, all his cars were only used in two ways: for employees’ weddings and funerals; and picking up customers.*

As the ‘householder’ of the company, the ex-Chairman looked after employees and maintained a close and harmonious relationship with them. All these behaviours can be attributed to Chinese culture.

A family-like relationship was manifest in how employees and managers associated with each other, how employees felt a sense of belonging, a sense of intertwinement and a sense of cohesion to the company and how these led to in-group similarity, attraction and in-group favouritism. These perceptions and behaviours led to a feeling of ‘match’ for employees and thus, enhanced their identification. Just as the first interviewee mentioned above, *“I think I am well suited to the other employees and I have things in common with them”*.

In general, employees showed a high identification with the pre-acquisition organisation due to the prestige of the company and social relationships. These two factors enhanced employees’ self-image and led to positive intra-group attitudes and behaviours, such as in-group favouritism, belonging and cohesion.

Acquisition influenced employees’ identification with the post-acquisition organisation through influencing three aspects: the perceived necessity and negative emotion, social relationship and group stereotype. Detailed explanations will be shown as follows.

#### 4.2.3.1 Perceived necessity and negative emotion

Given that the acquirer did not communicate with the Chinese employees prior to the acquisition by way of, for example, presenting the acquisition strategy and the major changes that would occur, employees failed to perceive the necessity of acquisition. They often wondered ‘Why acquisition?’ The inefficient communication and the lack of clarification regarding the acquisition quickly stimulated rumours going and these rumours failed to provide employees with a concrete clarification and therefore, resulted in the feeling of uncertainty and insecurity among employees. An employee reported:

*Rumours spread around the company. Different people have different sources and versions of information ... but no concrete information about the acquisition. We did not know which information was true. Everything was uncertain. We felt highly insecure.*

Among all uncertainties and insecurities, organisational future and personal fate was the biggest concern of the employees. ‘Are there any changes in our company?’ ‘Will I be laid-off?’ ‘What should I do in the future?’ ‘What will my future be in Company N?’ were the typical and the frequently mentioned questions. An employee described his concerns:

*I am worried about so many things. I am worried about our company’s future and wonder how foreigners will run our company, whether there will be any changes, what the jobs of my colleagues and I will be like after the acquisition and whether we will be laid-off. I discussed these with my wife almost every day during that period... I was so tired of dealing with it. I wanted to escape.*

An unclear future caused employees’ excessive thinking about their personal futures and roles in the new organisation (“*I discussed these with my wife almost every day during that period*”), which reflected employees’ negative emotions such as stress, uncertainty and worry (“*I am worried about so many things*”). All these led to the withdrawal of

psychological attachment to the new organisation (“*I wanted to escape*”).

After receiving an official announcement of the acquisition, employees showed anger and resistance to accept the acquisition due to a sense of ‘loss of control’ of the company and the feeling of ‘being dominated’ by an out-group. As mentioned above, employees showed a strong identification with Company N before the acquisition, with a strong feeling of belonging, cohesion and in-group favouritism. This strong in-group identity and in-group favouritism caused strong out-group discrimination so employees resisted being controlled by the Western acquirer. ‘Why are we managed by a foreigner – an out-group member?’ was a common thought that led to employees’ resistance to accept the acquisition and the new identity from the acquirer throughout the process of acquisition and even after the acquisition. An employee described his attitudes toward being managed by the Western acquirer:

*I really do not know why we are under the control of THEIR foreigners! WE are Chinese. Company N is our family. Don't you think it is strange to let a foreigner join OUR Chinese family? Let alone make the foreigner to be OUR householder!*

“*THEIR foreigners*”, “*WE are Chinese*”, “*OUR Chinese family*” represented a strong ‘us’ versus ‘them’ motives among employees, which was derived from in-group favouritism and out-group discrimination. This comment showed how employees strongly identified and cohered with Company N and strongly resisted the control of the Western acquirer – an out-group member. This made a difficulty for employees to accept acquisition and new identification from the acquirer and resulted in lack of psychological attachment to the post-acquisition organisation.

In sum, the inefficient communication failed to provide employees with a perception of the necessity of acquisition, which resulted in uncertainty and insecurity about personal fate and organisational future. Acquisition also induced the sense of transferring control to an out-group member and the feeling of breaking ‘family’, which was strongly

rejected by Chinese employees. All these decreased employees' psychological attachment to the new organisation and increased their tendency to refuse the new identity and therefore, derogated their post-acquisition identification.

#### **4.2.3.2 Social relationship**

Acquisition not only changes the external environment of the target company and therefore, changes its social relationships, but also changes the internal social relationships of the target company due to the appointment of new group members (e.g. expatriates). The acquirer of Case Three appointed two expatriates to Company N, who were a Permanent President and a technician. The acquisition, which was perceived as 'handover control' and 'being dominated', changed the status of Company N and consequently threatened employees' social relationships. An employee reported how he felt dominated after the acquisition and hence, this destroyed his sense of belonging:

*We have been sold out. We are not the host of this company. We are controlled by foreigners. I felt my standards have dropped. It makes me uncomfortable to hear "your company was sold ..." and I really do not want to talk about this with my friends, family and anyone ... for me personally, I do not feel a strong attachment to the new organisation.*

The sense of 'being dominated' affected employees' external social relationships as it was perceived as a 'shameful' or 'painful' event by employees ("*I felt my standards have dropped.*" "*I really do not want to talk about this with my friends, family and anyone.*"). The withdrawal of psychological attachment to the new organisation led to employees' difficulty in identifying with the new organisation.

The sense of 'being dominated' also broke the internal social relationship between Chinese employees and the acquirer as Chinese employees complained about the difficulty in developing trust with the acquirer. The following comments are typical:

*The foreigners (the acquirer) were too rigid ... They stuck to their way of thinking. They don't listen to our suggestions, never ever!*

*Yes, the fact is that we were sold to them and they bought us. So they think they are 'superior' and they throw our suggestions away!*

Theoretically, the difficulty in developing trust with the acquirer on the part of target companies is attributed to the status difference between them. This is because typically target companies position themselves as having a dominated status, while acquiring companies have a dominant status. This means that acquiring companies are normally more powerful than and superior to target firms, so they are more likely to stick to their decisions and not trust target firms. The difficulty in developing trust with the acquirer resulted in employees' negative emotions toward the acquirer and therefore, increased their resistance to accept the new identity and decreased their willingness to take on organisational goals and interests. The following comments are typical:

*They do not trust us so why should I give them everything?*

*Would you work for a boss who does not trust you? Do you think it is meaningful to work for him? For me, at least, personally, my answer is NO! The perception of distrust definitely lowered my intertwinement with the organisation and of course, my identification.*

The violation of internal social relationships also resulted from the split between employees. The ex-Chairman left the company after the acquisition with all the technology and product drafts and established a new company. Company N's employees, thus, were divided into two parts: one group was taken by the ex-Chairman and the others remained in the company. The colleagues leaving and new employees joining in meant the re-arrangement of social relationships:



*Some employees left the company with the ex-Chairman. People leaving and people joining in. I am so tired. I have to re-build relationships with new people. I have to foster trust with them. Also, I am quite doubtful as to whom I should trust and with whom I should be associated.*

The employees had difficulty in developing relationships such as trust with new comers due to Chinese traditional culture because the Chinese find it difficult to develop trust with new people. However, although it takes time to develop trust, once the trust formed, it is difficult to be terminated and tends to be maintained in the long-run. A junior manager described his difficulty in joining in the Company N after the acquisition:

*I think I was an outsider when I joined in the company. I always heard them mentioning (employees' names) who had left the company after the acquisition. I always heard them recalling their relationships with those leavers. I found that it was difficult to join in, you know, REALLY join in.*

Considering employees developed a family-like social relationship with each other before the acquisition, new comers seemed like new members of the family, who were perceived as people to be distrusted. That is why new employees found it difficult to socialise with the employees who worked at Company N before the acquisition.

In general, the violation of social relationships resulted from 'being dominated', which broke the external social relationships for employees. In addition, 'being dominated' led to the problems of developing the internal social relationships with the acquirer, due to a lack of trust. This problem lowered employees' sense of belonging to the organisation and decreased their willingness to take organisational interests and goals and therefore, affected their identification. The violation of internal social relationships also resulted from the split of original employees as employees faced difficulties in developing new relationships with new comers.

#### 4.2.3.3 Group stereotype

Company N experienced a series of reforms after the acquisition in order to conform to the acquirer's system, so that some of its group stereotypes changed. Furthermore, due to stereotype differences between China and the U.S., conflicts took place. The problem of group stereotype is primarily attributed to the violation of the ways of doing things, which is provided by culture.

The culture of Company N is influenced particularly by Confucianism because the city where it is located is the hometown of Confucius and this city is also the place where Confucianism originated. Due to the significant national cultural differences between the U.S. and China and the high organisational cultural differences between Company N and the acquirer, the acquisition violated Company N's stereotype. That is, employees' long-term attachment to the organisational stereotype was challenged and disrupted.

The conflict in the ways of doing things is firstly evident in fast reform. The rapid changes functioned to transform self because it induced a sense of loss of self, the struggling of keeping the old self, and the rejection of the new self. A senior manager responded:

*They (the acquirer) have carried out a series of changes too fast so our employees often feel lost. Our employees often talk with me about their feelings and ask me: 'Where are we?' 'What is next?' They (Chinese employees) have felt a high level of uncertainty and discontinuity since the acquisition so that they yearn for our old identity and discriminate against the new one.*

As this comment indicates, the fast reform resulted in a profound sense of confusion, loss and uncertainty among employees, so it was refused by employees, which lowered employees' identification with the post-acquisition organisation.

The conflict of the ways of doing things is secondly presented in the acquirer's attitude

toward the Party Organisation and the Trade Union. The Party Organisation and the Trade Union had been downsized at the beginning of the acquisition, which resulted in an employee strike. Chinese employees went on strike to re-establish them but the acquirer's head office was against it. This is because the Trade Union is under the leadership of the Communist Party in China, which is different from that in the America. Americans do not understand why they should be under the leadership of the Communist Party. The vice General Manager suggested that the acquirer's head office should re-establish the Trade Union and the Party Organisation. However, the headquarters replies indicated that they were strictly against this. The downsizing of the Party Organisation and the Trade Union generated employees' dissatisfaction and anger:

*The most dissatisfactory thing for me is that they (the acquirer) do not respect Chinese culture and the Chinese institutional environment. They downsized the Party Organisation and the Trade Union. Frankly speaking, my colleagues and I are very angry about that. I am a Party member so I do not want to lose my community!*

*They (the acquirer) downsized the Party Organisation and the Trade Union. Don't they know that HERE is China?! They should play the game following the rules!*

*They (the acquirer) bought us but they know nothing about us! They do not know that the responsibility of the Chinese Trade Union is distributing employees' bonuses and organising social activities! They do not know that although the Trade Union is under the leadership of the Communist Party in China, the Chinese government does not interfere much in foreign companies! They know nothing!*

The vice General Manager had to contact the local All China Federation of Trade Unions to seek help and finally the Trade Union was re-established.

The conflict of the ways of doing things is thirdly evident in the business activity – *guanxi* – a traditional business relationship in China. *Guanxi* is an important thing for

Chinese business because the Chinese prefer to work and deal with their friends or the people who they trust. This is a way to minimize risks and problems. However, the acquirer cannot understand this. A senior manager gave an example:

*For example, they (the expatriates) should attend some personal activities to develop relationships with our partners and customers. It is a common and necessary thing in China. However, they ask me: "Why should I attend these social activities? They are all personal matters but not business matters." This is particularly the case when the activities are held after work. Foreigners (the expatriates) tell me: "It is my private time. It should not be occupied by work."*

A junior manager provided typical questions of the acquirer's confusion:

*One of the elements of Chinese business culture is guanxi. Developing guanxi with other institutions, companies and people provides many business opportunities in a firm. However, it is difficult to be understood by foreigners. ... They (the expatriates) often ask me: "Why do Chinese people bring personal relationships into business?", "Shouldn't they be totally separate things?"*

The confusion of involving personal relationships in business made the acquirer unwilling to develop *guanxi* with other companies. Further, due to *guanxi* often being associated with gift giving, it is perceived as corruption by the acquirer, who was strongly against it. A junior manager described how he felt awkward regarding the balance between the acquirer's opposition to *guanxi* and Chinese ways of doing things:

*It was terribly difficult to deal with it! On the one hand, they (the acquirer) are strongly against gift giving because, as they said: "It is corruption! We cannot do this!" On the other hand, this is the Chinese business environment. Every company does it. If we do not do this, others will do it. How can I develop relationships with customers, suppliers and co-operators without guanxi? It gives me a headache! A very, very big headache!*

The acquirer's rejection of *guanxi* challenged Chinese traditional ways of doing business and therefore, conflicted with the Chinese stereotype. The following comments are typical:

*For the Chinese, cultivating guanxi with customers is a priority. We may not directly discuss business with new customers when we first meet with them, instead, we are more likely to cultivate guanxi with them. It is very useful for developing long-term co-operation. However, the acquirer does not understand this. They think it is a waste of time to cultivate relationships.*

*It makes me embarrassed as every company pays much attention to guanxi but we do not. I really feel 'unmatched'. All in all, that is not our Chinese way of doing business.*

The word “*unmatched*” indicated that the business activity adopted by the acquirer was incompatible with the Chinese stereotype and hence, generated conflict. A junior manager further indicated the consequences of this ‘unmatched’ stereotype adopted by the acquirer:

*... some important business is conducted at dinner in restaurants in China. It is a common thing and is called 'the dinner table culture'. However, foreigners do not understand it and they are not used to it so we have lost some important customers.*

The ‘unmatched’ stereotype adopted by the acquirer, as this comment shows, violated Chinese traditional ways of doing business and affected Company N's business.

The conflict in the ways of doing things is fourthly evident in the decision-making. Due to China being a high uncertainty avoidance country, managers are reluctant to make individual and risk decisions, while U.S. is a low uncertainty avoidance country in which managers are involved more in decisions. This cultural difference caused

conflicts between Chinese managers and the acquirer as the acquirer blamed Chinese managers for being unwilling to take personal responsibility. A junior manager reported:

*They (the acquirer) often complained that we are not willing to take personal responsibility and we like to shoulder the responsibility together with other people. But it is wrong. We are not unwilling to take personal responsibility. Discussion with other people shows democracy. That is our way of doing things.*

That discussion with other people slowed down the speed of decision-making was another criticism of the acquirer. A senior manager said:

*I admit that it takes time to discuss with other people. Often, we may discuss one thing many times. The purpose of discussion is to get the majority of people to agree and to avoid risks. I cannot see any problem with it except that it is time consuming. However, they (the acquirer) often complain about our slow decision-making. They (the acquirer) do not understand us, really.*

This manager firstly admitted the fact that it was time consuming, but he then illustrated the rationale for slow decision-making – to get most of the employees’ agreement and to reduce risks – typical Chinese culture which has high uncertainty avoidance. This comment showed that Chinese employees still stuck to the traditional ways of doing things and rejected the new stereotype from the acquirer.

The conflict of the ways of doing things is fifthly presented in the ways of managing employees and controlling operations. For example, the acquirer would like to give autonomy to shop-floor workers as an incentive mechanism, but the truth is that this method is not compatible with Chinese culture because the Chinese are used to obeying orders and doing things as they are instructed. Autonomy led to chaos as people did not know what they should do. As a senior manager commented:

*The American style is autonomous. I admit that these features are good but they are not suitable for China. For example, the Chinese are used to being controlled by norms and regulations so autonomy is a strange word for us. We will lose direction and not know what we should do if we are given autonomy.*

The conflicts in group stereotype are responsible for transforming self and therefore, links to post-acquisition identification. Given that the group stereotype presented the 'right' thing for employees, the cultural incompatibility violated the 'right' thing that employees stuck to before the acquisition. This challenged and threatened their self-concept so that employees tended to refuse the new stereotype in order to protect the old self:

*The cultural incompatibility made me confused because it threatened the 'right' things that I used to adhere to. I found it is difficult to accept it (the new culture). My identification with the new organisation decreased.*

Employees tended to refuse the new stereotype as the need to protect the old self impeded their willingness to accept new identity from the acquirer and therefore, lowered their identification with the post-acquisition organisation.

Although some of the employees perceived the conflict of the group stereotype as being a negative impact other employees, especially young employees reported that they acquired a positively valued identity from the new group stereotype because they could not derive a positive identity from some of the old stereotype:

*I graduated from university five years ago and I have worked at this company for five years. Frankly speaking, I think older employees are too conservative. They stick to old concepts and the old working style. I always hear them complaining about the foreigners and yearning for the old company. However, I think they should change their*

*concept because it is different from two decades ago. Speed and benefit are the two important things for a company now.*

*I think the concept of our new generation is different from that of the old generation ... we don't think the 'iron-rice-bowl' concept is correct but middle-aged and older people still stick to it. Therefore, although I do not agree with what they (the acquirer) have done, I identify with some of their concepts and norms.*

These comments indicate that due to the concepts of young employees having changed from that of the older generation, young employees derived a positive self-concept from the changes, which fed into their post-acquisition identification.

#### **4.2.3.4 Social exchange**

Employees' commitments to the new organisation were affected after the acquisition. The organisational injustice employees perceived during and after the acquisition decreased their reciprocity in the post-acquisition organisation. Their sense of organisational injustice is firstly evident in the job dissatisfaction, which was due to the re-conclusion of the employment contract. The majority of employees in Company N concluded either a fixed-term or permanent employment contract with the company before the acquisition. The re-conclusion of the contract with the acquirer increased employees' job insecurity. They felt unfairly treated and felt a threat to their personal future and career path in the new organisation, which decreased their job satisfaction. An employee illustrated how job security fostered the fairness he perceived in the pre-acquisition organisation and how job insecurity broke the unfairness he perceived in the post-acquisition organisation:

*I enjoyed the permanent employment contract before the acquisition. I have worked for Company N for 10 years. I think it is what I deserved. The re-conclusion of the employment contract broke my job security. I feel that it is unfair for our employees who have already worked for Company N for a long time!*



This comment indicates that the re-conclusion of the employment contract is more likely to be perceived as unfair for those employees who have worked for the company for a long time as it means they perceive their past as being ‘thrown away’ and they have to face a new beginning.

Further, due to employees’ job content, position content and responsibility being re-defined in the employment contract, these increased employees’ work pressures and this was particularly true for junior and senior managers because, for example, they had to do much more detailed tasks and they would be replaced if either they failed to achieve goals or if a serious mistake was made. This reduced job satisfaction resulted in decreased commitment to the post-acquisition organisation because job insecurity and uncertainty broke employees’ hope for continuing their work in the organisation and thus, increased their motives to withdraw commitment from the organisation. A junior manager complained:

*They (the acquirer) replaced my job security with high work pressure. I think the balance between what I put into this organisation and what I deserved from this organisation was broken. How can I continue my job here?*

The sentence of “*I think the balance between what I put into this organisation and what I deserved from this organisation was broken*” indicates that the balance between employees’ input and output was negatively impacted which violated employees’ social exchange and therefore, their commitment to the new organisation (“*How can I continue my job here?*”). This unbalance between employees’ input and output also represented the organisational injustice, which is the second factor that is responsible for reduced organisational commitment.

The organisational injustice is secondly evident in the lack of communication as employees did not think they were fairly respected. An employee commented:

*It is very tricky when you know and you have seen something being carried out but no one informs you! NO ONE! I AM a member of this company so I think I SHOULD BE informed about the organisational change!*

This comment shows that the procedural injustice perceived by employees negatively impacted the reciprocity that they felt they should provide to the organisation. In other words, the social exchange was problematic. Another employee illustrated how she perceived procedural injustice during the process of acquisition and how she acted in response to this injustice:

*They (the acquirer) didn't tell us anything during the negotiations! They did not introduce themselves during the acquisition. I just wanted to ask "Who are you?" Isn't it ridiculous that a woman does not know who her husband is?! ... we do not trust them and distance ourselves from them emotionally ... That is why my commitment is low.*

As this comment shows, the procedural injustice perceived by employees decreased their trust of the acquirer and lowered their commitment to the post-acquisition organisation in response to the unbalanced social exchange.

The organisational injustice is thirdly evident in the downsizing of the Party Organisation. The downsizing of the Party Organisation represented unfairness in the eyes of the employees, which violated procedural justice. As one employee reported:

*Although our company has been transferred to a wholly foreign owned enterprise, all employees here are still Chinese. Our working environment and our rights cannot be disrupted. In addition, some of the employees are Party members. I am a Party member too. I do not want to lose my Party member status. Furthermore, the Trade Union is as important as the Party Organisation in China. Every Chinese company must have it. We must re-establish one of them at least.*

However, the social exchange was also strengthened due to the increase in distributive justice and hope after the acquisition. The increase of distributive justice and hope were contributed by the incentive mechanism implemented by the acquirer in order to motivate employees' affective commitment. For example, employee' performance is assessed every year and the top five best employees are rewarded with all-expenses paid travel to the U.S.. This greatly stimulates employees' enthusiasm because all employees want to go to the U.S. and have new experiences. In addition, new recruitment rules also act as an incentive mechanism. According to the new rules, there are two requirements: (1) Do not poach employees from other Chinese companies and do not recruit employees through head-hunters. Managers are selected within Company N. (2) Do not recruit overseas employees. This incentive mechanism encouraged employees' satisfaction. The most frequent comments are:

*I was awarded with travel to the U.S. last year. I am very happy with that because I think what I have done is worthwhile. I will work harder this year because the sense of pride makes me happy.*

*I have to say, the incentive mechanism provides employees with a sense of pride, which increases their enthusiasm to work at the firm. It is good for our company as we have retained some key employees by using this incentive mechanism.*

*One of my colleagues was promoted to junior manager last month. I can feel his pride and happiness.*

The increase of in distributive justice and hope strengthened employees' social exchange with the post-acquisition organisation and therefore, strengthened their affective commitment to the organisation and their intention to stay.

Compared to those employees who showed negative and positive attitudes toward social

exchange, other employees tended to show a neutral attitude toward social exchange. That is, they held negative attitudes toward the acquisition but they had to stay with the organisation due to the side-bet or/and morality. The side-bet, which forms a continuance commitment, derives from social relationship. Considering that the employees of Company N highly value the family-like social relationships within the company and long-term co-operation has brought them together, leaving the current organisation means leaving current social relationships which they perceived as difficult. As a junior manager responded:

*It is really difficult for me to leave here. I have developed a lot with both my subordinates and my superordinates. My superordinates take care of me, my subordinates co-operate in a fantastic way with me ... I don't think I could find such a nice thing in other organisations.*

This comment indicates that the close social relationship developed through working at Company N is perceived as irreplaceable so it forms the side-bet for employees and prevents them leaving the organisation.

The side-bet is also derived from few alternative choices in the labour market. Those middle-aged and older employees who have a low level of certification suffered more because of the few alternative choices in the labour market. The following comments are common:

*I wish I could have left Company N during the acquisition because I do not like them (the acquirer). However, I have to stay here because I am too old and I do not have a high level of qualification. It is difficult to find a job in other companies so I have to stay here.*

*I have to work here because the competition in the labour market is highly intense. There are too many first degree holders and master degree holders in China now. How*

*can I compete with them? What is my advantage? Hence, I have to stay here and work hard to keep my 'rice bowl'.*

*There are hundreds of thousands of new graduates with a first degree and master's degree who cannot find a job and have to stay at home. I think there is little chance for me to find a job in other companies. Who would like to employ an old person with a low qualification? Thus, I have to stay here until retirement.*

The morality, which derives from Chinese culture that is loyalty to managers and the organisation, formed a normative commitment. Employees, especially middle-aged and older employees, showed a high level of normative commitment due to the traditional Chinese culture and SOE culture. The most frequent comments are:

*People of my generation are educated that people should be loyal to their firm. I still stick to this principle now, regardless of what has happened.*

*I still stick to the concept of 'working at a company without job-hopping'. Although I am not satisfied with the acquisition, I think it is necessary to work here because it is my responsibility.*

Overall, Case Three showed that Chinese employees showed a high level of identification with the pre-acquisition organisation due to the prestige of Company N and the family-like social relationship. These two factors strengthened employees' social identity through providing employees with a positive social identity, a sense of intertwinement, cohesion and belonging. Acquisition influenced employees' identification with the post-acquisition organisation in three aspects: perceived necessity and negative emotion, social relationship and group stereotype. The extent to which acquisition influenced employees' commitment to the post-acquisition organisation depended on the social exchange employees' perceived during and after the acquisition. In general, organisational injustice perceived by employees decreased their reciprocity

in the post-acquisition organisation and therefore, lowered their commitment to the new organisation. However, employees also showed affective commitment, continuance commitment and normative commitment to the post-acquisition organisation due to the incentive mechanism implemented by the acquirer, the side-bet and the morality. Employee turnover was high at the beginning of the acquisition with some key employees leaving the company after the acquisition. Talent leaving the company means a severe loss for the organisation because, for instance, the acquirer needs 2 to 4 years to train a production worker as there are approximately a hundred thousand kinds of machine accessories and around 90 kinds of products. It also requires a long time to provide technological training because some positions require a high level of skill. Talent leaving, thus, threatens the company's key skills, productivity and even valuable resources like innovation. Employees who have high identification with and high commitment to the post-acquisition organisation showed a high affective attitude and emotion to work at the organisation. In general, middle-aged and older employees were more likely to be confronted with difficulties identifying with the post-acquisition organisation than young employees due to the deeply-rooted culture and identity.

#### **4.2.4 Case Four**

Most employees identified strongly with the pre-acquisition organisation because they developed a close social relationship through long-term service to Company Q. The social relationship strengthened in-group similarity, in-group favouritism and attraction and therefore, led to a sense of intertwinement and belonging. As one employee reported:

*... We have established a nice relationship because we have worked here for quite a long time. We know each other very well and even each other's families. I'd like to stay with Chinese employees because it makes me happy.*

The long-term service to the company fostered the close social relationship between employees and even their families. In other words, not only individuals, but also their

families have intertwined with these close networks, which strengthened employees' sense of intertwinement and belonging to the organisation. Such close social relationships formed a positive identity for employees (*"We have established a nice relationship"*, *"I'd like to stay with Chinese employees because it makes me happy"*) and resulted in a tight psychological attachment to the organisation's fate and a willingness to internalise organisational goals as their own:

*I definitely would like to make an effort to work for Company Q. I have developed so much during the eight years that I have been here. I should and I would like to do my best to make Company Q better and better.*

Employees' positive identity was also derived from the prestige of company Q. The following comments described how employees derived a positive social identity from the prestige of company Q and how these positive aspects fed into their identification:

*I feel good about my company and being a member of my company ... I am so proud of telling my friends, my families and everyone that I am working here! My self-esteem has risen. So great! I cannot see any reason for not identifying with the company.*

*I do not know how I can describe my feeling of working here! So pleasant, so great, so amazing! Our company's salary is higher than that of other companies. I'm so proud of working here. I like to work here. I identify with Company Q!*

These comments indicate that working for a prestigious company enhanced employees' self-concept and their self-esteem, which fed into their positive identity and therefore, their identification.

In general, employees showed a strong identification with the pre-acquisition organisation due to the positive identity they derived from the social relationship and the prestige of Company Q. These two aspects enhanced their psychological tie to the

organisation and led to employees' positive intra-group behaviours, such as in-group favouritism, cohesion and sense of belonging.

Acquisition influenced employees' identification with post-acquisition organisations on perceived necessity and negative emotion, social relationship and group stereotype. Detailed explanations will be given in the following sections.

#### **4.2.4.1 Perceived necessity and negative emotion**

The extent to which employees perceive acquisition is necessary or not depending on communication. The acquirer and the managers of Company Q did not communicate with employees about the reasons for the acquisition, which caused employees to wonder 'Why acquisition?' An employee reported:

*So many questions centred on why acquisition around me. Is it because our company wants to improve performance? Is it because our company wants to learn something from foreigners, like corporate management? Is it because our company wants to receive more money?*

Failing to perceive the necessity of the acquisition resulted in employees' anger and impeded employees' willingness to deal with the changes:

*I just JUST want to know if it is necessary to implement the acquisition. That is the central point I want to know! If I knew the reasons for it, I think I would fully co-operate with it. Otherwise, how can I co-operate EVEN IF I would like to?*

This comment indicates the importance of making a clear communication regarding the reasons for the acquisition: reducing employees' uncertainty through bridging their perception of personal and organisational fate from pre- to post-acquisition and fostering their co-operation to deal with the acquisition. Once employees realised the 'real' reason for the acquisition and they perceived this reason as being good for the



organisation's development, their uncertainty will be minimised and they put their efforts into co-operating. Otherwise, employees were uncertain, confused and worried about the future and therefore, they tended to treat the acquisition as a hostile event. These feelings led to employees' resistance to accept the acquisition and the new identity. As an employee reported:

*I cannot see any need for the acquisition, so sticking to the old identity makes more sense ... How can I identify with them (the acquirer) who provides me with an unclear future?*

The phrase "*sticking to the old identity makes more sense*" indicates employees' response to an unclear and uncertain situation. Indeed, this response is in line with social identity theory as one of the purposes of identifying with a group is to reduce uncertainty associated with their feelings, attitudes, perceptions, self-concept and social categorization (Hogg and Terry, 2000). Failing to provide employees with a feeling of certainty results in employees' adherence to the old identity and consequently, lowers their post-acquisition identification. Suffice to say, providing clear communication about the need for the acquisition is the basis of fostering employees' post-acquisition identification. It prevents employees from sticking to their old identity through reducing uncertainty, bridging employees' perception of personal and organisational fate from pre- to post-acquisition, and receiving support and co-operations from employees.

The lack of perception of necessity intertwined with employees' sense of 'loss of control' and 'being dominated' after receiving the acquisition information. Given that employees did not provide information about the acquisition, their sense of loss of 'host' status in the company violated their sought after opportunities (e.g. organisational future and personal fate) in the new organisation. Employees did not know whether they would be laid-off; they did not know what their future would be in Company Q; they did not know whether there would be some changes in the company; and they wondered what they should do in the future. Some employees also reported that they could not

concentrate on their job during that time. These negative effects induced negative responses among employees such as anxiety, uncertainty, fear and stress. An employee described his feelings with deep depression:

*I was quite concerned about my future and our company's future. We have been sold. We have to obey someone else's rules and decision. I feel that my future is out of my control.*

The words of “*We have been sold*” and “*out of my control*” indicated employees’ sense of loss due to the change of status (from dominant to dominated). Another employee reported the same feeling:

*Being dominated by a foreigner makes me feel there's been a loss. We have lost the control of our company. We are no longer working for ourselves but for foreigners.*

Negative emotions were also incurred as a result of concern about personal roles in the new organisation, which decreased employees’ identification with the post-acquisition organisation. Such worry and uncertainty has lasted for a long time. Some of the comments include the follows:

*I am very worried about my future in Company Q. This is because our working environment was stable and we had little working pressure before the acquisition. However, our company will be transferred to a wholly foreign-owned enterprise after the acquisition. As a big and well-known multi-international company, it recruits employees with high capability and qualification ... working pressures will be much heavier than before the acquisition. I do not know whether I can meet these standards in the future. My identification has dropped.*

*I am worried about my future. This is because I am middle-aged. My ability to learn and adjust to a new environment are less than young people's. They (the acquirer) are a big*

*and world-famous company. I am afraid that I will be laid-off in the future if I cannot keep pace with the changes ... I am so worried about this. I feel insecure. This is not our company. That is why my identification is low.*

These comments, again, show that the worry and uncertainty failed to provide employees with a sense of security and therefore, failed to foster employees' identification with the post-acquisition organisation.

Although the acquirer and Chinese managers did not provide employees with information about the acquisition and employees' sense of loss induced negative emotion toward it, the acquirer provided effective communication with Chinese employees on the major changes associated with the acquisition strategies through for example, periodic meetings with middle managers and executive staff, face to face communication and presentations. This led to Chinese employees' satisfaction. Further, the acquirer had actualised a lot of training to introduce its culture two years before the acquisition. It also provided skills training such as 6Sigma, CPS (the acquirer's Production System) and TPM (Total Productive Maintenance) shortly before the first acquisition. Besides these, some training was provided, which varied between departments. Other training was also arranged for senior and junior managers regarding skills, safety and English through the internet and face-to-face. Employees admitted that this training contributed to a stable transfer as they knew what the new changes would be after the acquisition. An employee commented:

*Yes, I felt stable during the transfer because we have studied a lot of things from them (the acquirer). When the changes take place after the acquisition, we feel that they are quite acceptable because we have already known about them for two years!*

The feeling of stable transfer indeed indicates the sense of continuity employees perceived during the acquisition. The communication and training provided employees with a clear view of 'Who they (the acquirer) are' and 'What Company Q's culture will

be' and therefore, provided employees with a sense of continuity. That is why employees generally felt stable during the transfer, which also gave the most satisfaction in this acquisition.

Overall, failing to provide employees' with information about the reason for the acquisition increased employees' doubt and uncertainty. The sense of loss of control reduced the opportunities employees saw in the new organisation and led to negative emotion toward the acquisition. However, effective training in culture and skill increased employees' knowledge of the future and increased the sense of continuity they perceived between the pre- and post-acquisition organisation and therefore, maintained or even increased their post-acquisition identification.

#### **4.2.4.2 Social relationship**

Given that Company Q was absorbed into the acquirer's system during the process of the acquisition, this absorption process changed the external environment of Company Q and therefore, changed its social relationship. The sense of 'being dominated' affected employees' external social relationships as it was perceived as a 'shameful' or 'painful' event by employees. A junior manager described how the acquisition affected his social relationships and how he felt about this:

*I do not want to mention the acquisition to my friends and anyone else. Because everyone will ask the same questions: "How about you?" "What do you think?" Yes, they will definitely ask these questions. I know they care about me, but I feel uncomfortable because it shows that I am positioned as having inferior status!*

The feeling of "inferior" implies that his positive social identity was threatened and therefore, damaged his self-image and self-esteem. This negative feeling reduced employees' psychological attachment to the new organisation and led to trouble identifying with the new organisation:

*I cannot see any good reasons to stay here. I lost my status of 'host' and we are controlled by foreigners. We are no longer working for ourselves but for foreigners. I feel my association with the new organisation is low. I feel that it is meaningless to stay here.*

The sense of 'being dominated' also broke the internal social relationship between Chinese employees and the acquirer as it was difficult to develop trust with the acquirer on the part of Chinese employees and managers. A senior manager stated:

*I admit that they (the acquirer) have done well in this acquisition and they generally respect Chinese culture. However, I think they (the acquirer) adhere to their opinions and thoughts. They think their decisions are correct. They should actually listen to our suggestions, which may make their decisions more applicable in Chinese culture.*

Another junior manager illustrated his anger about the difficulty in developing trust with the acquirer:

*They acquired us, yes, it is true. But this does not mean that they should not accept our suggestions!*

This comment indicates that the difficulty in developing trust with the acquirer was due to status difference. This is in accordance with the theories which propose that typically, target companies have a dominated status, while acquiring companies are dominant. The status difference results in acquirers being more likely to stick to their decisions and not trust target firms. The difficulty in developing trust with the acquirer caused employees' negative emotion toward the acquirer and therefore, decreased their willingness to associate with the company. The following comments are typical:

*It is meaningless to work for a boss that does not trust you. They (the acquirer) do not trust us so they do not treat us as friends. Why should I maintain a friendship with them?*

*No trust, no friends!*

*Isn't it ridiculous that the partners do not trust each other in a marriage? If it is the case, the marriage is a total failure! Not to mention identification! Our identity (identification) has been totally destroyed!*

Given that social relationship is highly valued by Chinese and it is a factor fostering Chinese employees' identification, distrust broke the social relationship between the acquirer and Chinese employees and therefore, affected their identification.

Employees, on the one hand, perceived a social relationship problem with the acquirer, while on the other hand, valued the social relationship with Chinese co-workers, especially, with the Chinese management team. Given that this team was mostly retained, it is a way of keeping employees' social relationships in day-to-day work and consequently, fostering their sense of continuity perceived between the pre- and post-acquisition organisation. The following comments are typical:

*The retaining of the Chinese management team makes me feel that our family is still there. I still work with the same managers. It makes me relieved and happy.*

*Long-term service to Company Q has formed a strong relationship between managers and us. I feel a sense of belonging and at least, every day I come to my office, I see that oh yes, everything is still the same as before the acquisition. My colleagues and my supervisors are still there.*

Considering that the employees of Company Q developed a close relationship through working at the company, the retaining of the management team and supervisors maintained this relationship and therefore, led to employees' satisfaction and kept employees' identification with managers and supervisors in the new organisation. In addition, given that none of the employees left Company Q during or after the

acquisition except those who took early retirement, the employee turnover was low. The low employee flow (i.e. the frequency of employee leaving and new employee joining in) was a useful way to keep the internal social relationships between employees. As the second comments showed above, the maintaining of colleagues kept employees' sense of belonging and continuity and therefore, transferred employees' identification to the post-acquisition organisation.

Further, the keeping of social relationships and the maintaining of a sense of continuity were more evident at the bottom end of the hierarchy because shop-floor workers still did the same jobs, they co-operated with the same colleagues and used approximately the same equipment. These maintained the social relationships and the sense of continuity employees perceived in the post-acquisition organisation, which was also useful for identity transfer.

Overall, the violation of social relationships resulted from the threat of employees' external social relationships through lowering self-esteem and the violation of employees' internal relationships through impeding the development of trust with the acquirer. These induced employees' negative emotions, which reduced their psychological attachment to the new organisation. However, the original social relationships with Chinese co-workers, especially, with the Chinese management team were retained, which kept employees' sense of belonging and continuity and hence, maintained their partial identification.

#### **4.2.4.3 Group stereotype**

Although Company Q experienced a series of reforms after the acquisition in order to conform with the acquirer's system, employees did not feel strong conflict during that period because as mentioned above, the acquirer implemented a series of cultural and skills training sessions before the acquisition, so that employees already knew what the company's culture would be. This training fostered the new group stereotype and therefore, fed employees' identification. The following comment is typical:

*I already knew what kinds of changes would take place after acquisition and we studied those skills and operational management before the acquisition, such as 6Sigma, CPS and TPM. Through study, these skills have already been internalised as a normal thing for me. So, when these changes were implemented after the acquisition, I felt quite stable and it was easy for me to accept these because I have known them for quite a while!*

Further, due to the key managers such as the General Manager and junior managers not being replaced and the acquirer assigning a Chinese to Company Q after the acquisition, the cultural incompatibility was reduced. However, this does not mean that the acquisition did not violate the group stereotype of Company Q. Having been established for more than a half century, the culture of Company Q was influenced strongly by Chinese traditional culture and SOE traditional culture. Due to the significant national cultural differences between the U.S. and China and the high organisational cultural differences between Company Q and the acquirer, conflicts in the group stereotype took place between Company Q and the acquirer, which were primarily due to the violation of the ways of doing things – culture. That is, employees' long-term attachment to the organisational stereotype was challenged and disrupted.

The violation of the ways of doing things is firstly presented by the business relationship which is *guanxi*. *Guanxi* is an important relationship for Chinese business because the Chinese prefer to work and deal with their friends or the people who they trust. This is a way to minimize risks and problems. However, the acquirer cannot understand this:

*Foreigners do not understand Chinese customs such as guanxi. It is common that we discuss business orders and make business deals with customers at the dinner table. It is Chinese business culture. The more guanxi you develop, the more business opportunities you receive. However, foreigners cannot understand this. They often ask*



*me: "Why are you doing this?"*

The lack of understanding of *guanxi* on the part of the acquirer made Chinese employees have difficulties in communicating with the acquirer. A junior manager complained:

*On the one hand, we have to follow the rules (guanxi) because it is the way of doing business. It is a normal thing in China. On the other hand, we have to spend a lot of time explaining this to the acquirer. So exhausting! I did not need to do this before because we are Chinese, we know it!*

This comment shows that the violation of group stereotype (*guanxi* in this comment) generated in-group bias ("I do not need to do this before because we are Chinese, we know it") in which employees valued the in-group identity and discriminated against the out-group identity. In fact, this is in line with social identity theory as the threat of positively valued identity induces employees' behaviour of restoring this identity, such as in-group bias (Van Leeuwen et al., 2003). This in-group bias, thus, decreased employees' post-acquisition identification.

The violation of the ways of doing things is secondly evident in the decision-making, which is derived from the leadership style/managerial culture and working style. Due to China being a high uncertainty avoidance country in which managers are reluctant to make individual and risk decisions, while the U.S. is a low uncertainty avoidance country in which managers are involved more in strategy, this cultural difference thus caused conflicts between Chinese managers and the acquirer. A junior manager reported:

*They (the acquirer) make quick decisions and then take quick action because they believe they can earn value from that. However, Chinese people are risk-adverse. We need to think about an issue carefully and discuss it several times. Any mistake we make*

*is not a fault of the individual but of the group because the decision is made by the group. However, the acquirer cannot understand this. They think we make decisions too slowly.*

The conflicts in decision-making violated Chinese traditional ways of doing things and hence, generated employees' dissatisfaction:

*I really do not identify with them. I would say, THAT is our Chinese way of doing things and it makes sense! I really cannot see any ANY wrong here!*

This comment illustrates employees' adherence to the old group stereotype and their resistance to accepting the new group stereotype from the acquirer and consequently, impacts on their identification ("*I really do not identify with them*"). That is, the violation of the group stereotype derogates employees' identification. The deeper reason to explain this phenomenon is that the conflicts in group stereotype results in the transforming of self. Due to the group stereotype presenting the 'right' thing for employees, the cultural incompatibility violated the 'right' thing that employees were adherent to before the acquisition. This violation threatened employees' self-concept so that they refused the new stereotype as a way of protecting the old self ("*I really cannot see any ANY wrong here*"). In other words, the conflicts in the group stereotype were responsible for transforming self and therefore, linked to post-acquisition identification.

The violation of the ways of doing things is thirdly evident in the ways employees were treated. Chinese people highly value 'face'. However, due to cultural distance, the acquirer may take inappropriate action, which threatens this 'face'. An employee described how he felt when he was criticised by the acquirer:

*It was a really tough situation. I still remember that meeting. I do acknowledge that it was my fault as I made a mistake in the meeting. But I do not think it is an appropriate way to criticise me in public! They (the acquirer) did it! They criticised me IN PUBLIC!*

*How shameful! I feel that my face was lost, totally lost! Our Chinese never do this!*

Although employees, especially middle-aged and older employees showed negative attitudes toward the conflicts of the group stereotype and they stuck to the old group stereotype, employees especially young employees reported contradictory views:

*Our company has been established for 50 years. It is influenced strongly by Confucianism. In addition, we had been a SOE for a long time so traditions are deeply rooted in the employees' minds, especially for middle-aged and older employees'. However, some of these concepts should be 'updated' because they are not suitable for today. It is a market economy now but not a planned economy. I can accept some of the concepts that have been introduced by them (the acquirer).*

*It is nice to work here after the acquisition because, frankly speaking, I cannot identify with the old concepts such as egalitarianism and the 'iron rice bowl'. I also feel bored working here before the acquisition due to the traditional SOE culture ... I think some of the reforms introduced by them (the acquirer) are really nice as they represent the advanced management concept. I do identify with them.*

These comments show that young employees could not derive a positive self-concept from the old group stereotype but their self-concept was enhanced by the new group stereotype from the acquirer. This self-enhancement, thus, increased their identification with the post-acquisition organisation. The reason for this phenomenon is the value difference between young employees and older employees.

#### **4.2.4.4 Social exchange**

The decrease in employees' commitments to the new organisation was mainly due to job dissatisfaction, which resulted from workloads and working pressures. The workloads and working pressures are evident for junior managers and senior managers as their working pressures and job tasks are much heavier than they were

pre-acquisition. For example, due to the change in working style such as the style of the meeting and the ways of behaving and solving problems, it is rare that people read out ready-made data and reports (e.g. the data and reports from publications and website) in meetings without any analysis. The basic meeting form now requires people to do a lot of research and analyses by themselves prior to the meeting. They have to list meeting topics by PowerPoint and present them with evidence such as data analysis but not unsupported statements. The following plan, plan leaders and estimated time of completion will be arranged after every meeting. Another meeting will be held to follow up these arrangements. Hence, junior managers and senior managers suffer heavy workloads and working pressures. In addition, the Chairman comes to Company Q every month to listen to the reports. This also increases the workloads and working pressures of departmental managers. A junior manager complained:

*My workloads and working pressures have been significantly increased since the acquisition. I have invested a lot in the company, but my rewards were not increased accordingly. It is unfair for me, so why do I commit to them (the acquirer)?*

The heavy workloads and working pressures increased employees' 'input' (i.e. workload) to the organisation and decreased their 'output' (i.e. the reward from the organisation). This violated the social exchange for employees and consequently, decreased their commitment.

Besides junior managers and senior managers, middle-aged and older employees also reported a high pressure and job dissatisfaction. The most frequent comments are as follows:

*Actually, I am not very happy working in the post-acquisition organisation. This is because working pressures are much heavier than they were before. I am old and I will retire from this company within several years. I find it is difficult to adjust to such a new environment.*

*I have worked here for thirteen years since I graduated from university. Frankly speaking, I have felt heavy pressures since the acquisition. This is because we have to learn many things such as 6 Sigma, CPS and TPM. As a junior manager, I also need to study English and other managerial skills. I admit that all the training is very useful and I do learn many things. It would be impossible to learn this knowledge without the acquisition. However, I am not young. My learning ability is weaker than young people's. My work here is 'tiredness with happiness'.*

These comments show that for middle-aged and older employees, they have to 'invest' more in the post-acquisition organisation than young employees do, which affected their social exchange.

However, the social exchange has also been strengthened due to the increase of distributive justice and hope after the acquisition. The increase of distributive justice and hope were contributed by the incentive mechanism, which has stimulated employees' affective commitment to the new organisation. All employees are assessed by the PDP Performance Appraisal, which is directly correlated with one's salary. In addition, ten employees are promoted to junior managers every year. This incentive mechanism stimulated employees' working enthusiasm. The most frequent comments are:

*PDP Performance Appraisal works for me as the better my work performance shows, the higher salary I receive. It is quite fair, isn't it?*

*I was promoted as a junior manager last year. I am so proud of that. I would like to devote my efforts to the company in the future.*

Besides the incentive mechanism, the retaining of the old management team also functions to maintain employees' affective commitment to the post-acquisition

organisation because their loyalty to managers contributes to their affective commitment.

An employee responded:

*I have taken so much from my manager. As reciprocity, I have to and I would like to put my energy into working here.*

For Chinese employees, high commitment to a company not only increases their willingness to participate more in organisational interests and goals, but also increases their willingness to ‘reciprocate’ with the organisation because they derive satisfaction from working at the company. The ‘reciprocity’ is a typical aspect of Chinese culture in which Chinese tend to offer their commitment to the organisation as a social exchange with rewarding benefits from the organisation.

Some employees showed a neutral attitude toward social exchange. That is, they held negative attitudes toward the acquisition but they had to stay with the organisation due to the side-bet or/and morality. The side-bet, which forms continuance commitment, is derived from social relationship. Given that Chinese employees highly value the social relationships with co-workers and managers, leaving the current organisation meant leaving current social relationships, which was perceived as a difficult course of action for them. An employee commented:

*Working here means so much to me. My classmates work here. My family members work here. How can I leave here? I cannot!*

According to this comment, the social relationship is perceived as a high ‘input’ and ‘output’ by employees because they have invested much affection and social activity into this relationship and they have been rewarded from this relationship such as having a sense of belonging, intertwinement and distinctiveness. Hence, leaving the current social relationship means losing high ‘input’ and ‘output’ for them which impedes their intention to leave.

The side-bet also resulted from financial rewards as Company Q's salary is the highest in the local city. An employee commented:

*I am not willing to leave Company Q simply because Company Q's salary is high. Half of the employees own private cars and they have bought houses in the city centre. I am one of them. I will not leave here.*

Few alternative job choices also contributed to the side-bet, which are more likely to be faced by those middle-aged and older employees who have a low level of certification:

*People should face the reality. Although I want to leave, I have to consider my family. I have to afford my child's tuition fees and I have to support my parents. Hence, I have to commit to the current company.*

*I have to say that working pressures are far heavier than they were before the acquisition. They (the acquirer) provided extensive training for us, which made us highly nervous. It was one training after another. One exam was followed by another. I am a middle-aged person, I am afraid that I cannot keep pace with this training and these exams. However, I do not have another choice because I do not have any advantage in the labour market. So, I have to stay here.*

The morality, which is derived from Chinese culture that is loyalty to managers and the organisation, forms a normative commitment. Employees, especially middle-aged and older employees, showed a high level of normative commitment to the post-acquisition organisation due to Chinese culture and SOE culture. The most frequent comments are:

*The traditional concept of 'a stable job with a company until retirement' still influences me. I think it is a moral obligation to stay with a company regardless of what's happened.*

*People of my generation are influenced by loyalty. We should work at a company until retirement without job-hopping. I think it is my responsibility to stay here.*

Overall, Case Four revealed that Chinese employees showed a high level of identification with the pre-acquisition organisation due to the close social relationship and the prestige of Company Q, which provided a sense of intertwinement and belonging for employees. The acquisition influenced employees' identification with the post-acquisition organisation in three respects: perceived necessity and negative emotion, social relationship and group stereotype. In general, middle-aged and older employees were more likely to have trouble identifying with the post-acquisition organisation than young employees due to the deeply rooted culture and identity. The extent to which acquisition influenced employees' commitment to the post-acquisition organisation depended on the social exchange employees perceived during and after the acquisition, which is determined by job dissatisfaction, incentive mechanism, retaining of old management team, the side-bet or/and morality.

#### **4.2.5 Case Summary**

Four SOEs were 100% acquired by U.S. companies. Several common issues across all cases and peculiar issues to each case can be concluded in a cross-case analysis. The common issues fall primarily into four areas: perceived necessity and negative emotion, social relationship, group stereotype and social exchange.

Employees in general showed a high level of identification with pre-acquisition organisations due to the prestige of the company and the family-like social relationships associated with colleagues and managers. These two aspects enhanced employees' positive identity and provided employees with a sense of intertwinement, cohesion, belonging and certainty. Acquisition influenced employees' identification with the post-acquisition organisations in three respects: perceived necessity and negative emotion, social relationship and group stereotype.



Insufficient communication failed to provide employees with a perception of the necessity of the acquisition, which increased their negative emotion, such as anger and uncertainty, toward the acquisition. In addition, the sense of 'loss of control' and 'being dominated' induced employees' negative emotion and led to employees' resistance to be dominated by Westerners -- out-groups. All these prevented employees' willingness to accept a new identification from the acquirers.

Acquisitions broke the both external and internal social relationships of employees. Due to acquisitions being perceived as 'inferior' events by employees, it affected employees' external social relationships with for example, family, friends and anyone else. The breaking of internal social relationships resulted from the assignment of expatriates and employees to the target SOEs and it primarily resulted from the difficulty in developing trust with the acquirers and also employee turnover. However, the retaining of the Chinese management team is a useful way to keep the family-like social relationships formed at the pre-acquisition stage, which is good for the maintaining of employees' identification.

Acquisition violated the group stereotype of target SOEs through violating the ways of doing things, which is provided by the culture. The conflicts of the ways of doing things concentrated on reform speed, the value, the Party Organisation and the Trade Union, *guanxi*, decision-making and the ways of managing employees and controlling operations. The violation of group stereotype functioned to transform the self because for example, it threatened employees' positive self-concept, it induced employees' struggle to accept self and identity, it caused a sense of loss of self, it led to a questioning of self and also it led to employees refusing the new stereotype in order to protect the old self. However, young employees were more likely to derive positive self-concept from the culture of the acquirer because (1) The concepts of young employees have changed from that of the older generation. (2) Young people accept changes and new things more easily than older employees do.

Acquisition affected the social exchange, which influenced employees' commitment to the post-acquisition organisation. In general, organisational injustice decreased employees' reciprocity in the post-acquisition organisation and therefore, lowered their commitment to the new organisation. However, employees also showed affective commitment, continuance commitment and normative commitment to the post-acquisition organisation due to the incentive mechanism, social relationships, few alternative choices in the labour market and morality.

This research found two issues that may be useful for post-acquisition management. The first is post-acquisition recruitment. Although the acquirer of Case One employed Chinese to run the company, it did not employ the 'right' person. To run post-acquisition organisations, it is better to employ local citizens and other kinds of Chinese, such as returned overseas Chinese and ethnic Chinese, who are professionals in the industry with multi-cultural working experience than those Chinese who either have left China for a long time or lack managerial experience in China. The recruitment of 'wrong' employees violated the social relationship of day-to-day work and therefore, affected employees' post-acquisition identification.

The second point of interest is that Chinese young people are more likely to derive a positive self-concept from the acquirers' culture and identity because their concepts are slightly different from the older generation's.

The specific feature of Case Two and Case Four is that they retained both the Party Organisation and the Trade Union. The others (Case One and Case Three) just retained the Trade Union after the acquisition. The most serious conflict took place when the acquirer downsized both the Party Organisation and the Trade Union, so that the acquirer had to re-establish one of these departments later (Case Three). The specific feature of Case Four is that the acquirer implemented pre-acquisition preparations in the target SOE, such as communicating with Chinese employees and providing employees

with culture and skills training. Employees commented that they felt stable during the acquisition and they perceived a sense of continuity between the pre- and post-acquisition organisation so that they transferred partial identity to the new organisation. Compared to other acquirers, the acquirer of Case Four has been more respectful of Chinese culture and therefore employees' dissatisfaction was less than that in other companies. Except for Case Four, employees of other companies experienced rapid reform during the process of acquisitions. Employees of Case Two and Case Three commented that reforms were carried out too quickly so they suffered a high level of uncertainty and a sense of loss, which led to resistance to the changes. Hence, low speed reform contributes to a stable transfer during and after acquisitions and it decreases the discontinuity perceived by employees, which contributes to post-acquisition identification.

The results presented in this chapter provide an in-depth view of the effects of cross-border acquisitions on Chinese SOEs. Further examination of the factors influencing post-acquisition identification and the exploration of the relationships between acquisition management and acquisition performance will be shown in the following section.

### **4.3 Post-acquisition Identification**

To test the influence of several factors (pre-acquisition identification, cultural incompatibility, communication, a sense of continuity, fast reform and negative emotion) on post-acquisition identification, correlations between variables are calculated first. Table 6 provides basic information on the variables, including number of observation, mean, median, minimum, maximum and standard deviation. Table 7 provides correlations between variables. The correlations show that post-acquisition identification is significantly positive correlated with the pre-acquisition organisation ( $r = 0.259$ ,  $p < 0.05$ ), communication ( $r = 0.402$ ,  $p < 0.01$ ) and a sense of continuity ( $r = 0.515$ ,  $p < 0.01$ ). Post-acquisition identification is significantly negative correlated with

cultural incompatibility ( $r = -0.350$ ,  $p < 0.01$ ), fast reform ( $r = -0.502$ ,  $p < 0.01$ ) and negative emotion ( $r = -0.465$ ,  $p < 0.01$ ). These results are generally consistent with the pilot study's findings.

A hierarchical regression is then chosen in order to get a deeper view on the extent to which each factor (pre-acquisition identification, culture incompatibility, communication, fast reform, a sense of continuity and negative emotion) predicts the post-acquisition identification after controlling for age, education, salary, size, employee position and organisational tenure. The method is the same as that used in the pilot study. The results are shown in Table 8. Results show that Model 1, which only includes the control variables (age, education, salary, size, employee position and organisational tenure), explains 42.1 per cent of the variance ( $0.421 \times 100$ ). This model in general makes a significant contribution to post-acquisition identification ( $R^2 = 0.421$ ,  $p < 0.01$ ), which is the same for one of the six control variables: organisational size ( $\beta = 0.441$ ,  $p < 0.01$ ). After including the independent variables, the model (Model 2) as a whole explains 66.8 per cent of the variance ( $0.668 \times 100$ ) of which 24.7 per cent ( $0.247 \times 100$ ) is explained by independent variables as an additional variance when the impact of control variables is controlled for. This is a statistically significant contribution because  $\Delta R^2 = 0.247$ ,  $p < 0.01$ . The model as a whole (which includes control variables and independent variables) is significant [ $F(12, 51) = 8.570$ ,  $p < 0.01$ ].

The findings of the main study are the same as those of pilot study. The research hypotheses concerning the relationships between factors and post-acquisition identification, again, are supported (H1, H2, H6, H7, H8 and H13). These findings indicate that pre-acquisition identification, cultural incompatibility, communication, a sense of continuity, fast reform and negative emotion are significantly related to post-acquisition identification when age, education, salary, size, employee position and organisational tenure are controlled for. Therefore, an employee's post-acquisition identification is influenced by the extent to which he/she identifies with the pre-acquisition organisation and the extent to which he/she is affected by the process of

the acquisition relating to culture clash, communication, reform speed and employee emotions.

#### **4.4 Acquisition Evaluation**

The acquisition assessment begins with the evaluation of management strategy adopted by Western acquirers, including post-acquisition identification, cultural incompatibility, communication, fast reform, continuity, job satisfaction, negative emotion and organisational commitment. The descriptive statistics for managerial factors for four Western acquirers with the number of observation of 64 are shown in Table 9. Due to reverse scores, the measures for culture incompatibility, fast reform and negative emotion have been converted, with 5 converted to 1, 4 converted to 2, 3 converted to 3, 2 converted to 4 and, 1 converted to 5. Panel A and panel B present simple average values and weighted average values respectively. The weightings for senior managers, junior managers and employees are 50%, 30% and 20% respectively.

The managerial variable for each target SOE and the mean of managerial variables for four SOEs were then calculated and presented in Table 10. The managerial variable is comprised of eight managerial factors including post-acquisition identification, cultural incompatibility, communication, fast reform, continuity, job satisfaction, negative emotion and organisational commitment, which are the same as those shown in Table 9. Panel A and panel B present simple average values and weighted average values respectively. The weightings for senior managers, junior managers and employees are 50%, 30% and 20% respectively. This table shows that except for Case Four, the managerial variables of all cases are lower than 3 in both simple average scores and weighted average scores, which indicates poor acquisition management as in this research, the value of 3 means the median. The mean of managerial variables for the four cases is lower than 3 in both simple average scores and also weighted average scores, which indicates the poor acquisition management adopted by Western acquirers in general. These results are in accordance with the results of the in-depth study.

Industry-adjusted accounting performances of each SOE over a nine-year period between four years before the acquisition and four years after the acquisition are shown in Table 11. Results indicate that Case Three reported the best pre-acquisition performances of the four cases because its performance was generally higher than its peers'. Case Two showed a gradual increase in performance prior to the acquisition. Case One underperformed its industry within the four years before the acquisition. Case Four also underperformed its industry before the acquisition except in the second year before the acquisition. Three of the four companies (Case One, Case Three and Case Four) reported a rise in performance in the first year subsequent to the acquisition, while Case Two reported a decrease. Only Case One saw a significant increase in performance in the second year following the acquisition, while Case Four only reported a slight increase. Three of the four Cases (Case One, Case Two and Case Three) reported a decline in performance between the second and fourth year after the acquisition of which Case Three saw a dramatic decrease. Three of the four Cases (Cases One, Two and Three) were threatened by a leverage risk after the acquisition: Case One and Case Three reported a high debt to asset ratio (above 1) in the fourth year following the acquisition and Case Two reported a high debt to asset ratio (above 1) in the acquisition year (detailed information is shown in the Table 1 in Appendix).

An OLS regression is applied to test whether the acquisitions have a significant effect on the performances of SOEs. The dependent variable is the industry-adjusted ROA of four SOEs over nine years from pre- to post-acquisition (-4, +4). The independent variables are post-acquisition dummy, capital expenditure, leverage, size, asset sale, sales growth, total assets turnover, number of divisions and number of employees. These independent variables follow Barkema and Schijven (2008) and Smith et al. (2012) as these variables influence ROA. The post-acquisition dummy variable represents pre- and post-acquisition, with 0 standing for pre-acquisition (-4, -1) and 1 standing for post-acquisition (0, +4). Capital expenditure is derived from the financial statement. Leverage is defined as the ratio of long-term liabilities to total assets. Size

stands for the total assets and it is transferred to a logarithm. Asset sale is also derived from the financial statement and it is transferred to a logarithm. Sales growth is the difference between two years' sales, where sales are calculated by the sales of the year over total assets. Total assets turnover is the sales over total assets. Number of divisions is the quantity of divisions in the company and it is transferred to a logarithm. Number of employees represents the quantity of employees working at the company and it is transferred to a logarithm. A firm fixed effect regression is further adopted to analyse whether the acquisitions have a significant effect on the performances of SOEs when a company's individual effects are fixed. This method controls individual effects (unobserved heterogeneity) and assumes that they are constant across time and correlated with the independent variables (Gupta and Newberry, 1997). Previous studies (e.g. Barkema and Schijven, 2008) have used firm fixed effect regression to examine the effects of acquisition restructure on ROA, so this research follows the methods of previous studies to use firm fixed effect regression to test the effect of acquisitions on ROA. All dependent variable and independent variables used in the fixed effect regression are the same as those in OLS regression. Results of both the OLS regression and firm fixed effect regression show that acquisitions have a significant negative effect on the ROA of SOEs.

As a robustness check, RONA and ROCE are used as dependent variable respectively instead of ROA (industry-adjusted RONA and ROCE of each SOE over the nine-year period between four years before the acquisition and four years after the acquisition are shown in Tables 12 and Table 13 respectively). The results of the robustness check with OLS regression and firm fixed effect regression analysis confirmed that acquisitions have a significant negative effect on SOEs' performance. The results of the OLS regression and firm fixed effect regression analysis are shown in Table 14.

The significant negative effect of acquisitions on the performance of SOEs may be contributed by the inappropriate management strategy that Western acquirers adopted in acquisitions because the influences of other variables on ROA (capital expenditure,

leverage, size, asset sale, sales growth, total assets turnover, number of divisions and number of employees) are controlled in the firm fixed effect regression. Indeed, these results support the results shown in Table 10 which present poor acquisition management as both simple average scores and weighted average scores lower than 3. Taking these two results together, it is confirmed that the negative influence of acquisitions on the performance of SOEs is caused by the inappropriate management strategy that Western acquirers adopted in the acquisitions.

To further confirm the relationship between acquisition management and acquisition performance, the correlation between managerial factors and ROA has been calculated. As a robustness check, the correlation between managerial factors and RONA and ROCE are also calculated.  $\Delta$ ROA,  $\Delta$ RONA and  $\Delta$ ROCE are calculated by the difference in the mean of the industry-adjusted ROA, RONA and ROCE of the four years following the acquisition and the mean of industry-adjusted ROA, RONA and ROCE of the four years before the acquisition. The reason for using this method is due to its ability to test how the differences in managerial factors between pre- and post-acquisition are correlated with the differences in accounting performances between pre- and post-acquisition. An acquisition can be seen as a 'change' for a company because it leads to changes in culture, identity, and other issues investigated by this research. It is not common that a company carries out these changes without the acquisitions. Therefore, in nature, the managerial factors test the differences between pre- and post-acquisition. Performance measures, accordingly, should be the differences between pre- and post-acquisition. Both the simple average and weighted average of managerial factors and managerial variables were applied. The managerial variable comprises eight managerial factors including post-acquisition identification, cultural incompatibility, communication, fast reform, continuity, job satisfaction, negative emotion and organisational commitment. The results are shown in Table 15.

The results show that in simple average values, ROA is significantly positive related to a sense of continuity and job satisfaction. RONA is significantly positive related to



culture. ROCE is significantly positive related to a sense of continuity and job satisfaction. In weighted average values, ROA is significantly positive related to the managerial variable, post-acquisition identification, culture and communication. RONA is significantly positive related to fast reform and job satisfaction. ROCE is significantly positive related to a sense of continuity. Except for these significant positive correlations, this research, in general, fails to find a significant positive correlation between acquisition management and acquisition performance. Thus, H3, H4, H5, H9, H10, H11, H12 and H14 are not supported. However, this research, still, finds positive correlations between managerial factors and acquisition performance, which in accordance with the prediction of theories supports this research's assumption that acquisition management is positive related to acquisition performance.

The relationship between the managerial variable and acquisition performance (ROA, RONA and ROCE) is presented in Figure 1. The figure shows a non-linear relationship between the managerial variable and acquisition performance.

## **Summary**

This chapter presents the results of the pilot study and the main study. Perceived necessity and negative emotion, social relationship and group stereotype influenced post-acquisition identification, in which perceived necessity is determined by communication, and group stereotype is determined by cultural incompatibility and fast reform. More importantly, this research found that social relationship is a unique factor in Chinese culture, which influences Chinese employees' identification. These results indicate that communication of the necessity of acquisition, continuing social relationships and keeping the group stereotype maintained the family-like organisation perceived by employees, provided employees with a feeling of belonging, reduced their uncertainty, and kept a sense of continuity. Failing to do these induced negative attitudes and responses among employees. For example, the violation of group stereotype functioned as transforming the self: employees perceived the threat of their

positive self-concept, struggled to make sure ‘who they are’, felt a sense of loss of self, questioned self and refused to accept the new stereotype in order to protect the old self. Statistical analysis found that pre-acquisition identification, cultural incompatibility, communication, a sense of continuity, fast reform and negative emotion are significantly correlated with post-acquisition identification and therefore the research hypotheses regarding the factors determining post-acquisition identification are proven (H1, H2, H6, H7, H8 and H13).

Due to the inappropriate acquisition management carried out by Western acquirers, acquisitions have a significant negative effect on SOEs’ performance, as shown in the OLS regression and firm fixed effect regression. Although failing to find a significant positive correlation between managerial factors (post-acquisition identification, cultural incompatibility, communication, fast reform, continuity, job satisfaction, negative emotion and organisational commitment) and acquisition performance (ROA, RONA and ROCE) which fails to support the hypotheses (H3, H4, H5, H9, H10, H11, H12 and H14), this research still finds positive correlations between managerial factors and acquisition performance, which in accordance with the prediction of theories, supports this research’s assumption that acquisition management is positively related to acquisition performance.

Detailed explanations and discussion will be given in the Discussion chapter.

## Chapter 5: Discussion

This research has investigated the acquisition activities taking place between Western firms and Chinese SOEs. There have been three objectives of this research: first, this research has built a picture of how cross-border acquisitions impact on Chinese SOE employees. The second objective has been to verify the managerial factors that influence the acquisition integration of Chinese SOEs. The third objective has been to explore the relationships between acquisition management and acquisition performance. The main research questions are: How do acquisitions influence the identity, culture and commitment of the target SOE employees? What are the factors that determine an employee's post-acquisition identification? What are the relationships between acquisition management and post-acquisition performance? To achieve the research aims and answer the research questions, this research adopted a multiple case study as the main research method through interviewing employees of different ages, organisational tenures and job types and used statistics to prove the hypotheses and show the influence of acquisition management on acquisition performance. The advantages of this method have been to obtain a comprehensive view of the impacts of acquisition on different employees and to get an in-depth view on an unexplored area with clear statistical support. The results of this research provide insight into the influences of cross-border acquisitions on Chinese SOE employees.

The acquisitions have significantly negative effects on the target SOEs' performance as both OLS regression and firm fixed effect regression found that the post-acquisition dummy variable is significantly negative correlated with the accounting performances of target SOEs on ROA, RONA and ROCE respectively [ROA ( $\beta = -0.097$ ,  $p < 0.05$ , RONA ( $\beta = -0.190$ ,  $p < 0.1$ ), ROCE ( $\beta = -0.032$ ,  $p < 0.05$ ) in OLS regression analysis; ROA ( $\beta = -0.095$ ,  $p < 0.01$ , RONA ( $\beta = -0.231$ ,  $p < 0.05$ , ROCE ( $\beta = -0.030$ ,  $p < 0.05$ ) in firm fixed effect regression analysis]. Further analysis confirmed that the negative effects of acquisitions on the performances of target SOEs are due to the inappropriate

acquisition management because the mean of managerial variable of four SOEs is lower than 3 (mean = 2.789 in simple average score, mean = 2.779 in the weighted average score). In this research, the value of 3 means the median. The values of managerial variable are lower than 3, indicating the poor acquisition management that was adopted by Western acquirers during and after the acquisitions. The detailed discussion of the impact of acquisitions on Chinese SOEs will be shown as follows.

Chinese employees showed a strong identification with the pre-acquisition organisation (pilot study: mean = 4.125; main study mean = 4.266) due to two reasons: social relationship and the prestige of the company. Given that long-term employment contracts and low employee turnover are the two features of Chinese SOEs, these lead to a long-term service to the organisation. The longer an employee works at a company, the closer the relationship he/she maintains with colleagues, and the higher the identification he/she shares with co-workers and managers. Such 'relationships', in China, not only refer to working relationships, but also to personal relationships. In traditional SOEs, it is not uncommon that an employee and his/her family members work for the same firm. A family may even work for a firm from generation to generation. This kind of employment not only involves employees but also their family members in the social and personal networks within a company, including managers. Over time, these close relationships strengthen one's psychological tie with group members, which in turn, influences attitudes and behaviours that are identical with group members. This is why, as the Results chapter reported, employees from the four cases commented that they have established close working and personal relationships with co-workers over time and they have formed a kind of tacit agreement due to long-term co-operation. These close relationships contribute to identification so that is why Chinese employees show a high level of identity with co-workers and their companies. The other reason to explain the importance of social relationships for Chinese employees is that given that Chinese culture is characterised by collectivism in which Chinese are collectively-oriented (Hofstede and Bond, 1988) and Chinese traditional conceptualization of self is defined in social relationship (Lu, 2008), Chinese

SOE employees highly value the social relationship developed within the companies and they, as this research has shown, commonly describe their organisations as ‘family-like’. A family-like atmosphere infers a wide range of affection and attitudes, including in-group similarity, in-group favouritism and attraction. All these kinds of affection and attitudes contribute to employees’ organisational identification.

Further, a family-like organisation brings distinctiveness (i.e. positive identity) to Chinese employees. The positive social identity, that is derived from intergroup comparison, through which people perceive a positive difference associated with their ingroup, strengthens employees’ self-esteem (Turner, 1978) and thereby, boosts their identity. This indicates that different from individualistic culture, in which people derive identity from an individual-organisation relationship (Sun and Wang, 2009) and derived positive identity from the shared social identity (Hogg, 1987; Turner et al., 1987; Turner, 1984), people from collectivistic culture derive identity from social relationships, which also feed into their positive identity. In other words, the distinctive feature of organisational identification in collectivistic cultures like China is that employees’ organisational identification is fostered by family-like social relationships. This finding is consistent with a very recent study (Sun and Wang, 2009) in which the authors found that organisational identification for Chinese means that “they will take the organisation as their family” (p. 4). The distinctive feature of organisational identification in collectivistic cultures like China shows that investigating the identity of Chinese employees in the M&A context is an important and unique issue which contributes to existing knowledge. As discussed in the Literature Review chapter, social identity theory has been well-developed in Western countries but few studies investigate the influence of international M&As on the social identity of people of interdependent culture and therefore what is known about human nature is based on Western culture. This limitation impedes our knowledge about human-resource-related problems in the studies of non-Western countries and may be responsible for the high rate of failure in practice. The finding of this research also provides a fresh practical implication for the managers who engage in cross-cultural management in the collectivism prevailing

countries.

In line with the results of those previous studies conducted in Western countries which found that collective pride positively contributes to employees' identity because people are motivated to pursue and maintain a positive social identity (Tajfel, 1978; Turner, et al., 1987; Breakwell, 1978), this research has found that the Chinese employees also derived positive social identity from collective pride such as the success that has been achieved by the companies and the prestige of the companies. This is because working for a well-known company is a source of pride for an individual and such pride will last even when the company is in a slump (e.g. Case One).

As this research has found, a strong identification with the pre-acquisition organisations, especially with family-like organisations leads to a set of psychological consequences including trust, a sense of intertwinement, a sense of cohesion, a sense of belonging and certainty. These findings are consistent with social identity theory and self-categorization theory as identification is perceived as a common fate shared between employees and firms (Van Dick et al., 2004a). Shared categorization increases perceived identity between group members and decreases perceived similarity with out-group members (Hogg, 1987; Turner et al., 1987). Terry et al. (1999) address the relationship between third-person perceptions and inter-group behaviours as follows:

From a self-categorization perspective, ... third-person perceptions are sensitive to the categorization of self and other into relevant ingroup and outgroup categories, and reflect the accentuation of similarities within, and differences between, those categories. To the extent that comparison others are judged as outgroup members ('them'), they will be contrasted to the perceiver's identity, evaluated negatively, and represented unfavourably .... In contrast, to the extent that comparison others are judged as ingroup members, they will be assimilated to the perceiver's identity ('us'), evaluated positively, and represented favourably, like the self .... (p. 301)

Once people identify with a group, he/she tends to perceive intra-group similarities (e.g. Hogg, 1987) and feel attraction (e.g. Van Oudenhoven and De Boer, 1995; Newcomb, 1961). “In other words, if a common identity is salient and recognized among group members, they would expect to speak a common language” (Postmes, 2003, p. 87). The notion of perceived similarity leading to attraction has been proven in cross-cultural studies (e.g. Byrne, 1971). Furthermore, “social homogeneity in the workplace makes communication easier, behavior more predictable and fosters relationships of trust and reciprocity” (Ibarra, 1992, p. 423). This implies that the higher identification a person shows, the more organisational perspective he or she takes (Van Knippenberg and Van Schie, 2000; Van Knippenberg et al., 2002), the more organisational values, norms, attitudes and beliefs he or she adheres to (Ashforth and Mael, 1989; Van Knippenberg, 2000), the more organisational interest he or she has (Van Knippenberg, 2000; Van Knippenberg and Van Schie, 2000; Van Knippenberg et al., 2002) and the stronger the sense of belonging to the company he or she feels (Alvesson, 2000). In other words, once an individual defines himself/herself in a category, his/her self-definition is identical with the specific characteristics of the category (Herriot and Scott-Jackson, 2002); and his/her interests and goals are congruent with the group’s (Turner, 1984). From this viewpoint, the category in which people define themselves and others determines their perceptions and behaviours (Reicher, 2004).

Consistent with previous studies (e.g. Van Leeuwen et al., 2003; Van Knippenberg et al., 2002), this research found that the acquisitions generally have negative effects on employees’ identification as an employee’s identification with pre-acquisition organisations (pilot study: mean = 4.125; main study mean = 4.266) was higher than their identity with post-acquisition organisations (pilot study: mean = 3.263; main study mean = 3.583). The negative effects in general fall into three areas: perceived necessity and negative emotion, social relationship and group stereotype.

The extent to which employees perceive the necessity of the acquisitions depends on the communication they received at the pre-acquisition stage. None of the Western

acquirers communicated with the Chinese employees about the reason for the acquisitions beforehand. This was in part due to the acquisitions being considered as the business of top management, and they were therefore centralised within several key decision-makers of two companies in most cases so there was no formal communications from top management to the lower end of the hierarchy. The only way that employees knew about the acquisitions was through rumours. Thus, employees were, highly concerned about the reasons and the necessity for the acquisitions and they showed strong negative emotions toward the acquisition such as anger. This was particularly strong among the employees of the companies with sound prestige and profitable operation (Case Two, Case Three and Case Four).

In addition to concerns and anger, the lack of clarification of the necessity for the acquisition resulted in the feeling of uncertainty and insecurity among employees because they were highly worried about their personal fate and organisational future. The uncertainties and insecurities led to the withdrawal of psychological attachment to the new organisation. From social identity perspective, this is because people choose an organisation due to the motivation of pursuing a sense of intertwinement (Haslam et al., 2000) and belonging (Alvesson, 2000). A sense of intertwinement is formed through working at a particular organisation (Haslam et al., 2000). The common problem caused by mergers is the generation of employees' uncertainty about their personal and organisational future (DiFonzo and Bordia, 1998; Marks and Mirvis, 2001; Schweiger and DeNisi, 1991). This uncertainty causes a high level of pre-merger identification instead of post-merger identification (Gleibs et al., 2008; Haunschild et al., 1994), which is a problem as merger integration is interrupted by a low level of post-merger identification (Haslam, 2001). On the other hand, failing to provide employees with the perception of the necessity of the acquisitions led to the lack of support and co-operations from employees (e.g. Case Four). The supporting evidence can be drawn from a study carried out by Schweiger and DeNisi (1991). In their study, employees in one organisation were informed about the merger and employees in another organisation were given limited information. Results showed that employees from the



organisation which had been informed reported a lower level of uncertainty and higher level of trust and they coped better with the merger than employees from the organisation which received limited information, and this difference becomes more significant over time (Schweiger and DeNisi, 1991). Therefore, employees' support and their willingness to cope with M&As increased their willingness to accept the acquisitions and the new identity from the acquirers, which is useful for establishing post-acquisition identification.

Suffice to say, failing to provide employees with clear communication about the acquisitions, such as the necessity for the acquisitions, increased employees' negative emotions, uncertainty and insecurity and decreased their identification with new organisations. This finding is in line with previous studies which showed that perceived necessity of the merger has a positive effect on post-merger identification (Boen et al., 2005; Ullrich et al., 2005) because perceiving the necessity of a merger reduces employees' uncertainty and fosters their identity with a new organisation (Giessner, 2011). Hence, communication about the necessity of the acquisition is a useful way to foster employees' identification with the post-acquisition organisations. Culture training, which follows behind communications, helped employees to build a view of the company's future. Only one Western acquirer (Case Four) released acquisition information and supplied culture training to Chinese employees at the pre-acquisition stage and employees commented that they felt stable during the acquisition because they knew what the new identity would be in the new organisation. This is a useful way to establish the sense of continuity perceived by employees from a pre- to post-acquisition organisation. Thus, the sufficient communication provided by Western acquirers boosted employees' post-acquisition identification through providing employees with an understanding of the need for the acquisition and reduced their negative emotions. It would be helpful to offer cultural training followed by communication as it is a useful way to establish new identity and the sense of continuity.

Employees' negative emotion not only resulted from the inefficient communication, but

was also caused by the sense of ‘loss of control’ and ‘being dominated’. This is because, as discussed above, Chinese employees have high identification with family-like organisations and formed strong identity-based affections and behaviours such as in-group favouritism and attraction. Acquisitions are the activity of transferring control to an out-group member and breaking the ‘family’. In other words, an acquisition is an event in which a group is to be controlled by a dissimilar, disliked and unattractive out-group. Once this is the case, employees’ ‘groupy’ behaviour will be activated -- strongly discriminating against an out-group member. That is, people respond to a situation not only because their personal self is affected by the situation, but also because their group is affected by an inter-group situation (Smith, 1999). This finding is supported by previous cross-cultural studies which argued that due to the interdependent relationship between members within a group, compared to people from an individualistic culture, people from collectivistic culture show a high in-group identity (Smith et al., 2005) and they are more likely to perceive a difference between the in-group and out-group (Hofstede, 1980). The difference between in-group and out-group results in employees’ negative perceptions of out-group members and therefore, their resistance to being dominated by an out-group.

A strong ‘us’ versus ‘them’ motive, which was found by this research, was a typical example to support this strong in-group favouritism and out-group discrimination. Chinese employees are used to referring to themselves as ‘our Chinese’, ‘our company’ and referring to Western acquirers and expatriates as ‘their foreigners’, ‘their company’. The literature on social identity theory indicates that ‘us’ versus ‘them’ motives are more likely to arise in mergers (Terry and Callan, 1998) and can last for a long time (Haunschild et al., 1994). Theoretically, a group is formed by individuals who perceive themselves as being in the same social category and sharing a common definition of themselves (Turner and Giles, 1981; Hogg and Abrams, 1988). A sense of similarity positively influences in-group favouritism (Billig and Tajfel, 1973). The more strongly an individual identifies with a group, the more likely he/she is to perceive similarities between himself/herself and group members, and to distinguish differences between

group members and out-group members (Terry et al., 1999). Chinese employees show a strong 'us' versus 'them' motive due to their high identification with the in-group and their close relationships with group members, which lead to out-group dislike and out-group discrimination. Furthermore, Chinese society is one of boundary-maintenance in which Chinese distinguish insiders from outsiders (Gamble, 2000). Gamble (2000) points out:

This distinction involves a series of inside/outside dichotomies, which permeate Chinese society. These range from that drawn between China as the 'inside country' (guonei) and other 'outside countries' (guowai or waiguo), a 'foreigner' (waiguoren) being literally an 'outside country person'. Another dichotomy is that made between those inside a family or an 'in-group' (women ziji ren – 'our own people/one of us') and everybody else 'outside'. To be 'one of us' is to be bound by reciprocal rights and duties of mutual aid and support. (p. 889)

The strong in-group identity and out-group discrimination decreased employees' psychological attachment to the new organisation and made a difficulty in accepting acquisitions and the new identification from the acquirer and therefore, derogated their post-acquisition identification. As researchers (Haunschild et al., 1994) have argued, the failure of M&As results from employees' strong identity with old organisations and their unwillingness to accept a new one. Further, the thought of 'working for foreigners' resulted in employees withdrawing their identification with post-acquisition organisations as employees thought that they had to work for Western people instead of working for the nation. This thought increased their negative behaviours such as destroying company assets (Case Three), stealing company property (Case Two) and a high employee turnover (Cases One, Two and Three). Therefore, the acquisitions resulted in a loss of self for Chinese employees due to the sense of 'loss of control' and 'being dominated', which induced their negative emotions toward the acquisitions and therefore, reduced their identification with the post-acquisition organisations.

These findings contradict previous studies which showed that the out-group is discriminated against in highly individualistic cultures (e.g. U.S.) but not necessarily discriminated against in collectivistic cultures when group membership is salient (Gudykunst, 1988). These researchers concluded this point based on the notion that people from non-Western cultures are less boundary-oriented than those from Western cultures, so they perceive self as permeable (e.g. Miller, 1988). They are also based on the point that the Chinese are characterised by socially oriented but not individually oriented and therefore, the Chinese act to maintain harmony and non-offence (Sun and Wang, 2009). However, this research has shown that their point of view is not applicable in acquisitions because Chinese show a strong in-group identity as well as the motive to distinguish insiders from outsiders as discussed above. The strong in-group versus out-group motivation generates a strong attitude and behaviour to discriminate against out-group members and a strong negative emotion toward being dominated by out-group members. Further, acquisitions are featured by significant organisational changes. Chinese culture, however, is characterised by high uncertainty avoidance, in which people show a high emotional resistance to change (Šliburytė, 2005). Thus, as this research found, the significant resistance then takes place. The contradictory findings between this research and previous studies may be due to the limitations remaining in previous studies, which is the lack of in-depth evidence on cross-border M&As coming from non-Western countries, like China. The conclusions drawn by previous studies are largely based on theoretical analysis but not empirical investigation. Hence, the case studies adopted by this research add value to the extant literature on cross-border M&As, especially in the non-Western context.

In sum, acquisitions, as highly emotional activities, generate negative emotions among target SOEs (i.e. dominated companies) due to employees' perception of 'loss of control' and 'being dominated' by the out-group, and the failure of informing employees about the necessity for the acquisition which was due to inefficient communication. Negative emotions led to employees' lacking psychological ties to the new organisations and impeded their willingness to accept new identification. As Van Leeuwen et al. (2003)

argued, the mergers generated a strong stress and uncertainty among employees of dominated companies which caused their rejection of the mergers, in-group bias and the resistance to new identity. The findings of this research contribute to existing knowledge on the role of negative emotion in M&As because, as is discussed in the Literature Review chapter, M&As are highly emotional events but the studies on the role of emotion in M&As are few, especially in international M&As. This research has provided an in-depth view on the influence of negative emotion on employees and bridges this influence to employees' identification. This method extends our knowledge on both negative emotion and organisational identification in the M&A context.

Acquisitions break both the external and internal social relationship of Chinese employees. The external social relationship is violated as acquisitions, which are often termed as 'being sold out' for a company, are perceived as an 'inferior' event for employees. This inferior event induces a feeling of shame and pain for employees and therefore, threatens their positive image presented to the public and consequently violates their external social relationship with, for example, friends, families and any other people. The perception of negative image withdraws employees' psychological attachment to the new organisation and leads to employees' trouble identifying with the new organisation. As Van Leeuwen et al. (2003) argued: "Factors such as finding one's group in an inferior position after the merger ... all contribute to resistance and ingroup bias among members of the nondominant party" (p. 688).

Internally, acquisitions break the family-like social relationships due to the lack of trust on the part of Western acquirers and also, employee turnover. As discussed above, Chinese employees highly value social relationships, which is the distinctive factor fostering Chinese employees' organisational identification. A family-like organisation represents a wide range of affection and attitudes, including in-group similarity, trust, communication, a sense of intertwinement, a sense of cohesion and a sense of belonging. Due to the status difference in which target companies typically have dominated status, while acquiring companies position have dominant status, acquiring companies are

normally more powerful and superior than acquired firms, so they are more likely to stick to their decisions and lack trust in the target firms. Thus, Chinese employees found that it is difficult to develop trust with Western acquirers as Western acquirers generally do not accept suggestions from Chinese managers and they believe their own actions are correct. This difficulty in developing trust with Western acquirers leads to communication problems – Western acquirers refused almost all the suggestions from their Chinese counterparts. This breaking of trust is perceived as a breaking of the family-like social relationships and therefore, decreased employees' intention to associate with the new organisations and increased their resistance to accept the new identity.

Employee turnover also broke the internal family-like social relationship established by employees through long-term service to the organisations. High employee turnover means that employees have to keep establishing and losing social relationships as well as social relationship-based affections and behaviours such as trust. Due to social relationship being a unique feature of fostering employees' identification in China, the breaking of social relationships through employee turnover and violating trust decreased employees' identification with the post-acquisition organisations. Further, as Chinese culture is featured by high uncertainty avoidance, high employee turnover increases the uncertainty associated with employee change and consequently has a negative effect on employees' sense of belongings to the organisation and their identification. That is why both old employees (employees who worked at the organisation before the acquisitions) and new comers were confronted with the difficulty of developing new relationships with each other (e.g. Case Three).

However, although Chinese employees perceived social relationship problems with the acquirers, they valued the social relationships with Chinese co-workers, especially, with the Chinese management team. As Chinese culture highly values the status of the superior (Chen and Farh, 2002) and Chinese leadership styles/managerial cultures are characterised by affiliative, in which Chinese managers not only maintain a harmonious

working relationship with employees, but also maintain a close personal relationship with them, maintaining the Chinese management team is a way to keep employees' social relationships and their loyalty to the superior and to provide a sense of continuity perceived by employees in day-to-day work. This is particularly useful for transferring those high identifiers' identification.

Acquisitions break the group stereotype that is rooted in the target SOEs, which is primarily a manifestation of the Chinese culture. This finding confirms the assumption proposed by this research that cultural incompatibility has a negative effect on post-acquisition identification. This is because an individual's motive is determined by his/her sense of 'who he/she is' in the society (Haslam, 2003): the more an individual attaches himself/herself to an organisation, the more he/she identifies with the organisation, and the more likely he/she is to think, act and behave in accordance with the values, norms, and beliefs associated with that organisational identity (Van Knippenberg and Van Schie, 2000). In addition, depersonalization, which is a process of self-categorization theory, refers to "the process of 'self-stereotyping' whereby people come to perceive themselves more as the interchangeable exemplars of a social category than as unique personalities defined by their individual differences from others" (Turner et al., 1987, p. 50). After depersonalization, people are not shown as unique, multidimensional individuals, but rather as the representations of the group prototype (Hogg and Terry, 2000; Hogg and Hains, 1996) and they believe that they can maintain a positively valued identity from group norms and stereotypes (Terry, 2003). These values, norms, beliefs are the stereotype of a company, which are provided by organisational culture because organisational culture is a set of values, beliefs, expectations and norms shared by employees of a particular organisation and it provides employees with a guide of 'how they do things'. Acquisitions typically break the organisational culture of target firms with regard to, for example, values, norms and beliefs. In other words, acquisitions violate the group stereotype rooted in the target firms and therefore violate employees' guide to 'how they do things'. The violation of 'how they do things' breaks the group stereotype that is associated with organisational

identity and consequently the new identity is more likely to be rejected by employees. Employees tend to isolate themselves from the new identification and consequently, this decreases their identification.

Further, in this research, because of their long history and their location, the four SOEs have been influenced deeply by Chinese traditional culture and SOE culture which is based on Confucianism and are characterised by harmony, human kindness, collectivism and egalitarianism. Due to culture being a set of 'right things' agreed by employees (Kilmann, 1985) and acting as a guide to the right action (Schein, 2004), this research found that the violation of culture means the violation of the 'right' thing that is promoted by the group stereotype. This violation challenges and threatens employees' self-concept and self-esteem, thereby generating a sense of loss and resulting in the resistance to accept the new stereotype from acquirers as the aim of protecting the old self. Moreover, the conflicts of 'right things' and right action generate employees' confusion and uncertainty about which one is the real 'right'. They tend to question self and struggle to accept self. In other words, the acquisitions violate the group stereotype provided by organisational culture and therefore, function as an event of transforming self, including a feeling of loss of self, struggling to accept self, denial in protecting the old self and questioning self. The transforming self derogates employees' willingness to accept new identifications and decreases their identification with the post-acquisition organisations.

The violation of the group stereotype is firstly evident in fast reform, which was accompanied with cultural imposition in the acquisitions, and which eroded employees' post-acquisition identification. Fast reform received the most complaints from Chinese employees when asked about the process of acquisitions. The common mistake American acquirers made was attempting to run Chinese companies like U.S. companies through imposing their culture without any prior discussion with Chinese employees. Chinese employees received neither communication nor training from the Western companies at the pre-acquisition stage, the fast reform, and thus, meant 'adding



oil to the fire'. Fast reform functions as transforming self in three areas: (1) a feeling of loss as the traditions which individuals had been used to were changed suddenly. As one of the interviewees commented, "*It is like a child losing his/her mother*". From the social identity theory perspective, reform refers to people being forced to abandon their old distinctiveness and accept a new identity. That is, the old group's stereotype and positive contributions are lost as well as the individual's self-concept, self-esteem and collective pride. That is why employees felt a sense of loss of self during the fast reform. (2) questioning self and struggling to accept self due to high speed reform caused employees' confusion. Employees often wondered "Who am I?" "Am a member of Company Y (SOE) or Company Z (Western firm)?" They were often confused about "Where are we?" "What is next?" "Am I in Company Y (SOE) or Company Z (Western firm)?" This uncertainty and confusion resulted from a sense of discontinuity employees perceived between pre- and post-acquisition organisations and from the loss of self. (3) denial as protecting old self due to a high level of cultural chaos is more likely to be perceived by employees when fast reform encounters a deeply rooted culture. Employees, hence, generally rejected the new identity and struggled to keep the old one. From the social identity theory perspective, the changes threatened the group's distinctiveness so that they were more likely to be rejected by people and this consequently affected their identification. Further, reforms affected employees' identifications through violating employees' psychological contract, intertwinement and a sense of belonging to the organisations. In sum, fast reform, which is a mechanism of violating the group stereotype of target companies in acquisitions, functions as a negative process of transforming self and therefore, has a negative impact on employees' post-acquisition identification.

These findings add knowledge not only to the integration speed in M&As, but also to post-acquisition identification because the speed of post-merger integration is the issue that is largely neglected by M&A studies (Homburg and Bucerius, 2006). This is perhaps due to the difficulty in capturing the issue of integration speed in M&A studies by a quantitative method unless researchers consider and/or investigate this issue in

particular. For example, a recent study by Homburg and Bucerius (2006), which adopted a statistical analysis, assessed the relationship between speed of integration and M&A success. Their study found that rapid M&A implementation has a strong negative effect on the M&A success in the merging partners with low internal relatedness [strategic orientation, management style (a component of organisational culture), and performance]. In fact, the issue of fast reform did not show up in the pilot study in this research but showed up in face-to-face interviews. This may be a good example to support the point of the limitation of the quantitative method addressed above. The other argument to support this point is that the negative effect of fast reform has been found by previous case studies (e.g. Olie, 1994; Ranft and Lord, 2002), which are accordance with the findings of this research. For example, Olie (1994)'s case study found that a slow speed of integration is a useful way to reduce conflicts generated between merging and merged companies. In a similar vein, Ranft and Lord (2002)'s case study valued a slow cautious acquisition implementation because it is a way to foster trust building between acquiring and acquired companies and allow acquirers to learn the acquired firms' resources.

This research not only confirmed the negative influence of fast reform on M&As, but also provided a further reason to explain how it links to conflicts generated between merging and merged companies, which is through organisational identification. As this research found, fast reform, which is a mechanism of violating the group stereotype of target companies in acquisitions, functions as a negative process of transforming self and therefore, generates the conflicts in target SOEs and has a negative impact on employees' post-acquisition identification. As researchers have argued, clearly, fast integration is not the best method of merger integration as it leads to uncertainty, instability and low identification in mergers (Ullrich et al., 2005). Hence, the case studies adopted by this research add value not only to the integration speed in M&As, but also to the post-acquisition identification because the speed of post-merger integration is the issue that is largely neglected by M&A studies.

The violation of group stereotype is secondly evident in the Party Organisation and Trade Union. A specific aspect of M&As with Chinese SOEs is the existence of the Party Organisation and the Trade Union. Two cases in this research (Case Two and Case Four) retained both the Party Organisation and the Trade Union and the others (Case One and Case Three) only retained the Trade Union. The Chinese Trade Union is difficult for Western acquirers to understand because it is under the leadership of the Communist Party. Due to the features of the Party Organisation, Party members are the excellent people as joining Party Organisation has to meet critical criterion and assessments. Joining the Party Organisation thus provides a positive self-image for Party members. Downsizing this organisation transformed self because it caused a sense of loss and was a threat to the positive self-image for Chinese employees which led to employees' resistance in order to protect the old self (Case One and Case Three). The most severe fighting took place when the acquirer downsized both the Party Organisation and the Trade Union. Employee disturbances later forced the acquirer to re-establish one of the departments (Case Three). The results indicate that companies which retained both the Party Organisation and the Trade Union provided employees with a feeling of belonging and maintained their positive identity. Moreover, retaining these organisations reflected the acquirers' respect, more or less, and understanding of Chinese culture.

The violation of the group stereotype is thirdly evident in organisational culture and is primarily concentrated on value, business relationship, decision-making and the ways of managing employees and controlling operations. The violation of group stereotype in these respects is due to the characteristic of Chinese culture -- Confucian Dynamism, and the cultural distance between Western countries and China -- uncertainty avoidance and power distance. The violation of organisational culture is firstly evident in one of the traditional values of Chinese culture, which is egalitarianism and respect for seniority. This traditional value represents the features of harmony (egalitarianism) and high power distance (respect for seniority) embodied in Chinese culture, and they are represented in salary structure as this research found. The typical salary structure of

Chinese SOE comprises position, skill and seniority. The acquisitions reformed salary structure and broke egalitarianism and the respect for seniority and therefore, led to employees' dissatisfaction.

The violation of organisational culture is secondly evident in the business relationship – *guanxi*. The basic notion of *guanxi* is that the Chinese prefer to deal with friends or the people they know and trust, which reflects the high uncertainty avoidance feature of Chinese culture. They strongly rely on *guanxi* to develop business activities as the more *guanxi* a company develops, the more 'friends' it has, so the more business opportunities it receives. Hence, it is a crucial factor for business success in China. However, due to the cultural difference in the dimension of uncertainty avoidance, Western acquirers have little understanding of *guanxi*. For example, the Chinese think it is worth spending time on establishing and developing *guanxi*, but Western acquirers think it is a waste of time. They do not understand why the Chinese prefer to socialise with new customers and business partners they first meet rather than discuss business right away. *Guanxi* is also often associated with personal relationships. Some Western people do not understand why they should mix personal relationships with business operations and have little interest participating in such activities. Another issue that is difficult to understand for Western acquirers is that gifts are often used to establish and develop *guanxi*, which is considered illegal or inappropriate among many Western people. Some of the acquirers (e.g. Case Three) do not allow *guanxi* and therefore, challenge Chinese traditional ways of doing business, which generates conflicts with the Chinese stereotype.

The violation of organisational culture is thirdly evident in decision-making. Due to China being featured as a high uncertainty avoidance country, Chinese managers are reluctant to make individual decisions. Instead, they tend to discuss the decision with team members in order to get the most employee agreements and to reduce risks. This is a typical and traditional way of doing business in China although it does cause slow decision-making. Western acquirers not only criticize the slow decision-making made

by Chinese managers, but also complain that Chinese managers are unwilling to take personal responsibility and prefer to shoulder the responsibility with other people. Another example is that Chinese people seldom give personal opinions in public. This is due to Chinese culture highly valuing 'face' (Wilkinson et al., 2005), which not only is derived from uncertainty avoidance and power distance, but also from the Chinese traditional education system where traditional lecturers are still dominant (see also Melvin, 1996; Björkman and Lu, 1999). In this study, the conflicts and embarrassment then took place as the acquirers tended to consult opinions from their Chinese subordinates but Chinese employees preferred to obey orders from the acquirers.

The violation of organisational culture is fourthly evident in the ways of managing employees and controlling operations. The acquirer wanted to give autonomy to shop-floor workers as an incentive mechanism but it is not applicable in China. This is due to the cultural differences between China and the U.S. in power distance. In collectivistic cultures, people accept power differences (Lu, 2008) and they are used to being regulated (Shweder and Bourne, 1984) and hence, autonomy is not appropriate. In individualistic cultures, however, self is perceived as unique, independent individuals to a society (Markus and Kitayama, 1991; Miller, 1988) and individuals perceive equality with each other (Lu, 2008) and therefore, autonomy of the self is relevant (Hofstede, 1980; Lu, 2008). The other reason explaining the incompatibility of autonomy in China is due to, as Chinese managers admitted, the low quality of work of Chinese shop-floor workers so that they have to be regulated through, for instance, a series of standards to measure their performances.

In sum, cultural incompatibility negatively affects post-acquisition identification because it violates employees' idea of 'how they do things' and consequently violates the group stereotype that is associated with organisational identity and therefore, reduces employees' identification. Furthermore, this cultural incompatibility functions to transform self in terms of a sense of loss of self, the threat to positive self-concept and rejection of the new stereotype in trying to protect the old self. All these behaviours

destroyed employees' identification with post-acquisitions. As Datta (1991) argued, "Generally, the acquiring firm management end up imposing their own style on the management of the acquired firm ... this can result in a loss of identity among acquired firm management" (p. 284). The violation of the group stereotype is primarily caused by, as this research found, reform speed, value, the Party Organisation and the Trade Union, business activity – *guanxi*, the decision-making and the ways of managing employees and controlling operations.

The extent to which employees commit to post-acquisition organisations depends on the social exchange they perceive therein. Social exchange is firstly determined by organisational justice. Mottola et al. (1997) argued that in acquisitions (absorb pattern) expectations about two companies' relationships, and the way of treating employees tend to be negative, which affect employees' commitment to the organisations and consequently, the success of the acquisitions. Consistent with previous studies, this research found that the organisational injustice perceived by employees reduced their commitment to the new organisations. In this research, organisational justice was violated by inefficient communication, job dissatisfaction and the downsizing of the Party Organisation, which destroyed interactional justice, distributive justice and procedural justice respectively. As reviewed in the Literature Review chapter, interactional justice was violated due to inefficient interpersonal treatment. Managers were often unwilling to communicate with employees about the mergers which led to uncertainty among employees and employees tended to listen to rumours (Schweiger and Denisi, 1991) therefore, causing distrust and lowered commitment. This research found that the lack of communication, which was perceived as a secret by employees, led to a sense of interactional injustice because it broke employees' rights of knowing what happened to their companies. Further, the lack of perception of the necessity of acquisition failed to provide employees with a hope of continuing their work at the companies and hence, also decreased their commitment. Thus, communication concerning the necessity of the acquisitions and the future of organisations fostered employees' interactional justice and hope and therefore, increased their organisational

commitment.

Distributive justice is realised when an employee's expected outcomes are consistent with the actual outcomes (Clay-Warner et al., 2005), and it concentrates on the fairness of reward received in comparison with job performance (Greenberg, 1986). This research found that the reduced job satisfaction, which was caused by the re-conclusion of the employment contract and job adjustment, induced unfairness perceived by employees because it threatened their personal future in the new organisations and their job security and certainty. In addition, the re-conclusion of the employment contract was perceived as an injustice for those employees who had already worked for the company for a long time as it meant their past was 'thrown away' and they would have to face a new beginning. Moreover, the heavy workloads and working pressures increased the imbalance employees perceived between their 'input' in the organisation (i.e. work effort) and their 'output' from the organisation (i.e. the reward, job security). This imbalance violated the social exchange of employees and consequently, decreased their commitment. These findings are consistent with what has been reviewed in the Literature Review chapter, namely that the inter-group difference leads to the threat of losing job status and job security and hence, the decrease of organisational commitment. As Sinkovics et al. (2011) points out:

Employees who perceived managerial actions as unfair reacted with anger, disillusionment, frustration and demotivation, as well as decreased organisational commitment, lower levels of job satisfaction, and subsequently job withdrawal. Employees who were happy with the pre-merger company experienced a sense of bereavement, and became more dissatisfied and less committed in the new company. (p. 38)

Further, these findings are also in accordance with previous research, which found that organisational commitment is related to job satisfaction, job involvement, job performance and job tension (e.g. Bateman and Strasser, 1984; Van Knippenberg and

Sleebos, 2006; Porter et al., 1974; Hrebiniak and Alutto, 1972; Stevens et al., 1978; Stone and Porter, 1975; Meyer et al., 1989). The reduced job satisfaction, which was caused by the re-conclusion of the employment contract and job adjustment, made employees' lose hope in continuing to work in the organisation and resulted in decreased commitment to it.

The downsizing of the Party Organisation violated procedural justice as it was perceived as an unfair decision by employees, especially for Party members. The perceived procedural injustice, again, reduced employees' reciprocity in the new organisations and consequently, their commitment.

Organisational justice improves employees' affective commitment to the post-acquisition organisations and it is evident in distributive justice and hope. In order to improve employees' affective commitment Western acquirers undertook appropriate incentive strategies, such as promoting regular employees to managers (Case Three and Case Four) and awarding outstanding employees with travel abroad (Case Three). These incentive strategies stimulated employees' enthusiasm, thereby, raising their affective commitment. Case One also illustrates another reason for the high affective commitment, which is providing employees with 'hope' in continuing to work at the company. The SOE was in semi-production before the acquisition so that employee salaries were low. However, the acquisition stimulated the company's production and increased employee salaries, which increased employees' hope for the future and therefore, their commitment. Therefore, organisational justice is an important factor in influencing employees' organisational commitment to the post-acquisition organisations.

Social exchange is secondly determined by the side-bet, which is continuance commitment. Employees reported a high level of continuance commitment in all age groups. This is in part due to the social relationships being well-developed within the SOEs. Co-worker relationships have been strengthened with the increase of



organisational tenure so that people are unwilling to leave these relationships (Mowday et al., 1982). The longer an employee works for a company, the deeper the social relationship and personal relationship he/she has in the company. This is particularly the case for those families working in a company from generation to generation, or those employees whose family members work in the same firm. That is, both employees and their families are involved in the net of relationships within an organisation. As Chinese employees highly value social relationships with co-workers and managers, the social relationship is perceived as a high value of 'input' and 'output' because much has been invested in terms of affection and social activity by employees and it has given many rewards to employees such as a sense of belonging, intertwinement and distinctiveness. Hence, leaving the current organisation means leaving current social relationships which is perceived as increasing costs associated with leaving. In particular, retaining Chinese management teams is a useful way to increase employees' commitment.

Employees' continuance commitment also derives from China's employment environment, which is characterised by intense competition and increasing difficulties finding a job. Keeping current jobs and financial income are important for employees. In particular, those middle-aged and older employees who hold low educational certification tend to show a high level of continuance commitment to post-acquisition organisations due to their low qualifications and age disadvantage as they find it difficult to compete with other people in the labour market. They therefore have to stay with the company. Furthermore, the responsibility of supporting a family and the need for stability are other reasons raising the continuance commitment of middle-aged and older employees. As has been mentioned, comments from this group of people include 'keeping the rice bowl', 'supporting a family' and 'stable work until retirement' and are frequently mentioned reasons for staying with the company. In fact, the higher the age, the fewer the alternative choices for jobs (Mowday et al., 1982). All the older employees want is stable work until retirement, so that keeping the current job and not leaving is the only thing that old-age employees and low-educational-certification holders wish for when they are confronted with M&As. That is why middle-aged and

older employees with low educational certification are less likely to leave the firms. Young employees, however, have the advantages of age and/or qualification so that they have more alternative job choices.

Social exchange is thirdly determined by morality, which is normative commitment. Chinese employees show a relatively high level of normative commitment to organisations due to Chinese culture, which encourages loyalty. Loyalty is perceived as a social norm by the Chinese (Liu et al., 2011). Traditionally, a person spends his/her whole career life-time in a company without any job-hopping. Although it is not as common nowadays, Chinese employees still adhere to loyalty and perceive it as a moral obligation to be followed. This concept is particularly strong among middle-aged and older employees.

In sum, organisational justice, the side-bet and morality link to the organisational commitment of post-acquisition organisations. The presence of incentive strategies, the retaining of Chinese management teams, the increase of job costs and investment size, the decrease in alternative job choices, the establishment of deeply social relationships and personal relationships with co-workers, and the characteristics of Chinese culture influence affective, continuance and normative commitment and thereby, contribute to post-acquisition organisational commitment. Although middle- and old-age employees show a lower level of organisational commitment to post-acquisition organisations than young employees, they are less likely to move to other companies due to a high level of continuance commitment and normative commitment to post-acquisition organisations. This is particularly true for those middle-aged and older employees who have a low level of educational certification and therefore have to stay with the new organisations. These findings are generally consistent with previous studies (e.g. Cohen, 1993; Mowday et al., 1982).

Three particular issues emerged that may be useful for acquisition management. The first is post-acquisition recruitment. Traditionally, people believed that employing

domestic citizens to run companies was an effective way to avoid national differences in areas such as language, culture and institutional environment. Although some acquirers employed Chinese as expatriates after the acquisitions, they did not employ the 'right' people. The employment of inappropriate employees breaks the social relationship within the organisations, through, for example, the inducing of conflicts and communication problems between local Chinese citizens and other kinds of Chinese. As Case One showed, there are differences between domestic Chinese and other kinds of Chinese in concepts, values, and cultures. The acquirer of Case One employed Chinese Canadians to run the company after the acquisition. Although they are Chinese, their values and concepts have become more westernised because they grew up in Western countries. Although the acquirer realised this problem later and employed returned overseas Chinese as translators and managers, it made another mistake. There are also cultural differences between returned overseas Chinese and local Chinese. This is because those returned overseas Chinese who are either permanent residence card-holders or have citizenship, they have lived abroad for a long time and therefore their concepts are different from those of Chinese domestic citizens and they need to adapt to the Chinese environment (Chen, 2009). That is why there are often misunderstandings in communication with Chinese domestic employees. Furthermore, although the returned overseas Chinese are good at English, they have neither worked in the industry to which the SOE belongs nor studied industry-related knowledge so that they do not have professional experience or understanding. These problems impede their communication and daily work with other employees.

Case One indicates two factors that should be paid attention to by Western acquirers when they conduct post-acquisition recruitment. First, compared to the employment of other kinds of Chinese, it is better to employ local citizens who are professionals in the industry with multi-cultural working experience to run the company because they know the local and Western business environment, they do not have any differences with local citizens in values and culture and they do not have any barriers in communication with Chinese employees and Western people. Second, returned overseas Chinese or ethnic

Chinese can be employed as top executives but they should have long-term working experience in China and they should be professionals in the industry. As Peng (2006) argued: “It is clear ... that managerial effectiveness in China does not depend on one’s ability to use chopsticks” (p. 27). Employing the ‘right’ people to run the post-acquisition organisations are useful for establishing social relationships with Chinese employees of target companies and consequently, play a vital role in fostering employees’ identification with post-acquisition organisations.

The second issue that emerged in the findings is the conceptual difference between the young Chinese generation and the older generation. This difference contributed to the culture shock in a traditional SOE culture (e.g. Case One) and the acceptance of changes and partial aspects of the acquirers’ culture and identity (Case One, Two, Three and Four). Traditional SOE culture impacts more deeply on the middle-aged and older employees than on the young employees and so, as this research discovered, it is difficult to change older employees’ concepts because they are conservative. Young employees reported that they acquired a positively valued identity from new group stereotypes because: (1) The concepts of young employees have changed from those of the older generations. (2) Young people have the ability to adapt to a new environment, and accept changes and new ideas and situations more easily than old people. The first reason reflects the current situation in China. As this research has found, the values and concepts of young people are more or less different from those of middle-aged and older people because of their conditioning. Due to the actualisation of Reform and the Open Door Policy, China has attracted a lot of foreign firms in past decades. These foreign firms have not only established joint ventures or wholly foreign-owned enterprises in China, but brought their culture, thought and managerial concepts into China. In addition, as China quickens the pace in integrating into the world economy in order to restructure its economic system, it has absorbed some advanced foreign ideas, values and norms to improve its corporate strength such as linking one’s salary with his/her job performance and introducing a competition mechanism. The young people who have grown up in this environment have, to different degrees, absorbed these concepts,

thoughts and values. That is why, as this research has found, on the one hand, middle-aged and older employees complain that the young generation does not wholly inherit Chinese traditions and the characteristics of young generation are opposite to traditional Chinese characteristics, such as 'paying attention to human kindness' and 'having a stable job at a company for life'. But on the other hand, young employees complain that some of the traditional values and concepts of SOEs are too old to accept, such as the 'iron rice bowl', egalitarianism and an easy working environment. As young people, they would like to have challenging and meaningful jobs, which represent their values and enrich their lives. Meanwhile, they complain that older people still adhere to old concepts which are not congruent with the concept of a market-based economy.

These changes in the young generation's concepts have been proved by empirical studies. For example, Ralston et al. (1999)'s study found that although the new generation of Chinese managers still adhere to Confucianism, they show a higher individualism and lower uncertainty avoidance than the older generation of managers. Further, foreign-owned enterprises are desirable employers (Cooke, 2006) for Chinese young generation due to the value difference between them and the older generation. That is why this research has found that young people identify with some of the values and changes conducted by Western acquirers and derive positive identity from new group stereotypes, and they show a higher affective commitment than middle-aged and older employees, so that working in foreign-owned enterprises boosts young employees' affective commitment.

The third issue that emerged in the findings is that contrary to previous studies which found that pre-merger organisational identification is negatively related to a dominated firm due to inter-organisational differences and a sense of discontinuity (Van Knippenberg et al., 2002), this research has found a positive correlation between pre- and post-acquisition identification in dominated firms (i.e. acquired SOEs). Following the notion of continuity, this research argues that employees from acquired SOEs perceive a certain amount of continuity in the post-acquisition organisations so that their

partial identification is maintained, which contributes to identity transfer. Due to the fact that the mergers do not require employees to completely abandon or change their old identity (Van Leeuwen et al., 2003), a certain amount of continuity is perceived by employees from dominated firms. Identification can exist everywhere within an organisation, such as in a job, the management team and in the co-worker relationship. For example, this research found that shop-floor workers transferred their job identification from pre- to post-acquisition organisations because their working environment was generally unchanged: they wear the same uniform, do same jobs, and work with the same colleagues and equipment. Hence, compared to their superiors, they perceive fewer differences between pre- and post-acquisition identification in the job setting, and therefore their identification is less eroded by acquisitions. This finding is consistent with Ullrich et al.'s study (2005).

Furthermore, Ellemers et al. (2003) argue that social identity is context dependent so that an employee may strongly identify with some parts of the organisation but not with others. As social relationship is a unique factor fostering organisational identification in China, co-worker relationships and management-employee relationships contribute to identity preservation. Although employee turnovers were high during and after the acquisitions, the majority of employees were retained, resulting in employees transferring their identifications with co-worker relationships and peer recognition to the post-acquisition organisations. More importantly, Western acquirers did not fire the top management teams of the SOEs after the acquisitions so that almost all managers were retained (except for Case Three). This is a useful way to transfer identity as Chinese employees may bring their partial identities regarding loyalty and management-employee relationships to the post-acquisition organisations. Therefore, in China at least, the dominated group perceives continuity during acquisitions. This finding proves that keeping a sense of continuity increases employees' post-acquisition identification, which is consistent with previous studies.

In sum, this research has found that Western acquirers adopted inappropriate acquisition

management during and after the acquisitions regarding identification, culture, communication, reform speed, the sense of continuity, job, employees' emotion and organisational commitment. The inappropriate acquisition management negatively affects the performances of target SOEs. These findings indicate that acquisition management plays a vital role in determining acquisition performance, but not only financial strategy. This means that Western firms cannot emphasise financial strategy rather than managerial strategy and sit back to wait for profits to increase. In fact, employees are the actors carrying out organisational strategies and achieving organisational goals. Effective management is able to stimulate the enthusiasm of employees to fulfil their responsibilities and even, to devote a great deal of extra energy working for the organisation (e.g. job satisfaction). Furthermore, effective management is able to increase employees' willingness to work for the company and decrease employees' turnover intention (e.g. organisational identification, a sense of continuity and organisational commitment). For example, key employees are competitive advantages for a company and they strongly influence an organisation's production, innovation, research and development, and critical skills. Their capabilities make a significant contribution to an organisation's intangible assets, and therefore contribute to an organisation's performance and profits. Effective management is a useful way to keep key employees which is benefit to an organisation's performance. Moreover, effective management is able to increase employees' team work orientation and reduce employee disturbance caused by, for example, inefficient communication, cultural incompatibility, identification clash, negative emotion and reduced organisational commitment during the process of acquisitions. Organisations may also need to spend money and time solving employee disturbance, which would also impede normal operation and day-to-day work and therefore, affect performance. Suffice to say, effective acquisition management stimulates a series of employees' positive motives and behaviours which are effectively contributing to organisational performance. Indeed, the correlation analysis confirms the positive relationship between acquisition management and acquisition performance.

Specific to cases, for example, with Case Four the SOE showed better accounting performance than the other cases as its performance in general remained stable in the first year of acquisition though with a slight decrease and it is the only SOE which has seen a gradual performance increase since the first year after the acquisition. More importantly, Case Four is the only company which switched from underperforming the industry prior to the acquisition to outperforming after the acquisition. The Western acquirer of Case Four outperformed the other three acquirers in managerial performance. Statistical analysis showed that Case Four reported significant mean differences with the other firms in communication, fast reform and a sense of continuity (detailed information is shown in Table 2 and Table 3 in the Appendix). This is because the Western acquirer carried out a series of managerial strategies two years before the acquisition such as culture training and communication. All these strategies reduced employees' uncertainty, worry and stress, which provided a platform for a stable transfer. In addition, the acquirer implemented skills training in the SOE shortly before the first acquisition to familiarise employees with, for example, 6Sigma, CPS and TPM. The score for acquisition management of Case Four is the highest of the four cases and it is the only company scoring above the median value of 3. The results of Case Four indicate that managerial strategies are important for the improvement of acquisition performance.

Case Three is an example of failing to carry out appropriate managerial strategies during the acquisition. The SOE of Case Three showed the highest pre-acquisition performance of the four cases in that its performance was in general higher than those of its industry peers. However, its performances have decreased dramatically since the acquisition, which is the worst in all cases and its performances were much lower than those of industry peers although with an increase in the first year after the acquisition. This is because, as discussed above, the Western acquirer did not provide any information for employees before the acquisition and has undertaken a high speed reform since the acquisition as well as violating the organisational culture of the SOE, such as downsizing the Party Organisation and Trade Union. Additionally, some



managers and employees left the firm with the ex-Chairman after the acquisition, which broke the social relationship and decreased the sense of continuity. That is why Case Three shows significant mean differences with Case Two and Case Four in fast reform, and significant mean differences with all cases in sense of continuity (detailed information is shown in Table 2 and Table 3 in the Appendix). The score for acquisition management of Case Three is the lowest of the four cases and it is lower than the median value of 3. Hence, acquisition management plays a vital role in determining acquisition performance. The inappropriate acquisition management decreases the acquisition performance of target companies.

## **Summary**

This chapter has discussed the research findings. The relationships between pre-acquisition identification, cultural incompatibility, communication, a sense of continuity, fast reform and negative emotion and post-acquisition identification have been grouped into three areas: perceived necessity and negative emotion, social relationship and group stereotype, with a discussion of their relationships. This research also discussed how acquisitions influence employees' organisational commitment on social exchange. Several particular issues which may be useful for acquisition management will be outlined.

## Chapter 6: Conclusion

This research provides an in-depth view on the effects of cross-border acquisition activities on Chinese SOEs. There have been three objectives for this research: first, to build a picture of how cross-border acquisitions impact on Chinese SOE employees; second, to verify the managerial factors that influence the acquisition integration of Chinese SOEs; third, to explore the relationships between acquisition management and acquisition performance. The research set out to address three main research questions: How do acquisitions influence the identity, culture and commitment of the target SOE employees? What are the factors that determine an employee's post-acquisition identification? What are the relationships between acquisition management and post-acquisition performance?

This research makes four contributions to the literature on cross-border M&As in general and studies on M&A of Chinese SOEs in particular. First, this research extends the study frontier to China – an emerging Eastern economy which is also the world's most populous nation, in order to fill the gap between Western-developed theories and their effects in non-Western developing countries. To the best of my knowledge, there are no studies investigating the identity and organisational commitment of Chinese employees in the M&A context. Studying people's behaviours across cultures provides an important view for managers who engage in cross-cultural management and adds knowledge to M&A studies.

Second, this research investigates several issues that have not been explored in previous studies. Given that the factors influencing post-M&A identification of employees from target companies who are positioned as having a dominated status in M&As is an under-studied issue, this research includes new factors (cultural incompatibility, communication, fast reform and negative emotion) to examine their influences on the post-acquisition identification of such employees. Two of these factors have often been ignored by previous studies (fast reform and negative emotion). Results confirm the

assumptions and consequently, expand our knowledge regarding social identity theory in the M&A context.

The third contribution this study has made is that it explores the relationships between acquisition management and post-acquisition performance. The results indicate that acquisition management has a significantly negative effect on the post-acquisition performance of target SOEs and consequently provides empirical evidence to support the view that managerial strategies do contribute to post-acquisition performance. This finding further adds evidence to the literature on the factors influencing acquisition performance, which has been an under-studied issue in previous studies, and therefore extends our understanding of acquisitions and broadens our knowledge of the ways of improving acquisition performance.

Fourth, as a methodological contribution, this research chose an interview-based case study as the main research methodology by virtue of addressing the methodological limitations in previous studies. A qualitative methodology such as a case study may be helpful as it investigates an object more deeply than a quantitative method, such as a survey, so that it is able to identify people's real perspectives, emotions and actions, which may be difficult to acquire by quantitative methods. It may also reveal unexpected issues.

This research found that social relationship is a vital factor in influencing Chinese employees' identification but not, as found in the Western context, the individual-organisation relationship. Also, social relationship is a unique factor fostering Chinese employees' positive identity, but not the shared social identity as found in the Western context. The social relationship forms a unique dimension in the Chinese context and consequently, in collectivistic cultures. This finding indicates important empirical and practical implications for managing employees' identification in China and even in collectivism prevailing countries. Further, this research shows that the point held in previous studies, namely that the out-group is not necessarily

discriminated against in collectivistic cultures when group membership is salient due to the collectively-oriented feature of collectivistic culture, is not applicable in acquisitions because people of collectivistic culture show a strong in-group identity, a strong motive to distinguish insiders (i.e. in-group members) from outsiders (i.e. out-group members) and a strong resistance to uncertainty. These responses are driven by the features of collectivistic culture, such as collective orientation and high uncertainty avoidance. The contradictory findings between this research and previous studies may be due to the fact that previous studies are largely based on theoretical analysis but few studies have adopted in-depth studies on cross-border M&As in non-Western countries, like China. Hence, the case studies adopted by this research add value to the extant literature on cross-border M&As, especially in the non-Western context. Also, the emergence of the issue of fast reform is the other example showing the value-added feature of case studies to the literature.

Acquisitions of Chinese SOEs were challenging for Western firms. This was not only due to the cultural and institutional distance between China and Western countries, but also to inappropriate acquisition management carried out by the Western acquirers. The majority of Western acquirers did not manage acquisitions successfully. They generally did not communicate with Chinese employees, carried out speedy reform, imposed identity and violated social exchange after assuming the business responsibilities of Chinese SOEs in order to rapidly transform the targets into Western-style firms. This insufficient communication, cultural incompatibility, continuity decrease as well as speedy changes violated the necessity of acquisition perceived by employees, induced negative emotion among employees, broke the social relationship and group stereotype that are deeply rooted in the pre-acquisition organisations and consequently led to identity erosion and employee disturbances. In addition, the violation of the group stereotype functioned as a transformation self because employees struggled to accept self, they felt a sense of loss of self, they struggled to make sure 'who they are', they questioned self, they refused the new stereotype as protecting the old self and they perceived a threat to their positive self-concept. All these decreased employees'

identification with the post-acquisition organisations. The worst situation occurred when SOEs underwent a fast reform involving insufficient communication, which led to a sense of discontinuity and a culture clash. The fast reform, thus, 'added oil to the fire'. The inappropriate acquisition management adopted by Western acquirers resulted in the decline of the SOEs' post-deal performances, as supported by the statistical analysis of this research and consequently has shed light on the relationships between acquisition management and acquisition performance. One SOE's performance (Case Four) has gradually improved since the acquisition because its Western acquirer scored higher in acquisition management than the other SOEs. Thus, Western firms should carefully plan acquisition activities and build managerial strategy, which may contribute to acquisition performance.

Three particular issues emerged that may be useful for acquisition management. Firstly, selecting people as managers of post-acquisition organisations cannot be based only on their ethnic groups or multi-language capability, but also on other factors such as their knowledge of China and Chinese SOEs, and professional experience. This is useful for establishing social relationships with employees of target SOEs, which helps maintain identification. Secondly, young employees are more likely to gain a positive identity from the new group stereotype introduced by the Western acquirer because their concepts are slightly more in line with those of Westerners and their abilities to adapt to a new environment and to accept new ideas are greater compared with older people. Thirdly, due to the fact that the M&As do not require employees to completely abandon or change their old identity, and social relationship is a unique factor fostering Chinese organisational identification, these contribute to a sense of continuity perceived by Chinese employees. Consequently this results in a positive correlation between pre- and post-acquisition identifications in the acquired SOEs, which are positioned as having dominated status in the acquisitions.

There are three limitations of this research. First, due to this research interviewing and surveying those employees who still worked at the organisations after the acquisitions,

this caused a problem that the issues investigated by this research are associated with survivorship bias. Employees' perception of acquisitions, such as identification, communication and sense of continuity investigated by this research, may be biased by their memory and their experiences in the post-acquisition organisation and post-acquisition situation (Bartels et al., 2006). Second, due to the case study methodology adopted by this research, the limited number of cases may cause a wider generalization problem (Antila, 2006). For instance, only four cases are included to test the correlation between acquisition management and the acquisition performance. Further research can test this issue by using a quantitative method, which could lead to a more comprehensive result. Third, the cases which this research investigates completed the acquisitions over several years. Although employees still remember their emotions, attitudes and reactions during the process of the acquisitions, a better way to capture employees' emotions and behaviours is through interviewing employees whose companies are going to carry out an acquisition. A continuous investigation is necessary to record employees' emotions and responses during and after the acquisition. This may be helpful to obtain more detailed and accurate results than the findings of this research.

## **Implications**

As collectivism and social relationship is a unique characteristic for Chinese employees, managing Chinese SOE employees throughout the acquisitions should pay particular attention to these aspects. That is, there is a need to maintain Chinese employees' social relationship established in the pre-acquisition organisations and foster their social relationships with Western acquirers. Based on the findings of this research, the implications for merging or acquiring of Chinese SOEs are concluded as follows:

Firstly, pre-acquisition preparations (e.g. communications and cultural training) are the basis of M&A success. Making clear communication about the necessity of acquisitions is a useful way to reduce employees' uncertainty and negative emotion and consequently increases employees' motivation to co-operate with acquisitions.

Uncertainty is often associated with the handover of control to unknown out-group members (Bastien, 1987). Employees from target companies do want to know what will happen to them. However, concealing the truth and critical information from employees prior to acquisitions causes a set of long-lasting negative emotions such as worry about job security, uncertainty about personal future and role, a lack of clarity about organisational future, anger, a sense of loss, decreased concentration on the individual job and high employee turnover. Such negative emotions impede post-acquisition integration. Western firms should provide periodic face-to-face meetings with employees to clearly address the reasons for the acquisition and to present major changes of the acquisition process, likely problems and solutions. Two-way communication is better than one-way communication because one-way communication is perceived as an 'order' (Saunders et al., 2009). The advantage of two-way communication is that Western acquirers can discover employees' thoughts, attitudes and problems through such communication. Giving clear explanations to employees and/or making adjustment to M&A strategy according to employees' responses will reduce the potential risks associated with post-acquisition integration. Furthermore, Western acquirers, who will be the new 'hosts' for target Chinese SOEs, should make a 'self introduction' including their background, main business, products and culture. This is a useful way to increase employees' knowledge of 'who the acquirer is'. Given that the Chinese put a significant focus on relationships, they may perceive Western acquirers as 'friends' instead of 'enemies' if Western acquirers can develop a close relationship with Chinese employees through such methods'. This will minimise the difficulties of post-acquisition management. Related to communication and 'self introduction', cultural training conducted by the acquirers is beneficial because it provides employees with a view of their future in the company. The empirical evidence of this research shows that communication and cultural input from the acquirers are helpful vehicles for a stable transfer in the process of acquisitions, which is a basis for identity transfer. Although acquisitions are often seen as the business of top management and are centralised within several key decision-makers of the acquirer and the SOE, regular employees, who account for the majority in a company, are the people

with whom Western acquirers will have to work. They are therefore the actors able to achieve organisational goals.

Another implication of this research is that maintaining social relationships and a family-like organisation is a crucial and unique way to foster Chinese employees' post-acquisition identification. This method firstly maintains employees' positive social identity because as this research has found, Chinese employees typically take satisfaction and distinctiveness from social relationships through long-term service to the organisation. Such satisfaction and distinctiveness feed into their positive identity and result in a series of positive psychological consequences such as a sense of intertwinement, cohesion and sense of belonging. Maintaining social relationships and a family-like organisation, secondly, keeps employees' sense of continuity between the pre- and post-acquisition organisations. Chinese people, as collectivists, identify with their groups more strongly than individualists do. They derive a feeling of belonging to a group and establish a close tie with group members. They favour members within the company and enjoy co-worker relationships, management-employee relationships and peer recognition. Such a sense of 'fitting in' bonds Chinese employees together and results in a high identification. For instance, retaining a Chinese management team can transfer employees' identification with managers to new organisations as well as their loyalty to the managers.

The third implication of the findings is that this research, again, proves that preservation of the old identity or the original distinctiveness of a pre-merger organisation is helpful in maintaining a sense of continuity in the eyes of the employees (Van Leeuwen and Van Knippenberg, 2003; Van Knippenberg et al., 2002; Van Leeuwen et al., 2003), which will not succeed, as some researchers have argued, by weakening the old and imposing the new (Marks, 2006). Maintaining a sense of continuity is a useful way to transfer identification from pre- to post-acquisition organisations as it is able to maintain employees' positive social identities. High identification with the pre-acquisition organisation can be transferred to the post-acquisition organisation if



employees perceive a sense of continuity and is particularly useful for keeping high identifiers' identity. For example, after realising the problem of 'parachuting' managers into the company at the beginning stage of the acquisition, the acquirer of Case Two then employed a CEO who generally did not intervene in the daily corporate management of the Chinese management team. The results show that 'leaving the company alone' is a useful strategy as it kept some of the previous systems and it stimulated Chinese employees' identification. This research has proven that the method of discarding the old identity and imposing the new one, which is seen as the quickest way to make target companies become compatible with an acquirer's style and system, does not result in the desired outcome. Fast reform has strong negative impacts on employees and consequently leads to employee disturbances and resistance. If a new identity needs to be introduced into a post-acquisition organisation, cultivating a sense of continuity should be initiated with pre-acquisition communication and 'self introduction', through which Western companies can draw a clear picture of what the new identity is and what likely impacts there will be. This can ensure a smooth transfer during acquisitions and encourage employees' acceptance of a new identity after the acquisitions.

The fourth implication of the findings is that Western acquirers should respect Chinese culture. This research has found a negative correlation between cultural incompatibility and post-acquisition identification. Respecting Chinese culture minimises the clash of group stereotype and therefore, minimises the negative effect of transforming self and increases post-acquisition identification. Cultural incompatibility also negatively impacts the sense of continuity perceived by employees between pre- and post-acquisition organisations. For example, downsizing the Party Organisation and the Trade Union not only showed the acquirers' lack of understanding of Chinese culture, but also impeded a stable transfer. Although this research has found that the concepts and values of the Chinese young generation are more or less congruent with those of Western people, it does not mean that young people totally accept Western culture. This is because national culture cannot be changed in the short-term and Chinese culture will

not be similar to any other culture regardless of how it changes (Zhao and Zhang, 2005). Although cultural difference can cause cultural chaos, it also brings an opportunity for Western firms and Chinese SOEs to study the essence of each other's culture (Gu and Xue, 2004). Combining the essence of each other's culture and forming new managerial values will have a positive effect on post-acquisition organisations.

Fifthly, this research also shows that Western acquirers should pay attention to post-acquisition recruitment. Not everybody who can speak Chinese (i.e. does not have a language barrier) are the appropriate people to run Chinese companies. Other criteria have to be taken into account, such as childhood background, educational background and work experience. Other kinds of Chinese (e.g. ethnic Chinese, the Chinese who have grown up in foreign countries and returned overseas Chinese) do have differences with local Chinese in concepts, culture and ways of behaving and solving problems. In a similar vein, not all local Chinese people who are able to speak fluent English are appropriate people to be employed. They have to be professionals in the industry and should also have multi-cultural working experience. All these criteria are useful for establishing social relationships with Chinese employees and therefore, fostering employees' identification.

Sixthly, Western firms need to manage Chinese employee's commitment more carefully. As this research has found, although Chinese employees show a negative emotion toward acquisitions, their commitments to a new organisation are not low. Their affective commitment will be enhanced by an incentive mechanism and their loyalty to Chinese managers. Besides an incentive mechanism, establishing a harmonious relationship with Chinese employees is helpful because the Chinese are collectively-oriented. A harmonious relationship increases Chinese employees' affective attachment to the company, thereby boosting their affective commitment. More importantly, foreign firms should take a long-term perspective to cultivate positive relationships with Chinese employees, which could develop employees' commitment to the organisations (Wong et al., 2001). In addition, in China employee performance is

largely associated with employees' willingness to put extra effort in for their supervisor (Chen et al., 2002) so that retaining supervisors may also increase employee's affective commitment. Further, Western acquirers should keep the loyalty of Chinese employees in order to maintain normative commitment.

The final implication of this study is that management strategy is a key factor contributing to post-acquisition performance. Effective management is able to stimulate the enthusiasm of employees to fulfil their responsibilities and even, to devote a great deal of extra energy to work for the organisation. Effective management is also able to increase employees' teamwork orientation and reduce employee disturbance and employee turnover. After all, employees are the actors carrying out organisational strategies and achieving organisational goals.

To sum up, although China has enormous business opportunities for Western corporations, merging with or acquiring Chinese SOEs is a tough task for Western acquirers. In general, Western acquirers do not see significant profit increases in the short-term and therefore, cross-border M&As of Chinese SOEs still need to be carefully considered and planned. In addition, the Chinese are long-term-oriented people (Leung, 2008). Western firms need to establish a long-term collective goal and develop a long-term corporate strategy for Chinese employees. Although it is time-consuming, it is worthwhile because Western acquirers will receive a valuable reward – loyalty - from their Chinese employees if they manage M&As appropriately, which will ensure an improvement in performance.

# Tables and Figures

Table 1

Variable Definitions/Descriptions

<b>Variable</b>	<b>Definition/Description</b>
Size	The total assets of a company.
Employee position	An employee's hierarchical role in a company.
Organisational tenure	The period that an employee works for a company.
Organisational identification	“(A) self-defining concept that describes the feeling of partial overlap between self and group and an internalization of the organisation's core values and central identity features” (Van Dick et al., 2004a, p. 353).
Pre-acquisition identification	Organisational identification prior to an acquisition.
Post-acquisition identification	Organisational identification after an acquisition.
Cultural incompatibility	Cultural conflict or culture clash.
Communication	The acquisition information delivered from the Western acquirer to SOE employees such as face to face communication and presenting major changes regarding acquisition strategy.
A sense of continuity	The consistency employees perceived between the pre- and post-acquisition organisation.
Fast reform	A high speed of post-acquisition restructuring and integration.
Job satisfaction	The extent to which an employee is satisfied with his/her job in the post-acquisition organisation, such as job responsibility and job arrangement.
Negative emotion	An employee's negative attitude toward acquisitions, which includes stress, worry, anxiety and anger.
Organisational commitment	The extent to which employees feel a strong responsibility to stay with the organisation.
Return on assets (ROA)	The ratio of the net profit after tax and

Return on net assets (RONA)	interest to total assets. The ratio of net profit after tax and interest to the total of fixed assets and net working capital.
Return on capital employed (ROCE)	The ratio of net profit before interest and taxation to the sum of share capital, reserves and long-term loans.
Capital expenditure	Derived from the financial statement.
Leverage	The ratio of long-term liabilities to total assets.
Asset sale	Derived from the financial statement.
Sales growth	The difference between two years' sales, where sales are calculated by the sales of the year over total assets.
Total assets turnover	The sales over total assets.
Number of divisions	The quantity of divisions in the company.
Number of employees	The quantity of employees working at the company.

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Table 2  
Cronbach's Alpha Coefficient

	<b>Pilot Study</b>	<b>Main Study</b>
Pre-acquisition identification	0.840	0.941
Post-acquisition identification	0.806	0.911
Cultural incompatibility	0.848	0.901
Communication	0.991	0.958
Fast reform	- <sup>a</sup>	0.967
A sense of continuity	0.717	0.888
Job satisfaction	0.719	0.911
Negative emotion	0.815	0.939
Organisational commitment	0.738	0.875

<sup>a</sup>Not applicable because this variable was not tested in the pilot study.

Table 3  
Basic Information for Variables

This table reports the number of observation, mean, median, minimum, maximum and standard deviations for each variable, with the number of observations being 52. The definition for each variable is presented in Table 1. Age, education, salary and position were coded into categories. Size and organisational tenure were nominal data with size transferred to a logarithm.

	<b>Number of Observation</b>	<b>Mean</b>	<b>Median</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Std. Deviation</b>
Age	52	1.731	2.000	1.000	3.000	0.660
Education	52	3.596	4.000	2.000	5.000	0.995
Salary	52	3.577	4.000	1.000	5.000	1.144
Size <sup>a</sup>	2	21.278	21.278	20.690	21.867	0.594
Employee position	52	2.692	1.000	1.000	3.000	0.612
Organisational tenure	52	8.308	8.500	1.000	20.000	5.020
Pre- identification <sup>b</sup>	52	4.125	4.250	2.500	5.000	2.485
Post- identification <sup>c</sup>	52	3.263	3.333	1.889	4.444	4.740
Cultural incompatibility	52	4.231	4.250	3.000	5.000	2.496
Communication	52	2.221	2.000	2.000	3.000	1.653
A sense of continuity	52	3.157	3.143	1.714	4.286	4.021
Job satisfaction	52	3.205	3.333	1.667	4.667	1.891
Negative emotion	52	3.754	3.850	2.600	4.800	5.267
Organisational commitment	52	4.058	4.000	3.000	5.000	1.768

<sup>a</sup>Size is transferred to a logarithm.

<sup>b</sup> Pre-acquisition identification.

<sup>c</sup> Post-acquisition identification.

Table 4  
Correlations

This table reports correlations between variables, with the number of observations being 52. The definition for each variable is presented in Table 1. Age, education, salary, position were coded into categories. Size and organisational tenure were nominal data with size transferred to a logarithm.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1.Age	.100													
2.Education		.100												
3.Salary			.100											
4. Size <sup>a</sup>				.100										
5. Employee position					.100									
6.Organisational tenure						.100								
7. Pre-identification <sup>b</sup>							.100							
8. Post-identification <sup>c</sup>								.100						
9.Cultural incompatibility									.100					
10.Communication										.100				
11. A sense of continuity											.100			
12. Job satisfaction												.100		
13. Negative emotion													.100	
14.Organisational commitment														.100

\*\*\* Correlation is significant at the 0.01 level (2-tailed).

\*\* Correlation is significant at the 0.05 level (2-tailed).

\* Correlation is significant at the 0.1 level (2-tailed).

<sup>a</sup>Size is transferred to a logarithm.

<sup>b</sup> Pre-acquisition identification.

<sup>c</sup> Post-acquisition identification.



Table 5  
Hierarchical Regression

This table reports hierarchical regression results for the factors influencing post-acquisition identification, with the number of observations being 52. The definitions for variables are shown in Table 1. Age, education, salary, position were coded into categories. Size and organisational tenure were nominal data with size transferred to a logarithm. The control variables are age, education, salary, size, employee position and organisational tenure. The dependent variable is post-acquisition identification. The independent variables are pre-acquisition identification, cultural incompatibility, communication, a sense of continuity and negative emotion. The dependent variable and the independent variables are measured using the Likert scale, ranging from 1 to 5.

Model	Variables	Post-acquisition identification
1	Constant	54.357** (2.443)
	Age	0.231 (1.014)
	Education	-0.110 (-0.712)
	Salary	-0.153 (-0.793)
	Size	-0.099 (-0.762)
	Employee position	-0.598** (-2.616)
	Organisational tenure	-0.216 (-1.063)
	2	Constant
Age		0.102 (0.532)
Education		0.148 (1.037)
Salary		-0.248 (-1.380)
Size		-0.060 (-0.474)
Employee position		-0.523**

		(-2.157)
	Organisational tenure	-0.125 (-0.715)
	Pre- identification	0.469*** (3.786)
	Cultural incompatibility	-0.359*** (-2.995)
	Communication	0.473*** (3.907)
	A sense of continuity	0.371*** (3.102)
	Negative emotion	-0.370*** (-3.036)
<hr/>		
1	R <sup>2</sup>	0.266**
	Adjusted R <sup>2</sup>	0.168
	N	52
2	R <sup>2</sup>	0.568***
	Adjusted R <sup>2</sup>	0.450
	N	52
<hr/>		

\*p <.1; \*\*p <.05; \*\*\*p <.01, two-tailed.

Table 6  
Basic Information for Variables

This table reports the number of observation, mean, median, minimum, maximum and standard deviation for each variable, with the number of observations being 64. The definition for each variable is presented in Table 1. Age, education, salary, position were coded into categories. Size and organisational tenure were nominal data with size transferred to a logarithm.

	<b>Number of Observation</b>	<b>Mean</b>	<b>Median</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Std. Deviation</b>
Age	64	1.578	2.000	1.000	3.000	0.612
Education	64	3.719	4.000	2.000	5.000	0.983
Salary	64	3.625	4.000	1.000	5.000	1.241
Size <sup>a</sup>	4	19.710	19.788	18.756	20.510	0.654
Employee position	64	1.500	1.000	1.000	3.000	0.713
Organisational tenure	64	8.563	8.000	1.000	20.000	5.631
Pre- identification <sup>b</sup>	64	4.266	4.250	3.000	5.000	2.800
Post- identification <sup>c</sup>	64	3.583	3.667	2.222	4.778	5.727
Cultural incompatibility	64	4.371	4.625	2.500	5.000	2.889
Communication	64	2.465	2.250	1.000	5.000	3.956
Fast reform	64	3.849	4.000	1.000	5.000	3.436
A sense of continuity	64	3.045	3.143	1.571	4.714	4.953
Job satisfaction	64	3.516	3.333	2.000	5.000	2.218
Negative emotion	64	4.006	3.900	3.000	5.000	6.226
Organisational commitment	64	3.930	4.250	2.000	5.000	3.200

<sup>a</sup>Size is transferred to a logarithm.

<sup>b</sup> Pre-acquisition identification.

<sup>c</sup> Post-acquisition identification.

Table 7  
Correlations

This table reports correlations between variables, with the number of observations being 64. The definition for each variable is presented in Table 1. Age, education, salary, position were coded into categories. Size and organisational tenure were nominal data with size transferred to a logarithm.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1.Age		.116	-.525***	.012	.455***	.779***	.284**	-.468***	.252**	.119	.232*	-.291**	-.330***	.374***	-.305**
2.Education			.511***	.138	-.408***	.396***	.093	-.109	.077	.079	-.043	-.034	.006	.226*	-.207
3.Salary				.117	-.826***	-.183	.011	.212*	-.139	-.118	-.242*	.270**	.295**	-.221*	.081
4.Size <sup>a</sup>					.001	.055	.312**	.399***	-.434***	.610***	-.692***	.565***	.136	-.102	.159
5. Employee position						.107	.016	-.191	.066	.172	.029	-.067	-.186	.036	.063
6.Organisational tenure							.248**	-.444***	.288**	.111	.150	-.289**	-.317**	.435***	-.440***
7. Pre-identification <sup>b</sup>								.259**	-.018	.240*	-.164	.087	.130	.014	.076
8. Post-identification <sup>c</sup>									-.350***	.402***	-.502***	.515***	.435***	-.465***	.546***
9.Cultural incompatibility										-.295**	.393***	-.452***	-.181	.316**	-.200
10.Communication											-.626***	.417***	.098	-.004	.199
11. Fast reform												-.642***	-.269**	.286**	-.280**
12.A sense of continuity													.188	-.335***	.421***
13. Job satisfaction														-.392***	.373***
14.Negative emotion															-.400***
15.Organisational commitment															

\*\*\* Correlation is significant at the 0.01 level (2-tailed).

\*\* Correlation is significant at the 0.05 level (2-tailed).

\*. Correlation is significant at the 0.1 level (2-tailed).

<sup>a</sup>Size is transferred to a logarithm.

<sup>b</sup> Pre-acquisition identification.

<sup>c</sup> Post-acquisition identification.

Table 8  
Hierarchical Regression

This table reports hierarchical regression results for the factors influencing post-acquisition identification, with the number of observations being 64. The definitions for variables are shown in Table 1. Age, education, salary, position were coded into categories. Size and organisational were nominal data with size transferred to a logarithm. The control variables are age, education, salary, size, employee position and organisational tenure. The dependent variable is post-acquisition identification. The independent variables are pre-acquisition identification, culture incompatibility, communication, fast reform, a sense of continuity and negative emotion. The dependent variable and independent variables are measured using the Likert scale, ranging from 1 to 5.

Model	Variables	Post-acquisition identification
1	Constant	-31.613 (-1.793)
	Age	-0.278 (-1.324)
	Education	-0.023 (-0.160)
	Salary	-0.183 (-0.830)
	Size <sup>a</sup>	0.441*** (4.258)
	Employee position	-0.197 (-1.062)
	Organisational tenure	-0.255 (-1.334)
	2	Constant
Age		-0.399** (-2.261)
Education		0.120 (0.957)
Salary		-0.532** (-2.530)
Size <sup>a</sup>		0.038 (0.287)
Employee position		-0.409**

		(-2.520)
	Organisational tenure	-0.158
		(-0.996)
	Pre-identification <sup>b</sup>	0.318***
		(3.472)
	Cultural incompatibility	-0.326***
		(-3.246)
	Communication	0.259**
		(2.093)
	Fast reform	-0.270**
		(-2.055)
	A sense of continuity	0.196*
		(1.643)
	Negative emotion	-0.309***
		(-3.088)
<hr/>		
1	R <sup>2</sup>	0.421***
	Adjusted R <sup>2</sup>	0.360
	N	64
2	R <sup>2</sup>	0.668***
	Adjusted R <sup>2</sup>	0.590
	N	64
<hr/>		

\*p <.1; \*\*p <.05; \*\*\*p <.01, two-tailed.

<sup>a</sup>Size is transferred to a logarithm.

<sup>b</sup> Pre-acquisition identification.

Table 9

## Descriptive Statistics for Managerial Factors

This table reports the basic information for eight managerial factors, with the number of observations being 64. All variables are measured using the Likert scale, ranging from 1 to 5. Due to reverse scores, the measures for cultural incompatibility, fast reform and negative emotion have been converted, with 5 converted to 1, 4 converted to 2, 3 converted to 3, 2 converted to 4 and, 1 converted to 5. The values displayed in panel A and panel B are simple average values and weighted average values respectively. The weightings for senior managers, junior managers and employees are 50%, 30% and 20% respectively.

<b>Variables</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Median</b>	<b>Std. Deviation</b>
<b>Panel A (N = 64)</b>					
Post-acquisition identification	2.222	4.778	3.583	3.667	5.727
Cultural incompatibility	1.000	3.500	1.629	1.375	2.889
Communication	1.000	5.000	2.465	2.250	3.956
Fast reform	1.000	5.000	2.151	2.000	3.436
Continuity	1.571	4.714	3.045	3.143	4.953
Job satisfaction	2.000	5.000	3.516	3.333	2.218
Negative emotion	1.000	3.000	1.994	2.100	6.226
Organisational commitment	2.000	5.000	3.930	4.250	3.200
<b>Panel B (N = 64)</b>					
Post-acquisition identification	3.189	3.995	3.489	3.414	0.350
Cultural incompatibility	1.264	2.068	1.547	1.356	0.375
Communication	2.059	3.938	2.691	2.463	0.846
Fast reform	1.168	3.647	2.180	1.950	1.131
Continuity	2.329	3.508	2.953	3.004	0.487
Job satisfaction	3.233	3.532	3.377	3.333	0.139
Negative emotion	1.875	2.268	2.036	1.975	0.169
Organisational commitment	3.726	4.203	3.955	3.963	0.199

Table 10

Summary of Managerial Variable

This table reports the managerial variable for each target SOE and the mean of managerial variables for four SOEs, with the number of observations being 64. All variables are measured using the Likert scale, ranging from 1 to 5. The measures for cultural incompatibility, fast reform and negative emotion have been converted, with 5 converted to 1, 4 converted to 2, 3 converted to 3, 2 converted to 4 and, 1 converted to 5. The values displayed in panel A and panel B are simple average values and weighted average values respectively. The weightings for senior managers, junior managers and employees are 50%, 30% and 20% respectively. The managerial variable is the mean of eight managerial factors (post-acquisition identification, cultural incompatibility, communication, fast reform, continuity, job satisfaction, negative emotion and organisational commitment). The column of ‘mean (managerial variable)’ represents the mean of managerial variables of four cases. That is, the sum of managerial variables of four cases divided by the number of observations of four.

	Case One	Case Two	Case Three	Case Four	Mean (managerial variable)
<b>Panel A (N = 64)</b>					
Managerial variable	2.600	2.727	2.423	3.406	2.789
<b>Panel B (N = 64)</b>					
Managerial variable	2.621	2.790	2.363	3.341	2.779



Table 11  
Accounting Performances (ROA) of Target SOEs

This table reports the accounting performance of four SOEs over a nine-year period between four years before the acquisition and four years after the acquisition (-4, +4). ROA is calculated as the net profit after tax and interest to total assets and this ratio is industry-adjusted.

T	Case One	Case Two	Case Three	Case Four
T = -4	-2.119%	-3.445%	2.773%	-6.249%
T = -3	-2.667%	-1.134%	3.153%	-1.930%
T = -2	-2.676%	-1.324%	-0.014%	0.081%
T = -1	-4.564%	2.844%	0.102%	-2.923%
T = 0	-9.158%	14.047%	-6.095%	-3.716%
T = 1	-7.260%	0.768%	-2.713%	4.336%
T = 2	4.148%	-0.385%	-10.116%	4.751%
T = 3	-27.393%	-5.732%	-82.748%	8.753%
T = 4	-28.332%	-5.733%	-68.359%	8.101%

Table 12

## Accounting Performances (RONA) of Target SOEs

This table reports the RONA of four SOEs over a nine-year period between four years before the acquisition and four years after the acquisition (-4, +4). RONA is the ratio of net profit after tax and interest to the total of fixed assets and net working capital. This ratio is industry-adjusted.

<b>T</b>	<b>Case One</b>	<b>Case Two</b>	<b>Case Three</b>	<b>Case Four</b>
T = -4	-3.975%	-0.104%	1.123%	-1.277%
T = -3	-4.890%	0.001%	1.463%	-0.206%
T = -2	-5.091%	0.039%	-3.405%	17.174%
T = -1	-8.841%	0.266%	5.941%	-0.407%
T = 0	-33.792%	-8.032%	-1.489%	-0.409%
T = 1	-14.317%	-2.346%	-0.443%	4.282%
T = 2	7.277%	1.749%	-2.103%	4.467%
T = 3	--51.609%	-0.027%	-18.705%	7.954%
T = 4	-17.133%	-0.078%	-48.100%	8.195%

Table 13

## Accounting Performances (ROCE) of Target SOEs

This table reports the ROCE of four SOEs over a nine year period between four years before the acquisition and four years after the acquisition (-4, +4). ROCE is calculated as net profit before interest and taxation/(share capital + reserves + long-term loans) and it is industry-adjusted.

<b>T</b>	<b>Case One</b>	<b>Case Two</b>	<b>Case Three</b>	<b>Case Four</b>
T = -4	3.088%	-0.282%	2.070%	1.415%
T = -3	2.219%	1.056%	3.470%	1.679%
T = -2	1.097%	1.581%	4.770%	4.564%
T = -1	2.600%	3.920%	7.200%	2.636%
T = 0	-0.860%	6.503%	0.870%	3.109%
T = 1	-1.921%	2.553%	2.510%	6.623%
T = 2	4.047%	2.493%	0.160%	7.805%
T = 3	-5.218%	0.002%	-36.600%	5.759%
T = 4	-3.608%	-0.517%	-26.790%	4.522%

Table 14

## Regression Analysis for Accounting Performance

This table reports regression results for the impacts of acquisitions on the ROA, RONA and ROCE of four target SOEs. ROA is calculated as the net profit after tax and interest to total assets and this ratio is industry-adjusted. RONA is calculated as net profit after tax and interest over the total of fixed assets and net working capital and it is industry-adjusted. ROCE is calculated as the net profit before interest and taxation/(share capital + reserves + long-term loans) and it is industry-adjusted. The independent variables are post-acquisition dummy, capital expenditure, leverage, size, asset sale, sales growth, total assets turnover, number of divisions and number of employees. The post-acquisition dummy variable represents pre- and post-acquisition, with 0 standing for pre-acquisition (-4, -1) and 1 standing for post-acquisition (0, +4). Capital expenditure is derived from the financial statement. Leverage is defined as the ratio of long-term liabilities to total assets. Size stands for the total assets and it is transferred to a logarithm. Asset sale is also derived from the financial statement and it is transferred to a logarithm. Sales growth is the difference between two years' sales, where sales are calculated by the sales of the year over total assets. Total assets turnover is the sales over total assets. Number of divisions is the quantity of divisions in the company and it is transferred to a logarithm. Number of employees represents the quantity of employees working at the company and it is transferred to a logarithm.

Variable	OLS Regression			Firm Fixed Effect Regression		
	ROA	RONA	ROCE	ROA	RONA	ROCE
Constant	-1.580*** (-3.967)	3.442*** (2.962)	-0.720*** (-4.781)	_a	_a	_a
Post-acquisition dummy	-0.097** (-2.587)	-0.190* (-1.735)	-0.032** (-2.291)	-0.095*** (-3.190)	-0.231** (-2.140)	-0.030** (-2.760)
Capital expenditure	0.070*** (3.711)	0.122** (2.209)	0.034*** (4.804)	0.054 (3.410)	0.140** (-2.460)	0.0270*** (4.630)
Leverage	-0.298* (-1.799)	-1.729*** (-3.578)	-0.054 (-0.869)	-0.393** (-2.310)	-0.925 (-1.510)	-0.104 (-1.640)
Size	0.127*** (4.296)	-0.140 (-1.623)	0.058*** (5.233)	0.171*** (5.720)	-0.206* (-1.910)	0.079*** (7.100)
Asset sale	0.003	0.016**	0.001	0.001	0.011	-0.001

	(0.981)	(2.068)	(-0.318)	(0.420)	(1.160)	(-0.610)
Sales growth	-0.029	-0.211	-0.008	-0.076	-0.244	-0.020
	(-0.455)	(-1.137)	(-0.323)	(-1.35)	(-1.210)	(-0.960)
Total assets turnover	0.104*	0.337*	0.046	0.217***	0.467	0.076**
	(1.716)	(1.915)	(2.015)	(2.79)	(1.670)	(2.640)
Number of division	-0.187*	-0.127	-0.059	-0.052	-0.163	-0.003
	(-1.913)	(-0.445)	(-1.587)	(-0.620)	(-0.540)	(-0.100)
Number of employee	-0.062	-0.063	-0.036**	-0.117	0.467	-0.056*
	(-1.350)	(-0.466)	(-2.091)	(-1.540)	(1.700)	(-1.980)
Firm-specific intercepts				Yes	Yes	Yes
R <sup>2</sup>	0.847***	0.542***	0.891***	0.900***	0.514**	0.933***
Adjusted R <sup>2</sup>	0.794	0.383	0.854	0.755	0.164	0.804
N	36	36	36	36	36	36

\*p <.1; \*\*p <.05; \*\*\*p <.01, two-tailed.

- <sup>a</sup>not applicable due to the removal of constant in fixed effect regression.

Table 15

## Correlations between Acquisition Management and Acquisition Performance

This table reports the correlations between acquisition management and acquisition performance, with an observation of four. Acquisition performance is measured by  $\Delta$ ROA,  $\Delta$ RONA and  $\Delta$ ROCE.  $\Delta$ ROA is the difference in the mean of the industry-adjusted ROA of the four years following the acquisition and the mean of industry-adjusted ROA of the four years before the acquisition.  $\Delta$ RONA is the difference in the mean of the industry-adjusted RONA of the four years following the acquisition and the mean of industry-adjusted RONA of the four years before the acquisition.  $\Delta$ ROCE is the difference in the mean of the industry-adjusted ROCE of the four years following the acquisition and the mean of industry-adjusted ROCE of the four years before the acquisition. This table firstly reports the relationships between each managerial factors and  $\Delta$ ROA,  $\Delta$ RONA and  $\Delta$ ROCE respectively. The very right column reports the relationship between managerial variables and  $\Delta$ ROA,  $\Delta$ RONA and  $\Delta$ ROCE respectively, with managerial variables for each SOE are presented in Table 10. Managerial variables comprise eight managerial factors including post-acquisition identification, cultural incompatibility, communication, fast reform, continuity, job satisfaction, negative emotion and organisational commitment. The values displayed in panel A and panel B are simple average values and weighted average values respectively. The weightings for senior managers, junior managers and employees are 50%, 30% and 20% respectively.

	N = 4								N = 4
	Post-acquisition identification	Cultural incompatibility	Communication	Fast reform	A sense of continuity	Job satisfaction	Negative emotion	Organisational commitment	Managerial variable
<b>Panel A</b>									
$\Delta$ ROA	0.813	0.903	0.649	0.797	0.935*	0.947*	0.797	0.868	0.824
$\Delta$ RONA	0.862	0.925*	0.658	0.857	0.849	0.878	0.897	0.659	0.828
$\Delta$ ROCE	0.762	0.863	0.592	0.744	0.912*	0.923*	0.741	0.867	0.777
<b>Panel B</b>									
$\Delta$ ROA	0.975**	0.950**	0.985**	0.896	0.778	0.783	0.091	0.129	0.928*
$\Delta$ RONA	0.788	0.878	0.709	0.941*	0.779	0.915*	0.776	0.181	0.889
$\Delta$ ROCE	0.769	0.740	0.700	0.812	0.933*	0.655	0.655	0.608	0.856

\*\*\* Correlation is significant at the 0.01 level (2-tailed).

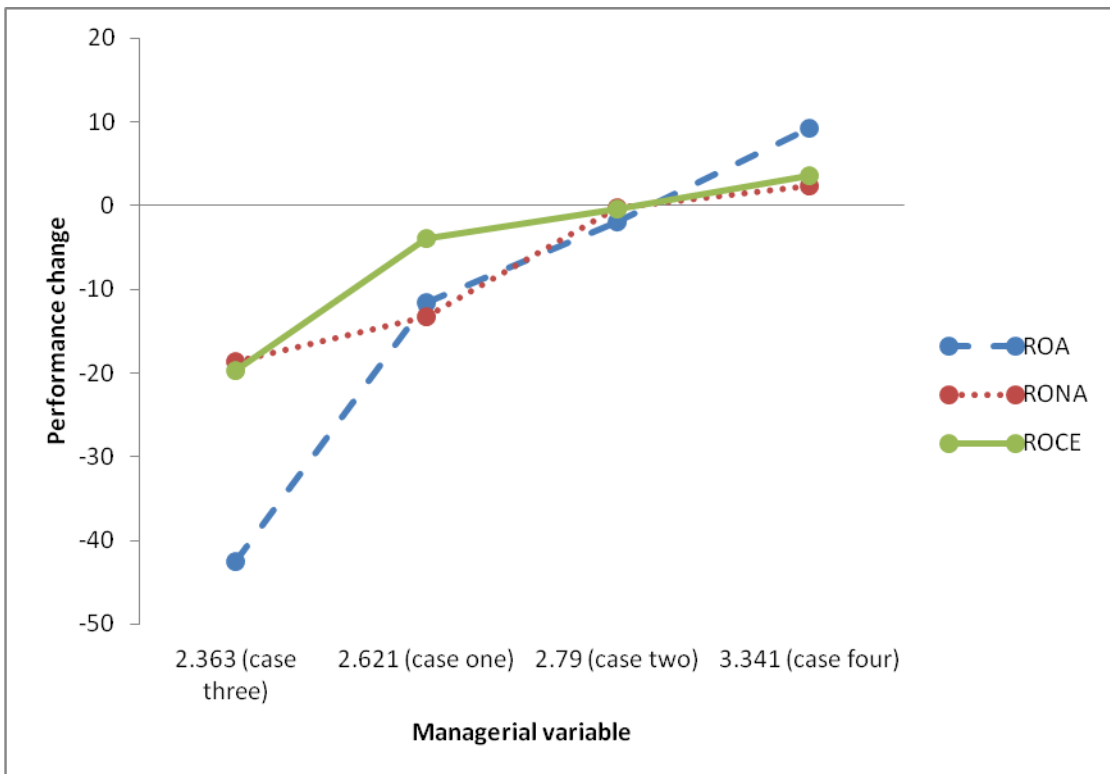
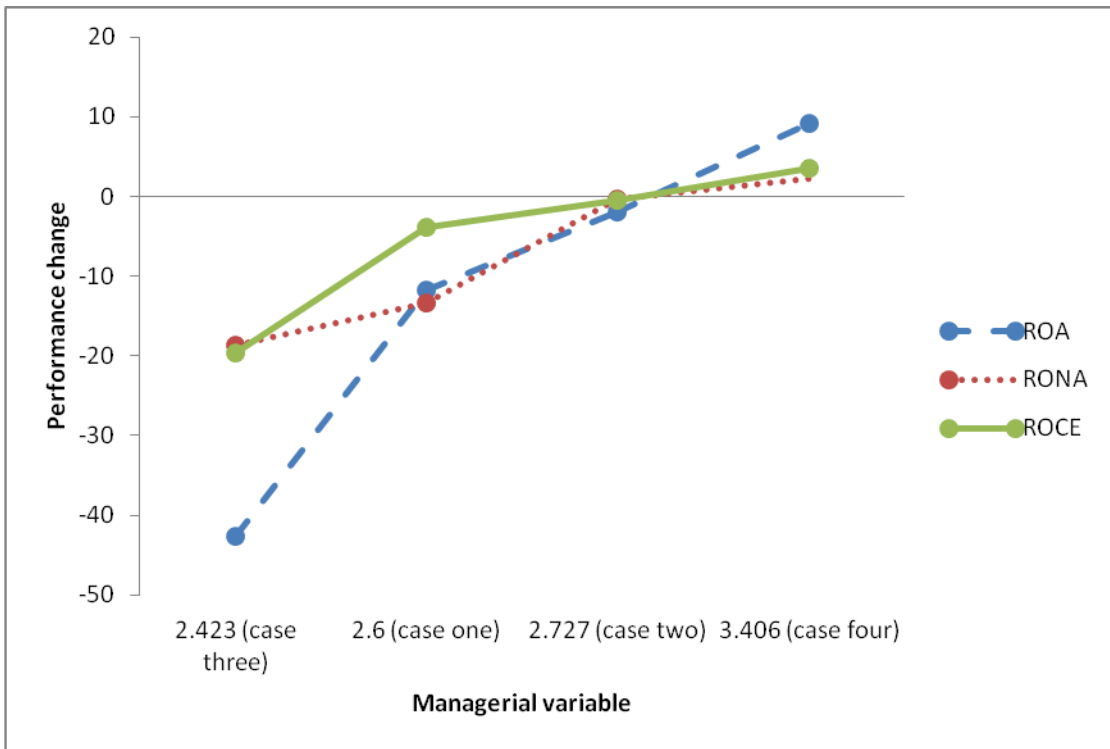
\*\* Correlation is significant at the 0.05 level (2-tailed).

\*. Correlation is significant at the 0.1 level (2-tailed).

## Figure 1

### Managerial Variable and Acquisition Performance

This chart reports the relationship between managerial variable and performance change for each target SOEs. The first chart represents the relationship between performance change and simple average managerial variable and the second chart represents the relationship between the performance change and weighted average managerial variable. The weightings for senior managers, junior managers and employees are 50%, 30% and 20% respectively. The performance change is presented by  $\Delta ROA$ ,  $\Delta RONA$  and  $\Delta ROCE$  respectively.  $\Delta ROA$  is the difference in the mean of the industry-adjusted ROA of the four years following the acquisition and the mean of industry-adjusted ROA of the four years before the acquisition.  $\Delta RONA$  is the difference in the mean of the industry-adjusted RONA of the four years following the acquisition and the mean of industry-adjusted RONA of the four years before the acquisition.  $\Delta ROCE$  is the difference in the mean of the industry-adjusted ROCE of the four years following the acquisition and the mean of industry-adjusted ROCE of the four years before the acquisition. The managerial variable is the mean of eight managerial factors (post-acquisition identification, cultural incompatibility, communication, fast reform, continuity, job satisfaction, negative emotion and organisational commitment). The managerial variables for each case are shown in Table 10.





# Appendix

Table 1

## Debt to Asset of Four Cases

This table reports the ratio of debt to asset for four target SOEs during a nine year period from four years before the acquisition to four years after the acquisition. Debt to asset is calculated as the ratio of total liability to total assets.

T	Case One	Case Two	Case Three	Case Four
T = -4	0.143	0.150	0.237	0.181
T = -3	0.068	0.119	0.195	0.280
T = -2	0.089	0.192	0.126	0.354
T = -1	0.123	0.196	0.187	0.338
T = 0	-0.032	0.408	-0.048	0.349
T = 1	0.173	0.365	-0.001	0.271
T = 2	0.093	0.313	0.054	0.190
T = 3	0.250	0.260	-0.028	0.211
T = 4	0.566	0.225	0.547	0.181

The debt to asset of Case One in the fourth year after the acquisition was 0.566. According to the financial statement, its debt to asset was 1.131, which indicates that the company is highly debt leveraged as most of the company's assets are financed through debt. The debt to asset of Case Two in the acquisition year was 0.408. In fact, the company's debt to asset was 1.019 according to financial statements. This implies a severe operational risk that is associated with the company as it is highly debt leveraged. The debt to asset of Case Three in the fourth year after the acquisition was 0.547. Indeed, the debt to asset was 1.127 according to the financial statement for this year. This implies a highly operational risk that is associated with the company.

Table 2  
Mean of Variables

This table reports the mean of managerial factors for each case, with the number of observations being 64. All variables are measured using the Likert scale, ranging from 1 to 5. The definitions for variables are shown in Table 1.

	<b>Case One</b>	<b>Case Two</b>	<b>Case Three</b>	<b>Case Four</b>
Pre-acquisition identification	4.219	4.391	3.938	4.516
Post-acquisition identification	3.389	3.576	3.319	4.049
Cultural incompatibility	4.547	4.312	4.750	3.875
Communication	2.016	2.000	1.953	3.891
Fast reform	4.500	3.875	4.646	2.375
A sense of continuity	3.009	3.027	2.482	3.661
Job satisfaction	3.500	3.521	3.375	3.667
Negative emotion	4.069	3.994	4.069	3.894
Organisational commitment	4.000	3.875	3.719	4.125

Table 3  
Mean Differences between Cases

This table reports the results of one-way ANOVA in order to explore the mean differences between the four cases, with the number of observations being 64. All variables are measured using the Likert scale, ranging from 1 to 5.

	<b>df</b>	<b>F</b>	<b>Sig.</b>
Pre-acquisition identification	3	2.160	0.102
Post-acquisition identification	3	5.101	0.003
Cultural incompatibility	3	5.201	0.003
Communication	3	47.675	0.000
Fast reform	3	33.431	0.000
A sense of continuity	3	10.950	0.000
Job satisfaction	3	0.406	0.749
Negative emotion	3	0.274	0.844
Organisational commitment	3	0.746	0.529

To explore the mean differences between the four cases, a one-way between-groups analysis of variance (One-way ANOVA) is used because it tests the impact of one independent variable on different levels of groups (Pallant, 2005). Basic information (mean of variables) is shown in Table 2 and the results of mean differences are shown in Table 3. As seen in Table 3, there are no significant mean differences between the cases regarding pre-acquisition identification, job satisfaction, negative emotion and organisational commitment. There are statistically significant mean differences between the four cases on post-acquisition identification [F (3, 60) = 5.101, p = 0.003], cultural incompatibility [F (3, 60) = 5.201, p = 0.003], communication [F (3, 60) = 47.675, p = 0.000], fast reform [F (3, 60) = 33.431, p = 0.000], and a sense of continuity [F (3, 60) = 10.950, p = 0.000]. After checking each variable by cases, it was found that Case Four shows significant differences with the other three firms on all variables except post-acquisition identification and cultural incompatibility as it does not show

significant mean differences with Case Two in these two variables. These findings are consistent with the results of in-depth case studies. For example, Case Four provided communication with employees before the acquisition, which increased employees' post-acquisition identification and a sense of continuity and decreased cultural incompatibility, negative emotion and the effect of reform speed on employees. That is why Case Four generally shows significant differences with other cases in all variables.

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