

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).