Abstract

While acquisitions have become an increasingly popular strategy for corporate growth, the performance of most acqustions has been disappointing. Earlier research indicates that the cultural differences are the main source of failure in cross-border acquisitions, and therefore the cultural challenges need special management attention. This is evident especially in acquisitions between companies of significantly different business cultures as in the case of acquisitions of local companies in China by western companies which are considered as an extreme scenario of cross-border acquisitions. The purpose of the research is to deepen our understanding of an integration process between a western and a Chinese company and how the cultural challenges are being managed. Therefore, the main research problem, *in which way the cultural challenges are being managed in the case company's post-acquisition integration process,* is examined through evaluations on the integration approach, on the integration speed and on the assembling of the integration project management. This qualitative research was conducted by using intensive case study approach and the empirical data was gathered through 17 semi-structured interviews with managers of the two companies involved in case acquisition in the end of the integration process.
According to the main findings the acquiring company was able to manage cultural challenges and to mitigate cultural clashes by striving for a sensitive integration approach, by applying relaxed integration speed and by appointing local managers for its integration team. The acquiring company's decision to retain the acquired senior management and to look for best practices within the acquired company resulted in low level of change resistance within the acquired organization. Moreover, the relaxed integration speed allowed more time for communication whereas the appointment of both local managers, especially the additional integration leader with understanding of the local culture, enhanced the communication and cooperation among the integration teams. Cross-cultural training and on-board team building were also perceived to have a positive effect on the ensuring of smooth and successful integration process. Based on the research finding it can be argued that the importance of informal communication and quick decision making processes need to be emphasized when managing post-acquisition integrations in China.
Despite the fact that the acquiring organization was able to mitigate cultural clashes and that the immediate post-acquisition integration process was perceived to be a success, it can be argued that the evaluations on true outcome of the integration can only be made in few years time. Nevertheless, this research deepens our understanding of the ways to manage cultural challenges during the immediate post-acquisition integration process.

Key words	Cross-border acquisitions, integration, culture, China
Further information	

TIIVISTELMÄ

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x	Pro gradu -tutkielma
	Lisensiaatintutkielma
	Väitöskirja

Oppiaine	Kansainvälinen liiketoiminta	Päivämäärä	26.4.2010
Tekijä(t)	Santeri Mäkinen	Matrikkelinumero	
		Sivumäärä	108
Otsikko	MANAGING CULTURAL CHALLENGES IN CROSS-BORDER ACQUISITION – Case study on post-acquisition integration of MNC and Chinese family-owned company		
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Tiivistelmä

Yritysostojen ollessa yksi merkittävimmistä yrityksen kasvustrategioista, suurin osa yritysostoista ei saavuta niille asetettuja synergiaetuja ja taloudellisia odotuksia. Aikaisempien tutkimuksien mukaan kulttuurieroista syntyviä ongelmia voidaan pitää tärkeimpänä selittävänä tekijänä kansainvälisten yritysostojen epäonnistumiseen. Täten kulttuuritekijöiden hallinnan tarve on korostunut erityisesti yritysostoissa, joissa yritysten liiketoimintakulttuurien välillä on suuria eroja. Tästä haastavimpina esimerkkeinä pidetään länsimaisten yritysten suorittamia yritysostoja Kiinassa.

Tutkimuksen tavoitteena on syventää ymmärrystä länsimaisen ja kiinalaisen yrityksen integraatioprosessista ja siitä miten kulttuurieroista johtuvia haasteita on onnistuttu hallitsemaan. Täten tutkimusongelmaa, *millä tavoin kulttuurieroista syntyviä haasteita on onnistuttu hallitsemaan case-yrityksen johtamassa yritysoston jälkeisessä integraatiossa,* tarkastellaan integraatiolähestymistavan, integraationopeuden ja integraatiota johtavan ryhmän kokoamisen näkökulmista. Kvalitatiivisessa tutkimuksessa käytettiin intensiivistä tapaustutkimusmenetelmää, jossa empiirinen tutkimusaineisto kerättiin 17 puolistrukturoiduilla johtajatason haastattelulla yrityksissä, jotka olivat osapuolina tutkitussa yritysoston jälkeisessä integraatiossa.

Tutkimustulosten mukaan case-yritys onnistui hallitsemaan kulttuurieroista syntyviä haasteita ja ristiriitoja yritysoston jälkeisen integraation aikana soveltamalla kulttuurieroja ymmärtävää integraatiolähestymistapaa ja normaalia hitaampaa integraationopeutta sekä nimittämällä paikallisia kiinalaisia johtajia integraatiojohtoon. Ostetun yrityksen ylin johto ja osa olemassa olevista prosesseista säilytettiin paikallaan, millä oli positiivinen vaikutus muutosvastarinnan torjumisessa. Rauhallisen integraationopeuden mahdollistaessa avoimen kommunikoinnin eri osapuolien välillä, paikallisten johtajien nimitys integraatiotiimiin sekä ylimääräisen paikallista kulttuuria ymmärtävän integraatiojohtajan valinta, paransi osapuolien välistä kommunikointia ja yhteistyötä prosessin aikana. Kulttuurierojen ymmärrystä lisäävällä koulutuksella ja integraatiota edeltävällä tiimihenkeä synnyttävillä tapahtumilla todettiin myös olevan positiivinen vaikutus integraatioprosessin sujuvuuden ja onnistumisen varmistamiseksi. Tutkimuksen perusteella voidaan myös todeta, että epämuodollisen kommunikaation ja nopean päätöksen teon merkitys korostuu integraatioprosessissa kiinalaisen yrityksen kanssa.

Vaikka ostava yritys onnistui vähentämään kulttuurieroista johtuvia ristiriitoja ja täten ostoa seurannut integraatioprosessi koettiin onnistuneeksi, arviot integraatioprosessin lopullisesta onnistumisesta voidaan tehdä vasta muutaman vuoden kuluttua. Tämä tutkimus syventää kuitenkin ymmärrystämme kulttuurieroista johtuvien haasteiden hallinnasta integraatioprosessin aikana.

Asiasanat	Kansainväliset yritysostot, integraatio, kulttuuri, Kiina
Muita tietoja	

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MANAGING CULTURAL CHALLENGES IN CROSS-BORDER ACQUISITION

Case study on post-acquisition integration of MNC and Chinese family-owned company

Master's thesis
International Business

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26.4.2010 Turku

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1 INTRODUCTION

1.1 Cross-border M&A as a growth strategy

Mergers and acquisitions (M&A) are not an invention of modern business. Since the first appearance of M&A at the end of nineteenth century, when companies such as the Standard Oil and the U.S. Steel were established by mergers, cyclic waves of M&A activity have been observable (Bittlingmayer 1985, 77; Jansen 2002, 371.) In general, M&A activity has been driven by cycles at macro level in the overall market place which is affected by such factors as the availability of capital and the state of the economy (Sherman & Hart 2006, 15–16). The first wave of M&A activity in the turn of the twentieth century has been described as "mergers for monopoly" in which consolidation of firms took place. The second wave "mergers for oligopoly" during the 1920s occurred when firms were aligned through vertical integration into holding companies. The 1960s were the time of conglomerates as unrelated businesses merged to diversify and achieve competitive advantage.

In the first three waves which have been listed, the M&A activity was mostly friendly. The same cannot be said on the fourth merger wave that occurred in the late 1970s to mid-1980s when M&A activity took on a new character – that of the hostile takeover. The fifth and final merger wave of the twentieth century during the 1990s has been widely characterized as the period of megamergers. (Javidan, Pablo, Singh, Hitt & Jemison 2004, 246–247.) The more recent wave of M&A activity seen since mid-2004 has been driven by general macroeconomic recovery and some key trends. Firstly, companies are looking to growth as the primary enabler of shareholder return, as many of them have exhausted cost cutting and operational efficiencies as a means to increase profitability. Secondly, the interest rates have been exceptionally low, enabling firms to cost-effectively utilize debt to finance acquisition-based growth. (Sherman & Hart 2006, 3.)

M&A are a vital part of any healthy economy and are the primary way that companies are able to provide returns to owners and investors. A merger typically refers to two companies joining together as peers, whereas in acquisition the buying company takes a controlling interest of another company. (Sherman & Hart 2006, 1, 11.) In a domestic acquisition headquarters of the acquirer and the acquired firm are in the same country while in a cross-border acquisition both headquarters are located in different countries (Sarala 2008, 5–6). Cross-border mergers and acquisitions play an important role in Foreign Direct Investment (FDI) and they have become increasingly active in the

international economy (Zhu & Huang 2007, 40). Bartlett (2007, 11) argues that cross-border M&A is a common feature of the global economy at the beginning of the 21st century. Moreover, according to UNCTAD (World Investment Report 2008, 4) during this period, M&A activity has expanded in scope across countries and sectors, growth of which combined with the great number of mega deals[1] pushed the value of total cross-border M&As to a record of USD 1,197 billion in 2007, which was 21 percent higher than the previous record in 2000. Both the value of cross-border M&A and the total value of FDI inflow are illustrated on the figure below.
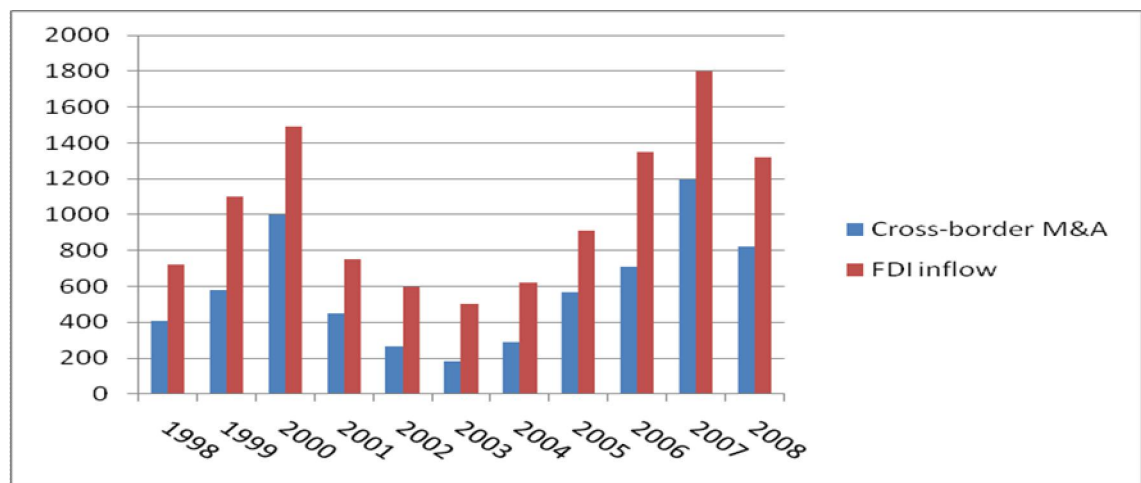
Figure 1   Value of cross-border M&A and FDI inflow in USD billion, 1999 – 2008 (World Investment report 2009, 11; World Investment report 2008, 4)

During the during the past 10 years two mergers waves have taken place, and while the M&A has a significant role in foreign direct investment, the total FDI inflow has followed the same wave pattern. In 2008 there was a global reduction in the number and value of cross-border deals due to a global financial crisis. Factors such as sharp falls in share prices, tightening credit conditions and the cancellation of number of large privatization projects have all contributed to declining value of cross-border M&A. (World Investment Report 2009, 10–11.) Despite the recent downturn in the number of M&A, they remain one of the most significant forms of FDI.

A diversified company that uses strategic planning for its long-term business development constantly faces the choice of acquisition versus internal development to achieve growth and the choice of which is determined largely by the costs and benefits (Lorange, Kotlarchuk & Singh 1987, 3–7). According to Lees (2003, 3–4), there are three major routes for corporate growth: Organic growth, growth through an innovation

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[1] M&A deals valued over USD one billion.

or growth through an acquisition. Organic growth can be slow and it might take years for a company to reach any acceptable size whereas growth through innovation cannot only be costly but also carries a high risk of technical failure. If a company wants to grow and diversify its business portfolio quickly, of the three major routes the growth-through-acquisitions route offers the greatest possibilities. Thus, from strategic perspective it is understandable why growth through acquisitions has become almost a generic strategy in many companies.

Shin (2005, 46) states that many global and domestic companies are using mergers and acquisitions as an aggressive strategy to obtain core competencies and to strengthen their own competitiveness. M&A have been used not only for early market penetration or for successful entry into a mature market but also deployed for industry restructuring purposes and for entering a new international market. According to Weber (1988, 1–2), the primary reason for M&A is to achieve synergy and interrelationships between merging business units in a way which will increase competitive advantage. These synergies have been widely accepted and used as a justification for the extensive M&A since the 1960s. Schweiger and Lippert (2005, 23–27) indicate that M&A represent growth strategies and as firms attempt to grow organically by acquiring competitors, by launching new products, by executing geographic expansions or by deploying new distribution channels, it can be argued that M&A are undertaken to achieve specific strategic objectives. The more common strategic objectives for an acquisition include consolidating the market within a geographic area; extending or adding products, services, or technologies; entering new geographic market; vertically integrating; and entering a new line of business. Although there are other strategic objectives that describe individual acquisition strategies, the researchers report that most acquisitions can be categorized in one or more of the above groups.

Bartlett (2007, 11) has revealed four factors to explain the growing popularity of cross-border M&A. First, largest publicly-traded companies in North America, Western Europe and Japan face especially strong shareholder pressure to boost revenue growth and MNCs are trying to meet these revenue objectives via cross-border deals. If shareholder pressure is considered to be a significant factor contributing to MNCs' activity on cross-border acquisitions, the same is true of the second factor as the mounting competition from multinationals based on emerging markets reinforces the need to seek scale via cross-border M&As. Third, speedier market penetration, more rapid exploitation of cross-selling opportunities and greater parent company control than typical entry modes are able to give, have all enhanced the appeal of M&A. The final factor, a growing battle for talent has increased the appeal of foreign acquisitions as a means of capturing human capital which MNCs increasingly view as their foremost

competitive asset. Sherman and Hart (2006, 13) state that M&A are more strategically motivated than in the past. One of the key trends today is to acquire a company to access "knowledge worker" and to obtain the intellectual property.

While M&A have become an increasingly popular strategy for corporate growth, diversification and for gaining new capabilities, the financial and operational performance of most M&A have been disappointing (Stahl, Mendenhall, Pablo & Javidan 2005, 3) and according to Bartlett (2007, 11) the M&A landscape is filled with mergers that destroyed vast amounts of shareholder value. Various consulting firms have estimated that two-thirds of M&A do not live up to the expectations, and many result in divestures (Schweiger 2002, 4). Papadakis (2007, 48) indicates that the cultural differences both on the national and organizational level are the main source of failure in cross-border M&A. He also suggested that the way companies handle cultural issues is probably the single most decisive factor that can make or break a deal. The importance of cultural issues in cross-border acquisitions are discussed in the following chapter.

1.2   Culture and cross-border acquisitions

Although cross-border acquisitions are in multiple ways similar with acquisitions conducted within national borders, are they literally a different world. Various factors that are taken for granted in national deals suddenly become an issue that cannot be assumed and often becomes not only incomprehensible but also a source of problems and concern. Both the factors of distance, language and political context and the different management styles and ways of doing business, all make cross-border acquisitions far more complex endeavor compared to domestic acquisitions. Especially if acquisitions are conducted across continents, the complexity can be overwhelming. (Lees 2003, 215.) Shelton, Hall and Darling (2003, 31) suggest that even if acquisition details are quickly be committed to paper, integrating to two independent companies with divergent cultures into one cohesive organization is a delicate process which is even more challenging when the companies have their roots in two different countries.

Lees (2003, 187) argues that combining cultures is said to be the most difficult aspect of post-acquisition integration, and culture clashes are a common explanation for acquisition failure. Cartwright and Cooper (1993, 59) draw attention to the importance of the culture fit by indicating that the cost of "culture collisions" resulting from poor integration may typically be as high as twenty five to thirty percent of the overall performance of the acquired organization. Thus, companies' business development

analysts who used to value acquisitions solely on figures, now downgrade a deal if they think that the cultures of the acquirer and the target company will be incompatible. (Lees 2003, 187.) Buono and Bowditch (2003, 134) verify this by explaining that one of the underlying reasons why mergers and acquisitions often fail to achieve the expected level of operational and financial performance, are the conflicts and tensions that emerge when companies try to integrate disparate and frequently dramatically different cultures. Stahl and Sitkin (2004, 89) continue to explain that the culture barriers can pose major obstacles to fully reaping anticipated integration benefits in acquisitions. Cross-border acquisitions seem to be particularly difficult to integrate because they require double-layered acculturation, whereby not only different corporate cultures, but different national cultures also have to be combined. Thus, Weber, Shenkar and Raveh (2006, 1223) argue that in cross-border acquisitions both national and corporate cultures play an important role. Brock (2005, 278–280) indicates that national cultural differences both deepens the challenges of the post-acquisition integration and also increases the resource-sharing difficulties in acquisitions. According to Sarala (2008, 42), the manner in which the challenges resulting from differences in corporate cultures are managed during the post-acquisition integration has a significant effect on the acquisition outcome.

Koch (2002, 273–274) points out three decisive key factors for success in post-merger integration. The first of these is strong leadership. Integration management must be very persistent in fostering integration and ensuring that planned measures can be implemented in full and on time. Secondly, acquiring company should have high aspiration level and develop an overall strategy accordingly with ambitious goals to realize all growth and margin potentials. The first two key factors which are listed are clearly essential and the same can be said for the third as well. One of the keys to success is the cultural integration, factor of which is frequently underestimated and therefore not explicitly addressed.

Scalabre (2005, 80) continues that the cultural differences need management attention especially in acquisitions between companies of significantly different business cultures. In these mergers it is imperative to create bonds between people, to establish mutual trust and to place in a management team to lead the new company. Only a powerful and inspiring team will enable the conditions for people to communicate, to learn from each other, and ultimately to embrace and promote the values of the new company. Cartwright and McCarthy (2005, 255) indicate that cultural differences are exacerbated by a lack of cultural sensitivity and cultural arrogance amongst those responsible for M&A management. The lack of knowledge and understanding of the concerns and organizational culture of each partner has been

identified as a basis of most conflict in acquisitions. Cultural conflicts occur when employees of integrating companies are required to work together without shared understanding of their counterpart's culture, which poses threats to effective integration (Goulet & Schweiger 2006, 415). Chakrabarti and Mitchell (2006, 5) observe that underestimating the importance of human factors and the challenge of culture in the integration often results in severe impediments to smooth post-acquisition operations.

Scalabre (2005, 80–81) indicates that acquisition of local companies in Northeast Asia countries such as China by European or American companies is an extreme scenario in cross-border M&A. The differences in business culture create significant integration challenges which in many cases are the main reasons for unsuccessful acquisitions. For instance in Asian business culture, relations between employer and employees are driven by emotional and psychological factors. By contrast, in the western business culture, employee/employer relations are very formal and based on visible and documented rules and contracts. Furthermore O'Rourke (1989, 219) indicates that the most difficult company to integrate into a large MNC is the engineer-entrepreneur company since the culture of a small company is usually dramatically so different from the acquiring large corporation's, and therefore cultural clashes occur when entrepreneurial spirit meets bureaucratic staidness (The management of…1986, 5).

1.3 Earlier research on cultural challenges in Finnish-Sino business partnerships

A vast amount of research has been conducted on M&A and the post-acquisition integration is one of the most discussed phases of the process (Javidan et al. 2004, 255). Some research has also been conducted on the integration management processes and the cultural factors influencing the integration process. However, according to Teerikangas (2006), there is a surprising lack of qualitative research evidence on cross-border acquisitions and this shortcoming is especially marked with regards to the post-acquisition integration of cross-border acquisitions and the cultural dynamics therein. Furthermore, it is noteworthy that Chinese authorities have explicitly discouraged M&A in the past and in many industries, including financial services and manufacturing, constraints on M&A are just now being lifted (Peng 2006, 26). Thus, the research on western acquisitions in China is mainly concentrated on entry mode choice while the cross-cultural integration management processes in the case of western acquisitions in China have not been extensively researched. While the deregulation of the Chinese FDI

regime creates more possibilities for cross-border M&A in the region, a growing need for research concentrating on the post-acquisition integration management processes in the Chinese context is evident.

Due to a lack of research on cultural challenges of Finnish-Sino post-acquisition integration, the discussion of earlier research will be concentrated on the cultural challenges observed in Finnish-Sino business partnerships. Although, in the researched case the acquiring company is a US based multinational, the integration was lead from one of its divisions headquartered in Finland, by a Finnish business integration leader and the acquired company was integrated as an integral part of the Finnish led division. Therefore, it is reasonable to review the earlier research on the cultural challenges of Finnish-Sino partnerships. More detailed information on the earlier research can be found in Appendix 1.

Björkman and Kock (1995) have conducted research on social relationships and business networks of Scandinavian companies in China. The research is a multiple case study and the data has been gathered through interviews with Chinese and foreign employees in 24 Scandinavian companies involved in the marketing of projects and industrial of different kinds to China. The focus of the research was on the importance of guanxi and in which way the respondents have experienced the development of this network of personal contacts. Findings of the research suggest that in the Chinese context social relationships are often a prerequisite for both information and business exchanges, and that the direct access to these social networks is mainly handled by local employees. To develop guanxi of one's own was identified as challenging for foreign managers who not only needed the capability to speak Mandarin, not to mention local dialects, but also lacked the family and party relations required in the local context.

When Björkman and Kock drew attention to the importance social relationships in the Chinese business environment, Koivisto and Lampinen (2001) have examined cross-cultural integration between a Finnish and a Chinese company. Their study provides understanding to this process by adopting a concept of cultural crossing in analyzing the national and corporate culture dimensions of cross-cultural integration of an acquisition in Hong Kong. The research data was gathered through in-depth interviews with the case companies' personnel who had been directly involved in the cross-cultural management and the decision-making. These persons were in contact with their counterparts on daily basis which allowed them to live and observe the cross-cultural interaction throughout the post-acquisition integration process. In the study the integration of corporate cultures were described and some challenges derived from cultural differences indentified. The integration was met with resistance of the acquired company's personnel and the Finnish management culture was often viewed as very

negatively and aggressive by the local employees. Also the differences in communication styles were seen as a challenge and a reason for employee resistance.

Ramström (2005) has studied business relationships between Finnish/Swedish and overseas Chinese firms and their findings were to some extent in line with the findings of Koivisto and Lampinen. The research data was gathered by interviews with managers from Finnish / Swedish firms located in Singapore, Malaysia and Thailand, and who had business relationships with local firms run by overseas Chinese. These managers identified several differences which have affected their business relationships and operations on daily basis. First of all, the ethnic Chinese have a different perception of time which leads to decreased efficiency and makes long-term planning challenging. The second differences identified were the way of making decisions and the face and reputation driven decision making processes of the ethnic Chinese have frustrated Finnish/Swedish managers. The structure of ethnic Chinese firms was also described as extremely hierarchical with authoritative management style and where there is typically no room for middle or lower managers to make decisions.

Vihakara (2006) has examined the managerial communication in a Finnish-Sino joint venture and the research verifies the earlier findings of the major challenges in communication and management styles. The research is a single case study of a Finnish-Sino joint venture and the data has been gathered by interviewing the managers of the venture partners. The researcher observed that the impact of culture on managerial communication is evident and that cultural challenges in the joint venture existed. The language issue was considered problematic due to not only several languages but also inadequate language skills on both sides which resulted in the employment of in-house interpreters. Moreover, differences both in communication and negotiation styles lead to cultural clashes. The Chinese communication style was indirect and negotiation style non-linear whereas the Finnish communication style was direct and negotiation style was characterized as a step by step – process. Furthermore, differences also in which the ways managers coped with conflict and strived towards resolution were seen as a cause for cultural challenges in the venture.

Wang (2007) has provided further understanding of the cultural challenges in Finnish-Sino business partnerships by examining key activities of Finnish-Sino partnerships in China. The research data was gathered by interviews from the management of in four Finnish-Sino manufacturer-distributor partnerships and of four Finnish-Sino joint-ventures. In the manufacturer-distributor partnership the cultural challenges were mainly resulting not only from the inability of the Finnish managers to understand the Chinese customers' behavior differences but also from differences in business cultures and ways of communication. In the joint venture partnerships cultural

challenges were more complex and the research points out that the cultural differences appear both on the levels of organizational and personal culture. First, on the organizational level, the differences in the pace and mechanisms of decision making were considered challenging. Second, differences in time perception were considered as a challenge due to unexpected delays and different time schedules. Third, major differences were identified between Finnish and Chinese business cultures and especially the realistic perception of guanxi was considered to be challenging for the Finnish managers to understand. Fourth, the Finnish and the Chinese managers had different ways to communicate, and the language issues were identified as challenges in everyday activities of the joint venture partnership. Challenges arising from the personal culture level were mainly resulting from different values and social culture of the managers from different national cultures. The research concluded that cultural differences can be reduced both through open communication and through a process of inter-organizational adaptation.

The earlier research on cultural challenges in Finnish-Sino business partnerships has provided extensive insights for the cultural differences in management behavior and business practices. The differences not only in management styles and in decision making processes but also in communication and in negotiation styles were identified as the main cultural challenges in the researched partnerships. Furthermore, the language issues were seen as a major obstacle for both an effective cooperation between partner companies and for effective operations of the foreign partner within the Chinese business environment. However, excluding the research of Koivisto and Lampinen on an acquisition in Hong Kong, cultural issues in post-acquisition integration between Finnish and Chinese organizations have not been researched. Furthermore, earlier research has mainly concentrated on mapping out cultural challenges within the partnerships. But it has not provided resolution in which way the challenges arising from the cultural differences between the organizations can be managed and controlled in order to prevent cultural clashes occurring during the integration process. Consequently, this thesis concentrates on the ways the Finnish lead division of a US based MNC has managed the cultural challenges during the post-acquisition integration of a Chinese family-owned company. Thus, the research results of this thesis not only provide the case company with tools to improve both its integration management processes and integration guidelines for their future M&A activities in China, but also fill the research gap of ways to manage cultural challenges in post-acquisition integration under a cross-cultural circumstances and especially in the Chinese context.

1.4   Objective and the structure of the study

The process of post-acquisition integration is perceived as a challenging one, and it may be the most importance reason for failure among cross-border acquisitions. Cross-border acquisitions are more complicated than ones within national borders given the differences of both organizational and national culture (Hopkins 2008, 7). A major challenge is to find a way to integrate the strengths of each partner while establishing coherence between the strategies, cultures, organizational forms, management styles and modes of communication. (Barmeyer & Mayhofer 2007, 37.) In this research the focus will be on the cross-cultural integration management processes to mitigate the post-acquisition integration challenges resulting from cultural differences between acquirer and the acquired company. Especially interesting is to examine in which way the acquiring multinational corporation which has extensive M&A experience outside China is managing the integration process in Shanghai in an acquisition where both parties are from very different cultural background both on national and organizational culture level. Therefore, the main research problem *'In which way the cultural challenges are being managed in the case company's post-acquisition integration process?'* will be examined through the following sub-problems:

- How is the integration approach chosen for the cross-border acquisition in order to minimize the cultural challenges?

- How has the speed of integration been adapted to cross-cultural circumstances?

- In which way the integration project management team is assembled to tackle cultural challenges?

The structure of the thesis can be described as follows: First of all, the theoretical framework of this thesis is discussed on the chapter two. The theoretical discussion begins with a review on various theories of different degrees of integration and the control approaches MNCs impose of their foreign subsidiaries. Secondly, the speed and timeline of integration are being discussed and its implications on the integration process. Thirdly, structure of the integration project management team is scrutinized both on the level of integration leaders and the functional teams. In this context also the importance of communications, pre-integration training and the team building activities are being discussed. Once the theoretical framework has been introduced, the research design is presented and discussed on the third chapter of the thesis. On the fourth chapter the research results are presented and divided according to themes introduced above. Conclusions and discussion based on the similarities and differences between

theories and research results are presented on the fifth chapter. Consequently, the sixth and final chapter summarizes the research. The structure of the study is illustrated on the figure below.

The research problem	**Managing cultural challenges in post-acquisition integration?**
Sub-problems	**Integration approach** / **Speed of integration** / **Integration project management team**
Theory	**Integration approaches, integration speed, role of integration leader and of the functional team leaders, team building & communication.**
Collecting empirical data	**Qualitative study; 17 in-depth interviews**
Data analysis and interpretation	**Discussion on the research findings**
	Conclusions

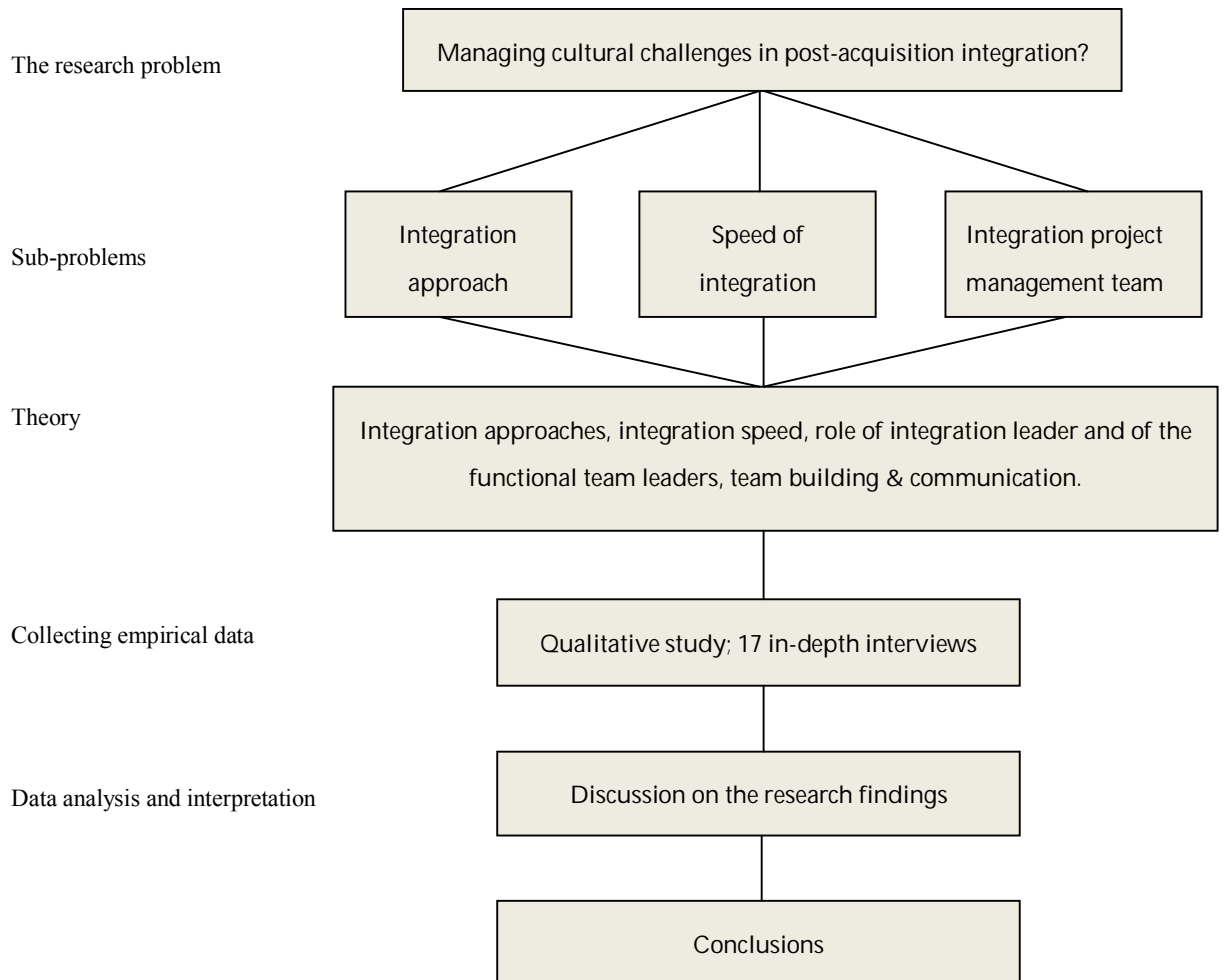Figure 2   Structure of the study

2 CROSS-CULTURAL INTEGRATION MANAGEMENT

Gerpott and Bloch (1992, 5) define integration of acquisition as a process by which the buying company deliberately modifies the acquired firm in such way as to ensure a mutually acceptable and viable interweaving of both entities into one unit. Operational integration is certainly the most critical phase of the whole acquisition process in which different organizations, corporate cultures, management styles, systems, structures and processes need to be brought together to allow expected synergies to emerge. Studies show that companies that place a strong emphasis on post-acquisition integration surmount cultural differences more easily and manage the entire integration process more efficiently (Pribilla 2002, 328–329.) In the following sections the integration management of cross-cultural post-acquisition integration is discussed on the levels of integration approach, integration speed and the integration project management.

2.1 Post-acquisition integration approach

Weber (1988, 45) observes that there are different kinds of acquisitions with respect to the degree of integration between the two parties for the purpose of the combination. Consequently, scholars have examined various integration approaches depending not only on the acquiring company's tolerance for multiculturalism and on its appreciation of the target professionalism but also on its need for deep integration and control on the acquired unit. Various integration approaches are discussed on the following and consequently brought together on the matrix[2] on which different approaches can be easily compared.

  Buono and Bowditch (2003, 71–72) point out that while the common assumption of post-acquisition activities suggest that two companies are fully integrated into each other, a number of possibilities exist ranging from total autonomy to total absorption. In related horizontal acquisitions the acquiring company can either impose operational and strategic changes of the acquired firm or allow the acquired firm to maintain autonomous operations, with performance goals rather than outright integration as the key link between the firms. Thus, each of the functional areas of the acquired organization needs to be assessed to determine the appropriate level of post-acquisition integration. At one end of the continuum functions are maintained as totally *separate functions* and acquired firm maintain their corporate identity, personnel changes are minimal, and only some degree of control is exerted by the acquiring firm. At the other

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[2] See figure 3 p. 19

end, similar functions are *fully integrated* into one unit as a set of shared activities which may result in loss of corporate identity, reductions in work force and in exerted control of the acquiring company across all operations. Between these two extremes companies can be integrated on various different levels with coordinating functions and clearly stated guidelines for future cooperation. Larsson (2005, 188) suggests a *co-competence integration approach* where best practices from both the acquiring and the acquired company are combined during the integration process. In this approach the difficulty lies in the ability of the acquiring company to recognize the core competencies of the other company. Therefore, it is essential to mutually identify and respect the competencies of the other firm in order to pursue the superior co-competence approach to organizational integration. Schweiger (2002, 155) verifies this by stating that the integration teams are needed to examine each area of the business of both the acquirer and the target company, preferably during the due diligence[3] phase, and then decide what and how to integrate.

Vaara (1995, 29–30) observes that the implementation of different acquisitions should be managed in different ways. Integration of a friendly acquisition of a successful firm is to be followed by the *"hands-off"* approach where the autonomy of the acquired firm is being preserved. On the contrary, in the integration of a hostile acquisition of an unhealthy firm should follow an intensive and aggressive *"hands-on"* approach where the weak acquired management should be replaced by management talent of the acquiring company. However, Goulet and Schweiger (2006, 411) draw attention to the fact that when there is a large cultural gap between the combined organizations, the acquiring company should strive for less intensive form of integration. Lees (2003, 120) verifies this by arguing that the more two companies are drawn together the greater is the risk of culture clash and destructive resistance to change. Earlier research findings indicate that successful acquisitions are driven more by how well the integration is managed than by combining acquiring and target companies based on the similar cultural characteristics of business practices. The acquired firm needs to be valued for its strengths and its uniqueness which requires the acquiring organization to understand and manage effectively the complex human integration related issues during the acquisition process. (Goulet & Schweiger 2006, 412.) Schweiger (2002, 155) points out that while the integration may result in costly and time-consuming changes, it is suggested that the integration stage engage the "principle of minimum intervention" in which only those functions and lines of business that are necessary for realizing the sources of synergy and both strategic and financial objectives underlying the acquisition should be integrated.

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[3]Due diligence is the process where the acquirer evaluates a target company and its assets.

In addition to the integration approaches discussed above Navahandi and Malekzadeh (1988, 10–12) observe four integration strategies depending on the type of acquisition, the acquiring company's degree of multiculturalism, the acquired company's attractiveness to the acquirer, and the acquired company's wish for preservation. In the case where the acquired management wishes to preserve their own culture, as well as to remain independent and autonomous, but the same time are willing to be integrated into the acquiring company's structure, the recommended implementation strategy is the *integration* mode which leads to structural assimilation of two organizations, but little cultural and behavioral assimilation. However, in cases where the acquired company has been unsuccessful and their organizational culture and practices have been dysfunctional for the organization, *assimilation* strategy is the most expectable mode to be used. As a result of this strategy the acquired company is totally integrated into the acquiring company and therefore willingly adopts the culture of the acquiring company. In contrast, *separation* mode usually takes place when the acquired company wishes to stay completely independent and separated from the acquiring company. This mode is suggested to be the implementation strategy for unrelated acquisitions. Finally, *deculturation* occurs, however, mostly on individual level, if the members of the acquired company do not value their own culture and also reject the culture of the acquiring company.

Schreyögg (2005, 110–116) observes two different approaches for corporate culture integration. The acquiring company can choose either a low cultural consistency type which can be observed as a pluralist corporate culture or a high cultural consistency type, resulting in universal corporate culture. The first alternative favors a policy of unassimilated diversity within which the corporate culture of the former autonomous cultural system is not expected to change to great extent post-acquisition phase. The creation of such plurality does not require any particular effort while it simply develops itself. This approach represents a conglomerate corporate culture with coexisting subcultures and weak over-arching ties. Various advantages such as flexibility, adaptability, and encouragement of creativity are identified for highly differentiated subcultures. The *pluralist corporate culture approach* signals tolerance and respect to former competences and skills, and therefore makes the acceptance of the acquisition easier for the acquired personnel. However, Lees (2003, 123) points out that the core problem in the partially merging approach is the persistence of two organizational cultures and their respective subcultures side by side in the same company. As a contrast to the pluralist approach the second generic alternative of cultural architecture after an acquisition positions the internal consistency into the foreground. There are two main options for realization of this *universal corporate culture approach*: either to

absorb the acquired company into the existing corporate culture of the acquiring company or to merge the existing cultures in order to bring about a new amalgamated corporate culture. From a process point of view, the two companies in post-acquisition integration are expected to become integral parts of the universal corporate culture. This approach is perceived to be especially challenging in cross-border acquisitions where national cultures constitute possibly conflicting cultural dimension. Therefore, in an international context, a unified corporate culture is often perceived as an imposed culture ignoring values of the host countries. Former research indicates that there is no general superiority of one alternative over the other. Thus, choice between the approaches discussed above cannot be separated from the context of the acquisition. Rather, it has to be embedded into the overall acquisition policy and the question of internal complexity. The more significant the need for coordination, the more critical becomes the advantages of a universal corporate culture. (Schreyögg 2005, 110–116.)

Heenan and Perlmutter (1979, 17–21) indicate that company can select between four basic predispositions as to its cross-cultural management and organization. First, if company follows an *ethnocentric* approach, it aims to implement its core organization's and home-culture models of management throughout its organization. Under this predisposition, the peripheral parts of the organization are regarded as "extended arms" of the core organization. In this approach the top management positions in MNC's subsidiaries are staffed by citizens of the parent country or third country nationals, staffing of which is justified by the tendency to consider these managers more intelligent, capable and trustworthy compared to the local options. Second, *polycentric* organizations decentralize their management and culture so that each local or peripheral part of the organization is expected to follow its own host-culture patterns of organization and management. This approach is based on a general perception that national cultures and employee behavioral patterns are quite dissimilar, and locals are more aware of how to operate in their respective business environments. In order to maintain desired level of decentralism within a MNC the key manager positions in the subsidiaries are staffed by local nationals. Third, when company follows the *regiocentric* approach, it attempts to build its international organizations either according to the geographic or cultural regions. Under this predisposition, each region follows its host-region's combined patterns and culture of management. Such a personnel policy is supportive of functional rationalization based on more than one country and therefore superiority is not equated with nationality. Thus, the key positions in the level of senior management are staffed by citizens from the region in which the subsidiaries are operating. As the three first approaches represent geographically dependent strategic thinking the same cannot be said on the fourth approach. *Geocentric*

companies endeavor to develop both processes and approach to management that are simultaneously universal and local. Therefore, in international organizations following this approach the significance of nationality in key manager staffing is considered to be infinitesimal. However, while taken the persistent ethnocentric and polycentric pressures that generally characterize the home and foreign environment of a MNC into consideration, it can be suggested that geocentric approach poses a major challenge for a multinational company. The various integration approaches discussed above are brought together on the figure below.
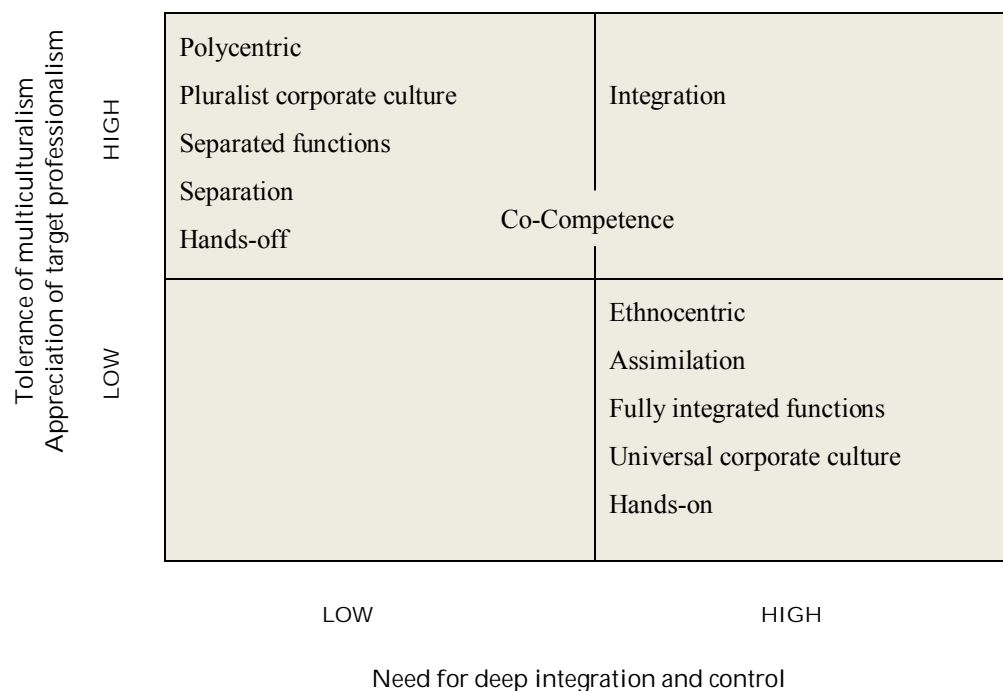
Figure 3   Integration approaches

Based on the discussion and the figure above, it can be observed that various integration approaches exists depending not only on the acquiring company's need for deep integration and control but also on its tolerance and appreciation of the target company's culture and professionalism. It is noteworthy that most of the approaches represent the two extremes where either deep integration is applied or where the target is left rather independent. However, in the *Integration* and *co-competence* approaches both the appreciation of the target company's professionalism and the need for deep integration are present. No approaches apply for the low/low category since low need for integration results automatically in target company's independence whereas low

tolerance for multiculturalism results in target company's deep integration into the acquiring company.

As an integral part of integration approach, retaining of the acquired senior management is required to be discussed and evaluated. Teerikangas (2008, 88–91, 151) indicates that retaining of acquired company's top management is advisable if they are willing to commit to new parent company, agree with its vision for the future and respect both its strategy and corporate culture. If the acquired company's top management is not fully committed to parent company, there is strong possibility for resistance and negativity. However, when top management feels consistence with the parent company and are committed to build future together, retaining of acquired company's top management is seen to have various positive effects: firstly, retaining the top management communicates parent company's respect and trust in acquired company's top management and the acquisition does not seem like a takeover. Thus, the personnel's level of motivation increases when they feel that their professionalism is being respected. Secondly, retaining the top management is means to use the local management as a positive driving force for organizational change in the acquired company and for preventing cultural clashes. The role of retaining the acquired top management is essential in acquisitions where the national culture distance between the companies is great. With the help of local knowledge it is considered to be easier from them to motivate their personnel in the change compared to foreign managers with no or minimum local experience. Froese and Goeritz (2007, 110) verify this by stating that building trust and relationships within the acquired organization is of the utmost importance when engaging in business deals with Asian counterparts.

Lees (2003, 257) argues that if the acquired business has a good CEO and management team at the top they should be retained in the post-acquisition phase and solid ways of cooperation created which applies especially to acquisitions of small family-owned companies. In the cases where the acquired top management is retained it is suggested for the acquirer to appoint managers of their own into the acquired unit. These managers provide eyes and ears for the parent company to keep on track what happens in the acquired unit and therefore enables channels of monitoring the acquisition. These managers are also essential to continue the functional integration after the initial post-acquisition integration process has been finished. Goulet and Schweiger (2006, 407) argue that retaining key members of the senior management in the acquired company and therefore balancing positions assigned to acquirer and acquired managers in the new organizations, is a practice of which is designed to promote integration while avoiding negative outcomes associated with autonomy removal. The objective is to share authority and responsibility in the new organization.

Whatever the integration approach the acquiring company has chosen is, it has a profound influence on the speed of integration actions taken after the transaction has been closed and the post-acquisition combination started. If the list of things to be changed is extensive or sensitive integration approach is utilized the period of time used for the integration is expected to be longer, whereas a short integration checklist or an aggressive integration approach leads normally to quicker integration pace. The integration speed and timeline of the post-acquisition integration and their implications for managing cultural challenges during the process will be discussed in the following section.

2.2 Speed of the post-acquisition integration

One of the key issues facing the integration leaders is how fast they should execute the integration process. Schweiger (2002, 162) defines the integration speed as the time it takes to make changes in the acquirer, target or both and thus integrate firms. There is wide consensus among researchers that the process should move quickly since speed avoids periods of uncertainty in direction, not only in the organization but also in the marketplace. However, others argue that integration process should move in slower pace whereby careful assessments of how the organizations should be combined can be made. Thus, the integration leaders should be realistic as how long it might take to implement change. Some functions may require significant time to integrate, even after integration changes have been agreed to. (Schweiger & Lippert 2005, 38–39.) Schweiger (2002, 162) points out that speed avoids periods of uncertainty in direction of the organization and not only set early expectation that changes will be made but also mitigates some of the buildup of resistance to change.

With regard to the speed of post-acquisition integration, Teerikangas (2006, 94–95) points out that there are two facets to the notion of integration speed: start-up speed and the pace of the overall integration approaches. Whilst the former refers to the early start of the integration phase, the latter reflects the acquiring company's long-term approach to pacing integration activities. To begin with, some integration activities need to take place immediately after the deal since the immediate post-deal weeks and months are ones during which the acquired organization expects change to take place. The speed and timeliness of immediate post-deal actions affect the success of the integration phase by ensuring that acquired firm staff is taken onboard as soon as possible after the deal.

Vester (2002, 38) indicates that speed is essential in the integration process and that the process should proceed so quickly that everybody involved in the project

consistently feels a bit uncomfortable with the rapid pace. On the other hand, Olie (1994, 399–403) argues that slow integration process can be appropriate to minimize conflicts between the acquiring and acquired sides. The speed of post-acquisition integration is often linked to the quality of pre-deal planning. Teerikangas (2006, 94) indicates that acquisitions in which the pre-deal integration planning has been carried out, timely and prompt immediate post-deal action could be taken. However, Nupponen (1995, 59) argues that the integration process has been described as an art of managing unexpected events and findings, and therefore the pre-planning of integration does not guarantee successful and prompt integration.

Colombo, Conga, Buongiorno and Gnan (2007, 215) draw attention to the importance of rapid start of integration process after acquisition announcement. The longer the acquiring company waits before starting the integration process the more likely it is to fail. Stahl and Sitkin (2005, 90–91) argue that while many authors suggest that the integration outcome depends on the window of opportunity during the first 100 days following the acquisition, the moderate speed of integration is advisable. Fast enough to reduce anxiety, but slow enough to provide thorough communication among all parties involved. Pribilla (2002, 318) indicates that the intended timeframe has a profound effect on the integration strategy and both a gradual and rapid approach have advantages. The gradual approach allows for thorough analysis of acquired company's products, markets, customers, and both employee and management potential. Employees and managers are able to actively participate in the integration process and adapt to impeding changes. However, the gradual integration approach does not tackle the issue of extreme uncertainty of employees during the process which usually leads to reduced productivity. On the other hand the rapid integration counteracts this disadvantage. The quick pace takes advantage of employees' expectations of changes and promptly sets things straight. Management positions are quickly assigned which establishes foundation for leadership and avoids both power struggles and uncertainty. This enables the main focus on the market requirements and avoids energy loss due to friction. Biljsma–Frankema (2004, 256) continues that quick pace for change in the acquired organization is an effective way to solve the issue of cultural differences which threaten the chances of integration success.

Homburg and Bucerius (2006, 347–349) observe that the benefits and detriments of the speed of integration depend on the extent of internal and external relatedness between the integrating companies prior the acquisition. Internal relatedness refers to merging companies' strategy and organizational cultures, whereas external relatedness refers to companies' target markets and their market positioning within these markets. As a consequence of different levels of internal and external relatedness, the

relationship between integration speed and integration success will be different. Thus, in the case where the two companies are externally deeply related but internally weakly related, the overall effect of speed on the integration success is strongly negative, whereas in the case of opposite situation the effects of quick speed are considered to be strongly positive for the integration success. However, in the cases of where the two companies are either deeply or weakly related both externally and internally, the effect of speed is considered to be neither strongly positive nor negative, and therefore in both cases the effect of speed is not considered to be decisive for the integration success. On the other hand, O'Rourke (1989, 225–226) suggests that delaying the integration and change within the acquired unit as long as possible is the most preferred option in order to improve the probability of post-acquisition success. This is applies especially when there is no need for quick turnaround of the acquired unit or great need for rapid cost cutting. Acquirers should go as slow as possible even if the technology is known and the acquirer could do everything the target is doing in more efficient manner.

Schweiger (2002, 163) observes that speed of integration is a complex, in which some facets of the integration may be best suited for slow speed while others best suited for fast. Furthermore, Schweiger and Lippert (2005, 39) indicate that fully integrating organizations, in many areas such as cultures, can take anywhere from one to five years, depending upon the relative size of the target and the extent of the integration. Lee Marks and Mirvis (2000, 43) point out that project integration teams need clear deliverables and timetables for the transition period. These elucidate what is expected of the teams, when and in what format. Timetables and progress monitoring are also means to create sense of urgency for the integration process which according to Froese and Goeritz (2007, 108) is extremely beneficial for effective process and is one of the main factors to promote human integration.

2.3 The integration project management

A critical issue in post-acquisition integration is how to speed up the process of getting hundreds of people to cooperate toward common goals when the values and mind-sets of combining organizations differ, and sometimes quite radically. It is fundamental to get people from different cultures with different management philosophies to work together in order to achieve planned synergies. (Daniel 1999, 24.) According to Koch (2002, 285), a dedicated, independent project management team should be assigned for projects where high value-creation is combined with a major change. Vester (2002, 36) argues that integration project management is project management at its fullest, most

complex and challenging. The very nature of this type of project requires the work to be done repeatedly, often by a different mix of team members at different stages of the project. Controlling the various projects and the overall complexity of the integration process demands a structured project organization with clearly defined roles and responsibilities.

Cartwright and Cooper (1992, 121) indicate that rather than sending in a temporary team from head office to set up new systems and procedures as quickly as possible, it is important to provide on-site support for several weeks after the closing of the deal to handle and to advise on the inevitable problems that arise during the integration process. The integration managers who temporarily base themselves within the acquired organization, relieves the pressure on the acquisition manager and increases the employee exposure to the new culture at an operational level. Koch (2002, 273–274) demonstrates that the management team must be prepared to make clear and rapid decisions on fundamental issues arising during the integration process, and while integration projects frequently take one to two years, management is required to be extremely persistent in fostering integration and ensuring that all measures can be implemented in full and on time.

While there can be no universal approach to managing the post-acquisition integration a three-layer structure has proved sufficient for smaller companies with a limited number of product groups and personnel. However, in the case of larger mega-mergers the project organization with one more layer is has been proved to be more efficient. In the case of a smaller integration project with three-layer structure, the project organization should consist of an overseeing executive steering committee, an integration management office to manage the project and integration project teams which are responsible for the integration of business functions such as sales, production, IT systems, HR and core processes, and work out the specific actions to be taken. (Koch 2002, 285–287; Pribilla 2002, 328–329.) The integration works out best when the key people of the transition management are dedicated to planning of integration and making sure that it succeeds (Lee Marks & Mirvis 2000, 37). The structure of the integration project management is illustrated on the figure below.

| | STEERING COMMITTEE | Acquirer's senior executives + Acquirer's integration leader |
| LAYER 1 | | |
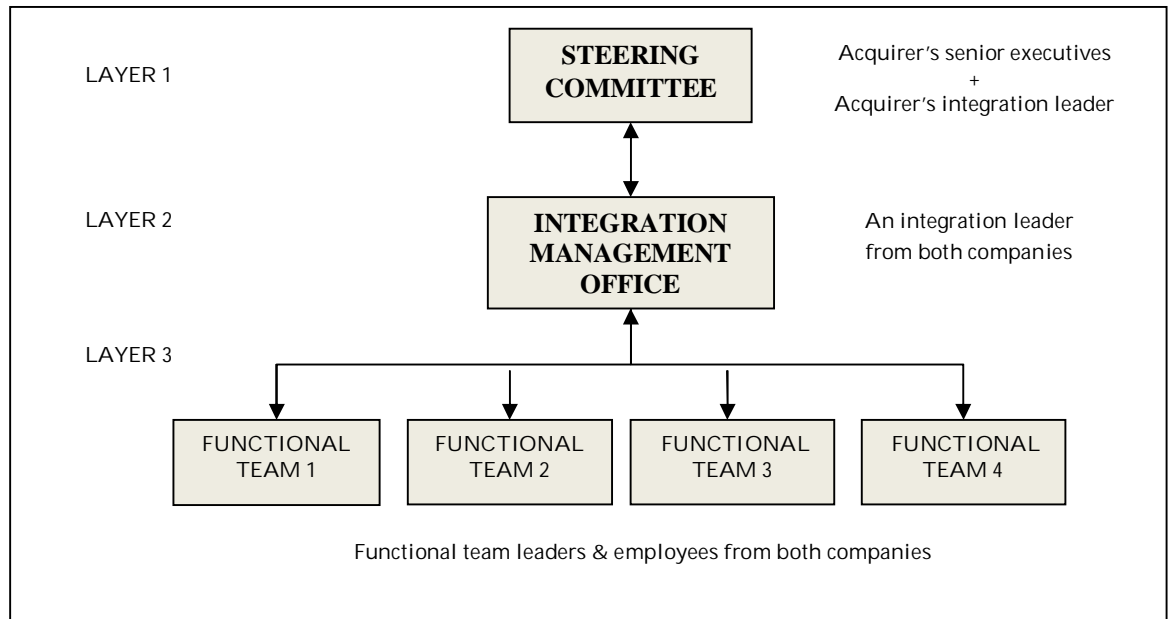
Figure 4   Structure of the integration project management (adapted from Koch 2002, 286)

Executive steering committee is a body of senior executives staffed by key leaders from the acquirer and it not only oversees the integration management office but also makes key decisions regarding integration activities. Its specific tasks include providing both perspective on strategic direction and also access to resources necessary to support the integration (Lee Marks & Mirvis 2000, 38.) Cartwright and Cooper (1992, 122–123) suggest that in addition executive steering committee continued visible senior management support of both sides is also considered to be an essential facilitating factor for the integration process. While the executive steering committee's role is an overseeing one, integration management office's fundamental task is to set direction and guidelines for the individual integration project teams, allocate necessary human and financial resources and approve actions that will help achieve the objectives formulated in the integration design phase. Integration management office is responsible for the entire integration process and therefore the members of the office should be managers with high status within both organizations. Although the office is preferably headed by two people, one from the acquired and one from the acquiring company, one of them should be appointed as the project leader. The integration management office manages the entire process, is a member of the steering committee and has a high level authority, including *vis-á-vis* top management. The integration management office is the first point of contact as well as a driving integration force and it is empowered to make

significant decisions. (Pribilla 2002, 329; Koch 2002, 286–287.) The importance and role of the integration leaders will be further discussed on the following chapter.

2.3.1 *Role of the integration leader*

Teerikangas (2008, 83) observes that the integration leader has a key role in the integration process, and according to Daniel (1999, 25), leader of the integration team is not only the on-site contact for the transition process but also the primary liaison between the two companies with central oversight, coordination, and control of the individual integration project teams. Teerikangas (2008, 83–84) indicates that it is advisable for the integration leader to be involved in the acquisition process early on and therefore is able to be in charge of both the due diligence phase and the integration planning process. Moreover, Schweiger (2002, 145) observes that the integration leader should oversee the acquisition from the transaction stage through the integration stage to ensure continuity of information and direction. Without genuine involvement of the integration leaders, other employees are likely to refrain from fully engaging themselves in necessary integration activities, and thus maintaining barriers between the integration teams (Scalabre 2005, 81). Ashkenas and Francis (2000, 114) argue that the integration leader responsible for the post-acquisition integration needs to be a representative of the acquiring side with extensive work history in the company. Thus, the integration leader is fully aware of the parent company's ways of doing business and both the formal and informal expectations for the acquisition and the managers responsible for the functional integration.

Teerikangas (2008, 84–86) defines three major roles for the integration leader: supporting the post-acquisition change process, promoting the cultural change, and enhancing the transmission of information between the acquirer and the acquired company. The main role of the integration leader is to support and coordinate the post-acquisition change process in the acquired company. In this role the leader is required not only to demonstrate the support of the parent company and to enable acquired company's issues to be included on the agenda of the senior executives but also to both guide and promote the post-deal change by introducing parent company's processes and by encouraging networking between the two organizations. The task of promoting post-acquisition cultural change is considered to be a challenging one especially in the cases where the acquired organization is fully integrated into the parent company. Depending on the organizational culture of the parent company the role of integration leader in the cultural change process varies. In the case of a passive cultural integration approach the

integration leader is the driving force in the endorsement and facilitation of the cultural change in the acquired unit by communicating the parent company's organizational culture through his/her own behavior and leadership style. On the other hand in an integration where more active approach is employed the cultural change is promoted by implementation of specific change plans and by organizing of training programs which are coordinated by the integration leader. In the case of cross-border acquisition the integration leader is also required to operate as an interpreter of the national cultural issues which tend to create misunderstandings and confusion if not explained to the foreign colleagues. As the two roles discussed above are essential for a successful integration process the same can be asserted on the third as well. The role of enhancing the information flow between the organizations is vital in the learning process of the acquired company how to operate under the new parent company. The integration leader can facilitate the building of trust and the interaction between the organizations by presenting key processes and being available for discussion on arising questions and issues.

Vester (2002, 37) draws attention to the fact that overall integration manager cannot personally attend to all the major issues that surface often simultaneously in an integration. Much of the hidden success of a post-acquisition integration lies in working with a sufficient number of experienced integration professionals who really know not only how to manage integration teams and apply best practices but also how to filter data and to prioritize both issues and requests. Ashkenas and Francis (2000, 112–115) observe that the post-acquisition integration requires disconnecting and reconnecting hundreds of processes and procedures as quickly as possible. These integration processes are implemented by the integration teams and therefore one the most effective ways an integration leader guides the overall process is by creating the structure within which the team can operate effectively. The teams need not only clear objectives and disciplined timelines but also coordinated meeting schedules for both communication and review mechanisms. The integration leader needs not only to put this structure on place but also to coordinate and manage it on ongoing basis.

Moreover, integration leader also needs to motivate and involve people not only by working through established channels of authority but also by inspiring people to become committed to the new organization (Ashkenas & Francis 2000, 112–115). Schweiger (2002, 144–145) observes that in addition to a solid progress-monitoring mechanism for the successful integration it is essential that the integration leader both ensures cooperation among the integration teams during the process and provide support to the integration teams through ensuring resources and clearing roadblocks.

Teerikangas (2008, 86–87) observes that successful integration leaders share some key characteristics: leadership skills, professionalism and international experience and multiculturalism. First of all, during the post-acquisition integration the leadership skills of the integration leader are identified as a significant factor in the success of the process. The acquired personnel build their perceptions of the future as a part of the parent company through the personality and management style of the integration leader. Therefore, one of the integration leader's main tasks is to get the acquired personnel involved in the process and be excited about their future role in the corporation. Koch (2002, 273–274) indicates that strong leadership is one of the crucial factors in post-acquisition integration success and in order to achieve planned measures the integration leaders are expected to take personal actions to push integration. Secondly, in addition to strong leadership skills, the integration leader is required to have extensive professional background on the business of the acquired company. During the process the integration leader is expected have a profound understanding on the technical and financial linkages and differences between the combined units in order to steer discussion and keep the focus on relevant issues on the integration agenda. The professionalism of the integration leader is essential in creating trust and gaining support from the integration management team. The third key characteristic becomes significant in cross-border acquisition where the international experience, language skills and multicultural competences of the integration leader play a crucial role. While leading the integration process the leader might end up being an interpreter in cultural and language issues.

Cameron and Green (2004, 145–147; 149–151; 214) indicate that the integration leader should also encourage the managers of both companies to brainstorm together in order to figure out best practices and therefore find solutions to both old and new issues. In addition to ensuring cooperation between the managers, it is essential for the leader to communicate the direction of the change and to create a clear timescale for the integration processes. Moreover, it is important to establish two-way communication channels and be open for suggestions of the functional integration teams.

Vasilaki and O'Regan (2008, 139) draw attention to the importance of goal and role clarity in the post-acquisition integration process. The goal clarity improves managerial performance whereas unclear goals lead to uncertainty and confusion. The integration managers should know exactly their role in executing and implementing the integration measures whereas goal clarity provides both strategic and motivational focus needed for effective integration deployment. Therefore, goal and role clarity are imperative for effectiveness of the integration project management in order to implement the change successfully and to realize the synergistic benefits of the combination.

Leader of change has to be courageous and self-aware. He or she has to choose the correct action for any occurring challenges, and to monitor the change process. However, the leader cannot make the change happen alone and therefore a team needs to be in place, with well-though-out roles and committed people. (Cameron & Green 2004, 157.) In the following chapter the assembling and role of the functional integration project teams will be discussed.

2.3.2 Functional integration project teams

According to Koch (2002, 286–288), the individual integration project teams are the "cells of the acquisition". These teams generate the actions to safeguard functionality and create value, as well as ensure that various areas such as research and development are aligned with the new company's vision. Great demands are placed on the teams during the integration project, while their members have to handle their day-to-day work as well as their integration activities. Integration project teams should consist of two to six members, with the exact number depending on the complexity and urgency of the project. Buono and Bowditch (2003, 213) indicate that it is important to involve as many people as feasible as early as possible in the integration process. Scalabre (2005, 79) draws attention to the fact that too often the integration team is different from the pre-integration team, and therefore the transfer of knowledge and information acquired during the due diligence phase is not efficient which makes it more difficult for the integration team to achieve goals and to prevent serious integration issues. Consequently, it is suggested that the overlap between the due diligence team and the integration management teams should be extensive.

Vester (2002, 38) observes that one of the integration project team's central roles is to indentify quickly those decisions that need to be made to allow for progress in rewiring the business and to surface issues with which the executives must deal. Lee Marks and Mirvis (2000, 39–40) point out that integration project teams should consist of talented managers and professionals who study integration options and make recommendations on how to design the acquired organization. Schweiger (2002, 144) verifies this by observing that the teams are required not only to execute project plans but also develop them in their respective areas of expertise. However, when used wisely the integration project teams do not begin with blank canvas and produce whatever inspires them. Rather, both in planning and implementation phases the teams are guided by the acquisition strategy and success factors, as well as by the oversight of senior leadership. (Lee Marks & Mirvis 2000, 40.)

Daniel (1999, 24–25) points out that it is generally best to set up small teams of results-oriented functional experts whose task is to focus on the post-acquisition value drivers. The primary purpose of the integration project team is to focus key players on decisions that stabilize the organization and help to build momentum. An optimal structure will have one team leader with ultimate authority to make decisions and report to the integration leader. Lee Marks and Mirvis (2000, 41) point out that not only their functional expertise but also the profound understanding of the business and the competitive environment gives the team leaders a foundation for making real contributions in the integration process. Schweiger (2002, 147) suggests that all integration teams should be led by knowledgeable managers from both the acquirer and the target, and be assembled of key people from both of the organizations who represent diverse operations, lines of business, and geographic areas. Pribilla (2002, 329) demonstrates that the usage of employees from both organizations reduces the "us vs. them" attitudes, enables the utilization of acquired company's know-how and shows consideration for the acquired company. The more managers and employees of the acquirer and the acquisition jointly gather project experience, the faster mutual trust will develop and barriers between organizations will decrease. Schweiger (2002, 147–148) indicates that in addition to intensive inter-organizational cooperation it is critical that the integration teams establish solid contact with the people in their respective organizations so that the strengths of each company are understood and not overlooked during integration team deliberations. Goulet and Schweiger (2006, 414) verify this by stating that usage of in-house integration teams consisting of managers from both companies who work together on integration of organization and processes, is considered to be beneficial to the successful integration outcome.

According to Teerikangas (2008, 89), utilizing the manager talent of both companies in the integration management also communicates that the post-acquisition phase will be build upon collaboration and mutual respect. Through integration teams described above the acquirer does not dictate the integration process but it will be based on cooperative planning and execution. Schweiger (2002, 153) suggests that involving the personnel of the target company is critical not only due to their relevant knowledge about the target's situation and best practices, but also because their involvement may be critical for both gaining acceptance and commitment in the acquired organization to the change process as a whole. The more the acquired personnel participate in the integration processes the stronger their commitment to new parent company will get (Teerikangas 2008, 89). In addition to utilizing the know-how of the acquired company's personnel Teerikangas (2008, 87–88) draws attention to importance of local competence of the acquiring company in integration project management. If the acquirer

already has established activities in the country, where the acquisition takes place, it is strongly advisable to utilize this country specific experience in the integration process. By appointing local managers and employees to integration project teams is an efficient way to reduce national cultural distance between the companies and to decrease the amount of cultural clashes between the employees of the companies. Local managers are aware of the ways to approach the acquired personnel in appropriate way since they know the local rules of behavior. Lees (2003, 193) indicates that in order to manage the friction points and the major points of disjuncture between national cultures it is important to select executives for key boundary positions who can mentally bridge the differences and build cohesive teams around them.

2.3.3   *Preparation and on-board team building*

Cartwright and McCarthy (2005, 263–264) draw attention to the fact that no matter how well the cultural differences are taken into consideration in integration planning, its use could be limited by the abilities and competencies of those required to act on the information and sensitively manage the integration. In the context of M&A, managers need to have heightened awareness of the impact of their managerial style on others and the limitations of their own cultural patterns as they affect the way in which members of that culture interpret what goes around them. Therefore, intercultural awareness and communication training may be necessary to prepare acquiring side's managers for interacting with the members of the acquired organization who do not share the same culture.

Cartwright and Cooper (1992, 122) observe that an essential pre-condition for successful organizational integration is integration management's sensitive understanding and appreciation of the cultural values and beliefs prevailing throughout the acquired organization. Stahl and Sitkin (2005, 91) verify this by indicating that cultural sensitivity, defined as a firm's capability to deal with sympathetically with cultural differences, can enhance partner trust and increase the likelihood of successful strategic integration. Intercultural sensitivity training for the integration project management team improves their cultural sensitivity by increasing not only knowledge and appreciation about the country and culture of the other company but also awareness of the norms and behaviors needed to be successful in the challenging integration period. Training also develops cross-cultural skills by increasing not only communication and negotiation skills but also management and leadership skills in foreign business environment (Schweiger 2002, 149.)

In post-acquisition phase the establishment of joint working parties or inter-organizational team-building initiatives between the integration teams from both sides is seen as beneficial for the integration process (Cartwright & Cooper 1992, 110). To ensure effective team work during the post-acquisition integration, it is important to dedicate time and attention in an early stage to the formation and development of the teams. Introducing the integration counterparts from the other company is considered to be significant a factor in integration team development before the post-acquisition integration activities take place. (Schweiger 2002, 149–150). Furthermore, Lee Mark and Mirvis (2000, 42–44) observe that both structured and unstructured team-building activities are considered to aid in developing relationships among combining managers. Both launch meetings and recreational outings or dinners soon after closing create opportunities for members from both organizations to spend time with one another and get know each other as people. These off-site meetings also allow for unstructured discussions of issues and opportunities and build lasting relationships among the integrated organizations. Such social events have a legitimate role to play both in developing cooperation between the integration teams and laying foundation for the future integration (Cartwright & Cooper 1992, 117). Buono and Bowditch (2003, 218) argue that the potentially most effective team-building efforts between the acquirer and the acquired company can be accomplished through task-centered approach in which the combinations of interactions focused not only on planning and task procedures but also on both individual and cultural work relations will create comprehension and understanding between the two groups. While the managers of both sides become more alike in their understanding of both the competencies each has to offer and the need to work and depend on one another, they can begin to collaborate and address problems in a meaningful way. Schweiger (2002, 149–150) continues that building partnerships and meaningful cooperation among the integration project teams is proved to facilitate the effective and smooth post-acquisition integration.

2.4 Communication

Buono and Bowditch (2003, 196) argue that although communication seems to be considered as an important component of post-acquisition integration success, most managers interpret communication needs in relatively narrow and traditional organizational terms. However, due to high level of uncertainty and insecurity associated with post-acquisition organizational change, integration-related communication needs are qualitatively and quantitatively different from typical business

combination requirements. Scholars have suggested that virtually every case study of a merger or acquisition reports communication shortages at one point or another during the integration process. Scalabre (2005, 79) emphasizes that the communication challenges are commonly underestimated in many change efforts. Goulet and Schweiger (2006, 414) point out that fostering open information change and developing face-to-face personal relationships between the integration leaders and the functional team leaders of the acquiring and the target company is an essential part of effective integration process, and provides employees with a sense of control and ability to manage organizational change successfully. However, communication only between the leaders is not sufficient enough: a direct communication link with all management levels of the acquired company must be established to insure the proper dissemination of information and to provide functional integration managers a vehicle for expressing their views and concerns (Scalabre 2005, 79).

There are two basic types of communication that should be included in the acquisition transition process: firstly, the communication to keep organizational members informed about the acquisition, its ramifications, and its implementation and secondly, communication to facilitate getting the actual integration tasks done. The creation of formal internal communication channels as early as possible in the process will reduce uncertainty and ensure more efficient process implementation. Two-way communication system should be developed that not only informs people but also provides them with opportunity to raise questions. (Buono & Bowditch 2003, 197–198, 201.) Vester (2002, 36–37) verifies this by arguing that the feedback from two way communication helps the integration management to monitor the pulse of the business and to understand the most important issues for the integration project teams. Pribilla (2002, 329) observes that consistent and open communication throughout the integration is critical. Even if there is nothing new to communicate it is important to state when new decisions and developments are expected. It is also essential to keep communicating the objectives of the post-acquisition integration and its schedule, and keep reporting on the integration process.

For the acquirer it is utmost important to understand the complexity of communication in order to be successful at integration. In the post-acquisition integration process it is not possible not to communicate. Thus, communication in these situations involves simultaneous passing of messages at two levels: both on the level of reporting and commanding. The report level communicates the information proper, whereas the command level negotiates the relationship between actors involved. Communications can often be highly contextual which can lead to varying of interpretations and problems during the integration due to the difficulty of the

translation of the message. Effective communication requires the awareness of what is being communicated at both the report and command levels, as well as how this information is being interpreted. (Goulet & Schweiger 2006, 413.) Buono and Bowditch (2003, 214–215) indicate that in addition to operating issues when integration project team leaders also communicate their perceptions on each firm's values and approaches to management in an open way, can resolve much of the "we versus them" mentality that inhibits the integration process.

Additional obstacles to effective communication occur especially in the case of cross-border acquisitions when companies involved do not have a common mother tongue. Scalabre (2005, 79) indicates that in the acquisitions between a western corporations and Chinese firms, language becomes the greatest barrier to successful information collection and knowledge transfer, and this is often totally underestimated by the top management. This is evident particularly below the top management level where the foreign language skills of lower level managers involved in the integration are typically limited. Therefore, these key change agents frequently find it difficult to express themselves verbally or to understand the nuances in what their colleagues from the other company are saying.

The language issue also apparent in the written communication while the documents drafted in foreign language tend to become more abstract and limited in scope when compared to those written in one's mother tongue. In spite of the complexity of issues concerning language skills and communication competences they are often neglected areas in cross-border acquisitions. (Goulet & Schweiger 2006, 413.) Greenberg, Lane and Bahde (2005, 65–66) observe that language barriers in cross-border acquisitions can arise not only from differences in mother tongue but also in organizational culture and or differences in types of technical or scientific backgrounds and experience of the integration management. These language issues are likely to create misunderstandings, confusion, and frustrations which hinder the communication during the integration process. Teerikangas (2008, 171) indicates that while missing common mother tongue, the building of trust between the integration managers of both sides of the acquisition becomes more challenging.

2.5 Managing the cultural challenges in a cross-border acquisition

In cross-border acquisitions the acquiring company usually faces challenging circumstances arising from cultural differences between the two organizations both on the level of national and organizational cultures. However, the acquiring company is

able to mitigate the negative effects of cultural challenges by taking them in serious consideration while planning and executing the post-acquisition integration. Challenges arising from cultural differences can be managed and controlled by various ways which are presented on the figure below in the form of an operational model for this study.
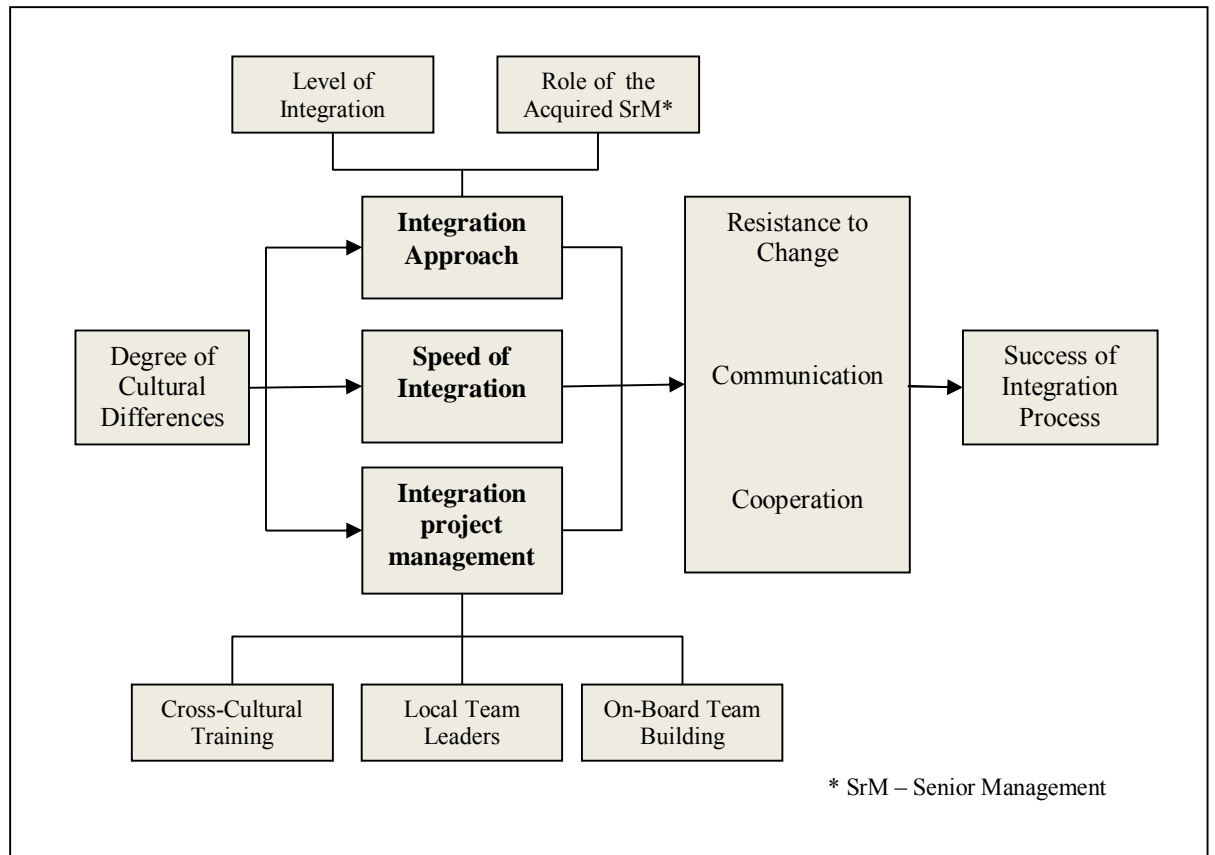
Figure 5   An operational model for the study: how to manage cultural challenges in post-acquisition integration under cross-cultural circumstances

Depending on the degree of cultural differences the acquiring company needs both to decide the correct level of integration and to set suitable pace for the integration activities. First of all, the acquiring organization needs to determine the correct level of integration that would be suitable for the acquired company in order not only to preserve its operations and processes that have been successful before the acquisition but also to retain the key managerial talent of the organization. Second, the acquiring organization is required to set timetable for the integration actions which needs to be fast enough to reduce anxiety, but slow enough to provide thorough communication

among all parties involved. Both the selected integration approach and the speed of integration activities have significant effect on the intensity of change resistance within the acquired organization. In addition to resistance on change correct integration speed ensures that enough time is being dedicated for communication during the process.

Regardless of the chosen integration approach and pace of change within the acquired organization, the acquiring company needs to set up an integration project management team with correct structure and with appropriate managers. The selected managers within the integration project management needs to be experienced managers who has the understanding of and the experience in post-acquisition integration processes and in working with people from different cultural backgrounds. It is also vital for smooth integration that these managers are well prepared for the integration through cross-cultural training and that team building activities are organized to deepen the cooperation among the integration teams of both of the organizations. Both by selecting local management talent for the integration project management and by enforcing cultural understanding and team spirit within integration teams, the acquiring company is able to lay solid foundation not only for open and effective communication but also for effective and productive cooperation among the integration teams of both organizations.

While the importance of cultural differences are recognized early on in the process and not appropriate integration approach applied and suitable speed chosen but also right integration project management chosen and trained, the acquiring organization can tackle the challenges arising from cultural differences and therefore ensure successful integration process. With the help of the operational model based on the theoretical discussion, the research findings of this study can be scrutinized and therefore the functionality of the model is able to be tested. The research design of this thesis is presented and discussed on the following chapter.

3 RESEARCH DESIGN

3.1 The research approach

This thesis is a qualitative research using the intensive case study approach. The issue of qualitative versus quantitative methods has been a heated topic in the social sciences for some time and it has been stated that structured and quantitative methods are more scientific and thereby better (Ghauri, Gronhaug & Kristianslund 1995, 83; Kvale 1996, 68). However, qualitative and quantitative are tools and their utilities depend on the research questions asked. Quality refers to what kind, to the essential character of something whereas quantity refers to how much, how large, the amount of something. (Kvale 1996, 67–69.) In a descriptive study, the use of quantitative methods can give a spurious objectivity to information which can lead to the loss of the richness of the data and its contextual implications. Thus, the gathered data contributes to narrower and less realistic interpretation of phenomena (Collins & Hussey 2003, 162–163.) Research questions focusing on uncovering on person's experience or behavior, or where one wants to uncover and understand a phenomenon about which little is known, are typical examples of problems requiring qualitative approach. Qualitative research is common among practitioners who want to understand human behavior and functions from the respondent's point of view (Ghauri, Gronhaug & Kristianslund 1995, 84–85.) The interest of this research is based on the question which kind of effect cultural differences have on the post-acquisition integration in international context and how the cultural challenges are managed during that process. While the nature of the research is descriptive and there are fundamental differences in the way that people view culture and the aim of the study was to obtain as much as information as possible while leaving room for unexpected information to emerge, the choice over qualitative research methods was reasonable.

This research uses the case study approach. Hartley (1994, 208–209) indicates that case study research consist of detailed investigation, often with data collected over a period of time, of one or more organizations, or groups within organizations, with a view providing an analysis of the context and processes involved in the phenomenon under study. Smith (1991, 152) argues that different types of case-study may be identified according to their complexity and their use, and that it is a way to gather unique material of some specific process. Yin (1993, 31) points out that case studies are an appropriate research method when one is trying to attribute causal relationships and the major rationale for using this method is when one's investigation must cover both a

particular phenomenon and the context within which the phenomenon in occurring. The purpose of this study is to examine the phenomenon of a post-acquisition integration process, and especially the challenges of cultural differences within its real-life context, which in this case is a cross-border acquisition. Eisenhardt (1989, 534) draws attention to the fact that a case study is a research strategy, which focuses on understanding the dynamics present within a single setting. Hartley (1994, 209) verifies this by arguing that a case study approach is not a method as such but rather a research strategy. Within this broad strategy a number of methods may be used, though the emphasis is generally more on qualitative methods because of the kinds of questions which are best addressed through case study method. Case studies have been widely used in studies of organizational behavior, especially in understanding organizational change, as shaped by both internal forces and the external environment. Jankowicz (1995, 172) argues that case studies are also used in research in which one looks to the future by the means of recommendations one makes. As the purpose of this study is to examine organizational change, through an integration process of two separate business entities, and to draw up recommendations for future integration processes, the case study approach was appropriate for this research.

Stake (1995, 3–4) indicates that it is not unusual for the choice of case to be no choice at all and that sometimes one is even obligated to take it as the object to study. Therefore, the case is given and through the research one is not interested in by studying the case to learn about other cases, but because one needs to learn about that particular case. This kind of research is called an intrinsic case study. The more intrinsic interest in the case, the more one will restrain one's curiosities and special interests and the more one will try to discern and pursue issues critical to the case. With intrinsic case study researcher's primary task is to come to understand the case. Ghauri (2004, 114) argues that single case-design is appropriate when case enables to observe and study phenomenon which was previously not accessible and which can provide useful insights. Therefore after research problem was formed and preliminary desk research on the subject was conducted, the following step was to choose a case which would be suitable for the study and consequently offer valuable insight to the studied phenomenon. While this research concentrates on unique case of post-acquisition integration process between two organizations and therefore the research results cannot be simply generalized for other integrations cases, it can be considered to be an intrinsic case study. In order to gather adequate research data it was essential to select a case of cross-border M&A with multicultural research setting. The case was chosen due to its extremely interesting cross-border and cross-cultural context which enables intriguing setting for research on the challenges induced by cultural differences in a post-

acquisition integration of cross-border M&A. However, it is noteworthy that the researched case was complex and the time researcher had, for examining its complexity, rather limited (cf. Kvale 1996, 77). The companies involved in the post-acquisition integration, both the acquiring company and the acquired company, will be briefly introduced but they remain anonymous throughout the study. This is done to protect the case companies and furthermore ensure that the selected case allows researcher to access valuable research data through multiple in-depth interviews with managerial level personnel from both the acquiring and the acquired side of the deal, interviews of which would otherwise be unavailable for the empirical research process of this thesis.

3.2 Collecting the data

The best approach in this case was to gather information through interviews because of the nature of the research topic and the case under investigation. During the research the post-acquisition integration examined in the case study was still an ongoing process and therefore no written documentation was available. The qualitative research interview attempts to obtain descriptions of the life world of the interview subject with respect to interpreting the meaning of the described phenomenon (Kvale 1996, 5–6). Consequently, the interview approach was applied to obtain as much as information about the phenomenon from different point of views. Qualitative research interviews vary on series of dimensions. First, they differ in degree of structure, from well-organized interviews which follow a sequence of standard question formulations, to open interviews where specific themes are in focus but without a predetermined formulation of questions. Second, interviews also vary concerning description versus interpretation. The interviewer might pursue mainly to obtain nuanced descriptions of the phenomena investigated or can, during the interview, also attempt to clarify and interpret the descriptions together with the interview subject. Furthermore, the interviews can differ both in their emphasis on exploration versus hypotheses testing and on an intellectual-emotional dimension. (Kvale 1996 126–127.) In terms of their nature, interviews can be divided into four groups: the interviews may be structured, open unstructured, semi-structured or theme interviews (Ghauri, Gronhaug, Kristianslund 1995, 64–65; Eskola & Suoranta 1998, 87). While gathering research data for this thesis, both open and closed questions were used in parallel to obtain meaningful answers. King (1994, 15–16) describes interviews being both qualitative and structured as structured open-response interviews. Approximately half of the questions were quantified on a scale 0–5 and in addition to pick one of the options the

interview subjects were encouraged to give explanations for the reasons behind their answers, which deepened their information value and resulted in more meaningful answers. For the other half of the questions no answering options from which to choose from were offered, and therefore the interview subjects were able to give wide-ranging answers on pre-designed interview questions, which in this case were the same in each interview (cf. Eskola & Suoranta 1998, 87). Therefore, this interview design enabled to compare answers and to discover both similarities and differences among the respondents. However, as it was important to get subjective information about the cultural challenges in post-acquisition integration process, the majority of the questions were not too specific in order to leave room for unexpected information to come forward.

In semi-structured interviews several biases may arise: bias arising not only from the sequence in which the subject-matter is addressed or from unrepresentative sampling, but also from any inadvertent omission of questions and from an uncontrolled over- or under-representation of subgroups among respondents. In semi-structured interview one primarily handles bias by a careful design of the interview itself. (Jankowicz 1995, 202.) Marschan-Piekkari, Welch, Penttinen and Tahvanainen (2004, 247) draw attention the influence of national context by arguing that research findings cannot be separated from the context in which data collection and analysis take place, and therefore it is particularly important to adapt the research questions in order to conduct trustworthy and credible qualitative research outside the developed world. In order to minimize the risk of bias while gathering research data for this thesis, the interview questions were carefully designed and evaluated by different representatives of the case company who were able to give their opinion on the factors related to the integration process and the cultural context. Thus, in the case company the interview questions were assessed both by the business integration leader who is extremely familiar with the process and by one of company senior managers from Singapore who is ethnic Chinese and therefore capable to comment on the cultural issues in the interview design.

Kvale (1996, 101–103) indicates that in qualitative interview studies, the number of interview subjects tends to be either too small or too large. If the number is too small, it is not possible to test hypotheses of differences among groups. If the number of subjects is too large, then it is not possible to make penetrating interpretations of the interview. Therefore, it is vital for the research planning to determine the appropriate number of interview subjects to gather sufficient amount of research data. Jankowicz (1995) draws attention to the fact that key informant interviews differ from other forms of interview largely because respondents are chosen on the basis of their specialized knowledge, rather than being randomly chosen to sample the range of issues. In this research the

interview subjects were chosen on the basis of their role in the integration process. Subjects chosen are representatives from both companies involved in the post-acquisition integration process both on the level of the integration management office and functional integration team leaders. They all had key roles in the integration process and were in contact with the other company's personnel on daily basis which allowed them to live and observe the cross-cultural interaction throughout the post-acquisition integration process. Consequently, all interview subjects were senior managers in their respective organizations.

Although it has been suggested that the accessibility of senior managers is difficult (Welch, Marschan-Piekkari, Penttinen & Tahvanainen 2002, 614), in this case the interview subjects were appointed by the case company's representative and encouraged to cooperate with the researcher, and therefore the accessibility was not an issue. Decision of who to interview was made in cooperation with the case company's contact person who operated as the integration leader responsible for the successful implementation of the post-acquisition integration process. In total 17 senior managers were interviewed, 12 from the acquiring company (Corporation X) and 5 from the acquired company (Company Y). The interviewed project integration management is illustrated on the table below.

Table 1   Interviewed members of the integration project management

Integration Project Management	Corporation X	Company Y
Integration leaders	Finnish (BIL[4]) Singaporean Chinese (IL[5])	Chinese (IL)
Functional team leaders	Australian Singaporean Chinese 2 x Finnish 3 x American 3 x Chinese	4 x Chinese

From *Corporation X* both the Business integration leader and the integration leader were interviewed whereas *Company Y* had only one integration leader. The difference in the number of interviewed functional team leaders from the two companies can be explained by the fact that on the acquired side same managers were in charge of two or more functional integration teams. This is perfectly understandable when one compares

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[4] BIL–Business Integration Leader has the main responsibility for managing the post-acquisition integration process.
[5] IL–Integration Leaders on both companies leading the integration process in cooperation with the BIL.

the difference in the size of the two integrating entities. First interview round was done with the Finnish business integration leader in October 2009 which gave extensive insight for the motives behind the acquisition and the integration approach applied for the post-acquisition integration. The post-integration interviews with the rest of the integration project management were conducted in December 2009 and in January 2010.

Although the post-acquisition integration in this research is a process of organizational change between two companies from different countries the interview subjects are from various cultural backgrounds: of the interview subjects three are Americans, three are Finns, two are from Singapore, one is Australian and the remaining nine represent ethnic Chinese. This cultural variety creates a challenge for the interviewing process not only because of the language differences but also because the sheer geographical distance between researcher and the interview subjects. Due to geographical distance between the researcher and the interview subjects detailed scheduling for the interviews was needed. Majority of the interviews were conducted in face-to-face meetings in Shanghai, China and Turku, Finland whereas the American and Australian interview subjects were interviewed over telephone.

The carrying out the interviews was carefully planned. First, the questions were designed based on the theory with respect to the research problem, and as mentioned above the interview questions were evaluated by various quarters. The practical issues concerning interviews were not overlooked while planning the interview design. Issues such as how to prepare for the interview, how to start the interview, how to phrase the questions in order to avoid leading questions, how to end the interview, how to deal with uncommunicative or over communicative interviewees and how to deal with senior manager interviewees were taken into consideration in the planning phase (cf. Hart 1991, 192–193; Kvale 1996, 134, 146–147). While almost half of the interview subjects were from ethnic Chinese background the influence of cultural issues on the gathering of research data were not overlooked. Eckhart (2004, 409–411) draws attention to the fact that Chinese respondents have sometimes been characterized as unreliable because when asked about their views on certain topics, their answers change based on the aspects of the situation. It has been suggested that instead of asking contextual questions, phrasing questions in terms of specifics is more appropriate approach to obtain meaningful and interpretable questions. However, no matter how well designed the interview questions are; it is typical to receive one- and two-sentence answers to most questions. Therefore, the interview questions were designed to be specific and contextual questions were avoided in interview question drafting. The complete set of interview questions is presented on Appendix 3.

Marschan-Piekkari and Reis (2004, 233–235) argue that researchers, who take unilingual, English-dominated approach to cross-cultural interviewing, often, assume that employees of international companies are fluent in English regarded to their nationality. Research implies that despite the rise of English as the international language of business, it cannot be assumed that senior level managers would be expressing themselves in a foreign language (Welch et al. 2002, 622). When having to rely on a second language, expressions tend to be simpler and the overall communication tends to be more straightforward and direct (Ghauri 2004, 113). Therefore in this research interviews were conducted in interview subjects' mother tongue whenever reasonable. Translators may be used to facilitate communication and cross-cultural understanding when no common language between the researcher and the interview subject exists. They help with translation and interpretation of not only verbal but also non-verbal communication and they are guide in terms of cultural sensitivity issues. Selecting culturally suitable interpreters and briefing them beforehand are essential elements in managing the sensitive dynamics of the actual interview situation. (Wilkinson & Young 2004, 212.) The interviews were conducted in three different languages. The Finnish, American and Australian interview subjects were interviewed in their own mother tongue, in Finnish and in English respectively. The interview subjects from Singapore were interviewed in English as well as the majority of the ethnic Chinese interviewees. In interviews with three ethnic Chinese interview subjects from the acquired company the use of translators was obligatory due to lack of common language between the researcher and the interviewees. Although interview subject usually communicate more freely in their mother tongue, translators were used only when necessary due to time constraints and in order to cut additional expenses of the research. There was also a general observation that the translator seemed to compress the interviewee's answers and therefore some information was obviously lost in the interviews were translator was used.

The interviews were tape recorded with the consent of each interview subject. The main advantages of tape-recorded interviews are the researcher's opportunity both to be relieved from simultaneous task of listening and writing (Hart 1991, 196) and to return to the data in their original form as often as needed (Silverman 2000, 126). In order to make interview subject more comfortable with the recording, the confidentiality of the tapes and the purpose of the research was discussed in the beginning of each interview. In addition to the use of tape-recorder field notes were used as well. Notes were made during the interview both to record the figures drawn by the interview subject and to write down the essential of the answers in case the tape recording failed due to malfunction or poor sound quality. The interviews were conducted either in the

interview subjects' offices or in meeting rooms which were satisfyingly soundproof. Consequently, the interview circumstances were comfortable and pleasant, and therefore interview transcriptions were conducted with no trouble.

3.3   Analyzing the data

A qualitative analysis can be analyzed as consisting of three concurrent flows of activity: data reduction, data display, and conclusion drawing and verification. First, a data reduction refers to the selection, simplification, abstraction, and the transformation of data appearing in written-up field notes or transcriptions. The data reduction and transformation continues after fieldwork, until a final report is completed. Second, a data display is an organized, compacted assembly of information that permits conclusion drawing and action. Third and final stage of the analysis is conclusion drawing and verification. (Miles & Huberman 1994, 10–11.) Recorded research data is usually transcribed after the interview. This can be done for the gathered research data as a whole or selectively according to themes. Moreover, the use of multilingual interview approach introduces challenges for transcribing and analyzing data in the post-interview stage (Marschan-Piekkari & Reis 2004, 234). In this thesis the interview data was transcribed as a whole and then organized according to the themes. Despite the fact that the research interviews were conducted not only in Finnish and English but also in Chinese through a translator, major technical challenges for neither the transcription nor the analysis of the research data occurred. However, as some information was lost due to usage of translators it can be argued that the analysis did not reach as deep as in the interviews that were held either in Finnish or in English.

The analysis method for the research data in this thesis was defined prior the interviews and it followed the approach of data reduction, display and conclusion drawing and verification. (cf. Hirsijärvi, Remes & Sajavaara 2004, 210–211). Eskola and Suoranta (1998, 161) point out several ways to analyze qualitative material: the data can be analyzed through quantification, through organization by themes, through classification by type and content, or through analysis of either the discourse or the conversation. In this research the each interview data was first organized by themes and content. As the quantitative researcher seeks a collection of instances, expecting that, issue-relevant meanings will emerge from the aggregate, the qualitative researcher concentrates on the instance, trying to pull it apart and put it back together again more meaningfully-analysis and synthesis in direct interpretation. The time researcher devotes to formal aggregation of categorical data is likely to distract attention to various

involvements and contexts of the case. Consequently, researcher is advised to dedicate more time for direct interpretation. Thus, when interest in generalizing from the case to other cases is clearly secondary, formal aggregation of categorical data is likely to be overshadowed by direct interpretation and narrative description. (Kvale 1996, 75–77). Therefore, after the research data of the interview was organized by themes and content the data was subjected to direct interpretation. The direct interpretation was conducted by comparing the identified themes with the theoretical framework and thus further analyzed.

3.4   The reliability and validity of the research

Commonly used tests for establishing the quality of any empirical research are the following: construct validity, internal validity, external validity and reliability. The concept of validity is considered to be the same in both quantitative and qualitative research. However, in quantitative research the notion of validity focuses on methods whereas in qualitative research the concern is for the validity interpretations. (Miles & Huberman 1994, 11; Hirsijärvi et al. 2002, 213.) Validity can be analyzed from three perspectives: 1) construct, 2) internal and 3) external validity. First, construct validity is achieved through establishing correct operational measures for the concepts being studied. Second, internal validity refers to establishment of a causal relationship, whereby certain conditions are shown to lead to other conditions, and therefore only applicable for explanatory or causal case studies. Third, the external validity can be accomplished by the successful generalization of the research findings. (Yin 2003, 34–37.)

As this is neither an explanatory nor a causal study, internal validity cannot be tested. While this research is conducted on a single case which can be considered as a unique one the generalization of the research results is not applicable to great extent. Therefore, the study will be tested concerning its construct validity. Construct validity can be increase in several ways: by using multiple sources of evidence, to establish chain of evidence or to have the draft case study report reviewed by the key informants. (Yin 2003, 33–36.) Eskola and Suoranta (1998, 69) suggest that with using single source of evidence it is difficult accomplish extensive and reliable description out of the case. Researcher needs certain triangulation procedures that go beyond simple repetition of data gathering to deliberative effort to find the validity of data observed (Kvale 1996, 109). Marschan-Piekkari et al. (2004, 254) point out that the multilocational character of a MNC leads to suggest a new type of triangulation, that is 'unit triangulation', in

addition to the established ones such as data triangulation, method triangulation and investigator triangulation. The unit triangulation is being utilized in this research through interviewing the integration management of not only the acquiring company but also of the acquired unit.

However, the validity of the instruments measuring the post-acquisition integration process in this research has some limitations. First, this research is based entirely on one data source, namely interviews, and only senior managers were interviewed. Senior managers have also been referred to as elites in literature, and there has various concerns about the validity and reliability of the data collected from elite sources due to indications that there are problems regarding the openness of elite interview subjects (Welch et al. 2002, 613–614). Consequently, during the interviews it was noticeable that some answers, especially the ones concerning the strategic importance of the acquisition and the future role in the corporation, were a bit reserved. The elite interview subjects might have answer in guarded way due to fears that answer would be used to place them under criticism (cf. Welch et al. 2002, 621). Also in the interviews of the acquired managers some reservations to give criticism towards the acquiring organization were noticeable among the respondents. Due to the discouragement in Chinese culture for people to speak out on their true inner thoughts and feelings, it was extremely difficult to reach the level of disclosure that were achieved in interviews in Western context (cf. Eckhart 2004, 411).

Wherever the organization being studied is also funding the investigation, doubt should be cast on the objectivity of the findings. Even where there is no direct funding and the organization attaches no conditions to the nature of the findings, there may still be an expectation that nothing will be said of which the organization would disapprove. (Macdonald & Hellgren 2004, 274–275.) The fact that the acquiring company sponsors the research, in which these interviews form the research data, the impact of sponsorship on the validity of the research cannot be ruled out. However, as the business integration leader aims to get an objective evaluation of the integration process, it is also in his best interest not only to provide the researcher with veracious information but also to encourage the respondents to give as realistic picture of the integration process as possible. Although, these issues cannot be erased, the researcher attempted to minimize their consequence by acknowledging the issue while conducting the interviews.

The interview was tape recorded which permitted the verification of the data throughout the analyzing process. Hart (1991, 196) points out that the disadvantages of recording an interview centre on the anxiety and nervousness provoked in the respondent who might be more careful in answering the questions. However, this it

might not have been the case with most of the interview subjects in this research since they are senior level managers who are experienced speaking in public. Moreover all the respondents were open-minded towards the tape recording when it was emphasized that the tapes are in exclusive use of the researcher. Through the tape recording and the transcription of the interviews chain of evidence was established which improves the construct validity of the research (cf. Yin 2003, 34). Although, this research has limitations concerning construct validity, the interviews of the representatives of both the acquiring and the acquired side were able to provide meaningful answers to the research problems.

Reliability demonstrates the operations of the study, such as the research data collection procedures, can be repeated, with the same results (Yin 2003, 34). Though, in qualitative research total objectivity is challenging to obtain due to the interviewer's sensitivity to the subjective characteristic of the relationship with the interviewee is an essential part of the research process (King 1994, 30). The objectivity conceptions of objectivity may take at least three forms: as freedom of bias, as inter-subjective knowledge, which is checked and controlled, undistorted by personal bias and prejudice i.e. repeated observations of the same phenomenon by different observers should give the same data. Third, reflecting the nature of the object means reaching objectivity by letting the object speak, being adequate to the object investigated and expressing the real nature of the object studied. (Kvale 1996, 64–65.)

This research aims at obtaining objectivity both through freedom of bias and through reflecting the nature of the object. The freedom of bias has been ensured not only through careful preparations before research data collection but also through qualitative methods in data analysis. The research is also inter-subjectively testable since it is based on various interviews both from the perspectives of the acquirer and the target company. Furthermore, the data is reflecting the nature of the object, due to the fact that the interview subjects were let to speak freely about the phenomenon researched. During the interview planning special attention was given for the question formulation in order to avoid leading questions. However, it is often overlooked that leading questions are also a necessary part of several questions procedures. Leading questions are very useful in qualitative research interview for checking repeatedly the reliability of the interview subject's answers and to verify the interviewer's interpretations. Therefore, leading questions do not always reduce the reliability of interviews, but may even enhance it. (cf. Kvale 1996, 158.) During the research interviews few leading questions emerged and were presented to clarify some of the respondents' answers. However, the number of leading questions were limited, and therefore, not considered to have a significant impact on the reliability of the research.

The transcript of an interview can also be analyzed for its reliability and validity. The reliability of the transcript refers either to the quality of the transcript or to the fact whether it is taped properly or not. The validity of the transcript is much more complex as it refers to what is the correct transcription, which cannot be answered. There is no true, objective transformation from the oral to the written mode. However, the verbatim description that often is necessary for linguistic analyses is relevant for psychological interpretation of meanings. (Kvale 1996, 163–166.) In order to enhance the reliability and validity of the transcript, the tapes were transcribed after the interviews and listened over a few times. Moreover, the interviews which were conducted in Finnish were transcribed in English which may affect the reliability of the transcription. However, the verbatim transcription was not required in this research since the either language or the psychology behind the answers were not the primary focus of the research, and the transcription was conducted in a way which retains the qualitative data in as an authentic form as possible. Therefore, it can be argued that the reliability of the content of the interviews was on an acceptable level.

In general the precise description of the research methods used increases the reliability of the research (Hirsijärvi et al. 2002, 214). Therefore, this research should reach at least satisfactory level of reliability and the research should be repeatable resulting to same results. Furthermore, the research methods utilized in this study answered adequately to the research problems of this study. The results will be analyzed and presented in the following chapter.

4 CASE STUDY: MANAGING CULTURAL CHALLENGES IN POST-ACQUISITION INTEGRATION

4.1 Introduction of the case acquisition

This research is a case study of a post-acquisition integration process between a multinational corporation and a Chinese privately owned company. The acquisition was announced in autumn 2009 and the researched integration process was still an on-going process when the research interviews took place. However, the initial integration phase was for most parts finished at the time of gathering the data. The acquiring company, *Corporation X (X),* is a publicly listed multinational corporation which is headquartered in the USA. The company operates in business-to-business market and is the leading provider of technology and services in the respective industry. The company has approximately 6,500 employees and operates in more than 150 countries. In addition to organic growth the corporation has grown mainly through acquisitions and therefore growth-through-acquisition is considered to be a generic strategy for the corporation. The acquired company, *Company Y (Y),* is a privately owned, family run Chinese business situated in Shanghai and it was established in 2001. The company has 250 employees and it is not publicly traded on any stock exchange. In terms of turnover the company is one of the largest local actors in the Chinese market within its respective industry.

The acquiring company is organized under several divisions, of which one is headquartered in Finland and within which the researched post-acquisition integration was implemented. The motive behind the acquisition was to strengthen the business of this particular division in East Asia and especially in the Chinese market. In this business segment the Chinese market is not only undeveloped but also divided into two main segments: First, the higher status service providers which offer services for the people from upper levels of Chinese society, a segment which is dominated by foreign product and service providers. The other segment consists of service providers who serve the rest of the Chinese population who cannot afford expensive foreign products. This market segment has mainly local actors. *Corporation X* has already an established presence in the Chinese market but prior to the acquisition it has only been serving the market segment dominated by the foreign actors. Moreover, the established offices in China represent other divisions of *Corporation X* than the one in which *Company Y* was acquired and integrated. Therefore, in order to tap into the remaining market potential of the other market segment, the *Corporation X* created strategy in China for the Chinese.

The acquisition enabled the acquiring company to produce on the level of costs that matches the solvency of the Chinese.

Company Y possessed various characteristics that were appealing for the acquiring company. In addition to serving different customer segments through wider distribution channels the acquired company also uses to a great extent the same technology that *Corporation X* does. This technology is not the mainstream technology employed in the respective industry and represents a technology more difficult to develop and therefore it is less widely employed. Moreover, the acquired company has previously operated as a distributer of *Corporation X* in China. Afterwards they developed their operations following the business model of *Corporation X* by learning from the partnership. Therefore, the two companies shared some similar characteristics which enabled a more straightforward approach for the acquisition decision making. Even though major differences between MNC and private firm exists, the *Company Y*'s way to approach their customers shares similar characteristics with the organization culture of the *Corporation X*'s Finnish lead division.

Consequently, the *Company Y* shared some cultural characteristics with the Finnish lead division within which the integration takes place and this was considered to be a convenient basis for the post-acquisition integration. Despite the similarities shared by the companies, numerous differences both on the national and organizational culture levels existed. First of all, the acquiring company is a large incorporated multinational company which has solid core processes and various levels of hierarchy whereas the acquired organization is a small family owned business with more relaxed core processes and low level of hierarchy. Secondly, due to various levels of management the acquiring company's decision making processes are more bureaucratic and complex than the quick decision making processes of the dynamic privately owned company in which all the major decisions were made by the general manager of the company. Thirdly, the personnel and the management of the acquired organization lacked adequate language skills in English which imposed severe cultural challenge for the communication during the post-acquisition integration process. The Finnish business integration leader (*X*) observed the language barrier in the beginning of the integration process:

> *"Language situation was surprisingly troublesome. During the due diligence 3/250 persons in Company Y were able to speak English...Nevertheless they've improved their skills during the process, this situation creates complications daily that we just need to cope with..."*

Consequently, it can be argued that since the main motive of the acquisition is to gain bigger market share in the Chinese market the cultural differences need to be taken into consideration while executing the post-acquisition integration. Thus, the understanding the local market characteristics needs to be retained and the focus on growth needs to be maintained in the new organization. Moreover, despite some shared characteristics, the two integrating units are very different which further emphasizes the need for tackling cultural challenges during the integration process.

By evaluating the challenges imposed by the differences between the two organizations the *Corporate X* was able to manage these cultural challenges on various levels of the process, and therefore strive for smooth integration process. The cultural challenges were taken into consideration by the *Corporate X* not only while determining the correct integration approach and while setting suitable timeframe for the integration process but also while selecting appropriate managers for the integration project management and while preparing them for the actual integration approach. In the following sections the empirical findings of research are being discussed not only from the viewpoint of the integration approach employed by the *Corporation X*, but also from the perspective of the speed the integration actions took place and both from perspective of the structure and the preparation of the integration project management.

4.2 Post-acquisition integration approach

As the acquiring *Corporation X* has grown through acquisitions it has experienced various post-acquisition integrations in the past, and therefore been able to develop its integration processes over time. In majority of its previous acquisitions the *Corporation X* has implemented integration approaches where the acquired company has been integrated completely into the corporation. Therefore, all of the processes and business procedures of the acquired units had been changed to be in line with *Corporation X*'s global processes and procedures. However, over time the acquiring organization has evaluated the post-integration performance of the acquired units and based on these evaluations it has transformed its integration process. Thus, in the researched case the integration needs for each function were considered individually, while the main idea was to disturb the local market environment and the customer interface as little as possible.

Consequently, as the *Corporation X* has started to consider every acquisition as a unique case, the business needs of the integration are being emphasized instead of

following firm integration processes set on the corporate level. However, when no solid integration process is given, the integration managers need to determine the integration approach by themselves. In the acquisition case discussed on this thesis *Company X* decided to implement a less intensive post-acquisition integration approach. While the main motive of the acquisition was to gain bigger share of the Chinese market through the widening of product portfolio and through the employing of *Company Y*'s different and more extensive distribution channel, it can be argued that the acquisition was not done in order to gain cost synergies but to achieve growth through sales synergies. When looking for sales growth in the local market place, the main success factors of the acquired unit need to be kept in place and the right balance between the *Corporation X*'s and *Company Y*'s ways of doing things need to be found. Therefore, in order to improve the likelihood of both acquisition and integration success it was advisable for the *Corporation X* to strive for less aggressive integration and concentrate on finding the key success factors of the acquired company that are relevant for the local market environment, and therefore needed to be preserved in the new organization. The Singaporean integration leader (*X)* explained:

> *"I was reminded by corporate senior managers that please don't copy the entire Corporate X process and dump it on Company Y. We acquired this company because of its limpidness and its ability to react quickly to changes in the Chinese marketplace. This is something we want to preserve and therefore continue to expand our market share here. The right balance was needed to be found here."*

As a part of the sensitive integration approach the functional team leaders of both integration teams were assessing best practices from both companies in order to define the correct level of integration and to form the mode of operation for the new organization. Prior the acquisition the Finnish business integration leader (*X*) discussed the integration approach with the *Company Y*'s senior management which was extremely supportive for the intended level of integration and therefore the designed approach was realized in the integration plans. Consequently, best practices were looked for within every function and employed in the integration process across the functional borders. As a result, the level of integration varied between different functions and the required integration level was determined for each function separately. The Finnish business integration leader (*X*) determined the structure of the integration process on general level whereas the functional team leaders (*X*) were given the responsibility in cooperation with their counterparts to determine the key elements of functional

integration in a more detailed level. The chosen approach enabled the *Company Y* functional team leaders to participate actively both in the integration planning and in the evaluation of the essential functional areas which either needed to be totally integrated or were reasonable to keep unchanged. However, it is noteworthy that even though the functional team leaders of the *Company Y* reported to have high authority to make independent decisions, in reality the *Corporation X*'s representatives were the main drivers of the integration who made the final decisions on the functional integration.

While the extent of integration was defined within the individual functions, some of the functions were completely integrated into the acquiring company's processes whereas the integration approach for others was considered to be less intensive. While the acquiring organization is an incorporated company there were certain legal requirements and business needs that determined the level of integration especially for the core functions. The *Corporation X* has very strong administrative functions such as the IT, HR, legal and finance functions within which the company has globally consolidated ways of operating. Consequently, in these functions the post-acquisition integration resulted in or is in the process of a complete transition into *Corporation X*'s conducts. In spite of the need for complete integration within the administrative functions the sensitive approach was applied also within these functions, and the pace of change was set individually for each of them. As the Chinese functional team leader of the HR function (*X*) explained:

> *"There was a big difference between the companies how the HR is done. We had discussions with my counterpart and we agreed on implementing step by step approach...our main priority is people and all the changes that are being done are based on people's needs..."*

The functional team leaders also in the other administrative functions, excluding legal function, reported cooperative integration planning with their counterparts and assessing of the best practices from both of the companies. Within the finance and IT functions new additional requirements were added on a *Company Y*'s existing processes whereas in the legal function the acquired unit did not have any representative and therefore the *Corporation X's* legal team as well as the IP functions needed to rely on the due diligence documents prepared by an outside consultant. The functional team leaders (*Y*) in the financial and IT functions reported strong change within their respective functions resulting from immense differences between the systems of the two companies but continued that their ideas were both listened through open communication and respected while planning and implementing the required changes.

On the contrary, for the business functions such as sales and marketing, manufacturing and the regulative/QA function the level of integration have not been as deep as within the administrative functions, and the needs of the market environment were scrutinized in more detail during the integration planning. During the initial post-acquisition integration only some process integrations were implemented especially within the sales and marketing functions and any further integration if any will be carried out in a longer period of time. The real estate function was responsible for finishing up the construction project of the new production facilities and therefore the level of integration is considered to be not applicable. The varying level of integration and the completion timeline for majority of functional changes are illustrated on the table below.

Table 2   Level of functional integration and speed of change implementation

Function	Level of Integration	Majority of changes completed by (days)
HR	Deep	+30
Finance	deep	+30
IT	deep	+30
Legal	N/A	pre-transaction
Regulative / QA	moderate	+90
Operations	moderate	+90
Marketing	moderate	+180à
Sales	moderate	+180à
Real Estate	N/A	N/A
IP	N/A	pre-transaction

Consequently, integration takes place within the business functions on a longer timescale and by employing best practices of both organizations. As the Finnish business integration leader (*X*) indicated:

> *"…in these business functions we aim not to disturb the market but to focus on increasing sales, introducing new products and achieving sales synergies…we don't want to implement too drastic process reformations since we want to keep the focus on growth…"*

On the sales and marketing functions the *Corporation X* has been extremely careful in determining the correct level of integration and aimed for sensitive integration approach. Sales and marketing functions are in direct contact with the customers in the local market and therefore the need for localization of operations within these functions was emphasized. In the integration of these functions the main goal was not only to retain the key sales personnel and customers' trust on the new organization but also to avoid mistakes both in brand building and in product portfolio development. In the marketing and sales operations not only the understanding of cultural characteristics and local ways to operate but also the knowledge of the local market environment is extremely important factor ensuring the future success of the business. The functional integration leader of the sales and marketing functions (*Y*) indicated that the changes in the processes were anticipated but he was pleased that no major changes were implemented either on the sales channels or strategies. After the integration the *Corporation X* operates through two separate sales channels in China, their existing one and the one of *Company Y* had prior the acquisition, and the customers of the companies were reorganized into these channels.

In addition to the integration management of acquiring organization the *Corporation X*'s senior management's message of sensitive integration approach was also mentioned by all of the interviewed *Company Y's* representatives. Majority of these respondents elaborated that the main goal of the integration was not the change within their organization but to develop both *Corporation X* and *Company Y* and therefore to ensure future success in the Chinese market. One of the Chinese functional team leaders (*X*) observed the integration approach:

> *"In the beginning we had the acquisition meeting here in Shanghai where we were told that the core of the integration is harmony and development. This was a good start for the integration and laid good foundation for the cooperation."*

The integration management of the acquired company appreciated the less aggressive integration approach and was generally delighted about the fact that their existing processes and ways of doing things were respected both in the integration planning and in the actual implementation phase. The integration management of the acquired organization reported that their ideas and professionalism were respected by their counterparts which enabled them to take part actively both in the planning of and in the

actual integration process. The Chinese integration leader (*Y*) observed his cooperation with the Finnish business integration leader (*X*):

> *"We have agreed and disagreed on different things in a very open way. That is very important how the decisions are made. This is something that needs to be done for smooth integration."*

The sensitive integration approach applied by the acquiring company was one of the main success factors of the integration that was recognized by the *Company Y* respondents. The interviewed managers emphasized the importance of trust and the authorization based on that trust given by their counterparts (*X*) as extremely important for the smooth integration process. Four out of five managers accentuated both the understanding and the sensitivity the acquiring company representatives for the cultural differences and perceived them as the utmost important factors for the integration success.

While the *Corporation X* strived for less intensive post-acquisition integration both by determining the level of integration based on the business needs and by evaluating best practices of both organizations, the smooth and cooperative integration process also required that the key personnel of the acquired company were retained within the new organization. By retaining the senior management the *Corporation X* ensured cooperative atmosphere within the integration project management and prevented creating chaos in the acquired organization which would have had serious negative impact on the integration outcome. Therefore, the integration project management was able to keep the focus on growth and integration activities instead of internal complications.

By retaining the acquired senior management *Corporation X* was able to keep certain harmony within the acquired organization which was crucial for preventing major cultural clashes during the integration process. This was especially important in the case where the acquired company is small family owned company where great deal of authority and professionalism relies on the leader of the company. In addition to the general manager and owner of the company the rest of the senior management has been in key role while creating the successful business and therefore they can be considered the key talent of the acquired organization. One of the Chinese functional team leaders (*X*) described his counterpart:

> *"People don't understand that when coming to China there is people here who set up companies out of nothing to 12 million dollar sales and 2*

million dollar profit…China is not fully market environment and one needs to handle all the relationships outside the company walls in order to make this kind of growth possible. He is quite exceptional guy like that."

In the case of acquisitions the integration phase naturally results in changes within the acquired organization and its processes. When the organization changes, there is a possibility for severe change resistance within the personnel of the company. As an outcome of the integration process in the researched case, changes were evident within all of the acquired company's functions. The acquired company had numerous good practices in place some which did not meet the terms of corporate world and therefore needed to be changed. Changing these practices was a source of resistance within the acquired organization and resulted in pushback during the process. However, the resistance of change was not severe and was to most parts successfully overcome. Therefore, difficult changes were able to be implemented in the acquired organization due to the strong support of the *Company Y*'s senior management. Both their will to find compromises with the integration leaders of the *Corporation X* and their ability to communicate the reasoning behind the changes for the personnel were seen as key factors diminishing the resistance within the *Company Y.*

Consequently, it can be validated that applying sensitive integration approach and keeping the acquired senior management in place had a positive impact on minimizing the resistance to change within the acquired organization during the integration process. Although the senior management of the acquired company was kept in place, the *Corporation X* transferred three managers from their global organization to join the acquired organization. They all have long experience in working within a large organization and therefore have the understanding of the requirements and needs of a multinational corporation. All of these three managers have an essential bridge builder role within the acquired organization. Their main task is to supplement the Chinese family company structure to meet the requirements of a corporate structure. In addition to introducing new processes these three managers are enabling the change and growth to be born within the acquired organization instead of swift and radical integration process. The bridge builders are also able to help the acquired senior management to operate within the organization and to grow to be new *Corporate X* managers.

One of the main success factors of the integration that was identified by the respondents was the high motivation of the *Company Y*'s integration team. The sensitive integration approach with respecting the best practices of the acquired organization and keeping the acquired senior management in place were evaluated to be the main sources

of the exceptionally high motivation of the acquired side's integration management. The Singaporean functional team leader (*X*) who has wide experience in post-acquisition integrations observed:

> *"...I can see the enthusiasm in people's eyes. The Company Y people are very excited about joining a bigger company and they see lot of value in that...there is lot of acquisitions that I've been involved where they fire the top level management and replace it. In this case it was an extremely good thing the Company Y senior management was kept in place."*

The strong motivation of the acquired integration management and of their functional teams was affirmed by the *Company Y* respondents. On scale 1 to 5 three of them scored the highest mark and remaining two respondents evaluated it bit more carefully and scored 4. One of the functional team leaders of the *Corporation X* observed that the level of motivation within the respective function was decreasing towards the end of the integration phase. In addition to decreasing motivation level some concerns were also expressed about the changes resulting from the integration. Chinese functional team leader (*Y*) drew attention to the attitude towards changes within the acquired organization:

> *"Can I tell you some worries? We don't want to change much. Our personnel don't like the changes especially if it is not for the better. I'm happy with some of the changes but for some I'm not. Luckily not that much has been changed."*

Therefore, it can be argued that idea of changes within the acquired organization was not found appealing by all of the *Company Y* respondents and moreover most likely some things were left unsaid. As an American functional team leader (*X*) described one key characteristic of Chinese culture:

> *"The Chinese are pretty guarded about their emotions so I think it hasn't been that apparent how they really feel about the changes."*

Consequently, while there was a common understanding among the respondents of the acquiring organization that the sensitive integration approach applied by the *Corporation X* was suitable for the researched acquisition, the managers of the acquired organization did not all perceive the outcome of the integration as the same. From the

answers of the acquired managers it was able to be read between the lines that some of the changes were not welcomed and in spite of the excitement to be part of a big multinational corporation they would have liked to keep more of their existing processes in place. For managers of a rather small family owned company it might have also been difficult to understand the processes that need be in place to meet the control demands of a multinational corporation. However, while the resistance to change was maintained on a rather low level it can be argued that the integration approach applied by the *Corporation X* was sensitive enough to ensure smooth integration process without any major cultural clashes.

To sum up, the sensitive integration approach was applied in the researched acquisition not only by respecting acquired organization's processes through searching best practices but also by determining the correct level of functional integration for each function individually. Moreover, the decision to retain the senior management of the *Company Y* was one of the main factors which mitigated the resistance to change among personnel of the acquired organization and increased their motivation, and therefore enabled smooth integration process.

As an integral part of the integration approach is the pace that the integration activities take place and the intended changes are implemented. In the researched case the speed of the integration was needed to be adapted both to meet the requirements of the acquisition and to be suitable for the integration setting where cultural differences between the two companies and the people within these organizations created challenges for straight forward integration process. The research results on the speed of the integration are being scrutinized on the following chapter.

4.3   Speed of integration

While the *Corporation X* has given up its integration approach where the acquired company is being integrated completely into the global corporation same goes with the integration speed. In past when the corporation employed more aggressive integration process the integration activities took place in an extremely quick pace regardless the circumstances of the acquisition. In these cases the integration was more process oriented whereas in the modern approach the integration is being implemented to follow the business needs of the acquisition. The Finnish business integration leader described the approaches for the integration speed:

"Corporation X used to employ the famous 100-days integration approach but it was given up...Today we have an extended integration process which is based on business needs..."

The acquisition of *Company Y* was considered as a unique case for which the *Corporation X* decided to follow sensitive post-acquisition integration approach to tackle challenges arising from the vast differences between the combined organizations. While the integration approach was adapted to the challenging cultural setting same can be said on the pace of integration as well. For the researched case the *Corporation X* strived for less rapid integration speed compared to their past integrations. The Finnish business integration leader (*X*) observed the pace of integration activities:

"In this case, six months were given to accomplish the integration... instead of rushing into things and not getting the message through and therefore creating misunderstandings, in this case we have reserved additional time in order to get the communication organized in peace and thus we were able to identify the potential risks..."

The integration period of six month was significantly longer than the *Corporation X* had applied in their previous acquisition which was done within the national borders in the period of three months. The respondents observed that great amount of time was dedicated just for translation and for communications overall.

At the time of the post-integration interviews the integration activities within most of the functions had reached the level of 95 percent of completed objectives. The initial integration process had therefore proceeded in rather quick pace and was almost finished after 4, 5 months after closing the deal. One of the key factors that contributed to smooth and swift integration was the extensive integration planning during the pre-closing period. This period of time enabled the integration project management not only to evaluate the functional integration needs in detailed level and therefore to anticipate potential challenges and risks arising during the actual integration phase but also to map out the progress of the upcoming integration. Due to Chinese legislation and authority procedures the integration project management had two and half months from signing the contract to the official closing day to prepare for the integration process. The Finnish business integration leader (*X*) described the pre-closing period:

"That period of 2,5 months we used exclusively for integration planning and for mapping out potential challenges..."

This additional period of time enabled the integration project management also to start initial integration processes and within some functions to take significant head start to the integration. In the IT-function the teams were able to integrate the information network up to state where they only needed to switch the power on the day of closing the deal. Despite the *Corporation X* is not following any one specific integration approach, certain integration guidelines needed to be followed by the integration management. Majority of the process integration took place during the first 30 days after closing the deal. Every function had its own integration plan which includes timeline sections of +30, +60, +90, +120, +180 days and the post-integration[6]. Consequently, the functional integration teams prioritized their integration objectives within these sections. Chinese functional team leader (*Y)* responsible for sales and marketing functions described the scheduling of the tasks:

> *"Because the integration took six months we were able to prioritize through planning of our own timeline and therefore we felt really comfortable with the speed. This has been fundamental. No rush here."*

Regardless of the planning and scheduling, during the integration process various issues appeared that have not been anticipated on detailed level, and therefore the timeline and objectives were modified during the integration process. The first 30 days were scheduled on daily basis and the integration objectives to be done after the first month was then scheduled on the level of 30 day sections on the timeline. Of the administrative functions in the IT and financial functions the speed of integration was extremely quick especially for critical processes that needed to be established rapidly. For instance the new organization was required give financial report as an integral part of *Corporation X* only 30 days after the closing date. In the HR function more gradual approach was applied but majority of the important processes such as recruiting activities were integrated in an early phase of the process. Legal function did most of its work during the pre-closing period but some critical functional elements such as the contract procedures in which the corporate and family firm model differed significantly, were modified in later phase of the process. In the sales and marketing functions where the local market environment and therefore cultural issues are in the center of the business needs, the integration process was stretched out for period of several years. At the closing the customer communication was started immediately and updating of the marketing material started after few months the integration started. At the closing, also

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[6] See table 2 p.57 for functional integration timeline

the sales personnel started their cross training which will continue actively in phases the following three years in order the sales channels and sales personnel to be fully utilized. The Finnish business integration leader (*X*) describes the training of the sales personnel:

> *"In the sales and marketing functions the timetable for integration activities goes on and goes on and is not only limited in the beginning... Our purpose is before all to keep on track with the sales personnel and therefore make sure that we will gain synergy advantages from expanding our sales network."*

The integration team of the acquired company generally perceived the integration speed quicker than their counterparts. The *Company Y* respondents evaluated the speed as extremely quick ($\bar{x}$ = 4,6) whereas the integration team of the *Corporation X* evaluated the pace of the integration process more carefully ($\bar{x}$ = 3,8). Evaluations were given on a scale 1–5 where 1 equals to extremely slow and 5 to extremely fast. Two of the acquired company's functional team leaders reported that they felt the integration speed to be extremely fast. They were required to work overtime to achieve the objectives and therefore felt extreme pressure with the timeline especially in the beginning of the process. Both of these managers were functional team leaders within the IT and finance functions where the level of integration has been deep and many changes have been implemented. Chinese functional team leader (*Y*) explained:

> *"...in general the speed has been very quick. At the beginning I felt lot of pressure but due to open communication and common understanding I do not feel the pressure any more..."*

These functional team leaders also identified the rapid pace of incoming demands and work overload as the main challenges of the integration process. On the contrary, two of the functional team leaders and the integration leader (*Y*) were comfortable with the speed of the integration within their respective functions. The Chinese integration leader (*Y*) perceived the speed of integration:

> *"I think the integration speed has been very good, the faster the better. If the integration is finished then we can concentrate on our daily business. If we are quick, it means that not that many processes are being changed which is good..."*

Consequently, it can be argued that the integration leader of the acquired company perceived the integration speed as an indicator for magnitude of change taking place within the *Company Y,* and that there was a wish for maintaining as much of the organization's existing processes. The integration leader also had a wider perspective on the impact of the integration speed whereas the functional team leaders who were required to do vast amount of the actual integration work in a short period of time felt the pressure and stress sourcing from the quick pace and great number of activities done within the IT and finance functions. The two functional team leaders (*Y*) who were comfortable with the speed were representing the sales and marketing and the QA/regulative functions where the change has not been as deep as within the administrative functions.

While majority of the functional team leaders of *Corporation X* had been involved in previous integrations they were able to compare the integration speed with their previous experiences. The acquiring company's respondents generally perceived the integration speed as quite quick under culturally challenging circumstances. Finnish functional team leader (*X*) described the speed of integration activities:

> *"…We have gone back and forth quite a lot due to the cultural differences. If we had done this integration in some western country we would have been quicker. Especially these language and other cultural challenges have been an obstacle for us…"*

Extremely experienced Singaporean functional team leader (*X*) perceived the sedate integration speed very different from his earlier integration experiences in which the activities have been accomplished in two to three months. He observed the relaxed speed suitable for the researched acquisition due to the characteristics of the acquired company. Thus, the set pace was beneficial especially for the process of buying people into the acquiring organization.

Although the *Corporate X*'s senior management gave the integration project management six months for the post-acquisition integration it is obvious that the integration process between the firms does not end when 180 days of integration and the checklists are completed. The six month period covers all the tasks and processes that needed to put in place during the initial integration phase but the integration of the two organizations continues in the future. It takes many years to fully integrate the people, management and culture of the companies. To integrate the soul of the companies is extremely challenging and not many companies are successful in it. Chinese functional

team leader (*X*) who has wide experience in post-acquisition integrations in China described the integration process and compared it to the process of getting married:

> *"...Lot of the real integration hasn't really fully started yet. Now we have finished all the tasks. For example getting married: you do all the things, the wedding invitations, ceremony and have the first night. The real integration starts from there. Who is going to cook the breakfast and that sort of stuff which is not on the list...I think the real integration; the companies to really understand each other, it takes about two years."*

To sum up, the integration speed has been adapted to meet the characteristics of the target company and the requirements of the functional business needs. The integration team of the acquired company perceived the integration speed to be faster than the *Corporation X*'s integration team which has former experience on post-acquisition integrations. However, within both of teams perceptions on the speed varied which leads to a conclusion that the speed of activities varied across functions, and that people experience the pace of integration differently depending on their role in the process and former experiences in similar situations. Although, not everyone in *Company Y* integration team were comfortable with the speed especially in the beginning, the less aggressive pace of the integration process was perceived as suitable for the acquisition and for the objectives set for the integration process.

In addition to the sensitive integration approach and to the adjusted speed of integration activities, the *Corporation X* has taken into consideration the cultural challenges while determining the accurate structure for the integration project management. The role and importance of the integration leader, the attributes of the members within project management team as well as their preparation for the integration process are being discussed in the following sections.

4.4 Integration project management

Integration project management is the group of managers that are involved in the integration process and responsible for accomplishing the integration objectives and capturing the intended synergies. *Corporation X* did not employ professional

"integration tiger team[7]" but the members of the integration project management were functional professionals who got back to their daily jobs after the integration was finished. In the researched case the integration project management was a three-layer structure consisting of the steering committee, the integration leaders and the functional working teams. The structure of the integration project management is illustrated on the figure below.
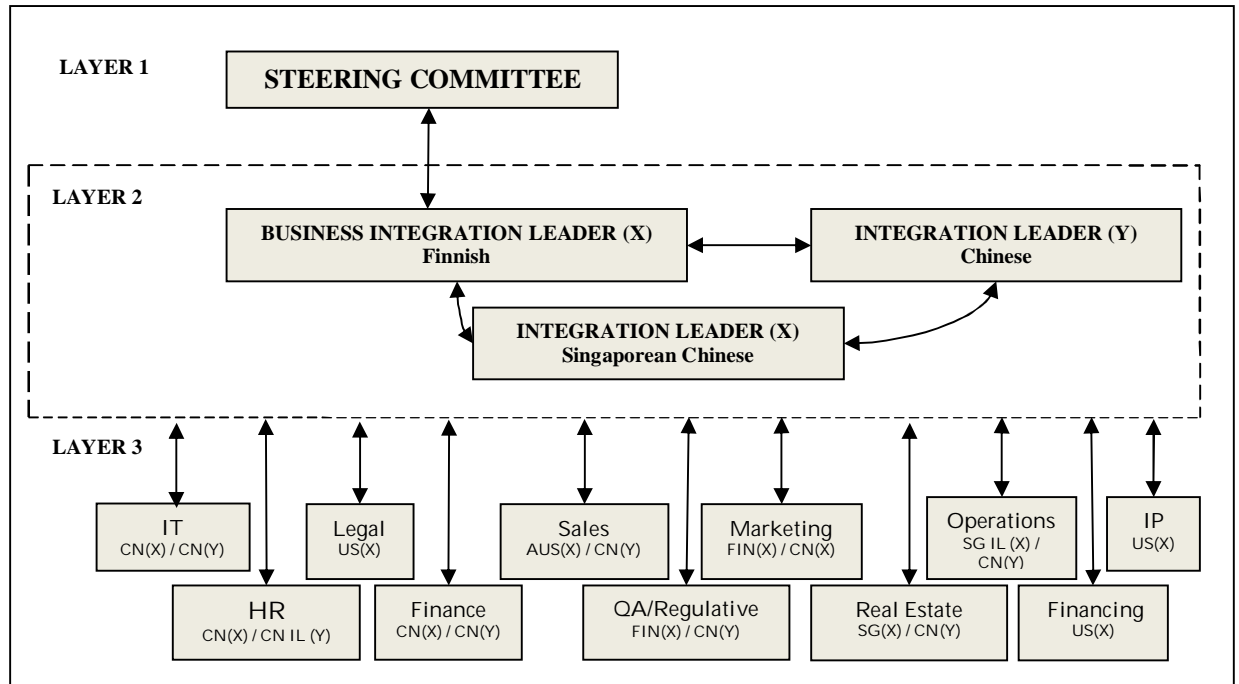

Figure 6   Integration project management in the researched acquisition

In the employed model the steering committee members do not represent middle management but the top management of the *Corporation X*. This model provided the highest possible authority within the steering committee and therefore guaranteed the quickest possible decision making when decisions were taken up to their level. The second layer of structure comprises of the integration leaders who are responsible for both coordinating the integration process and making sure that the functional working teams on the third layer keep on schedule and achieve the objectives set during the planning phase. The role of the integration leaders and the functional working teams are discussed in the following sections.

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[7] Integration tiger team is a group of professionals who are exclusively specialized in post-acquisition integrations. They are experts on integrating processes but may not have solid understanding of the business needs of integration.

4.4.1 Role of the integration leader

The role of the Finnish business integration leader (*X*) was essential to ensure smooth and effective integration process. His main responsibilities were to not only to coordinate the functional working teams and to make sure that nothing falls between the functions but also to keep on top of things all times and to report to the steering committee on regular basis. In the researched case the *Corporation X* appointed two integration leaders for their integration team: a Finnish business integration leader who had the main responsibility for the process and a Singaporean Chinese integration leader. The acquired organization's integration team was led by the CEO of the company who was also responsible for the integration of the HR function. While the integration was perceived as particularly challenging and the acquisition as strategically extremely important to the acquiring company, a high level manager was appointed as the business integration leader. The Finnish business integration leader (*X*) described the criteria for his selection for the position:

> *"Since this is our first acquisition in China and a company with totally different culture they wanted to bring in integration leader with previous experience in integrations and deep business understanding…they needed that caliber of a man who can make this integration happen."*

Thus, during the integration process the Finnish business integration leader had the authority to make decisions autonomously without going for manager levels above him in the organization. While the integration leader of *Company Y* had the similar prerogative to make decisions within his company, they were able to make important integration related decisions together, and therefore make the integration process more effective and simplified. This was the first time when the *Corporation X* appointed this level senior manager to be responsible for a post-acquisition integration and therefore the Finnish business integration leader (*X*) was able to make vast majority of integration related decisions, and only twice decisions were needed to be approved on the level of the steering committee. The authority to make quick decisions was emphasized in the researched integration since one of the greatest cultural differences that were identified was the decision making processes of the two organizations. On one hand, the family owned *Company Y* was characterized to have quick decision making process while the low hierarchy enabled the CEO to make most of the significant decisions in a swift pace. On the other hand, the *Corporation X* is an MNC with high levels of hierarchy and complex decision approval mechanisms. Quick decision making is vital in change

management and especially while integrating the acquired company within which the managers are accustomed to getting approval for their decisions in a swift pace. An experienced Chinese functional team leader (*X*) described the importance of the high authority of the business integration leader:

> *"...it shows dedication of the acquirer and the Chinese, especially small private firms, appreciate fast decision making. So when somebody is on ground that can make quick decisions people take notice. People always look for differences and if the decision making is not much slower one builds kind perceptions..."*

The Finnish business integration leader (*X*) spent 2/3 of the integration period on-site in Shanghai which was identified as extremely important for the daily integration activities by the *Company Y* respondents. The most important responsibilities of the Finnish business integration leader (*X*) were to keep the process moving on all times by both clearing roadblocks and making quick decisions in the cases where the functional team leaders were not authorized to make decisions by themselves. In order to coordinate tasks, to monitor the integration progress and to give feedback for the individual functions, the Finnish business integration leader (*X*) set up weekly functional teleconference meetings where the functional team leaders from both organizations reported their progress for the business integration leader and addressed issues which needed either guidance or approval. These functional meetings were seen as extremely effective by the functional team leaders of the *Corporation X* whereas the functional team leaders of *Company Y* found the teleconference meetings challenging due to the language issues. Furthermore, the respondents of the acquired organization described the communication with the Finnish business integration leader (*X*) to be quite formal in general and they would have preferred both more face-to-face and informal ways of communication. Chinese integration leader (*Y*) described the functional meetings and his integration team's communication with the business integration leader (*X*):

> *"...conference calls are very difficult to Chinese people to give their opinions very clearly. It is better for the Chinese to have face-to-face meetings...Within Company Y we do not schedule meetings but we knock on the door and discuss the issues...I think he should have added more informal communication."*

The formality of the communication with the Finnish business integration leader (*X*) can be partly explained by the language barrier. The business integration leader did not posses adequate language skills in Chinese in order to communicate directly and informally with the *Company Y* functional team leaders many of which were not able to communicate in English. As a solution for the language issue the *Corporation X* appointed Chinese speaking Singaporean senior manager as another integration leader of *Corporation X*'s integration team. The appointing of another integration leader within own organization is not a common practice for the acquiring corporation and the method was employed in the researched acquisitions due to both the vast differences in cultures between the companies and the language barrier within the integration project management. The Finnish business integration leader (*X*) described the importance of the Singaporean integration leader (*X*):

> *"In our case we have a third guy here. He is Singaporean Chinese who has been in the Corporation X for 20 years and speaks Chinese fluently as his second language...One of the greatest decisions made in the process...he is building cultural bridge not only between Corporation X and family owned Company Y but also between American and Chinese way of thinking which has been awfully important."*

After the initial integration process was finished the Finnish business integration leader (*X*) stepped aside of the project whereas the Singaporean integration leader stayed with the new organization and continued the integration process. All of the *Company Y* respondents saw great value in the appointment of the Chinese speaking integration leader to take part in the process and to build the new organization. One of the Chinese functional team leaders (*Y*) described the role of the Singaporean integration leader (*X*):

> *"...his role has been very important. He is always here and he understands both English and Chinese which is extremely important for this integration..."*

The Singaporean integration leader (*X*) played an important role in the functions where he was able to take part in groups where people were operating only in Chinese. All respondents from the acquired side considered him easy to approach to and to communicate with both formally and informally. On the project management perspective his presence on-site was vital during the periods of time when the business

integration leader was visiting his home office in Finland, and as the *Company Y*'s integration leader was appointed to another role within the *Corporation X* some of his responsibilities were also given to the Singaporean integration leader (*X*).

The Finnish business integration leader (*X*) was able to keep the focus well on the integration related tasks and both of the integration teams were satisfied with the cooperation with him. Both of the teams evaluated the cooperation to be extremely effective ($\bar{x}$ = 4,2) which naturally had positive impact on ensuring effective integration process. All of the functional team leaders of *Company Y* perceived their respective counterpart as a bridge between them and the Finnish business integration leader (*X*) which emphasizes the role of the *Corporation X*'s functional team leaders during the process. In addition to acting as a communication bridge the acquiring company's functional team leaders had other crucial responsibilities ensuring smooth and effective integration process. The research results on assembling of the functional working teams in order to mitigate the impact of the cultural challenges are being scrutinized on the following chapter.

4.4.2   *Functional working teams*

The functional working teams were responsible for the planning of the integration and the actual implementation on the functional level. Each of the functional teams had a functional team leader from both companies and these leaders assembled their own integration teams to implement the planned and agreed changes within the *Company Y*. The acquiring company's functional team leaders were appointed by the most senior managers of the respective functions within the *Corporation X* and the functional team leaders of the acquired organization were selected and appointed by the CEO of the *Company Y*. Since the acquired company was a Chinese family owned firm whose personnel was all Chinese and had inadequate language skills in English, the *Corporation X* appointed as many local functional team leaders as possible to mitigate both the negative effects of language barrier and the national cultural differences.

Of the ten functional team leaders three were ethnic Chinese, one Singaporean Chinese, one Australian, two Finnish and three Americans. The Australian and one of the Finnish functional team leaders were not for most of the time present on-site during the integration while the other Finn who was responsible for marketing function was re-located to the acquired organization. The American functional team leaders did not cooperate with a direct counterpart within the acquired organization due to their integration roles which was seen as a negative factor by two of them. Consequently,

four out of seven functional team leaders who were actively in cooperation with the acquired personnel were fluent in Chinese and had deep understanding of the Chinese business culture which was essential for ensuring well functioning integration process. The Finnish business integration leader (*X*) described the selection process of the functional team leaders:

> *"One way we have mitigated the effect of cultural differences is the way we're using local teams as far as possible. If we had a Chinese speaking option we definitely used it and did not even consider any other option."*

Seven of the functional team leaders had vast experience on M&A integrations both in the *Corporation X* and in other companies and of which three had been involved in post-acquisition integrations in China. All ten functional team leaders had professional experience either working in China or with the Chinese. All in all, the *Corporation X*'s integration team was highly experienced and due to their respective positions within the organization they had the business understanding and the quite high level of authority to make integration related decisions which enabled more efficient decision making during the process. One of the Finnish functional team leaders (*X*) indicated that one the main success factors of the process was the highly experienced *Corporate X*'s integration team:

> *"It is the fact that when the team has all in all extremely experienced professional who have been involved in numerous challenging situations, it enables the team to make decisions in a new environment...with less experienced team we would have been in big trouble."*

In addition to functional expertise the importance of appointing local functional team leaders was emphasized in ensuring effective communication within the functional teams. One of Chinese functional team leaders (*Y*) whose counterpart was not Chinese observed the main challenge of the integration:

> *"We are Chinese and discuss everything in Chinese and then we can solve problems quickly. If we have to discuss in English we cannot address the issues as well and not as deeply. I think the language has been an obstacle for this integration."*

Within the functions where the functional team leaders did not share a common language translators were utilized to get the message across. Thus, within these functions the communication was more restrained than within the functions where both of the functional team leaders were able to speak Chinese. Moreover, within the Chinese speaking functions no communication challenges were identified, and communication was perceived to be active both formally and informally. Their main communication channels were face-to-face meetings and telephone calls. On the contrary the functional team leaders of the other functions used mainly emails and formal teleconference meetings as a preferred channel of communication, and all of them observed both language issues and communication challenges which inevitably led to information loss during the process. One of the Chinese functional team leaders (*Y*) observed the communication with his Finnish and Australian counterparts:

> *"We have to use translators all the time...I believe it has not been as effective as two people speaking the same language..."*

However, the respondents within these functions emphasized that in addition to having patience and using simplified English during interaction, the fact that the functional team leaders were both professionals of the same area enabled them to figure out what needed to be done even when lacking a common language. This could not been possible whether the *Corporation X* had employed "integration tiger team" instead of functional professionals. As a result of common language the awareness what others were doing within the Chinese speaking functions was on an extremely high level ($\bar{x} = 4,8$ (*X*) and $\bar{x} = 4,0$ (*Y*)) whereas within the functions where translators were used the awareness was evaluated to be on a lower level ($\bar{x} = 3,6$ (*X*) and $\bar{x} = 3,5$ (*Y*)).

While no "integration tiger team" was used, all of the functional team leaders were taking care of their daily responsibilities together with their integration activities. Naturally, the divided role imposed challenges for the functional team leaders' availability for the integration related activities and thus the challenge of "wearing two hats" was identified as one of the main difficulties during process by some respondents. However, the local *Corporation X*'s functional team leaders who lived permanently in Shanghai area found it less challenging to combine both of their roles and take actively part in the integration process. Thus, their evaluations of integration availability were higher ($\bar{x} = 4,3$) compared to the functional team leaders whose home offices were on other continents ($\bar{x} = 3,0$). The difference can be explained by location factors as well as differences in time between their home office and the acquired organization. Therefore, it can be argued that in addition to communicational advantages, employing

local managers was beneficial to the integration process since they were on-ground all times and therefore available for face-to-face meetings which enabled quick issue solving throughout the process.

While evaluating the cooperation between the *Corporation X* and *Company Y* functional team leaders some differences were able to be identified between different functions. In general the cooperation was on a extremely good level while acquiring company's functional team leaders evaluated the cooperation to be extremely good ($\bar{x}$ = 4,3) and the acquired company's respondents scoring it even higher ($\bar{x}$ = 4,8). However, it is noteworthy that in the functions where both of the team leaders were Chinese, not only efficient cooperation but also high mutual respect and friendship were observed. Within these functions people felt really happy working together towards a common goal. As one of the Chinese functional team leaders (*X*) described the importance of personal relationships during the integration:

> *"...that is something I've learned during the integration when doing these types of small family deals, you need to work with the people professionally but really need to develop relationships personally. I can say proudly that I and my counterpart have developed a very good friendship and lot of mutual respect..."*

In the functions where team leaders did not share same language or cultural background similar descriptions were not represented and in some cases the cooperation was perceived to be reserved. One of the Finnish functional team leader (*X*) described the cooperation with her counterpart:

> *"...we listen to each other but we are still trying to figure out what the cooperation really is. People are quite cautious on both sides..."*

Within the Chinese speaking functions the cultural differences that were reported were about the decision making processes which were perceived to be different within the two organizations. Within the functions where the functional team leaders did not share either common language or cultural background the reported differences were more on the language issues and in the forms of communication which imposed challenges for smooth integration process. As a result of effective communication and deep understanding of the local customs, within the Chinese speaking functions no resistance to change was observed. However, in the function where the counterparts did not share common cultural background functional team leaders of both organizations indicated

that resistance to change was noticeable during the integration process. Consequently, the Finnish business integration leader (*X*) emphasized the importance of the local managers during the process:

> *"The underlining reason why everything has gone so smoothly is that we selected the functional team leaders locally and that we had the luxury that we had sufficient number of capable managers in the same country..."*

Based on the research results it can be argued that by employing not only experienced professionals but also local managers who has the language skills and understanding of the local culture and the business needs the *Corporation X,* ensured that the integration process of the two organizations proceeded without any major cultural clashes or setbacks. By employing local managers the acquiring company decreased the challenge of different national cultures and by selecting extremely experienced functional professionals it ensured that the counterparts within the teams shared common professional ground that were both seen as extremely beneficial for the integration process.

Despite by the selection of Chinese speaking functional leaders the *Corporation X* was able to mitigate the effects of cultural differences on national level, differences on the organization culture level remained. Regardless the highly authorized integration leaders (*X*) who were actively on-site during the integration process and therefore enabled effective approval processes, especially the functional team leaders of the acquired organization got frustrated about the time-consuming decision making processes of the *Corporation X*. Also the some of the functional team leaders of the acquiring company found the decision making process of *Corporation X* too rigid for the Chinese business environment. One of the Chinese functional team leaders (*X*) elaborates:

> *"...the market is so dynamic that if you wait the decision to go all way up and come back all the way down, by that time you might have missed the opportunity...In China we need to find the correct mix of our and their processes..."*

Therefore, one of the main challenges for the future for the new organizations is to make sure that *Corporation X* multilayered decision making process is being adapted

for the Chinese business environment which would enable ability to react to the changing business environment and therefore seize the opportunities it offers.

Despite the former experience in their respective functions and in M&A or the language skills and shared Chinese background, the members of the integration project management needed to be prepared for the integration process. The forms of preparation and the ways to assist effective cooperation between the two integration teams are discussed on the following chapter.

4.4.3 *Preparation and on-board team building*

The moment the members of the project integration management got involved in the process varied among the managers. Vast majority of the *Corporation X*'s integration team members got involved in the process approximately nine months before the deal was closed. Apart from two exceptions all members of the acquiring company's integration team were therefore involved also in the due diligence which they all identified as the most effective form of preparation for the integration process. The Singaporean integration leader (*X*) was not involved in the due diligence phase, and therefore he based his preparation both on his former experience and on the due diligence reports given to him which was seen as an issue by the functional team leaders of the acquired organization who observed that his understanding of the *Company Y* was limited especially in the first two months of the process. In addition to the due diligence, the former experience in M&A and in the Chinese business environment was observed as another main form of preparation for the integration process.

In addition to target specific research and preparation based on the former experience of the integration team, the *Corporation X* prepared for the cultural challenges by addressing the importance of the cultural issues for the members of the integration management. The discussion rose awareness of the cultural issues which made managers more cautious in their ways of doing things during the integration process on daily basis. As one of the Chinese functional team leaders (*X*) observed the importance of the understanding of the cultural challenges:

> *"Obviously it [cultural challenges] was discussed but according to my experience you need to discuss them and solve them day by day...So it is all in the ways of implementation and everybody who comes to China needs to understand that."*

Both integration teams were prepared for the cultural differences and were well aware that patience and understanding of the counterparts were needed to ensure smooth integration process, and that active and open communication was the key for solving any cultural misunderstandings during the process. The integration leader and all of the functional team leaders within the *Company Y* identified the patience and the open-minded attitude of their respective counterparts as one of the main success factors of the integration process.

In addition to discussion on the cultural challenges to be faced during the process of the non-Chinese speaking integration managers excluding the American functional team leaders all but the one took part in a two day Chinese culture training in the *Corporation X's* Finland site. The training was seen as beneficial for the integration preparation in a way that it enabled the integration team members to widen their understanding of the main characteristics of Chinese culture and therefore helped them to understand the reactions of their Chinese counterparts during the daily cooperation. However, the respondents who took part in the cultural training indicated that the training only scratched the surface. Nevertheless, one of the Finnish functional team leader (X) described the importance of the training and her additional preparation for the cultural challenges:

> *"It was awfully important that we were trained for the local culture and customs in China. I also interviewed couple of Chinese employees here in the home office who are married with a Finn and therefore they were able to brief me on the most important differences between the Finnish and Chinese way of thinking."*

In addition to the cultural training as form of preparation both the Finnish business integration leader (*X*) and the Finnish functional team leader (*X*) who was relocated to the acquired organization took language lessons in Mandarin before the integration started. However, the language lessons were limited to basics studies for the business integration leader whereas the functional team leader got additional schooling from her Chinese colleague. Her need to learn Chinese was more profound since she continues to work for the acquired organization after the initial integration period was finished.

Before closing the acquisition and on the acquisition week the *Corporate X*'s HR department organized on-board team building activities once in Finland and once in China. These team building activities were seen as extremely important for not only laying the foundation for effective cooperation during the process but also for ensuring open communication within the integration project management. During the team

building events the members of the acquisition teams were able to meet their respective counterparts and get to know them before they started to work together. Thus, the members of the integration teams were able to build good personal relationships with each other which enabled them to communicate in more open way when cultural conflicts occurred during the integration process. The Singaporean integration leader (*X*) drew attention to the importance of the team building activities the integration team had in China:

> *"…I think it was really important in a way it was really informal. We had breakfast, lunch, and dinner together and played games together. This was important in terms of bringing down the barriers in between…in the games one can see who is aggressive and who is the gentleman and therefore get to know the other people…without the team building activities the cooperation wouldn't been so smooth during the process."*

In addition to getting know each other's personalities and ways of operating the team building activities were perceived as sending a good message for the acquired organization that the acquiring company takes the cultural differences seriously and is determined to get the people off to a good start in the process. The integration leader of the acquired company described the team building activities organized in Finland:

> *"…we went to Finland and had nice team building on the company's island and in the sauna room. That experience gave me and our functional team leaders the feeling to go to a big family which is good for them."*

All of the respondents from the acquired organization indicated at some point of the interview that they all felt very welcome to join *Corporation X* and becoming a part of an international company.

To summarize, the *Corporation X* had taken the challenge of cultural differences in consideration while structuring the integration project management. Appointing highly authorized business integration leader to be responsible for integration process ensured efficient decision making process during the process which is essential in post-acquisition integration where quick decision making is needed. The importance of highly authorized business integration leader was emphasized in the researched acquisition in which the acquired organization was accustomed to quickly and uncomplicated decision making processes. In addition the Finnish business integration

leader the *Corporation X*'s decision to appoint the Singaporean Chinese integration leader for managing the integration process was beneficial especially for the communication between the two integration teams and therefore enabled smooth integration process.

While selecting functional team leaders to manage the functional integration, the *Corporation X* appointed as many experienced functional managers with ethnic Chinese background or fluency in Chinese as possible to mitigate the cultural differences on the level of national cultures. The remaining functional team leaders from the acquired side were not only experienced in their respective functions and in post-acquisition integration but also had experience working with the Chinese or in the Chinese business environment. The former experience both in acquisitions and in doing business in China were both identified as important factors ensuring efficient and cooperative integration process.

The cross-cultural training was also seen as a beneficial preparation for the integration by the respondents who took part in it. Despite the cultural training and the former experience the both meaningfulness of communication and the quality of cooperation were evaluated higher and described to be better within the Chinese speaking functions than within the functions where managers had different cultural backgrounds. Team building activities both in the pre-integration phase and in the beginning of the integration process were seen as extremely valuable for ensuring efficient cooperation within the integration project management regardless of the national background of the team members.

4.5 Main research findings

The findings of the empirical research on the case company's post-acquisition integration process were discussed from three main perspectives: the integration approach applied by the acquiring organization, the pace of integration actions taken and the assembling and the preparation of the integration project management. Within these categories various issues were scrutinized and the discussion on the research findings suggest that the acquiring *Corporation X* has taken the cultural challenges in consideration while planning and executing the post-acquisition integration process. Based on the discussion above the main research findings on the categories of the integration approach, the integration speed and the integration project management are listed on the table below.

Table 3   Main research findings

Post-acquisition Integration Approach
• Sensitive integration approach by respecting acquired company's processes • Retaining the acquired senior management • Best practices from both companies applied while planning the functional integration   ↝ Positive effect on minimizing resistance to change and cultural clashes in the *Company Y* • Varying level of functional integration: strong in admin functions / moderate in business functions
Speed of Integration
• Period of 6 months reserved for the integration overall • Additional 2,5 months pre-integration period available for planning and for indentifying cultural challenges • Lots of time spend for communications and for translation • Varying integration pace for individual functions: quick for admin functions / more relaxed for business functions • Different perceptions of speed. Company Y: extremely quick, *Corporation X:* suitable
Project Integration Management

Integration leaders:
• Highly authorized business integration leader (*X*). Present on-site 2/3 of the integration period.
  ↝ Enabled efficient decision making and on-site issue solving
• Appointment of Singaporean Chinese as another integration leader (*X*)
  ↝ Language capability both in English and Chinese, cultural bridge builder between the integration teams
 	
Functional working teams:
• Highly experienced functional team leaders (*X*) both in functional expertise and in M&A
• Appointment of local Chinese managers (*X*) as far as possible
• More efficient communication and cooperation within the Chinese speaking functions
• Local managers were more available for the integration related tasks compared to the others
 	
Preparation and On-board team building:
• Majority of the integration project management involved in the due diligence – phase
• Importance of cultural differences emphasized in pre-integration phase
• Chinese culture training and language studies
• On-board team building beneficial for efficient cooperation and a signal of cultural sensitivity of the acquirer

The company applied sensitive integration approach not only by retaining the acquired *Company Y*'s senior management and by determining the correct level of integration based on the business needs and the local market characteristics for each function but also by evaluating best practices of both companies and by involving the *Company Y* representatives in the functional integration planning. The sensitive integration approach resulted in low level of resistance to change within the acquired organization which was overcome with open communication and with the support of the *Company Y*'s senior management. Nevertheless, some implications for discontent with some of the implemented changes were still observed.

Instead of applying quick and aggressive pace of integration the *Corporation X* devoted a period of six months for the initial post-acquisition integration. The integration period is significantly longer than the approaches applied by the company in the past. Due to local legislation and authority procedures the acquiring company had additional two and half months between signing the deal and making it official which provided the integration project management with additional time both for careful planning and for evaluating potential challenges. As with the level of integration also for the integration speed the suitable pace were set for each function individually. The integration teams spent lot of time for the communications due to the language barrier between the two organizations. However, despite the slower integration speed, some of the functional team leaders of the *Company Y* perceived the pace to be too quick.

Due to the high status of the Finnish business integration leader (*X*) within the *Corporation X,* he had the authority to make vast majority of the integration related decisions which enabled quick decision making and issue solving. By appointing the Singaporean Chinese senior manager for a second integration leader (*X*), the acquiring organization was able to lower the language and cultural barrier between the two integration teams. By selecting highly experienced functional managers the *Corporation X* ensured that the integration project management had the understanding and the competence to make integration related decisions. Moreover, by appointing as many Chinese managers as possible it was able both to mitigate the effect of the cultural differences and to ensure effective communication between the two integration teams. Thus, within the Chinese speaking functions deeper cooperation and better communication were observed. Vast majority of the members of the integration project management got involved in early phase of the integration which enabled them to take part in the integration planning. *Corporate X* addressed the issue of cultural differences early-on, and the challenges they may cause were discussed prior the integration. Moreover, the Chinese cultural training was perceived as helpful for the daily integration work by the respondents who took part in it. Team-building activities were

not only seen as extremely supportive for effective cooperation but also for open communication throughout the process.

During the interviews both the key challenges and key success factors of the integration process were discussed and identified. Respondents on both sides had a shared opinion on various factors but differences between the two integration teams were identified. The key challenges and success factors are illustrated on the table below.

Table 4   The key challenges and success factors of the integration process

Key Challenges	Key Success Factors
Corporation X **respondents:** • Language barrier and communication • Cultural differences • Decision making • Challenge of "wearing two hats"	*Corporation X* **respondents:** • Highly experienced integration team • Sensitive integration approach • Effective communication within the Chinese speaking functions • High motivation level within the *Company Y* • Support of *Company Y* senior management • On-board team building
Company Y **respondents:** • Language barrier • Difference in ways of communication • Complicated decision making processes of the *Corporation X* • Work overload and integration speed in the beginning	*Company Y* **respondents:** • Open-minded *Corporation X's* integration team • Patience and understanding of the cultural differences • Feeling of being part of a new family • Authorization based on trust • On-board team building

Both the integration teams identified the language barrier as a key challenge for the integration. Also too much formality in the communication was observed by the Chinese team members on both integration teams. Decision approval processes were also identified as a challenge by the members of both teams. Some of *Corporate X* respondents found it challenging to find enough time for the integration activities and some functional team leaders of *Company Y* found the integration speed to quick and workload overwhelming. Key success factors that were identified by both teams were the patience and understanding of the cultural differences on both sides and the on-board team building activities.

The research findings will be further concluded in relation to the theoretical framework. Furthermore, managerial implications will also be introduced and suggestions for further research presented.

5   CONCLUSIONS

The following chapter concludes the empirical research findings together with the earlier literature and the theoretical framework presented on the Chapter 2. To begin with, the theoretical discussion introduces the theoretical contribution of the study regarding the ways to manage cultural challenges in post-acquisition integration in a cross-cultural setting. In addition to theoretical discussion managerial implications of the research are presented. With the help of the managerial implications the case company and others like it can improve their post-acquisition integration processes in their future acquisitions in China. The limitations of the study and suggestions for further research will be discussed in the third chapter.

5.1   Theoretical discussion

The theoretical framework of the study comprises of three main categories: the post-acquisition integration approach, the speed of integration and the integration project management. The third category is further divided into three sub-divisions: the role of the integration leader, the functional working groups, and their preparation for the integration. The theoretical implications of the research are discussed in the following.

In the researched post-acquisition integration it can be observed that a rather moderate level of integration was applied which is in line with the argument that when there is a large cultural gap between the combined organizations, the acquiring company should strive for a less intensive form of integration. Despite the acquired unit being a successful business and the deal being closed in a friendly manner, the *hands-off* integration approach (cf. Vaara 1995) was not an option due to the strategic importance of the acquisition. Thus, the researched integration was to a great extent in line with the *co-competence* approach (cf. Larsson 2005) where best practices are looked for in both organizations while defining the suitable level of integration. Furthermore, the acquired organization's senior managers were involved in the integration planning and execution which enabled an efficient process of mapping out the best practices of the *Company Y*.

As a result of the *co-competence* approach, the level of integration varied between different functions depending on various issues. Moreover, the reasoning behind the appropriate level integration was not only based on consideration of cultural differences but naturally also on the business requirements of the acquiring corporation. As the *Corporation X* has extremely strong administrative functions which are operated globally in a uniform manner throughout its all subsidiaries, it was justified that the

administrative functions of IT and finance were both totally integrated into the practices of the acquiring company in a rather straight forward manner. However, for the administrative function of HR, a more gradual integration approach was applied due to the cultural implications of integrating the processes which have a significant human factor involved.

Whereas the administrative functions were deeply integrated into the functions of *Corporation X*, for the business functions a less intensive level of integration was employed. This is logical in the functions of sales and marketing where the importance of contact with the customers is imperative, and where the *Company Y* is more familiar with the ways of doing business in the local market. By employing a less extensive integration approach for these functions, the *Corporation X* obviously aimed not to disturb the markets, but to focus on finding the right integration approach to achieve growth. The need for less intensive integration in the beginning is also understandable since *Corporation X* keeps on serving customers using western products and the acquired *Company Y* keeps on serving their customers using locally produced products. However, it is obvious that this will not be the case forever and further integration will be employed in the functions of sales and marketing in upcoming years. Furthermore, the varying level of functional integration did not seem to have an effect either on the amount of change resistance or cultural clashes during the process itself.

Of the four basic predispositions to cross-cultural management and organization (cf. Heenan & Perlmutter 1979) by retaining the acquired senior management the *Corporation X* followed mainly the *polycentric approach* where MNC decentralizes its subsidiaries' management and culture to follow their host-culture patterns of organization and management. Furthermore, while the acquisition was not a hostile one, the acquired company was a small family owned company and its top management was both willing and enthusiastic to become part of the multinational corporation, keeping the top executives in place was considered to both prevent creating chaos within the acquired organization and to be a positive driving force for organizational change in the acquiring company (cf. Teerikangas 2008, Lees 2003). Retaining the top management was extremely important for tackling change resistance and therefore enabling smooth integration in this case, where immense national culture distance between the *Corporation X* and *Company Y* was evident. However, while *Corporation X* appointed three senior level managers (a Singaporean Chinese, an ethnic Chinese and a Finn) from their own organization to work as bridge builders in the *Company Y*, the responsibilities within the acquired organization were reorganized and the subsidiary control obtained also some *regiocentric and ethnocentric* characteristics.

In addition to the changes in functional processes and procedures, the changes in managerial responsibilities naturally resulted in some resistance to change within the acquired organization, and the acquired managers were not pleased with all of the implemented changes. However, by retaining the acquired senior management and by applying the *co-competence* integration approach, the *Corporation X* did not impose its organization culture on the *Company Y,* and therefore was successfully able to both keep the resistance to change to a minimum, and to work through any challenges caused by the cultural clashes during the integration process. However, it is essential to keep in mind that due to their cultural characteristics the respondents of the acquired company might not have revealed their true opinion about the post-acquisition changes either during the integration process or during the research interviews.

As pointed out above the level of integration in the immediate post-acquisition integration cannot be identified as extremely deep, but there are factors which suggest that the integration will deepen in the future. In the researched case of post-acquisition integration it is still too early to analyze the final level of cultural integration, but the strong integration of the administrative functions such as HR and the transfer of three bridge building senior managers from *Corporation X* to *Company Y* indicate that the level of cultural integration will intensify during upcoming years. However, due to characteristics of the Chinese market environment the *universal integration approach* will not prevail and some degree of *pluralism* will most likely remain between the organization cultures of the two companies (cf. Schreyögg 2005).

Another way that *Corporation X* mitigated the cultural challenges of the post-acquisition integration was the adapted pace of integration. Compared to the speed of integration in their previous acquisition in the US, the acquired company dedicated six months for the integration activities instead of the widely recommended *100-days approach* (cf. Stahl & Sitkin 2005). Slow speed is believed to be beneficial for careful assessments of how the two organizations should be combined. In addition to careful integration planning, the additional two and a half month's pre-integration period enabled careful evaluation of potential challenges arising from the cultural differences during the integration.

Slow integration process is also argued to be appropriate to minimize conflicts between the integrating companies. On the contrary it is also argued that quick integration speed is an effective way to solve the issue of cultural differences (cf. Olie 1994, Biljsma-Frakema 2004). However, the experienced functional team leaders of the *Corporation X* perceived the more relaxed pace to be quick, yet suitable for the researched case where both the cultural differences were vast and the language barrier between the two companies high. Moreover, the slow speed was a suitable match with

the sensitive integration approach. Therefore, the slower speed enabled more time for open communication within the integration project management which was seen as extremely important in clearing out misunderstandings sourcing from the cultural differences between the managers. Again, additional time was able to be committed to the process of explaining the reasoning behind the changes which enabled the integration teams to work through the resistance to change. However, despite the more relaxed integration pace, a couple of the acquired managers perceived the speed as extremely quick especially at beginning of the process. It is argued that the quicker speed reduces uncertainty and mitigates some of the buildup of resistance to change especially during the immediate post deal weeks when the personnel of the acquired organization expects the change to take place (cf. Teerikangas 2006). However, based on the research it cannot be argued with absolute certainty that the slower speed resulted in a lower level of change resistance, but it certainly enabled more time to be committed for open communication and for the unlocking of the cultural misunderstandings which would have potentially otherwise resulted in severe cultural clashes.

While evaluating the integration speed's influence on the integration success as an individual factor it is argued that the correct pace of integration activities should be determined based on the external (e.g. market positioning) and internal (e.g. organizational culture) relatedness of the integrating companies (cf. Homburg & Bucerius 2006). In the researched case, the integrating companies' are not only externally but also internally weakly related. Therefore, it can be argued that the speed of integration has both strong beneficial and detrimental effects on the integration success, and that the speed seems not to be decisive for the outcome of the integration. However, in the researched case the slower speed seemed to have only positive effects on the outcome of the initial post-acquisition integration process. This enabled both consideration on the appropriate level of integration and the robust communications during the process. Therefore, it can be concluded that the slower speed was a decisive factor for the integration success.

In the case of the integration process of *Corporation X* and *Company Y,* the cultural issues were given special attention while planning the structure of the project integration management in order to tackle challenges arising from the cultural differences. In this case a three-layer project integration management was implemented which is to some extent in line with the suggested structure for this size of acquisition (cf. Koch 2002). However, one significant difference between the suggested structure and the one that was implemented in the researched case was identified. By appointing a Singaporean Chinese senior level executive as a second integration leader of the *Corporation X* integration team, the acquiring company brought the language capability

and understanding of local culture to the level of the integration leaders. Of the three major roles of integration leaders (cf. Teerikangas 2008) the Finnish business integration leader (*X*) both *supported* the post-acquisition change process and *maintained* the information flow during the process, whereas the Singaporean Chinese integration leader (*X*) had the role of *an interpreter* of the national cultural issues, the role of which is emphasized in the cross-border acquisitions where the integration leader is required to have multicultural competences.

In addition to the integration leaders the cultural issues are given attention while selecting the *Corporation X*'s functional team leaders. Cultural challenges were mitigated by appointing local Chinese senior managers to lead the functional integration for the core functions of IT, Finance and HR. In these functions there was the most potential for cultural clashes due to the great number of changes. Therefore it was crucial to appoint highly experienced local managers for these functions, and to ensure both cultural understanding and effective communication, allowing smooth cooperation between the counterparts. Utilizing local integration managers with country specific experience is indicated to be highly recommendable in cross-border acquisitions as a way to reduce national cultural distance and decrease the amount of cultural clashes (cf. Teerikangas 2008). Thus, within the Chinese speaking functions due to a common language and shared cultural background the quality of communication was better and cooperation was based more on mutual respect and friendship than in the other functions. Therefore, it can be concluded that appointing local managers of the target country as far as possible is advisable in cross-border acquisitions.

Cross-cultural training is a recommended way to increase cultural sensitivity and awareness of local norms and behaviors of the acquiring company's managers involved in the cross-border acquisition (cf. Cartwright & McCarthy 2005). For the non-local members of the integration project management who had a direct counterpart within the acquired organization, the training on the Chinese culture was seen as valuable part of the integration preparation. Furthermore, the on-board team building activities organized before the integration process were perceived as extremely important for tackling cultural challenges and therefore ensuring integration success. Team building activities are considered as means to help the counterparts to understand each other's behavior which enables collaboration and issue addressing in a meaningful way (cf. Schweiger 2002, Lee Mark & Mirvis 2002). Thus, as the integration leaders and the functional team leaders got to know their counterparts and develop personal relationships to the extent that they were able cooperate and communicate in a more open way during the integration. While these activities also made the acquired integration team to feel welcome to a new family which resulted in an increased level of

motivation and enthusiasm, it can be concluded that the on-board team building was an essential factor breaking down the cultural barriers in between the integration teams. A model of managing the cultural challenges in the researched integration of a cross-border acquisition is presented on the figure below.
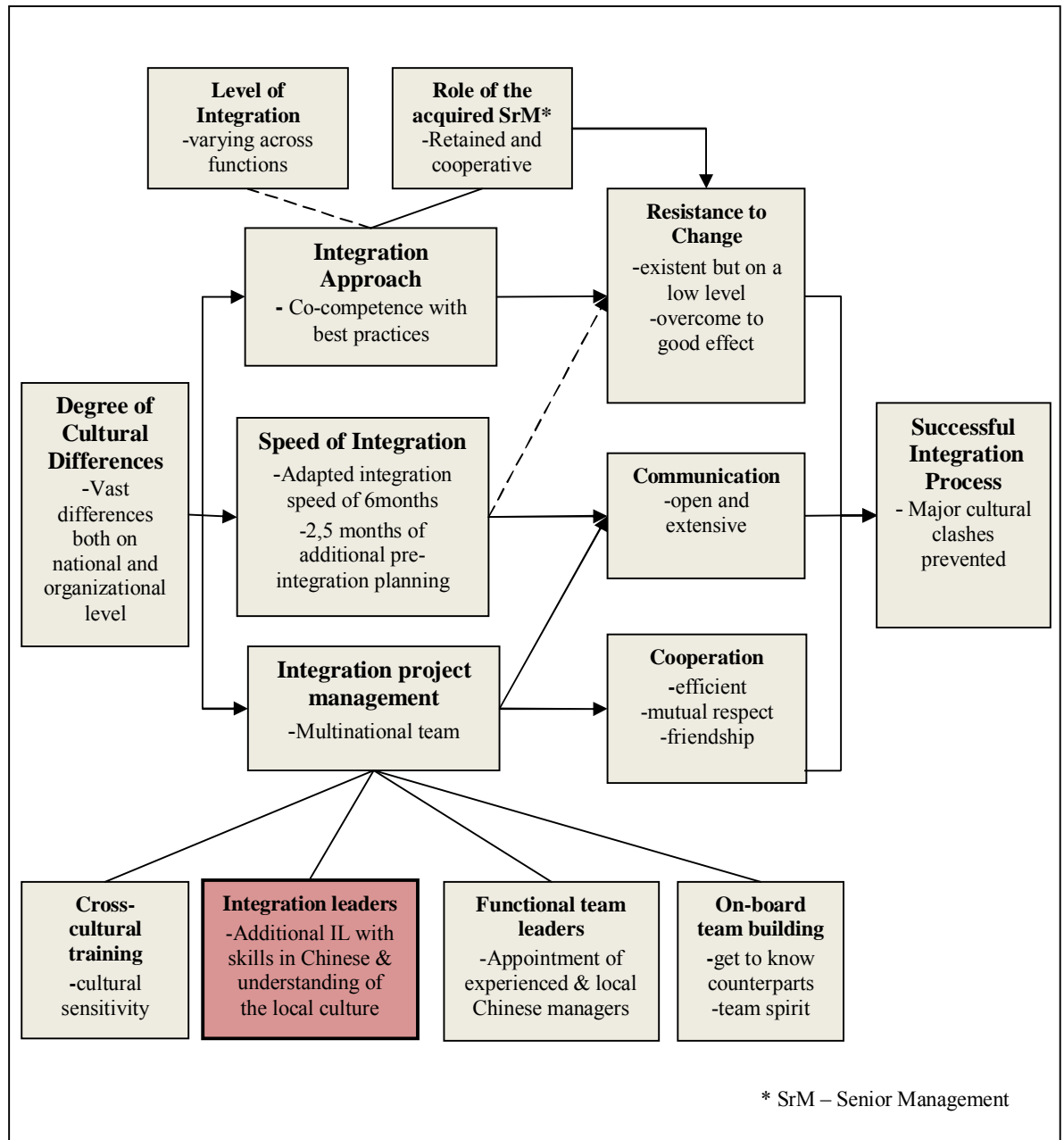
Figure 7　　Model of managing the cultural challenges in the case post-acquisition integration

In the model presented above the theoretical framework and the research results are combined to illustrate the ways the acquiring company has managed the cultural

challenges in the researched successful post-acquisition integration. However, it needs to be kept in mind that despite the initial integration process being considered to be a success, some issues and challenges still remain and the final outcome of the integration and captured synergies of the integration process cannot be evaluated until few years time. The managerial implications of the researched post-acquisition integration will be discussed on the following chapter.

5.2 Managerial implications

The researched case indicates several factors that the managers are required to take into consideration when planning and executing the post-acquisition integration under cross-cultural circumstances. First of all, *each acquisition need to be evaluated as a unique case* and the appropriate level of integration needs to be assessed not only based on the business needs of the acquisition but also on the cultural differences between the two organizations. Therefore, in cross-border acquisitions the appropriate level of integration is not a simple task to define and it should be assessed for each function separately. Naturally in horizontal acquisitions with incorporated companies salient administrative functions need a more intensive approach due to control requirements and legislation. But it seems to be crucial to implement more *careful integration approach for functions which are either in direct or close contact with the local customer interface* and which therefore requires cultural considerations of the local market place.

When there are vast cultural differences between the two companies, it seems beneficial for a smooth integration process and for the integration outcome that the acquiring company strives for *a less intensive speed of integration*. This is evident especially in a case where a more sensitive integration approach is applied, and there is no need for aggressive change of course in the acquired unit. However, as the number of changes varies among the functions, the speed of changes varies at the same time. In order to decrease the anxiety and workload of the acquired managers responsible *for the functions which are integrated at a quicker pace, it would be advisable to dedicate more resources* for these functions which would allow more time for open communication and for the reasoning for the changes.

Although, whatever the selected level of integration or the pace of the integration activities taken, the main issue in post-acquisition phase is the process of how the integration process is being managed. In the acquisition of a small family owned Chinese firm which is accustomed to quick decision making it seems to be imperative

that *the business integration leader of the acquiring company needs to be an experienced professional, highly authorized and present on-site the majority of the time* to ensure quick decision making during the integration process. Yet, despite the business integration leader possessing all such characteristics, the Chinese respondents perceived the decision making still too slow and therefore more emphasis should be given on *enhanced decision approval processes during the integration process.* Moreover, in the post-integration phase *a correct mix of the decision making processes* of the two companies needs to be found and applied for the acquired company to ensure future success of the new organization.

In the case where vast cultural differences and high language barriers between the integrating firms are evident, and if the responsible business integration leader does not speak the local language of the target company or have considerable understanding of the local culture, it is beneficial for the integration success that the acquiring company appoints *another integration leader who possesses these capabilities and skills.* However, not only the clarity of the role of the two leaders needs to be established but also the involvement of both of the leaders in the process as early as possible should be ensured.

While integrating acquisitions in China, a great deal of attention needs to be given to the communication channels. In the researched case too much formality in the communication between the business integration leader (*X*) and the acquired company's integration team was not considered to be beneficial for the information flow during the process. The Chinese prefer the face-to-face interaction and informal ways of communication instead of formal teleconferences or emails. Therefore, it can be suggested that *great deal of informality needs to be considered in the communications with the acquired managers when integrating acquisitions in China.* Moreover, face-to-face meetings would have improved the awareness of the acquired side's managers who were now highly dependent on their counterparts for information extraction due to the language barrier which prevented them from taking part in the weekly teleconference meetings. Therefore, it would be recommended to *relocate the acquiring side's integration team as a whole temporarily in the target country* which would make them more available for the integration related activities. On the other hand it would be challenging for them to attend to their normal daily responsibilities in the home office.

In addition to the cultural understanding on the level of the integration leaders, the utilization of host country managers in the acquirer's integration teams seems to be highly beneficial for the integration outcome. However, it is essential to take into account that the cultural background is not the only factor which should be considered while appointing managers to lead integrations both on the overall and on the functional

level. Naturally, the selection of suitable candidates should start with professional and managerial experience in one's field of expertise. Nevertheless, *utilizing as much of local expertise of the target country as possible* is a recommended method to tackle cultural challenges when executing post-acquisition integration under cross-cultural circumstances.

Before the actual integration process starts in which efficient collaboration between the members of the integration project management are called for it seems advisable to *put the members of the integration teams together in pre-integration team-building activities*. In addition to team building the cultural training of the acquiring company's non-local integration management is also recommendable and seen as beneficial for the understanding of the behavior of the counterparts in the acquired organization which enables enhanced cooperation during the integration process. However, the two day session organized by the acquiring organizations was not sufficient and more emphasis should be given for the *cross-cultural training*.

To conclude the cultural challenges in a cross-border acquisition are a critical factor that needs to be emphasized in post-acquisition integration. The cultural differences such as communication and decision making processes that were perceived as a challenge for the integration process were similar with the cultural challenges identified in the earlier research on Finnish-Sino business partnerships. For the purpose of mapping out cultural challenges this analysis is not completely comprehensive, while other cultural factors remain that may have impact on the post-acquisition integration process and its outcome. However, the study offers significant managerial tools for managing the integration challenges arising from the cultural differences between the two companies involved, which enables the case company and other companies like it to improve both its integration management processes, and the integration guidelines for their future M&A activities in China.

5.3 Limitations and suggestion for further research

Although, this thesis provided a comprehensive picture of the researched post-acquisition integration process and was able to identify the cultural challenges and the ways to manage them, some limitations for the research remain. First of all, as the qualitative research was based on a single acquisition case the research results may not be completely generalized to other cross-border acquisitions since all acquisitions are considered to be unique cases. However, the main objective was not to gain generalizations but to deepen our understanding of the specific cases and to inspire

more academic discussion in this field. Secondly, the empirical research was based on interviews with the integration management of the two companies and therefore only the managerial point of view of how the cultural challenges have been managed has been covered in this thesis. Therefore, in order to gain a more comprehensive picture of the implications of the integration process it would have been beneficial for the research to conduct interviews also with others personnel involved in the integration activities. Thirdly, the research was conducted both during the initial stage of the integration and immediately after it and therefore the final outcome of the integration process and the felicity is too early to be evaluated as it is widely acknowledged that it takes two to five years for the two companies to really integrate.

Consequently, there are two major options for further research. To begin with, it would be extremely interesting to evaluate the integration process from the perspective of the acquired personnel by interviewing lower level workers. The middle management and the production employees might have completely different opinions about the integration process and on the cultural sensitivity of the acquiring company. Secondly, the other particularly interesting option for further research would be to reevaluate the outcome of the integration in few years time and therefore expand the present study by employing a longitudinal research method. The research based on the initial stage of the integration has most likely not given the comprehensive picture of how successfully the challenges arising from cultural differences have been managed and therefore the implications of the integration should be reevaluated in the future. After few years, the successfulness of the management of cultural challenges could be evaluated in terms of the implications of cultural integration and of senior management turnover in the acquired unit.

6 SUMMARY

M&A are a vital part of any healthy economy and the primary way that companies are able to provide returns to owners and investors (Sherman & Hart 2006, 1). Cross-border mergers and acquisitions play an important role in FDI and they have become a common feature of the global economy at the beginning of the 21st century. (Zhu & Huang 2007, 40; Bartlet). While M&A have become an increasingly popular strategy for corporate growth, diversification and for gaining new capabilities, the financial and operational performance of most M&A have been disappointing (Stahl, Mendenhall, Pablo & Javidan 2005, 3). Various consulting firms have estimated that two-thirds of M&A do not live up to the expectations, and many result in divestures (Schweiger 2002, 4). Earlier research demonstrates that the cultural differences both on the national and organizational level are the main source of failure in cross-border M&A and that the way companies handle cultural issues is probably the single most decisive factor that can make or break a deal (Papadakis 2007, 48).

It has been suggested that the cultural differences need management attention especially in acquisitions between companies of significantly different business cultures and that acquisition of local companies in Northeast Asia countries such as China by European or American companies is an extreme scenario in cross-border M&A (Scalabre 2005, 80–81). However, there is a surprising lack of qualitative research evidence on cross-border acquisitions and this shortcoming is especially marked as regards the post-acquisition integration of cross-border acquisitions and the cultural dynamics therein (Teerikangas 2006). Moreover, the lack of earlier research is even greater when it comes to western acquisitions in China.

The purpose of the research was to examine the integration management processes to mitigate the post-acquisition integration challenges resulting from cultural differences between the acquirer and the acquired company in a case of a cross-border acquisition in China. The main research problem '*In which way the cultural challenges are being managed in the case company's post-acquisition integration process*' was examined through the following sub problems:

1) *How is the integration approach chosen for the cross-border acquisition in order to minimize the cultural challenges?*
2) *How has the speed of integration been adapted to cross-cultural circumstances?*
3) *In which way the integration project management team is assembled to tackle cultural challenges?*

The existing literature offers very little understanding how the cultural challenges are to be managed during the post-acquisition integration and therefore any models how these challenges are overcome in cross-border acquisitions have not been presented. Therefore the research problems were examined by the theories of integration approaches and subsidiary control theories, integration speed theories, integration and change management theories, and other literature and theories related to cross-border acquisitions.

This qualitative research was conducted by using intensive case study approach on a cross-border acquisition of a small family owned company by an U.S. based MNC and its division led from Finland. Consequently, this was an intrinsic case study and the two companies involved in the researched acquisition remained anonymous when analyzing the results. The case was chosen due to its extremely interesting cross-cultural context which enables intriguing setting for research on the challenges induced by cultural differences. The data was gathered through semi-structured interviews with both open and closed questions in parallel to obtain meaningful answers. The analysis method of the research findings followed the approach of data reduction, display and conclusion drawing and verification.

The research findings suggest that the acquiring *Corporation X* has taken the cultural challenges in consideration while planning and executing the post-acquisition integration process by utilizing sensitive integration approach, by applying slower pace for integration activities and by assembling and preparing appropriate integration project management. The company applied sensitive integration approach not only by retaining the acquired *Company Y*'s senior management and by determining the correct level of integration based on the business needs and the characteristics of the acquired organization which resulted in enthusiasm in the acquired organization and therefore in low levels change resistance and in small number of cultural conflicts.

Instead of applying quick and aggressive pace of integration the *Corporation X* devoted a period of six months for the initial post-acquisition integration which was longer than the approaches applied by the company in the past. Due to the language barrier the integration teams required significant amount of time for the communications during the process. While assembling the integration project management in addition to the extremely authorized and experienced Finnish business integration leader the acquiring company appointed another integration leader for the acquiring side's team who is a Singaporean Chinese with language capabilities and cultural understanding to operate effectively in the local business environment. Moreover, by appointing as many Chinese managers as possible to lead the functional teams the acquiring company was able both to mitigate the effect of the national cultural

differences and to ensure effective communication between the two integration teams. Furthermore, the acquiring company addressed the issue of cultural differences early on in the process and organized both Chinese cultural training and team-building activities in the pre-integration phase.

The language barrier was identified as a key challenge for the integration. The decision making processes and forms of communication were perceived different and to cause challenges to some extent for the integration process. Therefore the cultural challenges were very much in line with the earlier research on Finnish-Sino business partnerships. Patience and understanding of the cultural differences on both sides were perceived as essential for overcoming the cultural challenges during the integration process.

Concluding, the acquiring company did take the cultural differences of the two organizations into consideration and were quite successful in managing the cultural challenges in a way which mitigated resistance to change and cultural clashes within the acquired organization. However, too much formality was used in the communications and greater number of the acquiring side's integration managers should have been relocated to the target location for the integration period. Nevertheless, the research findings enriched the existing literature and based on the earlier literature and these findings a model for managing the cultural challenges in the case post-acquisition integration was able to be formulated. This research has some limitations regarding the managerial perspective and the timeframe of research. Moreover, the single case study provides little base for generalization. However, the main objective was not to find universal approach for the research problem but to obtain extensive insight into the researched case.

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APPENDICES

Appendix 1   Earlier research on cultural challenges in Finnish-Sino business partnerships

Researcher	Published	Title	Research method	Purpose of the study / main findings
Björkman – Kock	1995	Social Relationships and Business networks: the case of western companies in China	Interviews	Purpose of the multiple case study was to examine the importance of guanxi in the Chinese partnerships. Study reveals that developing of guanxi was challenging for foreign managers who not only have the capability to speak Chinese but also lack party relations in the local context.
Koivisto - Lampinen	2001	Crossing national and corporate cultures: in-depth analysis of the cross-cultural organization in the integration of Finnish firm's acquisition case in HK	In-depth interviews	Purpose of the study was to provide more understanding to the cross-cultural integration process by adopting the concept of cultural crossing in analyzing the national and corporate culture dimensions of cross-cultural integration of an acquisition case of Finnish firm and a Hong Kong firm.
Ramström	2005	West meets east: a study of cross-institutional business relationship between Finnish/Swedish and Overseas Chinese	Interviews	Purpose of the study was to examine Finnish and Swedish companies' cross-institutional relationships with overseas Chinese firms and the different forms of business structures and behavior. Study describes the nature of relationship process between Finnish / Swedish and ethnic Chinese and explains that the ethnic Chinese context imposes pressures of Finnish / Swedish corporate behavior.

Vihakara	2006	Patience and understanding: a narrative approach to managerial communication in Sino-Finnish joint venture	Interviews	Purpose of the single case study was to examine managerial communication in Sino-Finnish joint venture. Through the study the main cultural challenges on managerial communication were identified. Challenges brought by differences not only in language, communication and negotiation styles but also in ways to cope with conflict were identified.
Wang	2007	The key activities of partnership development in China – a study of Sino-Finnish partnerships	Interviews	Purpose of the study was to identify the ways to develop a successful partnership in China. Partnership activities were examined in four EJVs and four manufacturer-distributor business relationships. Key activities were categorized in partnership motives, partner selection, HRM, knowledge transfer, risk management and cultural differences. Case companies shared similar perception on cultural differences to some extent and therefore key cultural challenges were indentified in Sino-Finnish partnerships. .

Appendix 2   Operational spreadsheet

RESEARCH PROBLEM	SUB PROBLEMS	THEORETICAL FRAMEWORK	QUESTION THEMES
In which way the cultural challenges are being managed in the case company's post-acquisition integration process?	How is the integration approach chosen to the cross-border acquisition in order to minimize the cultural challenges?	2.1 2.5	I III XI XII
	How has the speed of integration been adapted to the cross-cultural circumstances?	2.2 2.5	II III X XII
	In which way the integration project management is assembled to tackle cultural challenges during the post-acquisition integration?	2.3 2.4 2.5	II IV V VI VII VIII IX XII

Appendix 3 Interview questionnaires

Questionnaire for the first interview with the business integration leader

I   Overall strategy for the acquisition and the degree of integration

1. How intensively the acquired company will be integrated in to the acquiring corporation?
2. How does the selected integration approach fit with strategic purpose of the acquisition?
3. How would you describe the course of the integration process?
4. Which functions play most important part in the integration process?

II   Managing the post-acquisition integration process

5. In which way the integration project management has been structured?
6. How would you describe the process of appointing the functional integration managers from their respective companies?
7. Do the selected managers have prior experience in M&A integration and in operating within the Chinese business environment?
8. What are the roles and main responsibilities? Integration leader/Functional team leaders?
9. How would you describe the availability of the managers for integration tasks?

III   Cultural aspects of the acquisition

10. How would you describe the importance of cultural differences in this acquisition?
11. In which way the acquired company's cultural background was taken into consideration while planning the integration process?
12. In which way the cultural differences have been apparent in the integration process?
13. Which kind of effect the cultural differences have had on the process?

Interview questionnaire for the post-integration interviews with the integration project management

IV **Preparation**

1. How long you have been involved in the acquisition process?
2. In which way you were prepared for this integration process?
3. In which way the challenge of cultural differences was communicated and discussed?
4. How would you describe your former experience on post-acquisition integration process and Chinese business environment?
5. How would you describe the on-board team building activities held on the acquisition week?

V **Responsibilities & Roles**

6. How well your role in th integration process fits in your field of expertise and your position in the company?

0	1	2	3	4	5
N/A	not well				very well

7. How would you evaluate your availability for integration processes in addition to your daily tasks?

0	1	2	3	4	5
N/A	low				high

VI **Communication**

8. How would you describe the forms of communication
   a. Between you and the Sym-Bio representative within your integration function?
   b. Between the functional integration team and integration leaders?
9. How would you evaluate the effectiveness of communication channels used during the process?

0	1	2	3	4	5
N/A	not effective				very effective

10. How would you describe the availability of information during the process?

0	1	2	3	4	5
N/A	not available				extremely good

11. How would you evaluate your awareness what others were doing?
    a. Within your function?

0	1	2	3	4	5
N/A	very poor				very good

    b. Within the project integration management as a whole?

0	1	2	3	4	5
N/A	very poor				very good

VII   Coordination

12. In which way your team's integration tasks were coordinated by the integration leader?

13. How would you describe the coordination of tasks between you and the Sym-Bio representative within your integration function?

14. How clearly was your integration objectives defined?

0	1	2	3	4	5
N/A	not well				very well

15. How would you evaluate the support of senior management?

0	1	2	3	4	5
N/A	non existent				very strong

16. In which way the progress of the integration was monitored and feedback given?

VIII   Decision making

17. How would you describe the differences in the decision making and implementation between you and your counterpart within your function?

18. In which way you would evaluate your authority to make decisions regarding the integration?

0	1	2	3	4	5
N/A	very low				very high

19. How effective would you describe the process of getting approval for the decisions you were not authorized to make?

0	1	2	3	4	5
N/A	not effective at all				extremely effective

IX   Cooperation

20. How would you describe the cooperation between you and the Sym-Bio representative within your integration function?

0	1	2	3	4	5
N/A	non existent				very effective

21. How would you describe the cooperation between integration leader and your integration function?

0	1	2	3	4	5
N/A	non existent				very effective

X   Speed of integration

22. In which way the sense of urgency was created to the process?

23. How would you describe the speed of integration actions taken?

0		1	2	3	4	5
N/A		very slow				very quick

24. How comfortable did you feel with the integration speed?

XI   Attitudes towards change

25. In which way the urgency of change was defined and communicated?

26. How strong the change has been within your function?

27. How strongly were people motivated towards the change within your integration function?

0		1	2	3	4	5
N/A		very weak				very strongly

28. In which way the resistance to change was noticeable within your integration function?

XII   Outcome

29. How would you describe the impact of the cultural differences between PKI integration team and the Sym-Bio integration team on the daily integration tasks?

30. What were the key challenges during the integration process?

31. Which were the key success factors in the integration process?

32. In which way the integration process could have been improved?