JÖNKÖPING UNIVERSITY

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# Internationalize Mergers and Acquisitions

**MASTER THESIS WITHIN** *Business Administration*

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## Abstract

As globalization processes, an increasing number of companies use mergers and acquisitions as a tool to achieve company growth in the international business world. The purpose of this thesis is to investigate the process of an international M&A and analyze the factors leading to success.

The research started with reviewing different academic theory. The important aspects in both pre-M&A phase and post-M&A phase have been studied in depth. Because of the complexity in international M&A, a qualitative method has been used in the research. The empirical findings of the case study have mainly been collected from.semi-structured interviews.

The investigation shows that an international M&A is a tried-and-tested process from initial identification to integration. The process can be summarized into five steps: identification, evaluation, negotiation, implementation and integration. The important factors contributing to the success of international M&As are found to be corporate selection capability, cultural differences, human resources and communication.

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# 1. Introduction

*This chapter introduces the study topic briefly and explains why it is interesting to conduct research. It consists of study background, research problems, purpose and questions. It also presents the definition of key terms, delimitation of the study, and methodology.*

Growth is one of organizational goals pursued by the management level. Growth can be either organic or inorganic (Penrose, 2009). Organic growth refers to company growth by increased productivity and cost reduction, while inorganic growth refers to company output by acquiring new businesses (Penrose, 2009).

In recent years, it is common and inevitable for companies to grow at a worldwide scale. As the globalization process proceeds, an increasing number of companies are required to internationalize their markets. Large multinational companies have achieved inorganic growth through cross-broader mergers and acquisitions, and M&As have become a trend (Harford, 2005). The statistic shows that the value of global M&As fluctuated from 3327 to 6012 trillion U.S. dollars. (Statistics on Mergers & Acquisitions, 2017). Interestingly, the shareholder value of related acquisitions is greater than the mathematical sum of two individual entities (Shelton, 1988). M&A activities are also considered to increase financial output and customer value (Kreitl & Oberndorfer, 2004). Therefore, the M&A activities are considered to create more value.

With "added value" as standpoint, this master thesis will investigate the synergies and reasons with respect to the international M&As. However, because of the large number of failure in cross-border M&As, some researchers start to question if M&As create value or destroy it. But M&As are still considered as one of organizational strategies in order to expand international market. What reasons lead to this trend? How these corporations unfold the M&A process and create synergies? What factors make M&As successful?

## 1.1 Background

M&As are simply known as the consolidation of two companies, but actually they are different, which are always confused and used interchangeably (Sherman, 2010). Nearly all M&A activities involve many aspects such as organizational strategies, financial decisions and management choices. Although the reasons behind M&As might be complex, Mueller & Sirower (2003) propose that management's desires for growth are strongly related to M&As. In addition, the motivation for company growth has been proven further. Zhou (2011) points out that many companies intend to grow and improve the company performance and competitiveness by M&As.

When mentioning M&A activities, potential synergies are often considered as the results. For example, the resources of functions such as finance, marketing and R&D in two entities can be easily shared after M&As. When M&A activities take place, the managements are often positive about them, because they are decision makers and therefore expect the desired results. Therefore in order to achieve successful M&As, managements are often required to ensure the incentives of the M&A activities in the way of business valuation (Sherman, 2010).

A study, being conducted in the U.S. manufacturing industry, investigated the relationship between M&A costs and choices. The study indicated that the likelihood of M&As increases when a great amount of resources that can be shared in the new company do exist. On the other hand, limited and complex interdependencies between units in the new company set up barriers for M&As (Zhou, 2011).

Meanwhile, another study pointed out that there are two major problems in regards to the synergy effects of M&As. The first problem is called the contagion effect. It refers to that positive and negative effects of resource sharing emerge and become visible simultaneously in the business units. The second problem, capacity effect, appears when limited and existing resources are consumed to a large extent (Shaver, 2006).

There are many unsuccessful examples of M&As in the business world (DiMaggio, 2009; Hazelkorn et al., 2004). The research initiated by Hay Group (2007) demonstrates that only 9% of M&As are recognized to be completely successful. However, there are still many successful examples of M&As in the business world. In the last period of time, many large companies have started to step outside due to the hard pressures from stakeholders, customers and competitors, mainly expanding foreign markets by M&A activities. Interestingly, these companies have made M&As to be a part of their strategies to improve competitive advantage and core competence.

In regards to the Chinese situation, according to a report of China outbound M&A activities by JP Morgan, a broad universe of M&As executed by Chinese companies surged in both 2015 and 2016. This surge is not limited in the amount, but also in deal size.

The actual statistics from PwC shows that China outbound M&A increased 246% by value and 142% by volume in year 2016. The total outbound deals recorded at US$221 billion, which was more than the sum of transactions in previous four years. There were 51 outbound deals valued over 1 billion US dollars, which was more than double the last year's record.

Considering investment destinations, nearly all major destinations, such as North America and Europe, reached new records. In other words, developed economies are still attractive destinations for Chinese companies to search leading platforms, technologies and brands. At the same time large and mature markets are ideal investment destinations for Chinese companies as well. Besides that, Asia becomes an increasingly attractive destination for Chinese companies because of its geographical location.

In addition, M&A activities executed by financial buyers has contributed largely to the total increase in China outbound M&As, which are more than doubling over the previous year. The motivation for this type of outbound M&As is that financial investors seek oversea assets as their growth strategies and search for geographical and currency diversification.

## 1.2 Research Problem

As mentioned, the tendency of international M&As is growing. The major purpose of internationalizing M&As is to achieve synergies between the two companies and thus to improve competitive advantages (Seth, 1990). However, the potential synergies can merely be forecasted beforehand, but they cannot be guaranteed in the end. Problems will occur throughout the whole phases of activities from thought to action. Cartwright (2002) believes that there is too much focus on the tangible aspects, such as financials and rationales, rather than the soft sides of the deals.

Specifically, many decision makers are inclined to regard M&As as rational and financial activities instead of human collaborations. They put more focus on financial and strategic aspects in the initial selection, and in the performance explanations as well. These factors clearly contribute to the M&A outcomes, but they are not the only variables to the success or failure of M&As. Successful M&A activities are closely linked to the management's ability to plan the activities, realize the potential synergies, and integrate different cultures and people.

A few of common errors in M&A activities can be recognized as the different definitions of potential synergies, the neglect of opportunities, misunderstanding of cultures and systems (Ficery et al, 2007). Even though the M&A activities are well prepared and the potential synergies are considered to be feasible before the action, the mismatching will occur during the whole process.

Another study points out that human resources and culture differences are responsible for the failure of M&A transactions. Although the management level drafts strategic changes and overall plans, it is employees who make actual changes in daily work. Thus the problems in the realization of synergies arise when the employees do not expect or are not satisfied (Schuler & Jackson, 2001). However, the different type of synergies involve different problems of realization. In another study, 45% of senior managers think that synergies related to revenue are realized. The results for cost synergies are slightly higher, indicating there are lower difficulties in synergies to decrease costs (Accenture, 2006). The problem is further supported by the research of

KPMG in 2008. It believes that companies generally overlook revenue synergies. Instead cost synergies are more focused in comparison with revenue synergies because they are more easily quantified (Kreitl & Oberndorfer, 2004).

Although there are many obstacles in the processed of M&As, from the above statistics it is clear that more and more Chinese companies conduct M&A activities in the international markets where decentralization plays an important role. But there are still many questions. It is better to learn from both positive and negative sides of M&As (Thomson & Nichols, 2010). Therefore the research for soft issues of M&As is extremely helpful to extend our understandings, to reexamine the M&A processes, and to identify factors contributing to success.

## 1.3 Research Purpose

The purpose of this paper is to investigate the process of an international M&A executed by a Chinese company. At the same time this thesis aims to analyze potential factors leading to successful M&As.

## 1.4 Research Questions

In order to achieve the study's purpose, following questions will be asked:

How does a process of international M&A unfold?

What are the most important factors leading to the success of international M&As?

## 1.5 Definition of Key Terms

This section explains the definition of key words in the study to make readers easy to understand.

A merger is "*a combination of two companies to form a new company*" (Whitaker, S. C., 2012).

An acquisition is "*the purchase of one company by another in which no new company is formed*" (Whitaker, S. C., 2012).

Synergy is "*an effect arising between two or more agents, entities, factors, or substances that produce an effect greater than the sum of their individual effects*" (Ren et al., 2013).

## 1.6 Delimitation

This section briefly describes the frames and boundaries in this study. A general and wide analysis of different M&A activities cross several countries is not appropriate because of the limited time, knowledge and financials. In order to obtain a more detailed analysis that can answer the research questions, the delimitations are considered to be narrowed to a Chinese company that has acquired a local company in the foreign market.

## 1.7 Methodology

A qualitative method is used to answer the research questions. The analysis is conducted based on both primary and secondary data. The primary data involves general information from the company websites or public documents, and specific information from company representatives. The secondary data consists of existing materials and articles to define theoretical framework.

## 2. Theoretical Framework

*This chapter summarizes the theoretical framework of M&A by reviewing the previous books and articles, which includes the concepts of M&A, different types of M&A, motivations for M&A, synergetic effects, cultural differences, and the integration phase of M&A. The purpose of this section is to organize existing literature and offer a better understanding of M&A to the readers.*

### 2.1 Concepts of M&As

M&A represents an organizational strategy to buy, sell, divide and combine different companies (Depamphilis, 2009). There is still a little difference between the two concepts. In a merger, two companies are combined and therefore create a new entity. From the financial perspectives, the stocks of two companies are canceled and new stocks of new company are issued. A merger often takes place between two companies of equal sizes.

Acquisition, however, refers to that a company takes over another company and becomes the single owner of the two companies. The company initiating takeovers establishes its power and runs the business in the smaller and less powerful company. From the financial perspectives, the stocks of acquired company are not canceled, instead they are still traded in the market (DePamphilis, 2009).

M&A activities are classified into two different types, vertical and horizontal, that will be described and explained in details in the following section.

### 2.2 Two Different Types of M&As

When two companies are connected to each other, M&As are classified into different forms depending on where the added value occurs. This section summarizes the different types of M&As and explains how synergies differ under diverse forms of M&As.

Lynch (2006) proposes two alternatives of M&As that companies could face, including related diversification and unrelated diversification. Related diversification refers to M&A activities initiated in related businesses that have similar capabilities and value systems. In other words, the two companies produce the same products, target the same type of customers, have similar interests and so forth. Compared to related diversification, however, unrelated diversification refers to develop beyond the current capabilities and value systems in the companies. If there is potential synergies that lead to reduce current inefficiencies and improve present management, the incentive for unrelated diversification happens in two companies. But the potential benefits related to economics of scope are not found in unrelated diversification, and the sole goal of unrelated diversification is to restructure and control performance.

With respect to related diversification, it can be further divided into two categories, horizontal and vertical integration. At the horizontal level, integration includes complementary or competitive activities into current activities in the companies. When two companies are integrated into a unified entity, several synergies occur in different areas. In order to facilitate the process of resource sharing, it is necessary to maintain close relationships between units. Therefore, high-quality communication and coordination is required in the integration, but the costs of bureaucracy incurred increase at the same time (Lynch, 2006). At the vertical level, M&As involve backwards or forwards activities along the companies' present value systems. Backward and forward activities refer to such activities that are initiated by suppliers and distributors respectively. Often these activities overlap the current competences in some ways where potential synergies are found. Because companies want to absorb profits from suppliers, reduce input costs, and control quality of inputs, such desires contribute to vertical integration. In addition, the vertical integration is common in the situations where companies are largely dependent on few suppliers (Lynch, 2006). In the downside stream of value chain, the rationale of acquiring a distributor is to avoid direct sales between suppliers and customers, which exerts more control on operations (Hopkins, 1983). Actually there is a third classification named conglomerate M&As, but Felton (1971) considers it to be evil. Hence it will not be discussed further.

In reality, there is no clear boundaries between related and unrelated diversifications. Most often M&A activities are mixes of two alternatives. M&As being regarded as related diversifications are more likely to be successful than M&As in unrelated diversifications (Gaughan, 2010). The similarities between two companies create more possibilities to realize synergies (Johnson et al., 2004).

### 2.3 Motivations for M&As

In this section, the overall motivations for M&A will be presented in order to provide a better understanding of how synergies and growth are interrelated after the completion of M&As.

Currently companies are experiencing constant pressures from their stakeholders and shareholders. The stakeholders seek interests for themselves, while the shareholders want to see returns on investments. The increased ROI indicates corporate growth. According to Schriber (2009), the growth is regarded as a key element of successful corporations, and constant progresses and wealth are realized through company growth.

Generally speaking, there are two options for companies to grow, either internally or externally. Companies grow internally means that they use their current capabilities and existing resources to increase revenues. The degrees of internal growth are dependent on many factors such as market conditions, industry environment and company specific resources. These possibilities of growth are limited in some markets, especially in mature markets. Thus the growth through the utilization of current resources is always insufficient to meet the shareholders' demands. In this situation, managements prefer to pursue company growth through M&As and synergies (Schriber, 2009). In other words, M&As are motivated by strategic goals, company growth (Kreitl & Oberndorfer, 2004). However, possible market expansions are not the sole purpose of mergers and acquisitions, instead other aspects, such as knowledge acquisitions, are important as well (Johnson et al., 2004).

When comparing organic and inorganic growth, inorganic growth through M&As is quickly accessible to new resources in the new companies, thus creating positive changes and increasing possibilities of quick wins. These advantages of M&As are especially true when the acquired resources are expensive or when the process of acquiring new resources needs a long period of time (Schriber, 2009).

Based on the statements mentioned above, it is obvious that companies are pursuing increased growth through M&A activities. However, how the growth achieved in M&As are quite different from company to company. And the process of growth achieved depends on the thrusts of motivations behind M&As. The synergies are possible to be applied in diverse areas, therefore they also influence the growth achieved at the same time. According to Kreitl & Oberndorfer (2004), an interview to managers involved in M&As ranks the motivations for M&A in Sweden, US and UK. The strongest motivations for M&As include market shares, sales, cost savings, technology and product facilities. At the same time potential synergies between two companies after M&As can be found in one or all of these five areas, which depends on the companies' natures. Therefore it can be concluded that growth and synergies are achieved in these five areas simultaneously.

There is a model (see figure 1) shows that incentives for growth in a company lead to M&A activities, and that M&As create realization of synergies, which contributes to the company growth (Sofie Eliasson, 2011). Therefore, standing on this point, this study assumes that synergies act as the results of M&As, and that M&A activities are conducted because of companies' incentives for growth rather than other reasons (Berk & DeMarzo, 2011). Successful realization of synergies will lead to the desired growth.

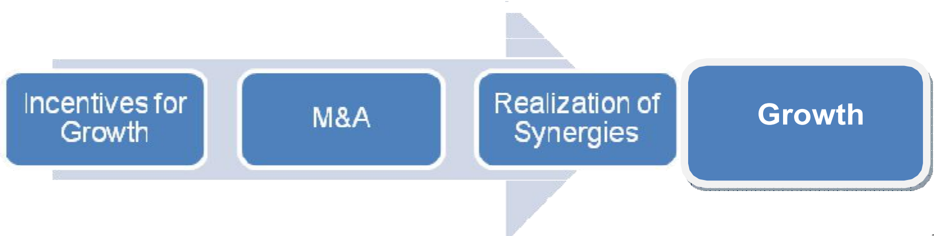


*Figure 1-A model of incentives for growth creating M&A*

Source: (Sofie Eliasson, 2011)

### 2.4 A Value System in a Company

After explaining the company's needs for growth, this section describes the concepts of a company's value chain and explains where the value comes from. It gives a better understanding of where and how synergies occur in a company. In addition, this section helps the readers to understand where a company locate in the value systems strongly influence the choices of different M&As type.

The value chain links different activities together and develop companies' main functions, from original inputs to end products. Every company distinguishes its value chain from others, and the unique value chain positively increases a company's competitive advantages. The activities involved in the value chain can be divided into two categories: primary activities and secondary activities.

The primary activities consist of activities dealing from production to after sales, including inbound logistics, operations, outbound logistics, marketing and sales, customer service. The secondary activities consist of activities supporting the primary activities, such as procurement, research and technology development, and other infrastructure, etc. (De Wit & Meyer, 2005).

Taking a company as a start point, the value system consists of all value chains of its suppliers, contributors and customers. In other words, a value system includes several value chains and sets up a network of relations from suppliers' suppliers to customers' customers. Any problems in the company's value chain lead to severe influence on the company operations. For that reason, it is important for companies to optimize and even streamline these processes. Before M&A activities, it is necessary to analyze the company's value chain and its value system, find out existing gaps and forecast potential synergies. Not all people who involve in the M&A processes can discover and estimate all potential synergies because of insufficient knowledge on the whole processes. Thus the information from people doing daily work in the company is extremely important. These frontline employees have the most knowledge about processes and realize the potential synergies in the end (Early, 2004).

## 2.5 Concepts of Synergistic Effects in M&As

Synergies are often considered as the results of the M&As. The concept of synergies indicates that the value of two companies after M&A activities is greater than the sum value of two individual companies. The word "synergy" means that "*separate parts works together*" originally, but the original definition pays more focus on the relationship of two parts rather than the actual results of two entities (Kreitl & Oberndorfer, 2004). In business world, M&A synergies are considered to improve competitiveness and increase competence (Sirower, 1997). Today's synergies refer to added value created by sharing existing resources in two individual companies (Zhou, Shin & Cannella, 2008). If potential benefits would not be realized at a reasonable level of cost, synergies seem not to occur. Due to the fact that potential results could be positive, synergies are often regarded as one of main incentives in M&A activities. The arguments state that synergies in M&As involve both tangible aspects, for example, financial gains, and intangible sides, such as efficiency improvement in the companies. However, the potential synergies only occur when the processes of M&As are completed and integrated well in the group companies (Zollo &Sing, 2004).

As synergies can be both tangible and intangible, they can be found in all functions within a company. The forms of synergies in the companies differ because of diverse types of M&A and businesses. Synergies are classified into several categorizations in the previous literature. According to Schriber (2009), synergies are summarized into four types: cost synergies, revenue synergies, financial synergies and market synergies.

Cost synergies refer to decrease current costs in the companies, for example, administration costs and overhead costs (Schriber, 2009). If a company does not use its resources in full capacity, these idle resources can be utilized more effectively, thus decreasing average costs after the M&A activities (Johnson et al., 2004).

Revenue synergies refer to increase the revenues since a company can extend the groups of consumers and products and extend sales cross broader (Schriber, 2009).

Market synergies are realized when higher margins are achieved. A company has better capabilities of negotiation with suppliers and customers after M&A, thus there is more space for expanding profit margins (Schriber, 2009).

Financial synergies are associated with lower costs of capital because M&A activities between two companies lead to decrease risks, increase financial margins and speed up cash flows (Schriber, 2009).

The four types of synergies specifically indicate where synergies are found and how a company benefits itself financially. The actual results of synergies are not independent, therefore they are not classified into only one type. Otherwise synergies often overlap and can be classified into more than one type that are mentioned above.

However, in the theory, a simpler classification is often used, which merely includes revenue synergies and cost synergies (Harding & Rovert, 2004). In order to simplify the concept and facilitate the understanding, this study will use the simple classification in the further discussion.

After the classification, the next step is to explain the two concepts of cost and revenue synergies respectively. In order to provide a better understanding, some examples of the two concepts will be presented below.

1. The gains of efficiency are achieved due to the increased economies of scope and economies of scale (Johnson et al., 2004).

2. The gains from fast entry means that a company can entry a growing market quickly at a fast speed. The pace of a growing market is increasingly high, and it is difficult for a company to obtain required resources and knowledge to meet the market demands. In addition, it takes time to educate employees and develop end products. However, the prerequisites can be met at a fast speed by acquiring other mature firms in this market (Johnson et al., 2004).

3. Competitive advantages are obvious in mature and slow markets where competition is intense. The cost of expansion in a mature market is relatively high, but the results cannot be expected, or sometimes the results cannot be satisfied. Moreover, the increase of additional resources cannot guarantee a company to enlarge its current position successfully as expected. If the extra benefits obtained cannot offset the extra costs paid, this expansion method is not accepted. Therefore, there is a need to search other methods. For many companies, it seems to be the only option to expand current position in a static market by acquiring additional resources through M&As (Johnson et al., 2004).

4. The gains from consolidation refer to the competitive advantages gained through increase of core capabilities in fragmented industries. Such M&A activities in fragmented industries facilitate the consolidation of single specialization areas. Therefore the companies can concentrate core competences effectively through M&As (Johnson et al., 2004).

5. The gains of additional resources through M&As refer in particular to the resources that cannot be obtained at all, or the resources that can acquired at a relatively high cost. Especially in research and development function, resources can be gained simply by M&As instead of spending time on research and education (Johnson et al., 2004).

6. The gains of knowledge exchange are transformation of specific resource, for example, daily routines, information and best practices (Johnson et al., 2004). The increased possibilities of cooperation through M&As facilitate the transformation process of knowledge, thus lead the companies to learn more at a fast speed (De Wit & Meyer, 2005).

7. The gains of stretching corporate capabilities exist in situations where parent companies are possible to use their competences and capabilities in new areas after mergers and acquisitions. Such M&A activities are motivated by business diversities rather than business similarities. In such cases, corporate levels of synergies are created between different types of business units (Johnson et al., 2004).

8. The gains from market size and market share are realized when companies win more market share or even expand the whole market size. In other words, M&As synergies make the companies more competitive than their rivals in the market position. In addition, a good alignment of business units increases the base of customer products in the same market, thus having more possibilities to complete the whole market (Johnson et al., 2004).

9. The gains of resource sharing refer to cost savings by decreased usage of resources after mergers and acquisitions. For instance, resources can be utilized by different business units in one company at the same time, and resources can even be reused or shifted. Such actions reduce the frequency of resource usage, thus decreasing overall costs (Johnson et al., 2004).

10. The gains from price pressure are achieved when the average costs decrease because that the types of economies of scope are expanded (Johnson et al., 2004).

11. The gains from transaction costs refer to the decreased costs of transactions between companies and related stakeholders, such as suppliers and customers (Coase, 1937). Because M&As contribute to internalization and shorten the distance of related parties, the transactions seem to be easier than before (De Wit & Meyer, 2005).

12. The gains of bargaining power differ along with the sizes of product volumes. When product volumes enlarge, the bargaining power increases, especially in the negotiations with external stakeholders (De Wit & Meyer, 2005).

Although there is little possibilities to see all gains of M&As mentioned above at the same time, several synergies and combinations of these synergies will occur. In addition, they are regarded as the motivations for M&A activities (De Wit & Meyer, 2005).

## 2.6 Negative Synergies

Besides positive and desired synergies, this section depicts some negative implications driven from synergies.

Positive synergies create added value to two companies, while negative synergies lead to that the value of two companies is less than the sum of stand-alone value. The diseconomies of scale and the diseconomies of scope are examples of negative synergies (Harding & Rovert, 2004). Other examples involve the loss of employees because of duplication in job positions, and increased IT costs. More importantly, managers involved in M&A activities shift focus from ongoing business to M&A integration, and from sales promotions to cost cutting (Harding & Rovert, 2004). Yet the coordinative activities in M&As increase the administrative and managerial work, thus leading to the increased costs and complexities (Johnson et al., 2004). In addition, the increased workload is required because extensive integration efforts are needed (Schriber, 2009). For the reason that negative synergies can strongly impact many aspects, it is important to consider the upsides and downsides of synergies at the same time (Harding & Rovert, 2004).

According to Shaver (2004), when implementing synergies, there are two main negative effects emerging in the integration phase, *the contagion effect* and the *capacity effect.* When two companies are connected, the relation of them changes, the contagion effect means the interdependence between the two companies. For instance, the managerial turnover after M&As might change the management style in the company, which might cause negative effects to the company. On the other hand, the capacity effect indicates the increased usage of existing resources. The extended utilization of slack resources might result in the capacity constraints that restrict organic enhancements in the company in the future. For example, capacity constrains occur when workload gets heavier after M&A activities, which is beyond the employees' ability to handle. Even though the companies have the opportunities to improve sales after M&As, the capacity constrains restrict the production. It means that the companies cannot take advantages of the opportunities.

The conclusion in the literature indicates that the more activities need to be integrated between two companies, the larger is the implications of two negative effects. Although the integration activities are well planned and M&A activities are properly evaluated beforehand, these negative effects can only be avoided to some extent. But these negative effects are still possible to result in failures in M&As (Shaver, 2004).

### 2.7 Cultures in M&As

There is no exact definition for culture in today's scientific world and most academic literature cite Tyler's (1871) definition as;"*Culture is a whole in which it includes knowledge, belief, art, morals, law, custom and any capabilities and habits acquired by a man as a member of a society*". However, the concept has been criticized because the term is defined in several different ways but shares no clear consensus (Child, 1981; Bhagat & Mcquaid, 1982). For example, in merger and acquisition, culture is a broad concept that often covers behaviour, objectives, self-interests, and other reasons. Therefore it is apparent that culture influences the outcomes of M&A activities because it will affect almost everything when people interact with each other (Weber, 1996).

From different prescriptive, culture can be defined in different ways (Kroeber & Kluckhohn, 1952). The company's culture that often includes assumptions, beliefs and rules are not written down clearly, so most people are difficult to describe and measure what the company's culture is. But the beliefs and rules that anyone in the company shares and follows are classified as the company's culture. Therefore culture is created and defined by the most employees in the company or even by the leaders (Habeck, Kröger & Träm, 2000).

Culture differences are considered as the most frequent reason for the failure of mergers and acquisitions before and after the activity (Buono & Bowditch, 2003). When two companies try to combine two different cultures together before or after M&A activities, conflicts and tensions emerge, thus leading to failure in M&As (Sundberg & Sjödahl, 2012). According to a survey of 115 M&A transactions around the world by Habeck, Kröger & Träm (2000), the authors reveals what factors result in unsuccessful mergers and acquisitions, and why cultural differences have such huge influences. The result of the survey also shows that 58 percent of mergers and acquisitions are unsuccessful to reach the goals pursued by the top management.

Sometimes the combination of two cultures can be valid. But more often the combination will destroy the value that the top management supposes to create when the combination of two cultures is applied without careful consideration or implemented badly. In other words, the lack of strategy and planning to impose one culture on another will be an obstacle in process of the value realization. However, for example, if the acquired company serves very different market from its merger's market, it is best to leave the two cultures separate and intact (Habeck, Kröger & Träm, 2000).

However, when a company establishes horizontal M&A transactions, the full integration is required to release value. Therefore a new culture is required to be created by extracting the best elements from sub-companies and combining them together. The new culture is important and helpful to guide and create a stronger and superior company.

In a survey done by A.T. Kearny Global PMI Survey, the companies involved in M&A activities face an interesting question that is: *Which phase bears the greatest failure risk?* According to the result, 53 percent illustrates that the post-merger phase bears the greatest risk, and 30 percent point out the importance in the pre-merger phase. In other words, mergers and acquisitions affect the whole company, especially the employees' attitudes and behaviors, throughout the M&A from preparation to integration. According to Habeck, Kröger & Träm (2000), the changes of the employees' attitudes and behaviors in any M&A activities are resulted from five factors: loss of status and influence, no clear understanding of the company's intentions, fierce fight for survival, increased workloads, and potential effects on personal life.

## 2.8 The Impacts of Cultures

Much of M&A researches pay attention to financial variables when describing success or failure, but apparently corporate cultural differences during post-merger integration phase are extremely important (Buono & Bowditch, 2003). It means that the high degree of commitment to the acquired company is wanted. At the same time the high degree of cooperation between two companies is needed. This challenge is very obvious in bio-tech industry. The intention of M&A activities in this industry is to acquire knowledge and related resources, but the long integration period increases the risk of speeding up turnover rates, which might quickly erode the interest of knowledge-based resources at the very beginning (Weber, Tarba & Bachar, 2012).

In the literature in order to examine the cultural differences between two companies, seven cultural dimensions are applied. They are innovation and action orientation, attitude on risk-taking, integration and lateral interdependence, autonomy in decision-making, top management contact, performance and reward orientation (Weber, Tarba & Bachar, 2012).

And in order to examine the cultural differences between two countries, Hofstede's cultural dimensions are applied. They include power distance, uncertainty avoidance, masculinity or feminity, individualism or collectivism (Weber, Tarba & Bachar, 2012). After considering corporate and national differences, together with potential synergies, the authors introduce a modified framework to explain the post-merger integration strategy.

| | | |
|---|---|---|
| High | Preservation | Symbiosis |
| Low | (Holding) | Absorption |
| | Synergy potential | |

*Table 1-Integration Approaches*

(Source: Weber, Tarba & Bachar, 2012, p.107)

The conclusion in this paper shows that mergers and acquisitions have more possibility of being successful if appropriate post-merger integration approaches are applied, according to the previous post-merger approach classification. And the expected level of cultural differences and integration should be considered and planned as early as possible in the process of M&A activities, perhaps even in the search for acquired objects (Weber, Tarba & Bachar, 2012).

## 2.9 Identifying Cultures

Diagnosing a company's culture is a subjective and interpretive process, therefore it requires insights into historical and current activities (Buono & Bowditch, 2003). The greatest difficulty is the result of the hidden culture in the company. In other words, much of culture is implicit, even to the employees within the culture (Habeck, Kröger & Träm, 2000). Thus it is essential to assess the cultures of the two companies at very beginning in order to minimize the risks of failure. The cultural assessment allows the top management to split areas which can be managed swiftly, areas where similarities may occur, and areas where friction may happen. The information extracted from the cultural assessment enables the new company to consolidate the strengths and create new competitiveness.

In addition, understanding the cultural differences between two companies can help to create a powerful force in the new company, thus the employees get a clear understanding of common goal.

Although financial variables can determine whether a M&A transaction is desirable, the cultural considerations are the decisive factors to the success of mergers and acquisitions.

## 2.10 The Importance of Integration

This section explains the potential problems associated with synergies and describes the importance of integration in the successful realization of synergy.

Synergies are generally considered to motivate doubtful mergers and acquisition in the business world even though two companies have completely different motivations. But overoptimistic expects and calculations of synergies are often responsible for the failures of many mergers and acquisitions, and in some cases, synergies are justified as main incentives for unsuccessful deals (Harding & Rovert, 2004). What kind of M&As is successful? Rankine (2001) defines a successful M&A contributes to increase the shareholder value, or achieve strategic, commercial or financial goals when the acquirer buys the business (Rankine, 2001).

However, synergies cannot be seen as the sole reason for the failures. Such complex reasons, for example, the incorrect estimations of costs, the imagination of non-existing synergies and the insufficient understanding of price, are also responsible for the unsuccessful deals (Perry, 2004). One of the biggest challenges in the M&As is to value the synergies. Because the bidders often offer the highest price according to their preferences in order to win the deals. But not all the deals realize the actual benefits as they claim before the deals (Early, 2004). In many cases, managers involved in M&A activities admit that there are overestimations of synergies (Cullinan et al., 2004). These overestimations come from the complex calculation of synergies' true value and costs, so synergies must be handled critically (Schriber, 2009). Therefore, a synergy matching principle states that synergies can be valued only when amount and value are taken into account for both benefits and costs. Before the total value of the deal is set, it is necessary to consider the synergy matching principle in order to reduce the unrealized synergies and potential losses (Sirower, 2006). Overall the problems related to synergies in M&As include the overestimation of synergy value and the underestimation of associated costs.

Besides the two problems mentioned above, the negative influences on cash flows must be considered. In other words, costs related to implementation and realization of synergies are subtracted from the synergy stand-alone value, leading to negative influences on cash flows temporarily.

When considering cost problems, the factor "time" cannot be neglected. Harding and Rovert (2004) shows how the probability of success differs along with the time frame. The probability of success in M&As increases as the time of synergy realization decrease. According to the figure, the complexity of synergies increases the time frame, thus reduces the probability of success. It is more likely to be easier to estimate synergy value by identifying the time frame and probability of realization.

### 2.11 The Integration Phase

This section deeply explains the integration phase in M&As.

A successful M&A integration results in the realization of potential synergies. A poor integration leads to defaulted synergies (Schriber, 2009). In other words, if elaborated wok including careful analysis and implementation plans are applied beforehand, the likelihood of desirable results are increased highly (Hoang & Lapumnuaypon, 2008). It is often said that the transaction and evaluation of mergers and acquisitions are the most intense phases where all people pay most attentions, which leaves little energy for integration phase. In order to keep focus on integration phase (Ficery et al., 2007), a lot of work must to be done efficiently. Integration occurs when the new company handles duplication problems, at the same time, supposes to run the business as usual. The priority of the ongoing business often results in the interruption in the phase of integration. Thus it is common to spend longer time in this phase than planed even though a time schedule has been made before. The longer time frame increases the risk of some synergies' loss (Ficery et al., 2007). Therefore synergies must be viewed from a long-term perspective, because companies need a long period of time to adapt to new circumstance. Focus, reconciliations and surveillance are required in the implementation and synergy realization (Ficery et al., 2007).

When choosing from the four possible M&A integration approaches mentioned above, the key consideration for decision depends on the company's need for autonomy. A *conservative* approach is the most appropriate for the companies with low need for integration and high need for autonomy. A *symbiosis* approach is appropriate to the companies that both need for integration and need for autonomy are high. An *absorption* approach is suitable for the companies with high need for integration and low need for autonomy. The fourth approach, *holding*, means that no integration is needed at all because of low need for both integration and autonomy in holding companies. Actually it is often hard to decide which integration approach is the best for the companies, and most often the most appropriate approach is in the middle of four alternatives (Schriber, 2007).

Timing is an important factor in the integration phase. Several related issues of the M&A integration need to be handled quickly in order to realize the estimated synergies. These M&A deals often involve company's daily operations and maintenance that are described as the company's basic needs (Allen & Renjen, 2009). At the very beginning of the M&A integration, it is challenging to keep the daily operations, such as sales and customer service, at the same level. Therefore in the first place, it is of importance to ensure that the businesses operate as usual as they do before the mergers and acquisitions. Afterwards any wider improvements can be conducted (Allen & Renjen, 2009).

In addition, Boeh & Beamish (2007) also claim that integrating daily activities quickly is crucial, because the quick integration influences whether the desirable results can come from the other M&A integration activities.

From a financial point of view, these issues, which need to be handled quickly, have a great impact on cash flows as payments should be arranged carefully. Otherwise further financial problems, for example liquidity problems, may arise (Ficery et al., 2007). Time lag destroys expected value because it significantly affects net present value. In other words, the company is losing money since expected gains fail to occur as predicted (Sirower, 2006). In addition, these financial losses increase along with time past (Ficery et al., 2007). For financial reasons, even though many synergies are required to be implemented as soon as possible, the actual benefits can not be guaranteed at once. For instance, the synergy of learning effects requires employees to learn to perform efficiently by repeating the same work tasks, thus increasing performance and decreasing costs in the long term (Schilling, 2005). Larsson & Finkelstein (1999) claim that benefits from long-term synergies that are not visible at once can not be neglected. It is impossible to realize potential synergies immediately or to see all of them, as ongoing trial-and-error processes help to discover and enhance potential synergies. This argument is supported by Schriber (2009) who believes that most of synergies evolve over time. The author does not think that companies know everything, which hinders the companies to integrate unknown enhancements.

In addition to timing, leadership and management are important in the integration phase as well, because researches have indicated that human resources affect the corporate culture and economical results (Burleson, 2002). Managerial people have great responsibilities of integration and synergy realization. Since the responsibilities are often divided down in the companies, managers often deal with allocation and coordination of resources (Schriber, 2009). Moreover managers deal with the people issues during the process (Bulent, 2005). As managerial persons, one of the most important tasks is to keep key employees who know the companies and their operation better than any other ones in the companies. Synergies are not likely to be realized without motivated employees in the company (Schriber, 2009). Middle managers' commitments are especially important and must be affirmed. Middles managers are responsible for both business operations and customer relations, therefore they normally act as links keeping all together (Johnson et al,. 2004). Human capital contributes largely to the success of M&A integration. The better the integration process is, the more persons are retained in the company (Trautwein, 1990), hence the better the M&A outcome will be (Early, 2004). Potential problems related to retaining persons can be tackled by nominating one or several employees to ensure that the synergies are implemented, and financial incentives can be used as one of motivations. If the employees have been involved in the implementation process, they feel more obligations. In other words, when the employees have been engaged in elaboration and development of synergies, they are more possible to deliver desired results (Schriber, 2009). However, if no incentives or follow-up efforts are at place, employees will no motivations or reasons to improve, thus poor performance will occur. As a result, it is impossible to explain whether the synergies have been released their full potentials and where poor performance is hidden. Because of the complexity reasons, leadership and management problems grow along with the company sizes (Johnson et al., 2004).

The employee involvement is extremely important for integration, especially for the M&A integration that aims to integrate companies completely, or for the M&A integration that handles very different corporate cultures (Johnson et al., 2004). Cultural differences between two companies are great barriers to M&A integration and synergy realization, because misunderstandings, uncertainties and resistances to change are probably to occur if new instructions are partial (Cartwright & Cooper, 2012). On the other hand, corporate cultures work as a defense to resist all external threats, not just only in mergers and acquisitions. Therefore, as a result, all M&A integration are facing problems related to culture clashes, regardless whether the corporate cultures differ largely or not.

In order to minimize the negative effects of culture differences in the new company, communication is considered to be an effective way to avoid anxiety and uncertainties, thus contributing to the sense of safeness. However, communication is insufficient to eliminate all doubts. If the management's value and behavior are not clear, the top-down communication will be meaningless. Corporate value and behavior should be instilled and translated into daily works and goals (Allen & Renjen, 2009). One of useful suggestion is that the management should provide employees with explicit career advice and information regarding to their employments, because new conditions and promises arise when a new company is created through M&As (Larsson & Finkelstein, 1999). The communication with other stakeholders is also important, especially the suppliers and customers, because their relationships with the new company will be affected by M&As to some extent (Allen & Renjen, 2009). Most importantly, corporate plans and future goals need to be clarified, and business tasks need to be renegotiated, because uncertainties are probably found at all levels of the company (Allen & Renjen, 2009).

The degree of integration is considered as the obstacles in the process of planned synergies realization. In other words, the more integration is taken place, the more potential problem are probably to occur. In some cases, however, the companies do not need a complete M&A integration, potential obstacles are still found. For example, management capabilities and financial surveillance can result in doubts and misinterpretation (Allen & Renjen, 2009).

In order to avoid obstacles as many as possible, related risk assessments should not be neglected. If potential risk scenarios are counted and thought well beforehand, following incidents would be relatively easy to be handled. For example, the probability and impact of the potential risks can be calculated and mapped out. Then a specific risk mitigation plan can guide employees what to do in case of risk occurrence. However, the rules of how to manage, reduce and eliminate risks are only valid when the conditions keep constant. Every sudden and new change will shake up details and reverse efforts. Internal conditions are not the only factor to impact businesses because companies operate in dynamic environments. The other factors, such as macro economy and foreign exchange rates, can easily change the companies' prerequisites in a short period of time (Perry, 2004).

The potential problems associated with synergies realization are complex and diverse, therefore Ficery et al. (2007) summarizes them:

1. The definition of synergies is too narrow or too broad. The management does not take too much efforts to measure and follow up the value of synergies after the M&A transactions.

2. The window of opportunities is missed. The longer time after the M&A transactions, the more difficult it is to realize the synergies. If companies do not capture the potential synergies in 18 to 24 months after the deals, the possibility of synergy realization will diminish largely because people will not focus on M&As and even go backwards to the situation of pre-M&A.

3. The incorrect or insufficient incentives are used. The management often use diverse incentives to motivate the works related to synergy realization. It is important to keep the incentives clear and accurate, which shows the importance of synergy realization, and sets standards for what will be obtained after achievements.

4. The wrong persons are involved in the realization of synergies. The management handle the overall implementation, but the actual daily work are done by employees who best know the work. The employees with much knowledge are likely to perform better in the companies.

5. Systems are mismatched with culture. Working with measurable goals is one of factors to the success of capturing synergies, thus the companies are required to handle goals in the working procedures. If performance measurements are not used in the companies, obstacles are possibly to occur. Therefore it is important to set up desired goals in existing processes and systems, for example, integrating the goals into the budgets.

6. The wrong processes are used. In order to achieve something actually, identification, valuation, quantification and prioritization should be executed in the actual work. Suitable systems that track synergy targets and financial plans will contribute to facilitate working processes and avoid obstacles.

### 2.12 The Current Situation of China Outbound M&As

According to China M&A report published by PwC in August, 2017, China outbound M&A deals decreased by 13% in value terms, but the actual number of transactions increased by 8%. Under widely publicized curbs, the decrease in value terms of outbound M&A activities was the result of fewer mega-deals in the first half of this year, which was only 15 mega-deals in the half of 2017. Compared to 15 mega-deals, there were 23 mega-deals in the previous period.


*Figure 2- China mainland outbound M&As*

(Source: China outbound M&As by PwC, 2017)

Although the value terms of China outbound M&As is decreasing, the number of transactions is maintained or even increased. Three main outbound sectors, state-owned enterprises (SOEs), private-owned enterprises (POEs) and financial buyers, contribute to this increase in the volume of transactions.

The report also shows that outbound M&A activities with clear strategic rationales continue to win supports from enterprises, in which technology is the leading sector. Investments in technologies, which are repatriated into China, are good examples of supported deals. In addition, investments in technologies are the largest category of outbound transactions by industry type.

Besides the strategic buyers, financial buyers support China mainland outbound M&A activities as well, which have reached the peak in both volume and value terms.

Referring to the investment destinations, the United States still sees an increase in M&A transactions in 2017. In addition, the number of M&A activities increases in Asia because of related Belt & Road investments.

Overall, Chinese government has issued new outbound investment regulations on 18$^{th}$ August 2017. In other words, the guidance for outbound investments has been clarified, in which the investments on agriculture and modern service are encouraged and the investments on certain industries, such as real estate and entertainment, are scrutinized. Despite some regulations and restrictions, Chinese companies are still motivated to move abroad in long term. In the report, the analysts expect that China outbound M&As slow down slightly in July to December of 2017 because of political effects, but there will be a further growth in the next year.

# 3. Methods

*This chapter describes the research approach, two types of data and the method of collection. The chapter also describes how to conduct interviews and data analysis. Thereafter literature search, delimitation and limitation, and trustworthiness are presented.*

## 3.1 Qualitative Research

"*Qualitative research methods involve the systematic collection, organization, and interpretation of textual material derived from talk or observation*" (Malterud, 2002). Qualitative methods refer to identify and compare the characteristics of empirical facts. Empirical facts involve information that are easy to be understood, and difficult to be captured (Huff, 2008). The author summarizes the aims of a qualitative method including the explanation of phenomenon, extended details to explanations, and exploration of antecedents and consequences. In addition, a qualitative method comprises a great number of descriptions, qualified arguments and further meanings, which makes it for reflections.

However, a quantitative method is objective, oversimple and precise. In other words, a quantitative method cannot provide a deep understanding of a specific field because detailed and specific information would be difficult to be extracted from statistics only. Statistics consists of numbers that are translated from verbal information, but it is hard to ask the respondents to give detailed answers to complex questions. Therefore, it would be risky to miss important or valuable points by relying on a quantitative approach, which leads to misunderstanding of the whole picture (Huff, 2008).

This thesis aims to investigate the process of international M&A, which is extremely complex. Based on the fact, a qualitative method is appropriate. The qualitative research intends to obtain a deep understanding of the complicated process, and explore the hidden characteristics (Huff, 2008). In addition, the qualitative research is an excellent opportunity to get close to the research objects and get understanding from their points of views (Bansal & Corley, 2011; Pratt, 2009).

## 3.2 Research Approach

This intention of this research is to investigate the process of international M&As. In order to gain overall understanding and deep insights, the research is carried out by a case study for revelatory purpose (Yin, 2013). In addition, although longitudinal case study can reveal the phenomenon in detail, a cross-sectional case study is applied in this research because of time constraints (Yin, 2013). Four different respondents share how the M&A process evolved from their points of view, which makes the data to meet the requirements. More importantly, the case study is also an embedded type because it includes certain units of analysis, for example, cultural difference and human resources (Yin, 2013).

After determining to use a case study, the next step is to decide which method is the most appropriate. In this study, semi-conducted interviews are considered to be the most suitable for the respondents because they can answer freely to the open questions. In addition, semi-structured interviews give the respondents room to expand their points, as well as let the interviewer have opportunities to ask additional questions. Furthermore, this type of interviews enables the interviewer to have deep insights to dive into the subjective views from the respondents (Flick, 2014).

### 3.3 Primary and Secondary Data

This case study is based on data collected from primary and secondary sources.

Primary data is specific information for this study and the main source of empirical findings. Even though primary information is difficult to gain, it is updated and trustworthy (McQuarrie, 2006). There are two main sources of primary information. One is the company's general information from their web pages, annual reports and other public documents. On the other hand, the company's specific information is collected from the semi-structured interviews with company representatives. The questions related to the research purpose are predefined and asked in order to ensure the openness and flexibility (Hesse-Biber & Leavy, 2010).

Secondary data is collected for other reasons, but can be used in the study because of its relevance (Hanson, 2010). The secondary data is used for complement with primary data. The fact that secondary data is less costly or time-consuming, hence it is a preferred source of information. The collection of secondary data is the initial work of the thesis, which intends to gather general information about the selected field, and to compile existing materials for the theoretical framework.

### 3.4 Sample Selection

M&As take place in all industry and most companies engaging in international M&As often confront the similar obstacles. The purpose of the study is to gather deep insights into international M&A process. It requires a selection of the possible company in the case study to ensure the sufficient data. Therefore the author decides to focus on a specific company to conduct a single case study in-depth.

The fact that Chinese companies have extensive international M&A activities in the recent years. It triggers me to investigate this phenomenon from Chinese company perspectives. The intension is to investigate on case for merger or acquisition, which allows the focus on one specific aspect.

Large companies fulfilling the sample criteria of merging or acquiring a foreign company are Alibaba Group, Tencent Holdings, and Beijing Genomics Institue (BGI). Initially e-mails are a good way to contact with the company to invite their participation into the study. However, only BGI Genomics responds affirmatively to accept the interviews. After describing the research topic and purpose to the communication department, they help to get contacts with four employees with M&A knowledge in different departments. The group of interview participants includes both managers and front-line employees. All of them have worked in the company for more than 5 years, in other words, they have experienced the acquisition process.

### 3.5 Data Collection

Before the interviews, an interview guide including research topics and purpose had been sent to the interview participants. Moreover, the interview partners were asked to think about the M&A process and important aspects in advance. Because the author had a general understanding of international M&A and the company background, the research questions were predefined but only several general questions were given to the interviewees before the interviews in order to eliminate the bias in the responses. In addition, the interview questions were designed and developed all the way in order to make new interview better than the previous one.

In order to have a clear and overall picture of M&As, the participants in the interviews are from different departments. The detailed information of the interviews is summarized in the following Table 2. Similar questions were asked, but the feedback differed depending on interview partners' willingness and knowledge. Broad questions were modified to many smaller questions during the interviews, in order to help the interviewees to answer from surface to depth.

The first round interviews were executed in the period of November 3 to 10, 2017 through Skype. Although the author realized that visiting the company was a better choice, because of geographical location and limited time, Skype face-to-face interviews were chosen as the ways to collect data. And this type of interviews were accepted by the interviewees. The duration of the interviews differed approximately from 45 to 60 minutes. In the interviews, four respondents mainly explained what they did and how they acted in the M&A process. All interviews were executed in Chinese because it is the native language of interviewees and author. It facilitates that the interviewees can express themselves and answer to the questions more directly without too much thinking on language translation. The recording of the interviews were asked and approved by all interviewees before the interviews. In case the recordings were lost afterwards, the author also took notes in the interviews.

After the first round interviews were translated and transcribed, some responses were unclear to some extent or some new questions emerged. Hence the author contacted with the interviewees to express the intention of further investigation. The follow-up interviews were given to the same respondents in the period of November 23 to 27, 2017. Each interview lasted almost 20 minutes and the same way of recording and note taking was applied in the interviews. Through the follow-up interviews, the respondents elaborated their previous answers in details and added new insights into the interviews.

| | **Interviewee** | **Position** | **Date** | **Duration** |
|---|---|---|---|---|
| 1 | Interviewee A | Technical officer | 2017-11-08 | 45 minutes |
| 2 | Interviewee B | Business manager | 2017-11-10 | 45 minutes |
| 3 | Interviewee C | PR supervisor | 2017-11-03 | 60 minutes |
| 4 | Interviewee D | Project manager | 2017-11-08 | 45 minutes |
| 5 | Interviewee A | Technical officer | 2017-11-23 | 20 minutes |
| 6 | Interviewee B | Business manager | 2017-11-27 | 20 minutes |
| 7 | Interviewee C | PR supervisor | 2017-11-24 | 20 minutes |
| 8 | Interviewee D | Project manager | 2017-11-23 | 20 minutes |

*Table 2- Overview of interviewees from the case company*

### 3.6 Analysis of Data

The difficulty in qualitative studies is the analysis of information. Because the amount of information is large, the analysis requires recontextualization and decontextualization. Recontextualization assures that the information is related to the framework, and that no incorrect information is reduced. Decontextualization aims at looking at the parts of information in depth to find similar characteristics (Malterud, 2002).

Bearing this in mind, the transcripts and notes of the interviews were compared with each other in order to keep the consistency. Moreover the data collected from the company's websites, annual reports and other public documents was also added into the analysis. The credibility of the case study could be enhanced because the different data was combined together and complemented each other.

After translation of the transcripts and notes, a large amount of data required to be broken into small parts and recontextualized. The author started to sort out the data according to the similarities and differences of the answers. The review of raw data was also in line with the theoretical concepts. It facilitates to structure and analyze data further.

The initial review of interview transcripts and notes was helpful to identify the main concepts and code the key terms with meanings. The in-vivo coding practice was applied to assign labels to selected content of data (Corbin & Strauss, 2015). The author intended to include important concepts as more as possible, therefore any data was cut down with careful thoughts when they failed to reveal any concepts. The similarities and differences in concepts across the multiple interviews were labeled in order to ensure that the analysis was generated by the opinions of every interviewee. The codes were scrutinized for several times. The time consuming process of coding contributed to deep insights and enhance the trustworthiness. According to Corbin & Strauss (2015), axial coding practice was applied in the next step. The relationships among the coded information were identified and the common patterns were categorized into core themes through careful thinking.

The analytical process followed the design of a single case study by Dubios & Gadde (2002). The analysis practice is constantly switched between empirical findings and theory, thus generating a better matching between theoretical and practical perspectives (Dubios & Gadde, 2002). The focus was to compare the existing theory with the information from reality. For example, cultural difference is a potential problem in the integration phase of international M&As. The same problem was further pointed out in the empirical findings. The purpose of the comparison was to grasp more relationships between the reality and theory. It allows the better understanding of theory and data and leads to good connections between them. This better connections strengthen the findings and conclusion in the research (Yin, 2013).

### 3.7 Literature Search

M&A is a relatively broad topic, it is necessary to learn and gather information in relation to the basic concepts. The separate concepts worth nothing unless the whole M&A process is clarified. Therefore in order to get an overall understanding of M&A relevant concepts, the focus of literature search is to find information in regards to M&As, such as corporate strategy and synergies.

Several different sources of information are used, for example, academic articles and non-fiction books. Because academic literature are understandable and informative, and they introduce the M&As in general, they are used to compile the fundamental data in the study. The other information from the articles written by corporate strategists or experienced persons working with M&As, are more realistic. Generally, the combination of fundamental and specific M&A information consists of the theoretical frameworks for the study.

The academic books and articles are found by using databases in Jonkoping University library and in Google Scholar. The key words used for searching involve but are not limited to *mergers, acquisitions, synergies, culture difference, China outbound M&A*, etc. Meanwhile, the reference lists and suggested readings in the literature are another important source of new information.

Company specific information and industry information are collected from business magazines, and articles by financial institutions. The information is found to focus on overall situation and industry rather than the M&A process. For this reason, this information is mainly used for learning and understanding, and then create more objective views of the company before the interviews.

### 3.8 Delimitation and Limitation

The delimitation defines the frames and boundaries of the study, and the limitation is uncontrollable influences in the study. Both of them are important for understanding the study's purpose, the company selection and research results (McQuarrie, 2006).

A general and wide analysis of different M&A activities cross several countries is not appropriate because of the limited time, knowledge and financials. In order to obtain a more detailed analysis that can answer the research questions, the delimitation is considered to be narrowed to a Chinese company that has acquired a local company in the foreign market.

However, one limitation involves biases in the interviews. The goal of each interview is to collect information as much as possible in order to get a clear understanding of the company's M&A. But the possibilities are restricted due to several constraints and biases. The duration of interviews is perceived too short, which is not enough to ask all relevant questions. Another limitation is the interviewees' unwillingness to share information. Because the study is partly associated to the company sensitive information, and the company is in high-tech industry, it is understandable that company is not willing to share all information.

### 3.9 Trustworthiness

This thesis aims to conduct a qualitative research with high quality. Therefore the research follows Saunders et al. (2009) concepts of validity and reliability in order to ensure the quality.

Saunders et al. (2009, p. 157) describe validity as "whether the findings are really about what they appear to be about." Validity indicates the coherence of actual findings and supposed findings (McQuarrie, 2006). Validity is often measured from three aspects including content, criterion and construct (Malhotra et al., 2012). This research pays highest attention on content validity. In this study, data collection and typing are handled manually, hence they can be lost at any time. Missing and misinterpretation of information can lead to invalidity in the research. In addition, language translations in both interview transcripts and other documents are likely to make mistakes. In order to decrease potential problems, the information is collected from different sources, and the texts are checked several times.

Reliability refers to whether similar results will be reproduced if the research is conducted again in the same approach (Saunders et al., 2009). The essence of reliability is possible to be replicable. Having this in mind, the process of data collection and analysis is explained as transparently as possible. The theoretical framework is based on secondary data, hence the same results will be produced if the search method is same. The empirical findings from the primary data will also be the same if the same persons are interviewed in regards to similar questions.

## 4. Empirical Findings

*This chapter consists of the collected data. These data was collected through skype interviews with four employees in BGI. All questions were answered during the interviews. The data from interviewees' answers are broken and presented in separate sections. Each section coveres the topics with respect to research purpose and questions. The company information is extracted from the company's websites. Small adjustments are done by the author.*

### 4.1 Acquisition Background

BGI group, founded in 1999, is a leading biotechnology organization working with researches and applications in health care, conservation, agriculture, and environmental fields. The BGI group also makes significant contributions to genomics developments. The organization's headquarter is located in Shenzhen, China and their services are available in nearly 60 countries and regions in the world. It aims to integrate global biological information and make them available to all people. In order to decrease the costs of whole genome sequencing by distinguished technology development, BGI puts huge investments in the genome sequencing hardware and analyst training.

Complete Genomics, located in Mountain View, California, is an innovative leader in human genome sequencing technology. Complete Genomics is also leading at manufacture of genetic sequencer because the company has patented genome sequencing technology and innovative microchip technology. The company was found in year 2005, and was traded on NASDAQ before the acquisition. This company aims to provide researchers and clinicians with advanced technologies to diagnose and treat diseases. It has many partners including research institutions, such as National Cancer Institute (NCI), and bio pharmaceutical companies, such as Roche, Pfizer and Eli Lilly, etc.

Since the establishment, Complete Genomics has insisted on whole human genome sequencing on millions of samples scale. While similar companies generally rely on sales of genetic sequencer and reagents to maintain their operations, Complete Genomics does only human genome sequencing services and does not get involved in plant and animal gene sequencing. Although Complete Genomics has had excellent technology in the industry, the single and stubborn business model resulted in increased business risk. At the same time, fierce competition from similar companies, for example Life Technologies and Illumina, as well as the reduction of funding for basic research from U.S. National Institutes of Health (NIH) made Complete Genomics even worse. The company reported a net loss of $72.34 million in year 2011 and a net loss of $20.20 million in the first quarter of year 2012, when the investors valued Complete Genomics at only $56 million.

In June 2012 Complete Genomics showed the intention of selling the company. After receiving the information, BGI group made a quick decision to participate in the auction. In March 2013 BGI group officially announced the completion of the acquisition through its subsidiary Beta Acquisition Corporation. According to the agreement, BGI group paid $3.15 per share in cash, and the total price of the deal was approximately $117.60 million. After the acquisition, BGI group acquired the genome sequencer production capacity, sequencing platforms, Complete Genomics's experience in providing sequencing services to medical institutions, and some proprietary technologies. Thus BGI group owned the whole industry chain of genome sequencing services. From a technological innovation perspective, the essence is to pass on Complete Genomics's capabilities in R&D, production and other proprietary technologies through the acquisition.

### 4.2 Motives for the Acquisition

The overarching motivation behind the acquisition is the company's strategy for growth and innovation. The BGI mission builds upon the development of genome sequencing. The organizational strategy is to apply the genetic analysis service to every single person. Interviewee C states:

*"We wanted to make the human genome sequencing service cheaper, and make our service affordable to every person."*

However, it takes a long period of time from scientific research to practical application. At he same time, the application of genetic information in medical diagnosis and treatment requires rich biological data. CG has leading capabilities, patented technologies, and rich database in genome sequencing platforms. Through the acquisition, the transition of knowledge, technology and data resource is realized. Interviewee A and D explain:

*"We wanted to gain advanced technologies from CG in order to complete the whole chain of genome sequencing and analysis."*

*"We intended to have a project to analyze the genetic data on millions of samples, and Complete Genomics had experiences in whole human genome sequencing."*

Cost reduction is a prerequisite for the development of the company project. The implementation of ambitious plans is largely dependent on both powerful genome sequencing capabilities and low costs. The high price hinders the project development. Interviewee D states:

*"Although the cost of genome sequencing and analysis for one person dropped to about 100,000 RMB at that time, it was still far away from the targeted cost."*

In addition, too much dependence on suppliers limits the possibilities of cost reduction. Therefore in order to increase flexibility and reduce costs, it is important to add new dimensions to current business. Interviewee B explains that:

*"Broadly speaking, whole genome sequencing depends on both a new generation of genome sequencer and reagents in upstream and data analysis in downstream. Our advantage is extraordinary ability to analyze data, but we face bottlenecks in the upstream of innovation chain without the R&D and capabilities in sequencer manufacture. We always know the importance of tools in this industry. So we want to expand our company to production area instead of being limited in the service area."*

Another motivation for the acquisition is the fierce pressure from the suppliers and competitors. In order to gain competitive advantage and strengthen market position, BGI makes decision to acquire CG which is in the upstream of the value chain. Interviewee A, B and D explain:

*"Before 2011, we have realized that the lack of genome sequencer technology is the key obstacle in our development. And this capacity constraints cannot be achieved by our own breakthrough."*

*"We heavily rely on the companies which provide sequencing machines to us, such as Illumina. But they also want to carry out genome sequencing services. There is a worrying that these companies will be direct competitors to us. When the competition intensifies, these companies may limit our development through the control of upstream technologies. Therefore it is urgent to grasp core technology of genome sequencer. "*

*"We applied for investments to research genome sequencers independently, but we failed. As a result, we decide to gain complementary abilities from outside."*

### 4.3 Contextual Factors in the Process

Firstly, the desirability for the acquisition is the key to success in the integration phase. But the desirability differs from different people. People who keep or even increase their powers are generally positive to the acquisition, while people who lose power because of the acquisition are normally negative. Interviewee C explains:

*"The acquisition is required by the management team, thus it succeeds because everyone puts much efforts into the acquisition work."*

Secondly, business integration is the most important task along the way. Before the acquisition, the business model of Complete Genetics is simple, therefore the management team assumes that the businesses will be highly integrated. However, after the acquisition, it is obvious that strong corporate cultures in BGI and CG have developed their own ways of doing things. In addition, national differences also play an important role. Therefore a great amount of efforts is needed when integrating two corporate cultures in two countries. Interviewee B states:

*"The business model in CG was very simple and the group of customers is small. They only offered genome sequencing service which could not maintain their daily operation. Furthermore, the funding from the government has been diminished, so CG experienced failure in business. After the acquisition, we included their business, at the same time, we needed to expand the group of customers. In this process, the different ways of doing things become a problem at the beginning."*

Mutual respect and effective communication play a role in the integration. It is the management's responsibility to make effective communication among the employees, which leads the employees to respect each other and learn from each other. Thus best practices are developed for the new organization. Interviewee C responds:

*"After the acquisition, the first reaction of employees was surprise rather than respect. They insisted to work in their own ways. But our management thought that it would be problematic. Therefore our management strove to create opportunities for the employees to learn from each other and respect each other's' success."*

The passage of time greatly influences the employees' abilities to overcome culture differences in both BGI and CG. Interviewee C explains:

*"After the acquisition announcement, employees in both companies felt dissociation against each other. As time went by, employees took positions of understanding and respect each other."*

### 4.4 Pre- acquisition Preparation

#### Identification

From a short-term perspective, the acquisition strategy for BGI is to stay away from the overdepence on suppliers who are likely to become competitors. From a long-term perspective, the purpose of this acquisition is to achieve company growth which requires innovative technology and low costs.

The industrial environment of bio-tech is characterized by a small industry of well acquainted suppliers and competitors. The continuous contacts with suppliers and competitors do exist. BGI and CG have known each other well hence the acquisition gradually developed from good familiarity. Interviewee B, C and D state:

*"We know clearly our advantage in data analysis, but we rely too much on our suppliers. We keep our eyes open to find potential partners from the suppliers or even competitors of our suppliers. We already have a good relationship with one*

*competitor of our supplier, CG. Because of this advantage, we can get their information of sale early."*

*"The most important thing was to understand the dynamic knowledge within the industry. We always paid attentions to the upstream companies. We knew a lot of information about Complete Genomics, both their technological competences and financial situations. So when they showed the intention of selling, we made the quick decision in the auction*."

*"BGI always know what is missing in their business, so they are continuously looking for potential acquisition candidates. The management focuses on identifying strategic acquisition candidates. BGI keeps in touch and have good relationship with associated companies. By doing so, BGI became a potential owner when CG was intended to sell itself. If you need a certain type of technology or knowledge, you can outsource them although the price is slightly high."*

**Evaluation**

The potential acquisition is evaluated based on a set of parameters. For example, market position, strategic and technical orientation, and financial position, etc. The evaluation aims to minimize the potential risks in operation and finance.

The acquisition of CG is carefully considered from multiple perspectives. Above all, the interesting company must have an excellent team of talented people and a high level of technical expertise. Furthermore, a successful acquisition needs that both parties understand each other and think alike. Interviewee D explains:

*"We spent a lot of time in meeting the key persons in CG, including the management and key employees. We wanted to understand them. At the same time, we wanted them to understand our group and the way our group works."*

**Negotiation**

In the negotiation phase, BGI is aiming to retain the key employees in the acquired company after the acquisition. On the other hand, the approvals from the candidate's main suppliers and customers are obtained in this phase, which ensures the candidate to operate normally. Interviewee C states:

*"We gave incentives to make sure the continued involvement of management and employees in CG."*

### 4.5 Post-acquisition Integration

**Official integration strategy**

Regarding the integration phase, there is an official strategy. The strategy is set up as a project for the management. The project consists of several sub-project units. The project deals with the coordination of working processes, human resources, technology transform, production, etc. Interviewee B and D explain:

*"We have not had experience in acquiring a company in the US. In order to integrate the new business into our group, we created a professional team dealing with associated issues including financing, operation and management. Furthermore, we outsourced M&A consultants and lawyers in the US, they were the key to the success."*

*"The employees in two companies communicated, learned from each other, and selected processes and systems, in order to develop best practices. "*

After the acquisition, a semi-new organizational structure is created. Each company in BGI group works with a sense of decentralized responsibility. Managerial people who run the respective companies are responsible to make decisions for the companies, because they are the right persons to understand the markets. At the same time, companies within the BGI group have a good affiliation. They share knowledge, gain ideas and stimulate each other. They support each other through industrial knowledge, financing, business management and development. It provides a measure of security. Interviewee C states:

*"Every subsidiary in our BGI group works independently in finance and operation. But they can definitely support each other if needed. At that time, according to the terms of M&A, BGI must pay 1 billion within three months and lend CG 6 million monthly to maintain its operations. We initially considered different means of financing, such as corporate bonds and stock ownership. In the end we decided to sell a part of shares of one subsidiary in our group. In December 2012, we announced to transfer 42% shares for 1.398 billion which was used for the acquisition."*

Conflicts arise during the whole process, and it is difficult to handle the conflicts due to the cultural difference and national policies. If people are open-minded, they will experience less difficulties in adapting to new situation. Regarding to different policies in two countries, it is extremely necessary to hire professional consultants and lawyers to proceed the M&A process. Interviewee B and C explain:

*"It is important to take the initiatives to understand the differences in company cultures. These differences are much greater than those in national cultures. And these differences are difficult to handle. These norms and values are deeply rooted in the employees and company."*

*"We hired expensive financial consultants, legal advisers, and public relation firms, which made CG feel us sincere. These professionals told us what could not to be done at crucial time. Finally we found that they were really deserved to the expensive charges."*

**Strong integration team**

In the integration phase, there is a coherent consensus of putting much efforts into the integration from the management to the front-line staff. Interviewee A states:

*"There was a clear contact list. You were available to support at any time if you had any doubts."*

The meetings are held frequently by the management, and the integration progresses are reported regularly. There is still cultural clashes during the whole process, which is a main result of differences in corporate cultures. In the US, CG is considered as one of market leaders. This company's advantage is to conduct researches rather than sales. Hence BGI group gives the acquired company room to conduct and refine its own way of working. The mission and core value of the acquired company are kept intact. At the same time BGI integrate CG's successful work into their current business in order to make their business chain completed. Therefore after the acquisition, CG keeps its own way of working and BGI group adds new dimensions to current business.

**Speed in implementation**

The acquisition progresses quickly because there is a time limit and fierce competition in the negotiation. But BGI group spends much time in initial assessments. Interviewee C states:

*"We would like long process, because you can get to know the interesting company better. It took long time in the initial contacts and assessments, because at that time CG was unavailable for sale. When the firm took decision to sell, when they hired M&A advisers, the whole process was very short. It only took nine months from the launching to completion."*

**Communication**

During the integration phase, the communication to related stakeholders works well. However, the communication to the employees is adequate but not so fast, because inaccurate information creates negative effects due to excessive stress. Interviewee C explains:

*"It is better to make progresses slowly, because it is dangerous to announce details without complete confirmation."*

Moreover, the communication focuses on the positive sides of the acquisition instead of the negative sides. Interviewee B explains:

*"When you talked much about the advantages of the acquisition, people would be convinced finally."*

On the other hand, employees sometimes have difficulties in dealing with their new roles. When employees leave the company because of uncertainty and dissatisfication with the new roles, it will be a disaster. BGI group pays as much attention as possible to retain key employees. Interviewee C and D state:

*"There were some risks associated with key persons in the acquired company. The resignation of key persons could be avoided through premium price and engagements."*

*"We were dependent on the key persons with deep and desired knowledge. We wanted them to continue to contribute to the company growth. And we made some efforts."*

**Performance measurements**

The result of the acquisition is evaluated by the degree of the synergy realization in different aspects. Before the acquisition, three US companies, Life Technologies, Illumina and Complete Genomics, monopolized the manufacture of the genome sequencer and reagents in the industry. Illumina was the main supplier of BGI, and BGI was limited to develop due to the high price of new machines and reagents. After acquiring CG, the costs from upstream are reduced largely. Regarding to revenue synergies, it is obvious because the new business is added to BGI group and the group of customers is expanded. Interviewee A, D and B explain:

*"We completed the whole chain from genome sequencing to data analysis after the acquisition. We also got genome sequencing platforms and related resources."*

*"We could save R&D costs by acquiring Complete Genomics. More importantly, we did not need to rely on our previous suppliers Illumina anymore."*

*"After the acquisition, we included the production of sequencer and reagents to our business. The whole chain of genome sequencing service made our company to acquire more market positions and expand our service to more regions."*

## 4.6 Classification of the Empirical Findings

The empirical findings chapter presents different aspects in the acquisition process according to four respondents. In order to include as much data as possible, the following Table 3 is used to supplement the above findings.

| Sections | Quotes from the interviews |
|---|---|
| 4.2<br><br>Motives for acquisition | *"CG is the competitor of Illumina. When CG shows the intention for sale, Illumina shows their interests to the acquisition. If CG is acquired by Illumina, it would be a huge threat to us."*—Interviewee B<br><br>*"We had a great vision of the company development. But we knew it was impossible if we relied too much on our supplier Illumina. Hence we decided to invest money on technology research in order to get rid of the dependence on Illumina."*—Interviewee C |
| 4.3<br><br>Contextual factors | *"Although the two companies differ in national and corporate cultures, it is not a problem because we are open-minded and have global views."*—Interviewee A<br><br>*"We have done R&D on sequencer technology before, but we failed. We have insufficient knowledge and experience in this area. Hence we respect the researchers in the CG and their work ways. We just want to learn rather than interfere them."*—Interviewee D |
| 4.4<br><br>Pre-acquisition preparation | *"At that time, there were only three companies providing sequencing machines in the world. One of them, Illumina was our supplier. The limited size of suppliers made it possible to stay in touch with two other suppliers. Finally one of them become our acquisition object."*—Interviewee A<br><br>*"Apart from negotiating the key terms to CG, at the same time, we contacted with the business partners of CG in order to keep the daily operation unchanged."*—Interviewee B |

| | |
|---|---|
| 4.5<br><br>Post-acquisition integration | *"The business part of CG is combined into our subsidiary in the U.S. CG is retained to focus on the technology research and optimization."*—Interviewee B<br><br>*"The company communicated the acquisition well to our employees. We feel motivated because the acquisition object is so fit with our company, and there are a lot of benefits to company and employees after the acquisition."*—Interviewee A |

*Table 3-Classificaiton of the empirical findings*

## 5. Analysis

*This chapter combines the theoretical framework with empirical findings in order to identify deeper insights. The discussion is organized in basis of the interviews, public documents, and pure economic company data. The different types of data help to analyze findings with good validity. The following discussion aims to answer the two addressed research questions.*

### 5.1 Motivations for M&As

When companies are limited to grow with current resources, the management is likely to pursue company growth through M&As and related synergies in the first place (Schriber, 2009). In addition, the urgent demand for knowledge and market expansion are important purposes that drive M&As (Johnson et al., 2004). According to the empirical findings, the main motivation for M&As is the desires for company growth and innovation.

Inorganic growth through M&As is quickly accessible to new resources in the new companies (Schriber, 2009). The advantages of M&As are especially obvious in BGI group because the costs of external supply are relatively high. Moreover, BGI group has invested a great amount of money on the R&D, but unfortunately they failed in the end. In other words, the development of technologies requires many investments and a long period of time. Hence the transfer of knowledge and technology through M&As is available quickly.

Furthermore, theory identifies the five strongest motivations for M&As including market shares, sales, cost savings, technology and product facilities (Kreitl & Oberndorfer, 2004). These motivations are compared to empirical findings collected from BGI group in Table 4.

| **Theory** | **Verified by the empirical data** |
|---|---|
| Market shares/Market position | Yes |
| Sales | No |
| Cost savings | Yes |
| Technology | Yes |
| Product facilities | No |

*Table 4- Motivations comparison between theory and findings*

Three of five motivations listed in the theory (Kreitl & Oberndorfer, 2004) are verified by our findings. And the motivations behind M&As are complex, and the motivations are considered from different points of view (McCann, 1996). Sometime the external changings in the industry will reinforce the motivations for M&As. At the same time company growth and synergies are achieved in one or all five areas.

## 5.2 Synergies Findings

Generally, the BGI group has a open-mind attitude to allow the acquired company CG decide whether use synergies or not. CG is not intervened but encouraged to find own synergies. The freedom and flexibility are also appreciated by the management of CG. The fact that the acquired company is kept nearly intact is an appealing factor to the owners of CG.

### 5.2.1 Positive Fynergies

In business world, synergies, the results of M&As, refer to increase competences for both companies, not only in tangible aspects, but also in intangible sides (Zollo &Sing, 2004). This argument is further affirmed by our respondents in the interviews. Harding & Rovert (2004) simply summarize synergies into two types, cost synergies and revenue categories. However, synergies often overlap (Harding & Rovert, 2004), hence the findings are analyzed from different aspects.

**Financial strength**

Early (2004) and Perry (2004) suggest that too much reduces in costs will result in undesired losses in revenues. The problem does not occur in our case because the headquarter does not cut costs in the acquired company CG. The acquired company was successful in technology before the acquisition. The main reason for sale is the poor financial due to single business model. Given that BGI group is financially strong and has common goals with CG, BGI group uses its financial strength to develop CG further. In short, the BGI group brings strength to the acquired company. This advantage resulted from the consolidation of fragmented synergies is also supported by Sudarsanam (2003).

**Non-financial improvements**

Firstly, the financial supports give the acquired company new opportunities to develop beyond its boundary. The business opportunities and new ideas can be approached with different views and financial supports.

Secondly, the broad networks in the group companies is a substantial synergy. The ideas and knowledge can be shared, and the businesses can be discussed among the subsidiaries. The broad networks are able to lead to new business opportunities and cooperation.

Thirdly, both parties benefit from each other’s brand name and reputation after the acquisition. CG has leading position in the US market, and BGI group has good reputation in the international market. Being a part of BGI group, CG is available to more resource to further research, and BGI group is able to strengthen relations and networks in the foreign market. It offers the BGI group new opportunities to gather greater market shares in the industry.

Fourthly, risk spread is an important part of a group company, especially in the bio-tech industry, where a large number of investments are used in the researches. Potential losses can be minimized by having several subsidiaries with diverse business focuses because losses in one subsidiary can be offset by gains in another subsidiary.

Last but not least, from individual perspective, the employees in the group companies are engaged in abroad work, and thus they get new opportunities for career development and increased responsibilities. From the company perspective, the costs of recruiting capable employees are cut and the risks of finding unsuitable employees are decreased.

### 5.2.2 Negative Synergies

Negative synergies are unapparent to find in both company website and interviews because people generally associate synergies with positive sides. Moreover, negative aspects are too sensitive to discuss openly. And it is unfair to give negative consequences in short term because some synergies are considered to be positive in long term (Shaver, 2004).

For example, additional workload and efforts are taken by employees before the positive outcomes emerge (Schriber, 2009). Our findings affirm that some employees add workloads or shift focus in the process of the acquisition.

Another negative synergy is related to possible overlaps between two parities. According to our respondents, the business part in CG which is overlapped with BGI has been combined into BGI business. However, CG mainly makes use of its knowledge on research and optimization of current technology.

Larsson & Finkelstein (1999) think that organizational changes create resistance to some extent, and increased bureaucracy is regarded as a negative synergy (Johnson et al., 2004). But the BGI group does not change the management group or management style in the acquired company because the acquisition strategy is decentralized. However the management of BGI group also concerns that too much decentralization can lead to the loss of opportunities although this approach does have advantages.

To sum up, synergies do exist in both parties. The Table 5 below shows the realized synergies in both positive and negative aspects, which can be regarded as traditional synergies in M&As.

| | | |
|---|---|---|
| Positive synergies | Financial strength |
| | Flexibility |
| | New business opportunities |
| | Broad networks |
| | Brand and reputation |
| | Risk spread |
| | Career developments |
| Negative synergies | Increased workload |
| | Competitive overlaps |

*Table 5- Overview of synergies*

**5.3 The Importance of Cultural Differences**

Culture differences are considered as one of the main reasons to the failure of M&As, because conflicts will arise when combining two different corporate cultures (Buono & Bowditch, 2003). Theory shows that the combination of two corporate cultures must be considered and implemented carefully. It is better to be planned strategically (Habeck, Kröger & Träm, 2000). Before planning, it is necessary to assess the degree of cultural differences, which can help the management to deal with in a correct way. However, corporate culture is often implicit (Habeck, Kröger & Träm, 2000). Hence estimating cultural differences requires the management to take deeper insights into the situation of the acquired company (Buono & Bowditch, 2003).

According to the respondents in the interviews, both the management and employees of BGI group pay much attention on the cultural differences in the process of acquisition. Because the acquired company CG is an American company, the top management sets up a team to be in charge of the acquisition. In order to better understand the cultural differences between China and the US, most of team members being chosen have experience in working or living in the US. In addition, the professional consultants are hired to do pre-acquisition assessment in order to minimize the risks of failure.

However, if two companies serve different markets or focus on different businesses, the best way is to keep the two corporate cultures separate and intact (Habeck, Kröger & Träm, 2000). When analyzing the empirical findings, it is obvious that empirical data supports the theory. Three interviewees respond that the management of BGI group does not intend to impose one culture to another. After the acquisition, CG becomes a subsidiary of BGI group. The main mission of CG is still put on the research and optimization of core technology instead of business sales. Therefore the top management decides to apply a decentralized responsibility to the subsidiary CG. In other words, CG keeps the same in the company strategy, culture and operation before and after the acquisition.

Apparently corporate culture differences play an important role in the integration phase. During the integration, a high degree of commitment and cooperation is required between two companies. According to Weber, Tarba & Bachar (2012), the long integration process will increase the risks of employees' leave, and the interest of knowledge-based resources will disappear quickly. The further argument states that M&As have impacts on the employees' attitudes and behaviors from preparation to integration (Habeck, Kröger & Träm, 2000).

In the findings, the purpose of BGI acquiring CG is to obtain core technology in the production of genome sequencer in the short run. Human capital is extremely important resources in the bio-tech industry because technology is the key to dominate in this industry. Hence the actual action in BGI group is correspondence to the theory. Employees are encouraged to be open-minded to the different cultures but they can still choose their own ways of working. Good communication and incentives are given to retain the key employees in the acquired company.

In the literature, considering national and corporate differences, as well as potential synergies, Weber, Tarba & Bachar (2012) modify a framework of post-M&A integration strategy.

| | | |
|---|---|---|
| High | Preservation | Symbiosis |
| Low | (Holding) | Absorption |

Synergy potential

*Table 1-Integration Approaches*

(Source: Weber, Tarba & Bachar, 2012, p.107)

The authors also argue that the application of integration approaches will increase the possibility of M&A success. In addition, when determining the appropriate approach, the expected level of culture differences must be considered from the very beginning (Weber, Tarba & Bachar, 2012). In our findings, BGI group acquired Complete Genomics, and let CG carry out its own operation. The cultural differences are obvious, but the mutual gains for both companies are high, which is the reason of implementing a symbiosis approach (Weber, Tarba & Bachar, 2012). BGI group can make use of CG's core technology in the production of genome sequencer, while CG receives financial supports from BGI to conduct further research and optimize current technology.

The concept of cultural compatibility proposed by Veiga et al (2000) describes the degree of one corporate culture's attractiveness to another. The attractiveness comes from comparing the management's opinions on how things are going before and after M&As. The differences before and after M&As are considered as the influence of the acquired company. When analyzing the empirical findings from our case against the theory (Veiga et al., 2000), the perspective is from BGI's point of view, because all the respondents work in BGI group in China. According to the respondents, there is a relatively positive attitude toward CG's corporate culture and the impacts it brings to BGI. On one hand, some things were better before the acquisition. For example, the management could identify and measure performance in a clear way. On the other hand, however, the respondents perceive that more things are better after the acquisition. For example, creativity and innovation are highly encouraged in the new group. Employees are open-minded and receptive to new colleagues' ways of doing things. There are more cooperation instead of competition in the group.

To sum up, the cultural differences between two companies and between two countries are important factors in determining the success of M&As. Hence the pre-M&A assessment of cultural influence enables the management and employees to handle smoothly when conflicts emerge. And an appropriate post-M&A integration approach increases the possibility of M&A success.

### 5.4 Pre-M&A Preparation

The preparation phase is important to the success of the acquisition. When the acquirer clearly knows the acquired object and prepares well, the acquirer can handle the acquisition and unanticipated changes. Otherwise the potential synergies would not be realized, and the value for both parties would be destroyed.

The important components of pre-M&A phase are summarized in the Table 6.

| Pre-M&A phase | Theory | BGI group |
|---|---|---|
| Identification<br>• Purpose<br><br>• Selected criteria | <br>Company growth<br><br>Financial performance<br>Continuous profitability | <br>Company growth<br>Fierce competition<br>A high level of competences<br>Good relationships with s/c |

| | | |
|---|---|---|
| Evaluation | Estimation of synergies<br>Estimation of costs | Expectation of synergies<br>Risk assessments |

*Table 6- Components of pre-M&A phase*

**Identification**

In the sub-phase of pre-M&A, one of important aspects is to clarify the purpose. Company growth is one of purposes described in the theory (Schriber, 2009), which is corresponded by the findings. Due to the BGI group's desire for growth as well as fierce competition in the industry, the acquisition of CG is an inevitable event in the history of BGI group. BGI group intends to improve core competences and distinguish themselves from competitors by acquiring the access to core knowledge. The acquisition is more attractive when the acquired company holds large market shares in the monopoly market (Keat & Young, 2009).

Another important aspect is to clarify the selected criteria. From financial perspective, the performance and profitability of the acquired company is a prequisition to the M&As (Schriber, 2009). However, the respondents express that a high level of technical expertise, knowledge and competences is required for the BGI group, because they will add value to the company growth. Although CG reports loss in financial performance, the CEO of BGI group highlights CG's core knowledge and technology. In addition, the acquired company must have good relationships with suppliers and customers, and the relationships must be maintained after the acquisition, because strong relationships are important parts of business success.

Importantly, it is the acquirer's ability to select the acquisition objects according to high standards. If the acquirer is not able to find and distinguish the objects, outsourcing professional service is a good way to search objects.

**Evaluation**

The evaluation also involves the estimation of synergy value and associated costs, which is helpful to reduce potential losses (Sirower, 2006). The costs of implementation should also be included, which might influence cash flows negatively in the short time. However, over-expectation about potential synergies can lead to the failure (Harding & Rovert, 2004). The evaluation of acquisition has been done carefully in the BGI group. The management uses deep industrial knowledge and experiences to perform acquisition analysis about potential synergies beforehand. Specifically the risk plan is necessary to deal with potential problems later (Early, 2004). For this reason, the acquisition object CG is carefully evaluated according to several criteria.

**Duration of acquisition processes**

Long acquisition processes enable both parties to become familiarized. It means that problems are discovered and solved along the way, even before the acquisition. However, the short acquisition processes are often involved by M&A advisors because professional consultants have solid knowledge and experiences of M&As. In our case, the actual period is relatively short, but because there are few players in this industry, BGI group and CG are familiar with each other.

## 5.5 Post-acquisition Integration

The theory shows that careful analysis and plans should be applied to increase the possibility of desirable outcomes (Schriber, 2009). Often companies pay most attentions on evaluation and transaction of M&As, however, Schriber (2009) suggests to keep focus on integration. Our case is a mix of horizontal and vertical integration, involving backwards activities and overlapping some current business (Johnson et al., 2004). Several important components in the integration phase are presented and analyzed below.

**Integration strategy and goal**

The acquisition of Complete Genomics involves a strategy of autonomy and decentralization, which is considered an important factor in the success of the acquisition. After the acquisition, CG is kept in old operation and management as long as CG delivers what the BGI group requires. This figure 3 shows the relations of each subsidiary in BGI group. The focus of each subsidiary is apparently different, and headquarter of BGI group intervenes little in each subsidiary.

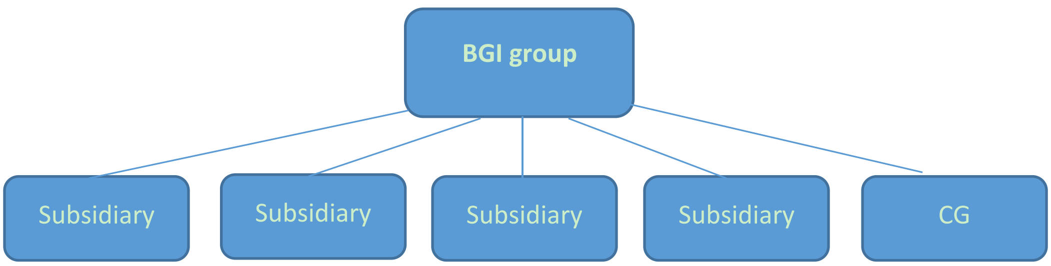


*Figure 3-The organizational structure of BGI Group*

The common goal between BGI group and CG work as tools for securing long-term success and for pursuing continued improvements, which is also described by Sudarsanam (2003). With the consolidation of two companies, the common goal is continuously adjusted and adopted to dynamic environment. The BGI group is able to have insights in the whole chain of this industry, therefore the goal has shifted from the beginning till now.

**Human capital**

Human resource is considered to be important, especially when companies work with decentralized acquisitions. Sudarsanam (2003) argues that human capital is important to the consolidation of fragmented industries. Perry (2001) also suggests to involve right people in the integration process. These arguments are supported by our respondents. Even if BGI group has obtained extensive insights in the CG, the specific experiences and knowledge of key persons in the acquired company are still superior. Therefore the management should be included in assessment phase, whereas the employees should be involved in the implementation phase.

Leadership and management styles are another important factor in the integration phase. Managers are responsible for resource allocation and coordination (Schriber, 2009). Moreover keeping motivated employees is another responsibility of managers because these employees contribute to the synergies realization (Schriber, 2009). Therefore managers work as links between business and people (Johnson et al,. 2004). The research shows that the more managers stay in the acquired company, the better the integration would be (Early, 2004). Managers can be motivated into integration by nomination and financial incentive, when they are involved in, they are likely to deliver positive results (Schriber, 2009). Moreover, the incentives should be followed up in a clear and standard way during the whole process.

**Cultural differences and communication**

Johnson et al. (2004) point out that cultural issues are increasingly important when more integration is required. The interviewees express that differences between both nationalities and companies arise during the process. BGI group in China has a high degree of hierarchy, while CG in the US has a flat structure.

In order to eliminate cultural differences, effective communication toward employees is extremely vital (Allen & Renjen, 2009). According to the respondents, the acquisition is well communicated towards the related stakeholders. The employees are informed about the corporate changes, which avoids uncertainties and leaves positive impression. It makes the employees to have a clear picture of the company value after the acquisition. The company strategy and mission of CG are kept same and intact, focusing on the development of core technology rather than the business sales. Moreover career suggestions and opportunities should be clear to the employees (Larsson & Finkelstein, 1999). In reality, the employees in CG are given a promise to work independently.

In addition, Lynch (2006) argues that high-quality communication and coordination is necessary in the integration phase in order to maintain close relations inside and outside the group. According to the respondents, transparent communication is required in the group companies, which avoids the doubts and rumors such as unequal resource distribution. External communication should also be handled carefully to maintain good relations with suppliers and customers (Allen & Renjen, 2009), which is highlighted in the BGI group.

**Degree of integration and performance measurement**

The more integration is required, the more problems occur Allen & Renjen, 2009). In order to easily handle problems, the respondents express that integration approaches should be adjusted according to the dynamic changes and actual needs. Because a detailed risk mitigation plan is a good guide for employees (Perry, 2004), an integration team is set up to develop and follow up risk plans.

The quantification and valuation of synergies is important to retain key employees' future contribution in the acquired company (Harding & Rovert, 2004). It is also mentioned in the interviews. The BGI group works with measurable goals and integrate goals into budgets. Performance measurements enable the targets and plans are tracked timely.

**Time frame**

At the beginning of integration phase, it is important to maintain company daily operation before doing improvements (Allen & Renjen, 2009). However, the conflicts between ongoing business and M&A integration stretch the planned time schedule, thus increasing the losses of potential synergies (Ficery et al., 2007). Our respondents mention that timing is a crucial factor in the integration. Integration requires longer time than it is predicted initially. In order to achieve potential synergies in the possible way, essential integration actions should be conducted as soon as possible. The argument is also supported by Ficery et al. (2007) and Boeh & Beamish (2007).

## 6. Discussion

*This chapter highlights the process of international M&As in order to advance the analysis. It also presents the implications of the study from theoretical and practical perspectives.*

### 6.1 The process of an international M&A

Considering the complexity of international M&As, it is necessary to reveal the whole process of international M&As. From the buyer's perspective, the process can be summarized into five key steps, which is depicted in the following figure 4. The long process aims to ensure the quality of M&As.

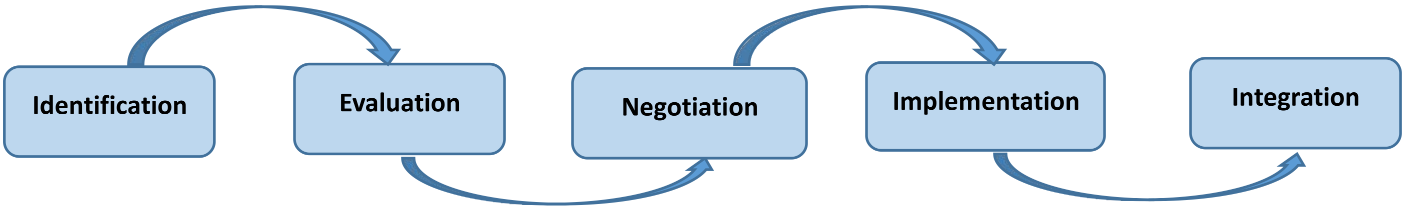


*Figure 4- The process of an international M&A*

#### Identification

When companies intend to expand through inorganic growth (Penrose, 2009), the search for the potential objects who can fit with their company strategy for growth is necessary. The group of potential M&A objects is of importance to be updated constantly. The company's network with upstream and downstream industry is a good and effective way to identify potential objects. At the same time, it is necessary to understand the dynamic situations of the competitors, which helps to obtain the latest changes within the industry.

#### Evaluation

The evaluation includes the estimation of synergies and costs to reduce the potential losses (Sirower, 2006). Any overestimation and underestimation can influence the results of M&As (Harding & Rovert, 2004). Because the case in the study is a typical international acquisition. The buyer pays particular attention to the specific advantages of the acquisition object. The risk assessment of the activity and the associated plans are necessary to be thought in this phase (Early, 2004).

#### Negotiation

Because the case is an international acquisition, the external consultants are involved in the negotiation. Besides the key terms of the acquisition are negotiated between both sides, external negotiation with related stakeholders are also conducted. For the further research, external consulting is a good angle to investigate international

M&As.

**Implementation**

The implementation phase is relatively short in this case because of time constraints. However, the plan for implementation has been made before in order to facilitate the process (Hoang & Lapumnuaypon, 2008). In addition, the communication is done well in this phase to motivate the employees to engage in the process. The engagement of employees is considered to be helpful to produce positive outcomes (Allen & Renjen, 2009).

**Integration**

The integration strategy and approach are predetermined in this case. The maintenances of daily operation are prioritized to continued improvements (Allen & Renjen, 2009). The BGI group applies a decentralized strategy to the acquired company, which allows the acquired company to maintain the ways of working as usual.

Three important aspects are required to be handled carefully in the integration phase. Firstly, involving key employees in the integration process (Perry, 2001) and retaining more managers in the acquired company (Early, 2004) are highly suggested by theory. Secondly, national and corporate cultural differences are decreased by mutual respect and effective communication (Allen & Renjen, 2009). Lastly, the close relationships with internal and external stakeholders are manintained by frequent contacts and high-quality communication (Lynch, 2006).

## 6.2 Implications for theory

From the theoretical side, firstly the strong motivations for M&As (Schriber, 2009; Johnson et al., 2004) are proven in the study. Moreover a new dimension, referring to external factors, is proven to reinforce the motivations. The external factors are complex and changing according to the external industry environment. Secondly the performance and profitability, which are the prerequisites to M&As ((Schriber, 2009), however, are invalid in this case. The study broadens the understanding of M&A criteria by different focused aspects in mergers and acquisitions. Lastly, the case study is conducted in a Chinese company. The views from the Chinese company add a new context into the existing theory.

## 6.3 Implications for practice

From the practical side, this study provides a better understanding of international M&As. By demonstrating the complexity of the M&A process, the study intends to increase the managements' awareness of paying focus on the whole process. The managers should strive to plan integration strategy and approach at the very beginning, even immediately after the selection of the acquisition objects. Furthermore, the employees should also be informed and motivated early. After the M&A transactions, the companies should conduct integration and capture synergies as soon as possible. In the integration phase, the conflicts between different corporate cultures should be eliminated by the encouraging openness and cooperation. In addition, effective communication needs to be applied throughout the process.

## 7. Conclusion

*The purpose of the thesis is to investigate the process of international M&As. This chapter reviews the above contents and answers the research questions. Thereafter the most important results are distinguished and conclusions are drawn. Finally limitations and further research are presented.*

International M&As are an common phenomenon in global business context. But a disappointing number of failure encourage to further study how to unfold an international M&A process and what leads to success. Therefore the research questions concern the process of the international M&As and associated factors affecting success.

Actually there are an increasing number of successful international M&As conducted by Chinese companies in the past period of time. Hence international M&As are analyzed by investigating a Chinese company acquiring a U.S. company, namely BGI and Complete Genomics respectively.

A qualitative research is used in this study. The empirical findings are collected from four employees in the BGI group through Skype face-to-face interviews. According to the respondents in the interviews, this international acquisition is considered to be successful. After analyzing the findings, the author realizes that the area of international M&As is highly complex and hence further researches are needed. In the following section, the conclusion and implication will be given.

### 7.1 How does a process of international M&A unfold?

The international acquisition process is a tried-and-tested process from initial analysis to integration, which is made to ensure the quality of the acquisition. The whole project is based on three basic concepts, acquisition, strengthening, and integration. After discussing this research question, the following conclusions emerge.

- Company are motivated to gain more resources and enter more areas by the desire for growth. However external factors largely reinforce motivations for M&As. The possibility of the largest supplier becoming competitor is an external factor to accelerate the acquisition pace. These two motives behind this acquisition are closely intertwined and contribute to the final decision in both companies.
- Current networks with upstream suppliers are the most effective and reliable way to identify potential acquisition objects.
- Considering the acquisition, the acquired company is not required to have strong positions in every aspect. The acquisition objects are highlighted on the level of core knowledge and technology, and good relationships with suppliers

and customers.

- Potential risk scenario is necessary to be thought early and the corresponding risk plans needs to be established.
- The strategy and degree of integration differ according to the acquisition purpose and company conditions. In general, a decentralized strategy is more appropriate for a company with several subsidiaries in different locations.
- Follow-up measurements for synergies motivate better results in the integration.

### 7.2 What are the most important factors leading to the success in the process?

After discussing this research question, the important factors contributing to success can be concluded as the company's selection capability, cultural differences, human resources and communication. The specific explanations are followed.

- The company's knowledge and experience facilitate its capability to find the right acquisition objects that fit with the company's needs.
- Cultural differences in both nations and companies have great impacts on the success of international M&As. However corporate culture difference is worth more attention and needs to be handled carefully during the integration process.
- Human capital at all level of the company are important to the success of M&As. The managements plan and lead the whole project, while the front-line employees contribute to synergies realization in the daily operation.
- Communication inside the company is an effective way to avoid the unclear issues and motivate key employees. In addition, communication towards outside stakeholders enables to keep good relationships and broaden international networks.

### 7.3 Limitations and Further Research

During the study, the author realizes that international M&As is a broad field, and some interesting aspects are encountered to require further researches.

Although mergers and acquisitions seem to be synonymous in the literature, there is still a little difference between them. Because this research is limited in the area of international acquisition, it would be interesting to study further on international mergers to explore the differences in the motives and processes.

The sample company is in the bio-tech industry where is characterized differently from other industries. The core knowledge and technology are the key in this industry, and therefore the company pays more attention to learning and knowledge transformation. The traditional synergies are not apparent. Hence in order to generalize the conclusion, it would be interesting to make more investigations in diverse industries or geographic locations to find the similarities and differences.

The last suggestion would be to investigate the international M&As from the acquired company's point of view. This study only considers the acquirer's views and opinions, and therefore the findings are not complete. It would be better to investigate one case from both sides, because the combined findings would show an overall picture of the international M&As.

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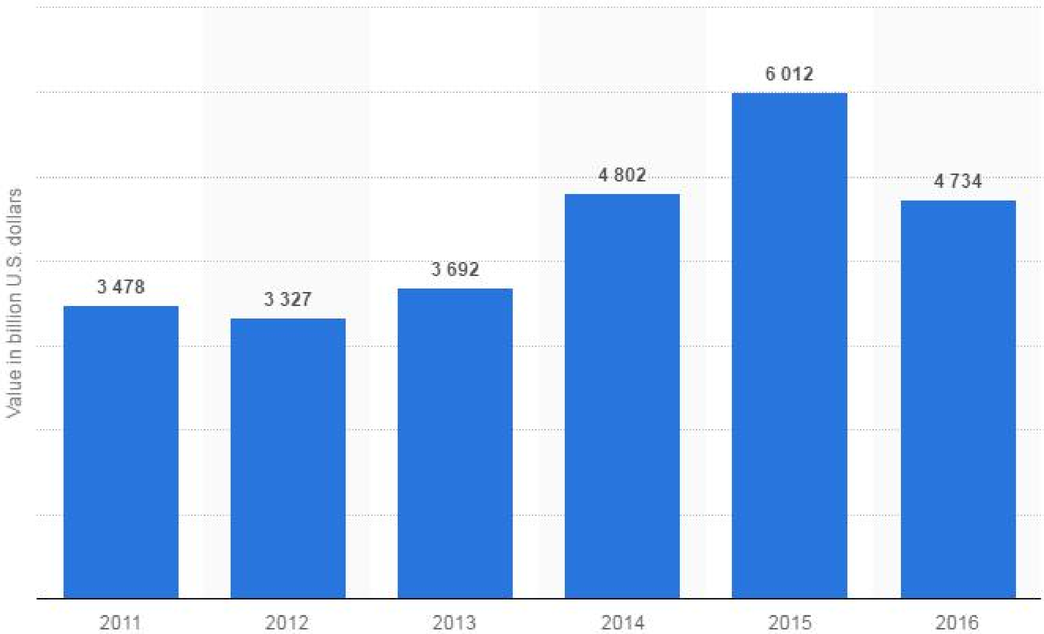
**Appendix 1- The value of global M&As**




Source: Statistics on Mergers & Acquisitions, 2017