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Integration by Emerging Economy Multinationals:
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Executive Summary

The integration process of international mergers and acquisitions by emerging economy multinationals is fraught with challenges of liabilities of foreignness and country of origin. We use insights from institutional theory and draw on the experience of Chinese international mergers and acquisitions to explore these challenges faced by emerging economy multinationals during post-merger integration. We find that these challenges, which are primarily caused by informal institutional differences, can be overcome by developing organizational capabilities for integration and employing mechanisms for appropriate control and justice during the integration process. The study contributes to the ongoing discussions about the relevance of sociocultural influences in the successful integration of international mergers and acquisitions. Our framework proposes initiatives that managers from emerging economies can take to overcome post-merger integration challenges.

Keywords: Emerging economy multinationals, Institutional distance, Strategic relatedness, Relationship building, Organizational justice, Organizational control.

Introduction

The increase in mergers and acquisitions (M&As) is in contrast to their high rate of failure (Weber & Tarba, 2013). While M&As have been dominated by organizations from developed countries, the picture is changing with increasing participation by emerging economy firms. Outward foreign direct investment (OFDI) from emerging economies has become an important factor in global economic growth (Deng & Yang, 2015). China, which has been the largest source of OFDI from emerging economies, has maintained its position as the third largest investor globally with a record high of US $116 billion (UNCTAD, 2015). Emerging economy firms have changed from traditional exporting businesses operating in their home countries to significant enterprises in other countries (Luo & Tung, 2007). Through aggressive M&As, these firms have gained fast access to new technologies, brand names, human resource capabilities, natural resources, new products, new markets, and distribution channels (Deng, 2013; Peng, 2012).

Extant research examining post-acquisition performance reveals that M&As have not led to significantly increased performance (King, Dalton, Daily, & Covin, 2004). Reasons why M&As so often fail are not clearly understood (Gomes, Angwin, Weber, & Yedidia Tarba, 2013; Stahl et al., 2013). In addition, studies by consulting firms show that a majority of M&As fail to achieve their strategic objectives of cost reductions, revenue enhancements, and other joint benefits that would help improve performance (Cools, Gell, Kengelbach, & Roos, 2007). Scholars from both finance and international business fields provide evidence that the combined firm's performance depends on the firm's ability to integrate the operations of the two previously separate organizations (Jemison & Sitkin, 1986; Birkinshaw, Bresman, & Hakanson, 2000). The conditions under which performance of M&As increases or decreases during the integration

process remain unclear. Studies in the recent past have examined the effects of integration extent (Schweizer, 2005) and integration speed (Homburg & Bucerius, 2006) on post-M&A performance. We are especially limited in our understanding of the various aspects of the integration process itself, and its relationship with the combined firm's performance during the integration process (Ellis, Reus, & Lamont, 2009).

Although extant studies have examined M&As from developed countries, few studies focus on M&As in and out of emerging economies (Lebedev, Peng, Xie, & Stevens, 2015). For emerging economy multinationals, international M&As constitute an important strategic initiative for growth because they enable acquisition of critical resources, development of capabilities that help the multinationals overcome latecomer disadvantages, and rapid internationalization (Gubbi et al., 2010). However, to succeed, these organizations must overcome the double hurdle of liability of foreignness (Hymer, 1976) and liability of country of origin (i.e., the disadvantages that are a result of the home country's perceived weaknesses and lack of dominance in the global economy). While liability of foreignness is a challenge for both developed and emerging economy multinationals, liability of country of origin is primarily an issue for emerging economy multinationals (Chang, Mellahi, & Wilkinson, 2009). The home country's institutional strength and global status play an important role in the emerging economy multinational's ability to transfer its practices to the host country and thereby improve the firm's performance during integration. In other words, it is much easier for a multinational from a developed economy (such as the United States or Western Europe) to transfer its home practices to a merged firm from the host country than it is for a multinational from an emerging economy to do so (Edwards & Ferner, 2004).

Using primary interview data and secondary archival data from M&As initiated by four Chinese companies (we call them A, B, C, and D to heed the anonymity requested by two of them), our findings are a set of propositions that discuss the factors that influence combined firm performance during the post-merger integration of international acquisitions by emerging economy multinationals. Our evidence suggests that informal institutional distance (between the countries of the acquirer and the acquired) poses challenges that negatively affect combined firm performance during the integration process. Our findings also suggest that strategic relatedness and relationship building initiatives, employment of output control mechanisms, and procedural justice can help these emerging economy multinationals overcome the challenges during integration.

Background

Post-merger integration refers to the actions taken by managers to combine two separate enterprises (Pablo, 1994). The objectives of integration are to coordinate and control the activities of the merged organizations, allowing them to realize the potential interdependencies that motivated the acquisitions in the first place (Shrivastava, 1986). For cross-border mergers, this integration process is fraught with multiple challenges and stands out as one of the key reasons for failure. Some of the specific challenges to overcome are "clashing corporate cultures, absence of clear communication, and employee involvement" (Budhwar, Varma, Katou, & Narayan, 2009: 89).

Extant research (e.g., Shrivastava, 1986; Stahl et al., 2013; Weber & Tarba, 2013) emphasizes the importance of the less examined managerial and sociocultural integration of M&As in successfully integrating the firms. We believe this is especially relevant to emerging

economy multinationals overcoming problems caused by the institutional distance between the country of the acquirer and that of the target firm.

Institutions manifest the formal and informal constraints that influence and shape human interactions (North, 1990). Scott (1995), classifies these institutions along regulatory, normative, and cognitive dimensions, and suggests that activities along these dimensions provide explanations for social behavior. The regulatory dimension deals with the "setting, monitoring, and enforcing of rules" (Xu & Shenker, 2002: 610). The normative dimension consists of "social norms, values, beliefs, and assumptions about human nature and human behavior that are socially shared and are carried by individuals" (Kostova, 1997: 180). The cognitive dimension of institutions influences the "schemas, frames, and inferential sets, which people use when selecting and interpreting information," and reflects the "cognitive structures and social knowledge shared by people in a given country" (Kostova, 1997: 180).

We address managerial and sociocultural integration issues of post-merger integration through the following questions: How do differences along the normative and cognitive dimensions of institutions distance affect the combined firm's performance during the integration process of a cross border M&A by an emerging economy multinational? What are the key challenges that lead to a decrease in the combined firm's performance during the integration processes? How can emerging economy multinationals overcome these challenges and thereby increase performance during the integration process? These questions, coupled with the limited research base on post-merger integration by multinationals, led to the research described in this article.

Methods

We considered the experience of four MNEs from China in developing our propositions (See Appendix 1). The number of Chinese MNEs on the *Fortune Global 500* has grown substantially in the recent past (Peng, 2012). These MNEs have investments in almost every country of the world (Yang, Lim, Sakurai, & Seo, 2009). Scholars have established Chinese MNEs as latecomer firms (Peng, 2005). Although strategic asset seeking and market development have been established as important rationales for internationalization (Boateng, Qian, & Tianle, 2008; Chatzkel & Ng, 2013; Deng, 2010: Deng, 2007; Wu, Hoon, & Yuzhu, 2011), use of complex entry modes such as cross-border M&As (Sun & Liang, 2013) by Chinese multinationals still lacks sufficient examination (Liu & Woywode, 2013). It is only recently that scholars have begun examining the performance of Chinese M&As (Deng, 2009).

We used the following criteria to select our sample companies. First, the Chinese MNEs must have had overseas M&A experience. Second, the M&A projects by the Chinese MNEs had to have been in operation for at least a year so that data on their post-merger integration performance was available. Third, we needed to be able to access interviewees and secondary data. The four companies finally selected cover two broad industries (energy and manufacturing); have different ownership (private and state owned); and their M&A projects are at different stages (early and mature) (See Table 1). These differences in the nature of the acquiring firms provide wide variance for examining the key integration issues faced by emerging economy firms post merger and acquisition.

-------- Please Insert Table 1 about here --------

Data Sources

Data on Chinese MNEs' overseas M&As and the key challenges of the four companies during the M&A processes were collected from primary and secondary sources. Twenty-four corporate reports (including twelve financial reports and twelve annual corporate reports) as well as two published case reports were analyzed. Bettman and Weitz (1983) suggest that corporate reports are useful for studying organizational behaviours and strategies, as opposed to interviews that rely on memory and often include a retrospective bias. Liu, Garcia, and Vredenburg (2014) recommend the use of annual reports, as they are appropriate for analyzing corporate behaviours when the focus is on descriptive themes.

In addition, primary data were obtained from managers in the four Chinese MNEs in order to identify the key challenges facing the managers during the process of integration and the approaches they adopted to address those challenges. Specifically, we conducted twelve in-depth interviews with senior managers in our sampled companies. The interviews were conducted in Canada between April 2012 and January 2015. Each interview lasted about an hour; interview transcripts were analyzed immediately after the interviews. As suggested by Jarzabkowski (2008, p. 625), "detailed field notes according to these documents were taken to construct case stories and a line-by-line coding process was conducted to build a basis for research questions."

The primary interview data from multiple sources complemented the content analysis of the reports. Most importantly, the multiple data sources from both corporate reports and interviews supplied information for triangulation of the secondary data set, which increased the validity of our research. For example, we triangulated the corporate performance by asking the managers about their satisfaction with organizational performance (primary data) and by examining the financial performance in the corporate annual report (secondary data).

Data Analysis

Data from the different sources were coded using line-by-line procedure (Glaser & Strauss, 1967). The coding focused on two main areas: (1) the key challenges during M&A processes, and (2) the approaches used to cope with these challenges. The process consisted of reviewing all of the information by inspecting, categorizing, tabulating, and recombining (Yin (2002).

As suggested by Jarzabkowski (2008), we used two questions to guide the analysis process: (1) "Is this code similar to that code?" This question helped us to develop internally consistent themes; (2) "Are these codes different from those codes?" This question helped us to ensure that the themes we identified were discrete. The themes were developed from different codes such as "control of organizational behaviors", "reward and penalty policies", "team progress reports", "return on assets", "profits", "manager's satisfaction" and so on. Based on the similarities, the codes were grouped into different themes (as shown in Table 2). For example, "control of organizational behaviors", "reward and penalty policies", and "team progress reports" belong to the theme of output control mechanisms

-------- Please Insert Table 2 about here --------

As a result, we identified six major themes during the coding process of the secondary and interview data: (1) informal institutional distance, (2) output control mechanisms, (3) procedural justice, (4) strategic relatedness, (5) relationship building mechanisms, and (6) corporate performance. We used these themes obtained from the data coding process to understand the factors that influence post-merger integration challenges and how emerging economy multinationals can overcome such challenges in order to improve post-merger performance. Table 3 provides examples of data coding.

-------- Please Insert Table 3 about here --------

With regard to firm performance, although cumulative abnormal returns (CARs) is the most commonly used indicator of M&A performance, this measure has its limitations because the event study methodology considers the value of the decision to acquire instead of the value of the acquisition's implementation (Haleblian et al., 2009). Therefore, other measures and goals may need to be considered in order to estimate the success or failure of M&As (Peng & Beamish, 2014), especially during the post-merger integration period. We have therefore used actual data on net profits and return on assets to complement the subjective firm performance data of the combined entity post-merger obtained during the interviews.

We combined our analyses and developed propositions using methods for building theory from case studies (Eisenhardt, 1989; Glaser & Strauss, 1967). We developed tentative propositions and then revisited our cases to check if the data confirmed our proposed framework. If they did, we then used the cases to enhance our understanding of the underlying mechanisms. Thereafter we used existing literature to sharpen our insights obtained by the above process. What emerged was a key proposition linking institutional distance and the combined firm performance of the merged entity, and propositions linking strategic relatedness, relationship building mechanisms, output control mechanisms, and procedural justice to the above relationship.

Informal Institutional Distance

The performance results of the combined entities of the four M&As showed a drop in performance in the year after acquisition (please see Appendix1). The net profits for three of the four M&As (A, B, and C), and the return on assets (ROA) for all four M&As dropped in the year after acquisition. The key challenge during the integration process faced by the firms we studied

was overcoming the institutional differences between the home and host countries of the Chinese firms and the firms they acquired respectively.

> "*The biggest challenge for [Company A]'s internationalization is culture integration.*" *The next challenge was whether individuals, from top management to frontline employees, could be integrated culturally.*" (Interviewee, Company A).

Similar problems arose during the integration process of Company B's acquisition of a European company. For example, the press officer from the European company, who was skeptical about the Chinese firm's initiative of learning through teamwork, commented:

> "*[European] people are more focused on the individual and always want to be the best individually. [The Chinese managing director] always tries to make us work as a team, but we have problems with it. …We do not have problems when working with European people, but with Chinese people we do have problems. They lack knowledge and in most times, they just operate in their own ways, which turn out to be wrong…*" (Interviewee, Company B).

Interviews with an employee of the target firm of company C and a manager from company D revealed the following responses.

> "*I think the biggest focus and the biggest change has been the expectations to achieve results. Now we are driving to achieve results. Therefore, what has happened over the*

last two years [after the M&A] is that we are focusing on changing the culture. How do we change our culture to be more accountable to deliver results? It is really difficult to manage our culture, drive accountability from [the acquiring] managers' perspective. You cannot say let us achieve results tomorrow without changing how we worked. We can't be accountable for delivering results without changing the culture." (Interviewee, Company C).

"*We have two cultures and we have different work styles and attitudes. Therefore, there is a lot of misunderstanding between us during the work process. However, we have to work together to achieve the same strategic objective. It is really a big challenge for us to bridge the cultural differences. It will influence our team efficiency if we cannot solve these cultural conflicts.*" (Interviewee, Company D).

Our above findings led us to examine previous studies' discussions on informal institutional distance. The concept of institutional distance and its effects on various phenomena are well discussed in international business literature. Institutional distance is used to understand the costs that MNEs incur in doing business or conducting transactions abroad (Chao & Kumar, 2010). It also has been used as a tool to explain the international entry strategies of multinationals and expatriate strategies (Xu, Pan, & Beamish, 2004), the liability of foreignness and ownership strategies (Eden & Miller, 2004), the international diversity performance relationship (Chao & Kumar, 2010), and cross-border acquisition performance (Dikova, Sahib, & Witteloostuijn, 2010). These studies suggest that institutional distance creates "liabilities of foreignness", which refers to the disadvantages faced by firms operating in new markets and new

geographic areas and is determined by cognitive, normative, and regulatory distances or differences between the home and host countries. (Eden & Miller, 2004).

Such differences will influence organizational cultures through the firm's administrative heritage, which refers to the historical management practices used by firms within a nation that may hinder the firm's actions (Bartlett & Ghoshal, 1989). Further, literature suggests that manifestations of normative and cognitive dimensions are also associated with the attitudes that affect professional activities in organizations (Simon & Lane, 2004). For example, research has shown that differences along these dimensions affect attitudes toward innovation (Kedia, Keller, & Julian, 1992). Similarly, differences along these dimensions also result in varying attitudes towards quality in different countries (Kostova & Roth, 2002). Therefore, we can infer that professionals from similar functional areas in different countries may vary in their attitudes towards solving organizational problems.

Specifically, we infer that normative and cognitive dimensions of the liability of foreignness will affect the managerial and sociocultural integration process (Shrivastava, 1986; Stahl et al., 2013). Countries vary significantly along the normative dimension, which includes elements such as informal norms, values, and practices that will influence decision-making and behaviors. For example, many Asian countries value a collective sense of work, achievement, and pride, and follow a hierarchical mode of operation. In contrast, for Asian companies operating in Canada, there are great differences on social values such as personal goal achievement as well as on the cognitive dimension of institutions, which includes shared beliefs, logics of action, and mental modes or schemata (Scott, 2001).

Our interview data also suggest that the negative image of the country of origin formed by managers from developed economies further aggravates the challenges of liability of foreignness.

> "*We anticipated three major challenges before the acquisition. First, we considered that [the multinational] had built the [product] into a well-known brand by spending many years and billions of dollars. Would consumers around the globe still value the [brand] after it was acquired by a Chinese company?*"
>
> "*Would people from China and those from Western countries be able to work together smoothly and cooperatively? Would people from large enterprises and those from small ones work well together?*" (Interviewee, Company A)

In the case of an M&A by an emerging economy multinational, there is an additional challenge of country of origin, where the country of origin's image further aggravates the liability of foreignness. In a global environment, a firm's country of origin (COO) might be one cue individuals use when drawing conclusions about the firm's behavior (Arpan & Sun, 2006). Country image has been defined in extant literature as "the overall perception consumers form of products from a particular country, based on their prior perceptions of the country's production and marketing strengths and weaknesses" (Roth & Romeo, 1992: 480). Extant research on the effects of COO on product evaluations shows that consumers perceive products from developed countries to be of higher quality compared with products made in emerging markets (Laufer, Gillespie, &, Silvera, 2009; Pappu, Quester, & Cooksey, 2007; Sharma, 2011). Host country groups will therefore invoke stereotypes or biases based on the images of the emerging

economies to develop perceptions about the firms from these countries (Balabanis & Diamantopoulos, 2004; Kostova & Zaheer, 1999).

We suggest that just as COO functions as a heuristic cue or bias (Maheswaran, 1994) when consumers consider products, it could also function as a source effect when individuals consider the actions of an organization based in another country (Arpan & Sun, 2006). This bias adds to the challenges experienced during the integration process of an emerging economy M&A. Managers and employees in developed countries may view management practices in emerging economies with suspicion and be less accommodating, since the perceived relative strength of the host and home countries influence the flow of management practices (Chen, Lawler, & Bae, 2005). The greater this perceived distance, the more the host country nationals will question the "legitimacy and viability" of the practices originating from emerging economies (Chang et al., 2009). Such COO biases will reinforce the already existing in-group/out-group bias and us-versus-them thinking, with a tendency for firm members to exaggerate differences rather than arrive at a common understanding (Stahl & Sitkin, 2005).

The challenges created by the liabilities of foreignness, further aggravated by the country of origin image may hamper the effectiveness of the integration processes of coordinating, communicating, and bonding between the acquirer and the target organizations, and thus make it difficult to generate common procedures and understanding (Schreiner, Kale, & Corsten, 2009). This could manifest in different ways. First, because of the unfamiliarity and difference between the organizations' cultures, the combined entities may suffer coordination problems caused by inappropriate interfaces, and unclear roles, procedures, responsibilities, and control mechanisms (Luo, 2006). Second, failure to communicate and share information will exacerbate the effects of any information asymmetries (Mohr & Spekman, 1994). This situation prevents the partners

from learning each other's operations, building a shared understanding regarding engagement rules, and developing routines for working together effectively (Klimoski & Mohammed, 1994). We therefore expect such merged entities to have poorly developed relationships between the partners at a time when such relationships are pivotal for establishing norms of trust and reciprocity in an economic exchange (Granovetter, 1973).

Since the aspects of normative and cognitive dimensions are associated with organization development at its initial state and endure within organizations, national variations will affect the organizational and professional cultures of firms (Simon & Lane, 2004). Our interview data suggest that it is challenging to handle informal institutional differences during the integration process. Such differences may lead to conflicts between the parties, which might prolong the post-merger integration process. That, in turn, will lead to a decrease in the performance of the combined entities. Hence, we propose:

> *Proposition 1: Informal institutional distance between the emerging economy multinational's country of origin and the target firm's country of origin is negatively associated with the combined firm's performance during the integration process.*

Organizational Capability for Integration

Our data analysis further reveals several indicators of organizational capabilities, which is congruent with the notion that management capabilities are based on the dedicated resources and processes that support post-merger integration activities such as learning (Fiol & Lyles, 1985). For example, our interviewees in company A and company C described the communication mechanisms and the synergies by dedicated resources in their companies:

> "*[The CEO] uses [Company A's] long term approaches, called "building up the team." Among the eight top executives, some work in China, some in the eastern or western*

United States, some in Hong Kong, and some in Europe. They spend time together monthly, for example in Russia, India, or China. They start by discussing more general and abstract issues. That is, they discuss problems in [Company A], future actions, and so on. This enhances their emotional exchange and mutual understanding" (Interviewee, Company A).

"*I would say that there are some areas in the new company where you can build synergy. A good example is our global exploration group. They join with [the acquiring company] to build each other's expertise and to be more successful in the exploration. ... [The acquisition] provides significant opportunities to diversify, to do other things. So the advantages for employees are pretty significant*" (Interviewee, Company C).

As suggested by our data, unfamiliarity hazards, compounded by a negative image of the acquirer's country, may lead to challenges in communication, coordination, and bonding during the integration processes of the emerging economy multinational and its target firm, in turn leading to a decrease in performance. Our findings are suggestive of insights from a resource-based view (RBV) to understand the mechanisms that could help organizations manage the above challenges, thereby increasing the firm's performance during the integration process.

RBV emphasizes the importance of resources in directing a firm's activities and managing its capabilities to enhance its competitive advantage (Barney, 1991). Based on RBV, a relational view suggests that strategic relatedness and relational capability-building mechanisms can help emerging economy firms manage the challenges that occur during post-merger integration (Holcomb & Hitt, 2007). Our study provides a further research context to suggest that

post-merger integration capabilities are mechanisms that firms can use for effective integration. These mechanisms may help to overcome the unfamiliarity involved in coordination, communication, and bonding during the post-merger integration process.

Based on our interview data, the relational capability-building platforms might lie in the following four areas: (1) complementary expertise resources; (2) communication between the acquiring and target companies; (3) developing growth opportunities for employees in the target company; and (4) developing common strategic objectives (to invest in future projects for example). These four areas indicate the level of strategic relatedness between the acquirer and the target companies. As suggested by current literature, strategic relatedness could be the congruency of goals and common knowledge-sharing platforms, which provide logic for a sharing of capabilities between firms (Prahalad & Bettis, 1986). Further, knowledge-sharing platforms are regular patterns of interactions between the firms that facilitate the transfer, assimilation, and integration of knowledge (Grant, 1996). The advantage of such platforms is that they reduce coordination costs and overcome the challenges that arise from institutional differences during post-merger integration initiatives. Furthermore, dedicated resources and processes could support post-merger integration activities such as learning (Fiol & Lyles, 1985) and managing the relationships between the merged parties (Kale, Dyer, & Singh, 2002). Examples of relationship capability-building resources include managers or departments dedicated to integration initiatives, coordination teams, and integration task forces. We therefore propose:

Proposition 2: Strategic relatedness (between acquiring and target firms) and relationship building mechanisms moderate the negative association between informal institutional distance and the combined firm's performance during the post-merger integration process; the negative association weakens with an increase in strategic relatedness and relationship building mechanisms.

Organizational Control for Integration

Our findings from the four cases suggest that control mechanisms may play an important role in overcoming the challenges of institutional distance specifically aggravated by a negative image of the acquirer's country. Control mechanisms are processes by which an organization ensures that all its units act in a coordinated and collaborative manner, such that the resources among them are optimally allocated to achieve the merged entity's goals (Lebas & Weigenstein, 1986). An interviewee from Company A described the situation as follows:

> "*Another important difficulty was that the U.S. executives did not want to work with the management team. Generally speaking, professional managers from Western countries tend to make decisions on their own.*"

Similarly, interviewees of Company B observed that a human resources localization strategy at the European target firm proved to be key to successful integration:

> "*In terms of daily management, we basically kept them as they were. Due to the cultural differences, we decided not to change too much. … They were expert at producing motorcycles in the heavy segment while we were not; they were more familiar with [the] Italian market while we were not. So why not leave the daily management issues to them? If we interfered too much, it would be just like 'a farmer operating a coffee shop'. I mean they are just in totally different cultural environments…*"

The interviewee of company D responded in a similar manner after the M&A in the western country:

"*For the day to day operational decisions, it's up to [the local partner] to make decisions because they are more familiar with the local market and the local environment*."

Our data are also in line with previous research regarding the control mechanisms of MNEs, which suggests that impersonal and indirect forms of control rely more heavily on evaluating outputs with very little personal interface (Harzing, 1999). This research also contends that personal control is suitable for smaller organizations, whereas impersonal, indirect control is suitable for larger organizations, such as MNEs (Child, 1984). We extend this logic to suggest that indirect control is also suitable in an emerging economy multinational's integration process when the target firm is managed at arm's length. This approach gives management of the target company the highest autonomy (Liu & Woywode, 2013).

We therefore suggest that minimal personal interface between the managers of the acquiring company and the managers of the target company may minimize the conflicts caused by liabilities of country of origin and increase performance. Existing research has categorized organizational control into three types: output control, behavior control, and cultural control (Chang & Taylor, 1999). Output control mechanisms are defined as management-designed processes that regulate activities to ensure conformance to expected objectives (Gencturk & Aulakh, 1995). We suggest that output control can be used without substantial interference in the target firm's operations (Ouchi, 1979). Our data suggest that this impersonal nature of output control will not negatively affect the managerial sensitivities of the target firm. Rather, it will

help to overcome the general challenges of liability of foreignness and the specific challenges of liability of country of origin that are faced by acquiring firms during the post-merger integration process. This approach is based on the acquirer's efforts to maintain the status quo of the target companies, often leaving these organizations untouched by the management teams. Such an approach has also been known to have a stronger influence on partnership than traditional M&A approaches to post-merger integrations (Accenture, 2008). Hence, we propose:

> *Proposition 3: Employment of output control mechanisms by emerging economy multinationals moderates the negative association between informal institutional distance and the combined firm's performance during the post-merger integration process; the negative association weakens with the employment of output control mechanisms.*

Integration and Organizational Justice

Extant research suggest that there is a greater need for cultural sensitivity in resolving incompatibilities (Morosini, Shane, & Singh, 1998). Our findings indicate that the challenge for integration processes of M&As lies in finding ways to address the cultural sensitivities of managers from the developed world. Our data coding results specifically suggest that procedural justice in handling these sensitivities during the integration process would help overcome challenges of such cultural differences.

Our interviewee from Company A observed:

> "*Different companies have different cultures, and Eastern and Western cultures are also different. But I think Eastern and Western cultures are actually somewhat similar in their understanding of what constitutes good business behaviors, such as integrity and fair treatment of employees*."

During our interview with a department manager whose company was acquired by Company D, he emphasized several times the importance of respecting the employees:

"*Whoever the controlling company is, whatever the culture they have, they must respect the local culture. ...*"

"*So any wise foreign nation coming into any other's country needs to respect the local culture and ensures that they share the process. For in the long run, that's what they need to do.*"

We suggest that an organizational justice perspective helps understand this interaction process. Justice research suggests that differences in the fairness of processes and procedures will influence the attitudes and behaviors of those involved in organizational practices (Leventhal, 1980). While research on justice typically focuses on micro-level aspects of organizations, its principles are also applicable to macro-level phenomenon (Kim & Mauborgne, 1993). We therefore use organizational justice principles in the macro-level context of M&As.

Justice consists of distributive, procedural, and interactional dimensions (Luo, 2007). Distributive justice is the distribution of benefits, rewards, and other aspects of well-being to the members of a group (Greenberg, 1987). Procedural justice refers to individuals' perceptions about the fairness of formal procedures governing decisions (Lind & Tyler, 1988), and interactional justice refers to individuals' perceptions of the quality of interpersonal treatment received during the implementation of organizational decisions and procedures (Bies, 2001).

Procedural justice, which focuses on the formal side of the exchange process, concerns the extent to which the acquirer makes an effort to assure fairness of decision-making procedures and processes by allowing the members of the target firm to participate in decision-making or control procedures (Thibaut & Walker, 1975). The extent of freedom given to organizational members to influence processes and procedures is critical for the integration process (Li, Bingham, & Umphress, 2007). Our findings support the above view that it is critical to give the acquired firm managers more process control in the decision-making process, at a minimum to what they possessed before the acquisition, when the acquirer is from an emerging economy. Procedural justice during integration can enhance commitment by the target managers to increase a firm's performance after an acquisition (Camerman, Cropanzano, & Vandenberghe, 2007). Therefore, incorporating procedural justice in the integration process may have positive effects on overcoming the liabilities of foreignness and increasing the combined firm's performance during the M&A integration process. Hence:

Proposition 4: Procedural justice moderates the negative association between informal institutional distance and the combined firm's performance during the post-merger integration process; the negative association weakens as procedural justice is increased.

Discussion

Our study explored the combined firm performance during the integration process of cross border acquisitions by emerging economy multinationals. The integration process is challenging in view of the institutional differences between the countries of the emerging economy multinational and that of the acquired firm. Our findings are a set of propositions as shown in Figure 1. The findings are organized around a direct relationship between informal institutional distance and combined firm performance, and the moderating effects of the three

major factors including strategic relatedness and relationship building mechanisms, output control mechanisms, and procedural justice.

-------- Please Insert Figure 1 about here --------

We have added to extant research on the concept of institutional distance and its effects on various phenomena in international business. Our study reveals negative effects of institutional distance on the combined firm's performance during an M&A integration process undertaken by emerging economy multinationals. Our findings suggest that these negative effects are due to differences along the normative and cognitive dimensions of national informal institutions. Inquiry into, such sociocultural integration challenges of M&As, has seen increased attention recently (e.g. Stahl et al., 2013; Weber & Tarba, 2013). Our findings are also supported by extant research on sociocultural integration of M&As where it is observed that processes in M&As are rife with problems generated by the institutional distance between the acquirer's country and the acquired firm's country (Chatzkel & Ng, 2013).

The post-merger integration process refers to the actions that managers take to combine two previously separate organizations (Pablo, 1994). This process is a key determinant of acquisition performance (Larsson & Lubatkin, 2001). Extant research, building on the process perspective of acquisitions (Jemison & Sitkin, 1986), implies that managing the post-merger integration process fosters interaction with, and involvement by, members of both firms. This interaction improves post-merger firm performance (Ellis et al., 2009) by overcoming the challenges of liabilities of foreignness. The above insights further support our findings on the moderating roles of strategic relatedness, relationship building mechanisms, output control mechanisms, and procedural justice.

In summary, we use insights from institutional theory to explain our findings of how performance can drop during the integration process due to liabilities of foreignness. We also infer that this negative effect is further aggravated by the liability of country of origin when the acquiring company is from an emerging economy. Our findings also suggest how firms can manage these challenges in order to increase the combined firm's performance during the integration processes. Our proposed framework (see Figure 1) suggests mechanisms to overcome the challenges of integration, and increase the combined firm's performance. Our central proposition is that integration challenges resulting from institutional differences may negatively affect the combined firm's performance. We also suggest mechanisms, drawn from our findings, to overcome these challenges. First, as acquirers, the multinationals from emerging economies should develop stronger relationship building platforms through common objectives and relationship building mechanisms with the target firms. Second, the acquirers should employ procedural justice in the interactive processes and employ output control mechanisms to monitor the organizational activities of the target firms during the post-integration processes.

Our research, which specifically investigates acquisitions by emerging economy multinationals, contributes to international business literature in the following ways. First, we contribute to the limited literature on M&As in and out of emerging economies (Lebedev et al., 2015). Second, we propose that liabilities of foreignness, aggravated by liabilities of origin (both consequences of institutional distance), are important predictors of firm performance during the integration of M&As by emerging economy multinationals. Third, from a managerial perspective, we suggest systems (strategic relatedness and relationship building mechanisms) and processes (output control mechanisms to overcome liabilities of country of origin, and procedural justice to overcome liabilities of foreignness) to address challenges faced by

emerging economy multinationals during the integration process. Finally, from a methodological perspective, we examine the combined entity's performance during the integration phase using measures other than the traditionally used CARs (Peng & Beamish, 2014). We believe our research will motivate additional research on firm performance during sociocultural integration processes of M&As by emerging economy multinationals.

Limitations and Implications for Future Research

Extant literature presents two types of cultures that may influence the performance of merged firms: national culture and firm culture. Difficulties experienced by an acquiring firm in managing a target firm could also be the result of differences in firm cultures between the merging firms (Vaara, Sarala, Stahl, & Björkman, 2012). We have considered only national level differences in developing our framework. Future research may need to examine the interactive effects between national and firm level predictors of culture on the post-merger performance of cross border acquisitions by emerging economy multinationals.

Our qualitative study is limited in the extent of data collected to develop our propositions. Although we selected cases from different industries and at different developmental stages, our findings are limited by using only four companies. The framework needs further testing on a larger number of Chinese companies undertaking M&A projects in other countries. Future research may also need to increase the data collected with more detailed case studies — also from other emerging economies (such as India) — in order to substantiate our propositions. It will also be necessary to convert our propositions into testable hypotheses and empirically test our framework in the future.

The present study is based on target firms in developed countries. This may restrict the possibility of generalizing the proposed framework across all the M&As of emerging economy

multinationals. Future research can incorporate the direction of OFDI through M&As (Bhaumik & Driffield, 2011) from emerging markets and the associated challenges of integration. Other factors pertaining to the M&A could also affect post-merger performance. Lebedev et al. (2015) have in their review of literature on M&As in and out of emerging economies, identified deal type, payment type, ownership structure, management characteristics, previous performance, firm size, prior acquisition experience, and environmental influences as factors that affect post-merger performance. Future research may incorporate these factors in our framework in order to refine the understanding of our proposed mechanisms.

We infer the role of a negative country of origin image to be aggravating the challenges faced by emerging economy multinationals in the integration process of their cross border acquisitions. Our study specifically explored developed country (in Europe and Canada) acquisitions by Chinese firms. The effect of country of origin could therefore be a moderating effect. Future research may tease out the potential moderating effect of country of origin image by exploring acquisitions by Chinese from developing countries where the country of origin image may not be negative.

Finally, our discussions examine the combined firm performance during the operations immediately after an M&A deal. Performance in the year that follows the finalization of the merger is indicative of the performance during the integration process (Ellis et al., 2009). Future research might need to examine the effects of institutional distance *after* the integration process is complete. The study timeframe in this case should also cover the period starting one year after completion of integration (Ellis et al., 2009).

Conclusions

International M&As represent a key strategy used by emerging economy multinationals to achieve growth. However, these organizations face the challenges of liability of foreignness and liability of country of origin in their post-merger integration endeavors. These sociocultural challenges are the result of informal institutional differences between the acquirer's country of origin and the target's country of origin. Building organizational systems, adopting appropriate control mechanisms, and focusing on justice perspectives will help multinationals to overcome these challenges and achieve better performance during the integration process.

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Table 1: Summary of the Major Characteristics of the Investigated Companies

Characteristic Industry	**Company A Manufacturing Industry (Computers)**	**Company B Manufacturing Industry (Motorcycles)**	**Company C Energy Industry**	**Company D Energy Industry**
Ownership	Private Company	State-Owned Company	State-Owned Company	State-Owned Company
Acquisition	Acquired a division of an MNE in North America; mature stage	Acquired a manufacturing unit in Europe; mature stage	Acquired a local company in North America; early stage	Acquired a western company in North America; early stage
Parent companies' objectives	Acquisition of resources and markets; profit driven	Acquisition of resources and markets; profit driven	Acquisition of natural resources; profit-driven	Acquisition of natural resources; profit-driven
No. of interviews	Interview information from secondary data	Interview information from secondary data	6 interviews with senior managers from both the Chinese company and the local company	6 interviews with senior managers from both the Chinese company and the western company

Table 2: Codes and Themes on M&A Processes

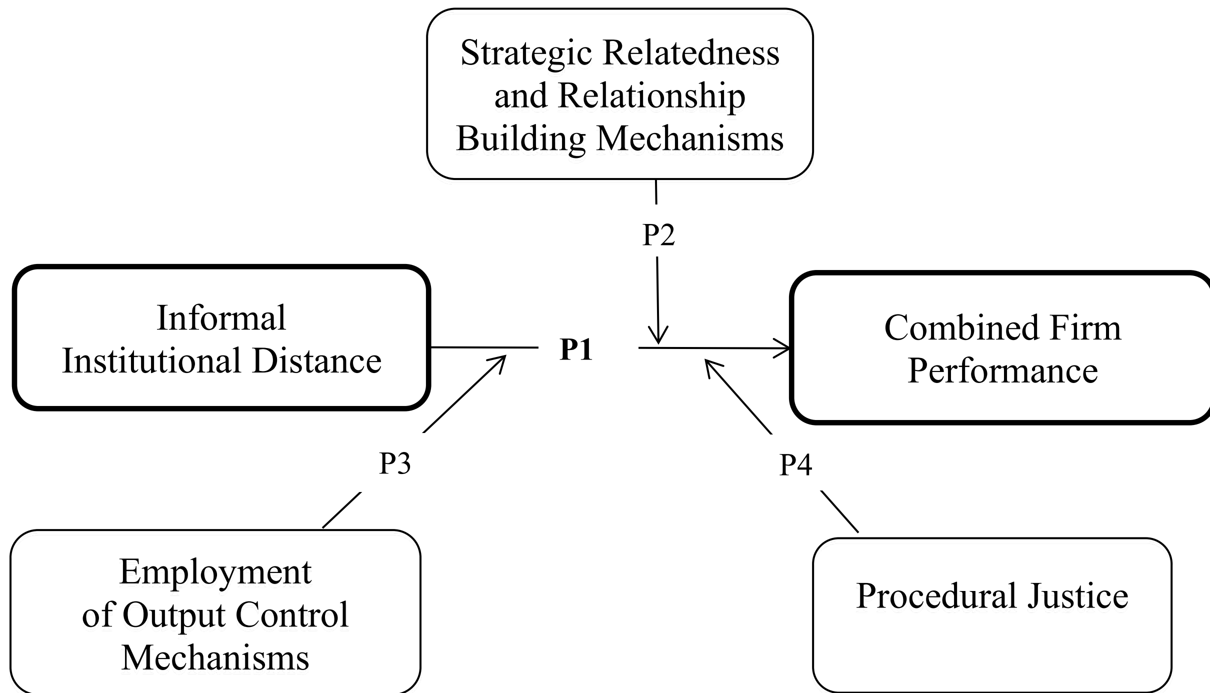
Codes	Themes
- Different Cultures - Different Work Attitudes - Different Strategic Objectives - Country of Origin Image	Informal Institutional Distance
- Control of organizational behaviors - Reward and penalty policies - Team progress reports	Output Control Mechanisms
- Cultural sensitivities - Fair processes	Procedure Justice
- Strategic Objectives - Synergies	Strategic Relatedness
- Team building approaches	Relationship building mechanisms
- Objective performance (e.g., Return on Assets, profits) - Subjective performance (e.g., Manager's satisfaction)	Corporate Performance

Note. Sources adapted from Financial Report, Corporate Annual Report and Published Case Reports of the four Chinese MNEs

Table 3: Examples of Data Coding from Primary and Secondary Sources

Codes	Examples
Informal Institutional Distance-Different Cultures	*"We have two cultures and we have different work styles and attitudes. Therefore, there is a lot of misunderstanding between us during the work process. However, we have to work together to achieve the same strategic objective."*
Output Control Mechanisms – Control of Organizational Behaviors	*"For the day to day operational decisions, it's up to them (the local partner) to make decisions because they are more familiar with the local market and the local environment."*
Procedure Justice	*"So any wise foreign nation coming into any other country needs to respect the local culture and ensure that they share the process. For in the long run, that's what they need to do."*
Strategic Relatedness - Synergies	*"I would say that in some areas in the new company where you can build synergy. A good example is our global exploration group. They join with XXX (the acquirer company) to build each other's expertise and to be more successful in the exploration."*
Relationship Building Mechanisms	*"He (the CEO) uses Firm A's long term approaches, called "building up the team". Among the eight top executives, some work in China, some in the eastern or western United States, some in Hong Kong, and some in Europe. They spend time together monthly, for example in Russia, India, or China. They start by discussing more general and abstract issues. That is, they discuss problems in Firm A, future actions, and so on. This enhances their emotional exchange and mutual understanding."*
Corporate Performance	*"I think the biggest focus and the biggest change has been the expectations to achieve results. Now we are driving to achieve results. Therefore, what has happened over the last two years [after the M&A] is that we are focusing on changing the culture. How do we change our culture to be more accountable to deliver results? It is really difficult to manage our culture, drive accountability from [the acquiring] managers' perspective. You cannot say let us achieve results tomorrow without changing how we worked. We can't be accountable for delivering results without changing the culture."*

Figure 1: Framework to show post-merger integration propositions



Appendix: 1

Company A

Company A is a Chinese private company in the ICT (information and computer technology) industry, focusing on manufacturing and marketing of technology products such as computers and laptops. It has about 35 percent market share in China. Company A had an international acquisition in 2005. This acquisition was consistent with both companies' (company A and the acquired company) strategy to be the world leader in providing technology and transformation solutions. This acquisition also positioned Company A as one of the leading and largest computer suppliers in the world. Through this acquisition, Company A increased its global brand awareness.

We chose this acquisition of 2005 to examine the combined performance and understand post-merger integration issues faced by the combined entity. The table below shows the combined performance data of net profits, profit growth and return on assets (ROA) for years 2005 and 2006. The net profits and ROA of the combined entity dropped in the year post acquisition.

Year	Net Profits (Million Dollars HK$)	Net Profit Growth %	ROA (%)
2006	216	-80.24	0.55
2005	1092	7.72	12.00

Source: Corporate annual report (2005-2006)

Company B

Company B is a Chinese state-owned company in the motorcycle industry, focusing on manufacturing and marketing of motorcycles and engine products. It has about 7 percent market share in China. Forty percent of Company B's products are exported to Europe, America, the Middle East, Northeast Asia, and Africa. The company started its internationalization in late 1990s in Europe and Southeast Asia with entry modes ranging from building joint ventures to acquiring local companies.

We chose a European acquisition of company B in the year 2005 to examine the post-merger integration performance and issues faced by the company. Apart from the cultural barriers impeding or delaying the implementation of the strategy by the Chinese owners, financial results remained unsatisfactory compared to the plans and the potential of the acquired company. The table below shows the combined performance data of net profits, profit growth and return on assets (ROA) for years 2005 and 2006. The net profits and ROA of the combined entity dropped in the year post acquisition.

Year	Net Profits (Million RMB)	Net Profit Growth %	ROA (%)
2006	50.37	-0.30	4.29
2005	50.52	-44.25	4.50

Source: Corporate annual report (2005-2006)

Company C

Company C is a Chinese state-owned company in the energy industry, focusing on the downstream activities of refining and petrochemical production. It has about 20 percent market share in China. The company plays an active role in countries rich in oil and gas resources. Since 2005, this company has invested in more than ten projects in North America, with the entry modes ranging from building joint ventures to acquiring local companies.

We chose a Canadian acquisition of the company in 2011 as part of our research for two reasons. First, we chose it due to the availability of interview. Second, it is an acquisition defined as a low profile, small acquisition. It signals a low-profile image because the public and the media tend to focus on larger investments, larger organizations, and big events of larger organizations. By scaling down the acquisition amount, company C not only decreased intensive media exposure, but also obtained easier approval from the host government. The table below shows the combined performance data of net profits, profit growth and return on assets (ROA) for years 2011 and 2012. The net profits and ROA of the combined entity dropped in the year post acquisition.

Year	Net Profits (Million RMB)	Net Profit Growth %	ROA (%)
2012	66,411	-13.59	12.80
2011	76,864	15.06	15.93

Source: IBIS World China Database; Corporate annual report (2012-2013)

Company D

Company D is a Chinese state-owned company also in the energy sector, focusing on the offshore crude oil and gas refining and petrochemical production projects. It has about 15 percent market share in China. The company started investments in North America in 2005, using entry modes from joint ventures to M&As. Since 2005, the company has invested in five projects in North America, by acquiring minor stakes or acquiring the entire local company.

We chose a Canadian acquisition project of the company in 2013 as an example to analyze the control issues in international M&As. The company has made sufficient contribution to local communities in Canada in order to build its image as a socially responsible organization. The firm also employs a significant number of local managers and employees. The table below shows the combined performance data of net profits, profit growth and return on assets (ROA) for years 2013 and 2014. Although the net profits have shown an increase, ROA has shown a decrease in the year post acquisition.

Year	**Net Profits (Million RMB)**	**Net Profit Growth %**	**ROA (%)**
2014	79,168	29.10	7.57
2013	61,324	-3.70	9.88

Source: IBIS World China Database; Corporate annual report (2014-2015)