

SIMILAR YET DIFFERENT

THE CHINESE APPROACH TOWARDS ACQUISITION INTEGRATION IN INDUSTRIALIZED ECONOMIES

BACHELOR THESIS **INTERNATIONAL BUSINESS**

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Abstract

- Problem** With the arising phenomena of Chinese acquisitions in industrialized countries there is a need for a more extensive comprehension of their integration approach. However, most M&A research has the traditional foundation in which the developed economies are the acquirers. Thus we have recognized a gap within the existing scientific theory, and this will be the very area of research for this thesis.
- Purpose** The purpose of this study is to examine and help contributing to the existing research literature concerning the integration process that follows the current acquisitions made by Chinese companies in industrialized countries.
- Research Question** How do Chinese companies proceed in their actions regarding the integration process when conducting acquisitions in industrialized countries?
- Research Design** We have conducted a qualitative research based upon a case study and this in relation to current scientific M&A research, as to increase the comprehension concerning Chinese corporations approach towards acquisition integration in industrialized economies.
- Findings** Drawn from our research, we found that Chinese corporations act upon circumstances, they adapt rather than impose and aim to establish a profound business relation. Further they let the acquisition motive determine the level of integration. Thus, the existing M&A research literature is not applicable to its full extent in our field of study.
- Criticism to Research** We founded our case study on solely one acquisitions' integration, thus it hampers our very ability to draw generalizations.
- Key Words** Acquisitions, Integration, Chinese corporations

Acknowledgements

We wish to show our gratitude to our supervisor *Roger Schweizer*, whom has throughout the entire process of our thesis been present and shared his profound knowledge within the M&A field of study. We are indeed grateful that you endured our mail harassment and that you immediately answered in a short and concise manner. Thank you, Mr. Schweizer for your time, remarks and valuable opinions.

Further we would like to thank *Mr. Hempel*, District Manager at Hanssons Fireworks, whom by taking the decision to participate in our case study enabled us to realize the very purpose of our thesis. We are also grateful that you organized our appointment with Mr. Shan, picked us up at the bus station and showed us Hanssons Fireworks. Thank you, Mr. Hempel for your engagement and contribution.

Finally, we are very thankful for the CEO of Hanssons Fireworks *Mr. Shan's* contribution to our thesis, which allowed for us to obtain valuable understanding for a further perspective. We are grateful for your time and for your answers to our many questions. Thank you, Mr. Shan for your shared insights and commitment.

Gothenburg, 5th of June, 2012

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Chapter1 - Introduction

This chapter comprises of a presentation and an introduction of our very field of study. We will initially address the background of our topic, and the structure of integration in a post-acquisition process with focus on China as acquirer. Further, we will instill the recognized problem area and thereafter we will introduce the very purpose of our thesis. Finally, we will enclose this chapter with a presentation of our case study, which endowed a foundation for this thesis.

1.1 Problematization

In the global business environment of today, M&As is the most frequent approach for corporations to achieve growth (Som, 2009). When referring to globalization it has more often than not destined companies in the western developed countries as the investors and acquirers in emerging markets; whereas the emerging markets has obtained the role of being the capital recipients. Conversely, multinational companies originating from emerging countries have over the last few years taken upon a greater part in the market of international business; and a rather new phenomena of conducting cross-border M&As in developed countries has emerged. Simply reflecting to the international M&As made by Chinese companies there has been an immense increase during the last few years (Deloitte, 2010). These efforts have ascended from the Chinese governments underlying desire to transform the country from being a mere manufacturing nation into being a nation that is a natural competitor on an international level; this, with background in the Chinese “Go Out Policy” which encouraged and facilitated for Chinese companies to undertake international M&As. As a result from these governmental actions, Chinese companies were in 2009 the third largest global investor concerning M&As outside their national borders, positioned after USA and France (Growth Analysis and the Embassy of Sweden, Beijing, 2011).

Related to this, the local newspaper of Gothenburg, Göteborgs-Posten, published an article on Sunday the 4th of March 2012, and this article addressed the increased interest from Chinese companies to merge and acquire infrastructure projects, as well as

know-how intensive technology and clean-tech companies in Gothenburg. Hence the international advancement of Chinese companies is evident and exemplified also in this very region. Subsequently, the increased Chinese presence will influence and affect the development of the regional business environment, and the outcome will differ depending on the level of integration between the two parties. According to Haspeslagh and Jemison (1991) the integration process is the key to making acquisitions work. However, several evaluators of Chinese international M&As believe that a greater part of them have been unsuccessful (Deloitte, 2010), hence one can ask is this due to an insufficient execution of the integration process? Thus, even though there is an extensive amount of existing M&A scientific literature, we have recognized a possible deficiency in this research area and that is related to the rather new phenomena of multinational companies originating from emerging countries (EMNCs) conducting cross-borders M&As in developed countries. This rather unexplored research gap and China's increasing presence in Sweden, together with several Chinese international M&As evaluators' belief that a greater part of the M&As has been unsuccessful (Deloitte, 2010) constitutes the very foundation of our problem area. Thus, these factors have intrigued us to further examine how the Chinese companies choose to execute the integration process after a takeover in a developed country, specifically in Sweden.

1.2 Purpose and Research Question

The purpose of this study is to examine and help contributing to the existing research literature concerning the integration process that follows the current acquisitions made by Chinese companies in industrialized countries. Based upon the answers of our research question in relation to the existing M&As research literature, we will be able to clarify whether or not Chinese companies proceed in the same manner as companies originating from industrialized countries regarding the integration process. Further, it is of our belief that this study will be purposive in today's society, seeing to the current and constantly rising willingness and ability of China to be a global actor. With this comes the rise of unknown subsequent effects resulting in insufficient knowledge in the industrialized countries concerning this matter, and with this study we aim to positively contribute to this situation by reducing the current unawareness.

With the main purpose forming a base to guide the research process, we are in further need of a more specific formulated research question in order for us to conduct the study and to be able to answer to the very purpose. It will constantly be put in relation to existing M&A scientific literature in order for us to see if the Chinese integration process is of other character. Thus, we have outlined a research question with the objective to embrace our problem area. It is as follows;

- *How do Chinese companies proceed in their actions regarding the integration process when conducting acquisitions in industrialized countries?*

1.3 Case Introduction

Seeing to how we addressed the above mentioned purpose and research question, we chose to conduct a case study in order to attain a foundation for our chosen field of study. Additionally, in order to stay aligned with the core of our thesis and to attain validity, we were of the belief that it required a real life example, which also would enable us to see general characteristics. Hence, we chose to examine the integration process after that *Panda Fireworks Ltd.*, one of the leading global actors within the fireworks industry, acquired Sweden's oldest and most prominent firework company; *Hanssons Fireworks AB*. The acquisition took place in 2002, and since Hanssons Fireworks AB has a decade's experience of being subordinate to a Chinese mother company, we believe it constituted a suitable example to build our case upon.

1.4 Delimitations

In today's existing literature, M&As is a widely used concept often used as an entity. However, in our study we have restricted ourselves to solely address the concept of acquisitions and not mergers. According to Rosenberg, 1983, an acquisition is defined as: "*a general term for the takeover of one company by another*" and this is the definition that has imbued our research. Furthermore, we are well aware that all phases within an acquisition process is of high importance and has a significant impact on the outcome of a takeover. However, in our thesis we chose to specifically see to the post-acquisition integration phase after a Chinese company's acquisition in Sweden.

Chapter 2 - Methodology

The following chapter will outline and justify the reasons for our choice of method and the approach of our research. Thus, we will clarify the reasoning behind our chosen case study and the procedure regarding collected empirical data. Further, we address the procedure of preparation of the theoretical framework, as well as the conducted analysis. Finally we present the determined limitations that are followed by a discussion of the reliability and validity of our research.

2.1 Research Approach

With our study, as mentioned in the previous chapter, and with regard for our purpose and objective, we aimed to clarify whether or not Chinese companies proceed in the same manner as companies originating from industrialized countries regarding the integration process. Evidently, we utilized a qualitative approach as it was the suitable method in order for us to reach our purpose. Further, throughout our study the theoretical perspective evolved simultaneously as the empirical perspective, and both perspectives were present when we collected and analyzed our primary and secondary data, thus, we utilized an abductive research approach. Scientifically explained, this approach is related to both induction and deduction, in which comprehension progresses gradually since one moves within both the theoretical and empirical spectra (Kirkeby, 1990; Taylor et al., 2002). An abductive inference is different from a deductive, since it implies additional new however not certain knowledge, thus the conclusion of an abductive approach can be false even if the evidences are true (Prawitz, 2012).

2.2 Research Method

The topic of M&As is of great extent and stretches over a wide magnitude both in complexity and in variety, seeing that every acquisition is, in its foundation, one of its kind. To be able to address this amplitude and achieve a contribution to the current literature in our study, we believed that the adequate method was to conduct a case study. This belief was further strengthened since it was in coherence with the description given by Yin:

“A case study is an empirical inquiry which investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.” Source: Yin (1984, p. 23)

In relation to other research methods, the primary advantage of conducting a case study is that it allows for a thorough investigation of a case within a context of reality. In addition, as previously mentioned, we were in the need of qualitative, and not quantitative, data to be able to answer our research question. Hence, we are of the belief that a case study was the correct method in order for us to gain a valid result.

2.2.1 Choice of Research Objects

As mentioned above we have conducted a case study as to enable us to in a correct manner answer to the very purpose of this thesis. Initially we underwent a thorough process of searching for a suitable object of study. We aimed to find a company situated in the Gothenburg region though we faced many challenges due to the fact that there have been few Chinese acquisitions conducted not only in Gothenburg, but in the whole of Sweden as of today. This is due to the recentness of this phenomenon and it is indeed apparent in Sweden. Moreover, our predetermined criteria for our case company further impaired the selection process. These were as follows; the acquisition had to be *a 100 % takeover, fully completed and preferably finalized not less than two years ago*. These criteria reduced our range of possible case companies, but they were according to us of vital importance since our aim was to scrutinize the integration after a Chinese takeover.

Furthermore, we contacted all companies that complied with the mentioned requirements, though we encountered even more obstacles. We found that we were not able to use several of the concerned companies for our case study, since the concerned companies were not willing to participate. However, after a profound search we eventually found a suitable target for our case study in the company *Hansson Fireworks AB*. They were fully acquired by one of the world’s largest producer and trader within the firework industry in 2002, namely *Panda Fireworks Ltd*. The geographical proximity of the selected investigated company was indeed advantageous since it allowed for us to

conduct face to face, in-depth interviews which we believed strengthened the validity and reliability of our thesis, thus had a positive impact on the quality of our study. Further determinant factors to the choice of our case company were the willingness of the respondents to participate within our set time frame, thus this sampling would according to Merriam (1988) be of convenient kind. Moreover, it actually enabled us to return to the initial purpose of our thesis regarding the geographical position of the acquired company, since one of their units are in fact situated in Billdal, an urban area south of Gothenburg.

2.2.2 Data Collection

With regard for our purpose, we utilized our research question as to obtain understanding of the integration process. Thus, we decided to base our study on qualitative interviews with essential personnel of the acquired company, since it allowed for us to get a comprehensive understanding of the integration. Hence, the primary data that constitutes the foundation of our empirical study was solely obtained through interviews. Further, we based this choice upon the fact that our study demands for the investigation of human experiences and knowledge, thereby we could not solely use secondary data such as public information concerning the acquired company.

Regarding the primary data, we made two visits at Hanssons Fireworks and conducted one interview per occasion. We started by interviewing Peter Hempel, District Manager at Hanssons Fireworks for a duration of one hour. The second time we conducted a one-hour interview with the CEO of Hanssons Fireworks Mr. George Shan, whom formerly worked for Panda Fireworks in Guangzhou, though since 2002 he is in charge of the company's corporate branch in Sweden. It was of our belief that both of our respondents were of sincere significance in order to realize our purpose, seeing to their backgrounds within each company. Mr. Hempel since he has an extensive experience within the acquired company, and the fact that he has a personal insight into the business both prior and after the acquisition. As of Mr. Shan, his role as respondent was indeed appropriate seeing to his participation as representative for the mother company during the negotiations of the acquisition. Additionally, his career and his senior position within Panda Fireworks increased the creditability of the interview. Further, we believed that

the quality of our empirical study was reinforced by the fact that we were able to hear both the Chinese and the Swedish perspective of the acquisition.

The geographical proximity of Hanssons Fireworks gave us the prodigious advantage of having face-to-face interviews. In our opinion this criteria for the data collection was of significant importance since it enabled us to absorb the entire intrapersonal communication during the interview, thus presenting us with the possibility to grasp the verbal and non-verbal reactions, gesticulations and expressions. Prior to the interviews we had composed a semi-structured interview guide based on our purpose, our research question and our theoretical framework; this, to as far as possible, ensure the quality and substance of the dialogues. To supplement this quality assurance, a reduced version of the interview guide was presented by e-mail to the respondents a few days in advance to the predetermined encounter. Moreover, the semi-structured manner of interviewing allowed for a relaxed atmosphere in which we could more easily interpose with attendant questions in order to attain a profound impression of the integration process and the associated context. However, the quality assurance of our primary data was additionally amplified by our collection of secondary data since it provided us with information and knowledge about the concerned companies prior to the interviews. The gathered data was utilized in the empirical chapter for the description and background of both the acquiring and acquired company.

2.3 Theoretical Framework

In order to achieve our purpose with this study we used acknowledged M&A theory, which enabled us to execute our intended comparison. Our theoretical framework consisted of paramount research made within this field of study, which addressed our research question in an appropriate manner. Further, since our problem area indeed touched upon a relatively new phenomenon within the international business of today, we found articles and daily news as an appropriate supplement to our theoretical framework; though always guided by the foundation of our acknowledged research literature. The framework has been an indispensable tool for us, when conducting the comparative examination of the integration process. Finally, we have, constantly

throughout our chapter of theory, strived to abridge and refer to the paramount theory in a concise and appropriate manner.

2.4 Analysis

The foundation of the analysis in our study consists of obtained empirical data that we put into contrast to the theoretical framework. Hence, this enabled us to see the differences in the existing M&A research literature regarding integration made by companies originating from industrialized countries, in relation to how the integration process is conducted by firms originating from emerging countries. Throughout the analysis our focus was to specifically examine the differences, in a comparative manner, regarding the integration process after the acquisition had taken place. With our research question in mind, we believed that for our analysis this was the appropriate approach that enabled us to put our case into the context and obtain a full insight of the situation. This empowered and justified our ability to draw conclusions from our collected data.

2.5 Limitations

Seeing that the problem area in our study is of great magnitude, it is of necessity to carefully outline appropriate limitations due to the fact that we are restricted in both time and scope. Therefore as stated above, we have confined ourselves to conduct solely one case study, which was in appropriate accordance with our purpose. This gave us the advantage of conducting a thoroughly examination but also the disadvantage of insufficient reliability, since the general conclusions of an abductive approach can be deceptive even though the evidences are true (Prawitz, 2012). However, in spite of the limitation in our study we believed that our findings could contribute to an enhanced general understanding of the constituting integration process after a Chinese takeover in Gothenburg since it shed light upon the mere problem area and examined a real life example.

Further limitations to our conducted research, was the fact that we conducted interviews with solely two persons at one occasion each. However, these two employees constitutes a great part of the company since it only obtains a workforce of seven

persons and as previously outlined, their experience and insight in both of the concerned companies and the acquisition further enhanced the quality of the interviews. Additionally, the fact that the acquisition was finalized over a decade ago constitutes a limitation, since one can argue that the human memory fails over time, but contrary to this, the very time frame could also allow for the subject to be of less sensibility.

2.6 Reliability and Validity

Our case study is based upon high-quality interviews, and by solely having conducted interviews with employees of high positions with origin from both China and Sweden, we have aimed to achieve the most reliable perception of the integration process that has taken place in our selected case company. We are aware of the fact that our chosen respondents affect the reliability of our work; however, we believe that through these selected respondents we have gained primary data of utmost quality. As our study is of qualitative sort reliability occurs when the result is consistent with the data collected, rather than to which degree the findings can be replicated (Merriam, 1998). Thus, we have carefully collected and chosen the data used in our study in order for it to be of the uppermost value and thereby to the greatest extent ensured the reliability of our results.

When collecting and preparing our gathered data both of us took notes during the interviews as well as we recorded the entire conversations. Further, the semi-structured manner of interviewing allowed for a relaxed atmosphere in which we could more easily interpose with attendant questions as to avoid potential misinterpretations and to clarify certain expressed opinions. We commenced the empirical writing directly after the interviews were completed, and during our second interview we avoided mentioning received replies from the former respondent as not to have an impact nor influence the answers of the second respondent; thus ensuring the collection of the individual perspective. Further, we have throughout the process of our thesis had a consistent correspondence with our supervisor, Mr. Schweizer, as to utilize his insight and knowledge within the acquisition integration field of study; this in order to enhance the quality of our thesis. All these efforts constituted active measures in order for us to assure the validity of our thesis. Validity is, according to Mehrens and Lehman (1987) explained as truthfulness, *“Does the test measure what it purports to measure?”*. Further

clarified, they question the extent to which a test is exposed to intrusions from other measurements. However, regarding the degree of which it is possible to generalize the results of the collected data, we are well aware that the selected method indeed has its restraints. As priory mentioned, a subsequent implication of merely seeing to one acquisitions' integration process, is that it reduces our ability to generalize in a legitimate manner. Thus, the validity of our thesis can to a certain extent be questionable.

Chapter 3 - Theory

Regarding our theoretical framework, we have constantly throughout our study aimed to use legitimate literature that relates to our research question, thus it has contributed with a framework that supports the very purpose of our thesis. The core foundation of our theory section is derived from classical theories within the acknowledged M&A literature published during the last two decades. However, since the global business playground has changed extensively over the last fifty years and since our field of study is incessantly exposed to new circumstances, thus finds itself in a constant process of change, we have also taken into account recently published research as well as daily press.

3.1 The Acquisition Process

According to Rosenberg (1983, p. 10) an acquisition is defined as “a general term for the takeover of one company by another”. This phenomenon have during the last decades become an ever more widespread approach utilized by corporations to create value. (Hirsch, 1986). Whilst acquisition is a frequent method, data has shown that the intended benefits of it are often not realized (Datta, Pinches & Narayanan, 1992). Consequently, a well envisaged process for the acquisition is of high significance as to become successful; since the execution of the process sets the standard of the acquisition and its very aptitude to create value. Further, there are a diverse amount of opinions and models regarding the subject. However, there is a general prevailing view concerning the process that it comprises of three central phases: a pre-acquisition process, an operation-acquisition process and a post-acquisition process. The scientific literature of today addresses all the phases with several different existing models. Haspeslagh and Jemison (1991) addressed the process of takeover with a conservative perspective of acquisition decision-making; where the estimation of prospective value creation is the very hub of the process. Their model comprises of hard economic, strategic and financial evaluation, which constitutes of seven components: strategic objectives, search and screening, strategic evaluation, financial evaluation, negotiation, agreement and integration (Haspeslagh and Jemison, 1991).

In contrast Angwin (2007) presents a theory that emphasizes the importance of establishing a well-planned process from the very start of an acquisition until the end. Further, Angwin (2007) approaches the acquisition process with a systematic description, which entails five main phases: framing the strategy, identifying the target, negotiating the transaction, post-deal implementation and results. Though as mentioned previously, data has shown that the intended benefits of acquisitions are often not realized (Datta, Pinches & Narayanan, 1992). However, acquisitions are still a frequently occurring approach, in the attempt to achieve value creation. Moreover, during the last decades more emphasis has been placed on the post-acquisition phase, in which the integration phase lays; as poor integration has been cited as one of the leading causes of acquisition failure (Kitching, 1973).

3.1.1 Value creation

As previously mentioned, when two autonomous firms unites into one, the outcome is a cross-corporation in which the creation of value relies on how interdependencies are addressed; both regarding the ease of organizational interactions and the evolvement of mechanisms that support stability (Borys and Jemison, 1989). However, if acquisitions are sources of value creation, or not, has been a highly debated topic within the research literature over the last decades. To this discussion Haspeslagh and Jemison (1991) contributes with their view of value creation being derived from capability transfer. Hence, they state that value creation is prevailed when the competitive advantages of one party of the acquisition enhances due to the provided strategic capabilities gained from the other party. However, capability transfer can be recognized in various forms, of which Haspeslagh and Jemison elaborates three;

Resource sharing: This transfer implies the sharing of operating assets between the two parties of the acquisition, which results in value creation through the achievement of economies of scale and scope.

Functional skill: Regarding this capability transfer it implies value creation through the fact that the acquirer gains know how in addition to other practical skills, from the acquired firm.

General Management Skill: From this perspective, value is created when the general management skills of one firm is enhanced due to the input from the other part of the acquisition. These transferred skills may concern different areas in for example the range from corporate to more analytically oriented skills.

Though companies can take upon different forms of capability transfers, Haspeslagh and Jemison emphasizes that value is not created until the two corporations involved in the acquisition collaborate towards a common objective. However, in order to achieve the desired outcome of the selected capability transfer, one cannot enough urge the important role of the integration process, thus this subject will be the attended and thoroughly outlined in the following section (Haspeslagh and Jemison, 1991).

3.2 The Integration Process

Subsequently after an acquisition there is, to some extent, a necessity for inter-organizational integration. In the existing research literature, when seeing to the integration process as a tool to achieve post-acquisition coordination and control, one can see that there are three primary themes in the acquisition literature upon which the design of the integration process can be based. These themes are conceptually linked in that all concern the impact of characteristics of an acquisition situation, on the basic coordination and the control functions of integration. However, it is evident that the very nature of an acquisition and the character of the two companies' businesses affect the general level of integration that surfaces after an acquisition. According to Hambrick & Cannella (1993) a focus on the aspects that influence an organizations post-acquisition design strategy is central in order to achieve the desired value creation from the acquisition process.

Moreover, Pablo (1994) presents the belief that the level of integration that managers choose and ultimately implement in the combined organizations is crucial to acquisition outcomes in the effort to achieve value creation. Thus, Pablo (1994) means that managers use numerous decision perspectives to consider what level of integration is required to achieve basic coordination and control functions of integration. This has its grounds in the opinion that the tasks, cultural and political characteristics of an

acquisition are reflected into the decision models that steers managers' opinions about the design and process of integration. Additionally, Pablo (1994) states that the level and design of integration is significantly influenced by five decision criteria's; *Strategic Task Needs, Organizational Task Needs, Multiculturalism of Acquirer, Compatibility of Acquisition Visions and Power Differential*. She finds in her study that the task related criteria were dominant in the decision models; however the cultural and political criteria were still seen as significant. The smaller contributions of cultural and political characteristics are important but they do not need much attention after that the information has been recognized. Regarding the dominant task needs they are seen to have ongoing action implications for the process of integration, which managers recognize will continue to require their involved consideration once integration implementation begins. Thus, they play a greater part in the design of the integration process. Pablo (1994) concludes that it is of high significance to consider the integration design decisions through several theoretical aspects.

Another view to defining the integration process is given by Haspeslagh and Jemison (1991). Rather than having the perspective of criteria, Haspeslagh and Jemison decomposes the integration into three sorts of interactions in order to establish an encouraging atmosphere that allows for capability transfers, thus value creation and realization of the acquisitions objective. The interactions that occur in the process of integration between the two involved firms are of *substantive, administrative and symbolic* character. The substantive interaction implies decisions concerning which synergies that are possible to attain, such as for example collaboration in market development, technology transfer or product rationalization. Further, the firms interact administratively; for example they establish mutual accounting systems and control procedures in order to allow for the already decided synergies to happen. All to, in an administrative and controlling way, bring the two firms under the same corporate umbrella. Finally, the symbolic interactions concern the establishment of a corporate culture and the promotion of specific beliefs. From a perspective of reality, senior managers of the acquiring firm place more emphasis on the substantive and

administrative interactions, while the symbolic interactions is of more significance for the managers from the acquired firm (Haspeslagh and Jemison, 1991).

Further, an important contributing factor to the view of the integration process definition is given by Angwin (2004) in his conducted study where he discusses the importance of speed in the post-acquisition integration phase. Feldman and Spratt (1991) argues that the integration process should take no longer than 100 days, since that is seen as the limit for the duration of employee enthusiasm, customer endurance and financial patience (Feldman and Spratt, 1991). A rapid integration process is seen as generating faster returns, reduce uncertainty and take advantage of the early enthusiasm, which subsequently diminish. Further advantages are the reduction of exposure to external impact, as well as the advantage of less spent time in a sub-optimal organizational phase (Angwin, 2004). However, as mentioned in his study, a rapid integration can also result in hurriedly obtruded procedures and practices for both or one of the involved firms and this can have catastrophic consequences for the success of the acquisition. Thus, as a conclusion, one can say that regarding the importance of speed in the post-acquisition integration process there is an ambiguous discussion within the existing literature. However it is not only the way of how the integration process is conducted and the speed of it that decides the outcome, but of critical importance is also the level of integration that is chosen; hence which approach to the process that should be utilized. This will be further outlined in the following section, while keeping in mind that if the level of integration is under- or overestimated, the objective of creating value is of risk at being thwarted (Pablo, 1994).

3.2.1 Approaches to the Integration Process

As said by Schweizer (2005, p. 94) “there are almost as many motives for M&As as there are M&As”. Thus, as a result there are several different approaches to the integration process in the existing research literature. Moreover, the motives behind the acquisitions are of significant determining factor regarding the subsequent level of integration (Buono and Bowditch, 1989). Haspeslagh and Jemison (1991) have as a result of their research developed a matrix- illustration that takes into consideration different approaches to the integration process; an illustration that has gained high

recognition. The model evaluates approaches to the integration from two different dimensions, which are *strategic interdependence* and *organizational autonomy* need.

		Need for Strategic Interdependence	
		Low	High
Need for Organizational Autonomy	High	Preservation	Symbiosis
	Low	Holding	Absorption

Figure: *Acquisition Integration Approaches*. Source: (Haspeslagh and Jemison, 1991)

As mentioned previously, the objective with an acquisition is to achieve created value that would not have been obtained if the acquisition did not take place. Regarding the first dimension it concerns the need of interdependence between the two involved parties as to obtain the achievement of the desired capability transfer. Hence, this axis of the matrix indicates the level of interdependence between the two parties needed in the acquisition. It differs depending on the choice made between the three ways of transferring capabilities mentioned in the previous section; Resource Sharing, Functional skills or General Management Skills. Furthermore, the second dimension refers to the need of maintaining the strategic capabilities of the acquired company; hence this axis of the matrix portrays the need of organizational autonomy. Interesting regarding this perspective is the very paradox that lies within the theory; that the actual transition, rather than creating greater value, instead results in the devastation of the capability. Thus, the very purpose of the transfer is counteracted.

The matrix displays a fourfold model with the two axis “Need for Strategic Interdependence” and “Need for Organizational Autonomy”, both ranging from low to high need. This boils down into four different approaches to acquisition integration. In the Matrix’ upper-left corner one finds the type of acquisition integration approach labeled “*Preservation*” (Haspeslagh and Jemison, 1991). Within this mode, the underlying reasoning to achieve value creation is to gain access to new proficiencies, markets or commodities (Sudarsanam, 1995). Here, the acquired company continues to operate as a sovereign unit since a decision of operational changes by the acquirer would most likely impede the successful evolution of the intended value creation. When local adaption is desirable and requires sovereignty and operational collaborations are unrewarding, then the preservation mode is of suitable character. Hence, it is a frequently applied approach in acquisitions that operates across borders. The primary objective is to the outmost extent sustain the acquired firms original contexture, since value creation cannot be derived neither from economies of scale and scope, nor from integration of systems, resources or decisions. Within this range of the model the sole capability to be transferred is the general management skills (Haspeslagh and Jemison, 1991; Lasserre, 2008). Though, this approach still obliges the acquirer to take upon a role of supportive character throughout the acquisition integration (Sudarsanam, 1995).

Whilst, in the upper-right corner one finds the classification of *symbiotic* acquisitions; an approach that is characterized by a high necessity of both strategic interdependence and organizational autonomy. Thus, when an acquisition requires a high level of two such paradox spectra it consequently brings upon a very intricate challenge concerning managerial issues. In the initial phase of the process towards integration, both parties of the acquisition continues to operate as sovereign entities, hence the organizational autonomy is high. However, as the process proceeds and coexistence evolves, the need of strategic interdependence inevitably increases. This approach to integration is, as is also the previously mentioned mode, suitable for trans-boundary acquisitions and the value created is derived from the synergies realized through the strategic interdependence. Additionally, to entirely achieve the potential value, there is a great need for organizational autonomy due to the significance of respecting differences in

local contexts. (Haspeslagh and Jemison, 1991; Lasserre, 2008) From a concrete perspective, this integration approach mainly consists of the transfer of functional and general management skills, whereas the sharing of operational assets is extremely limited (Sudarsanam, 1995). Finally, to sincerely succeed in a symbiotic consolidation, both parties must embrace the unique qualities of one another (Haspeslagh and Jemison, 1991).

In the lower-right corner one finds the integration approach categorized as “*absorption*” which entails a need of a full amalgamating between the two involved parties within areas such as organization, operations and culture (Haspeslagh and Jemison, 1991). Consequently, this scenario does not require a high degree of organizational autonomy; rather it is the strategic interdependence that is of high significance, hence it expresses the very opposite of the preservation mode. In a context of reality, both parties of the acquisition benefits from one and other’s best practices as well as from complementarily factors (Lassere, 2008; Sudarsanam, 1995). The final aim of this mode is eventually to overcome the existing corporate frontiers and unite the two entities. Timing, rather than the degree of integration, as well as the belief in the very purpose of the acquisition is of essence in order to obtain the intended value creation. Hence, the managerial duty is primarily to generate corporate interdependence (Haspeslagh and Jemison, 1991).

The last corner of the matrix represents a quite infrequent integration approach namely defined as “*holding*”. In an acquisition of this kind, the acquirer creates value through financial transfers and risk sharing, and therefore has no objective of implementing an integration process (Haspeslagh and Jemison, 1991). Thus, such an acquisition has a low need of both strategic interdependence and organizational autonomy. In order for illustration regarding this type of takeover, it could have arisen solely from the aim to give financial aid in order for the acquired firm to subsist (Lassere, 2008; Sudarsanam, 1995).

As initially mentioned, there are several different approaches to the integration process in the existing research literature. Apart from the above discussed authors, Napier

(1989) has a dual perspective to the motives behind acquisitions, which in its turn has an impact on the approach to the integration. She defines them according to financial or managerial motives with different aspects to value maximization. The first perspective sees positive outcomes from collaboration through economies of scale and scope, control of the acquired company's management and the sharing of know-how (Napier, 1989). All these efforts have their background in the key purpose of the acquisition; the acquiring firms attempt to create more value for its shareholders (Bradley and Korn, 1984). The second perspective concerns motives that are of non-value maximizing motives and it assumes that there are other determinants for M&As such as increase of sales, asset expansion and management authority. Further, it also includes the determinant of using M&As in order to decrease the uncertainty in the external context of the company. In addition, the characteristics of the involved firms are of significance in Napier's (1989) dual perspective. They concern areas such as sizes, similarity of cultures, business relatedness and the image of each firm in the market. As far as Haspeslagh and Jemison's classification of different acquisition integration approaches, Napier also contributes within the same field of study in the research literature. However, she limits the distinction to solely three modes; "*extension acquisitions*", "*collaborative acquisitions*" and "*redesign acquisitions*" (Napier, 1989).

As initially stated, there are almost as many motives for M&As as there are M&As (Schweizer, 2005), hence one cannot thoroughly rely upon the different views of the research literature, however they do indeed indicate that there is a common way of procedure concerning integration approaches.

3.3 Challenges in the Integration Process

Many M&As are often experienced as unsatisfactory (Risberg, 1999) and it is widely known that the rate of failure after an acquisition is high (Bohlin et al., 1998; Buono and Bowditch, 1989; Cartwright and Cooper, 1996; Hunt, 1990; Porter 1987; Young, 1981) Thus, the pursuit of finding illumination and explanations concerning reasons for these failures have attracted several researchers over the last decades, and much attention have been paid to the integration process in order to clarify occurring problems and dysfunctions (Schweizer, 2005). The issue concerning the interactions between the two

involved firms during the post-acquisition phase is conceivably of the outermost importance. Furthermore, as mentioned previously, the purpose of creating value is at risk of being thwarted if for example the process of integration is under- or overestimated (Pablo, 1994). However this is not the only problem that may occur after a performed acquisition.

Arising integration process problems have in the literature been related to two different categories of integration; procedural and physical (Schweizer, 2005). *Procedural integration* refers to the amalgamation of the two firms systems, methods and practices at the operating, management control and strategic planning levels (Shrivastava, 1986). Complications during this kind of integration process may be of legal kind, for example in the transfer of ownership title between the two firms (Schweizer, 2005). Furthermore, differences in level of developed functional skills between the two firms may result in a transfer of systems, which in its turn may imply disruptions, redesign of work procedures, structural adjustments and even changes in employees (Shrivastava, 1986). *Physical integration* accompanies the procedural one, and it involves integration of resources and assets such as consolidation of production technologies, product lines and R&D projects (Shrivastava, 1986). This type of integration is organizationally very extensive and it is an arduous, time-consuming challenge (Haspeslagh and Jemison, 1991; Shrivastava 1986) and the mutual usage of resources does not come without increased costs (Haspeslagh and Jemison, 1991). Problems are often related to the reorganization of assets, lack of communication and the pressuring demand for organizational profit within a short period of time after the acquisition (Shrivastava, 1986).

In addition to these categories, most emphasis throughout M&A research has touched upon on complications associated with involved managers and employee's reactions, which Schweizer (2005) denotes to as *Human-Related Phenomena*. Dramatic occurrences such as loss of jobs, transfers to new jobs, changes in jobs, salaries, career paths, colleagues and bosses (Ivancevich et al., 1987) all foster reactions from the involved personnel and according to Schweizer (2005) they occur on three different

levels; Individual-, Interpersonal- and Collective level. Individuals often experience shock, disbelief and grief shortly after an acquisition is announced as well as a high degree of uncertainty (Marks and Mirvis, 1985; Sinetar, 1981). Further, they become more preoccupied with their own careers (Marks and Mirvis, 1998) as well as they experience a loss of identity due to the lack of identifying themselves with their firm (Schweiger et al. 1987). Furthermore, Schweizer (2005) discusses phenomena that occur on an interpersonal level which are commonly related to the mere management of the integration process. For example crisis management may be undertaken due to the complex situation and difficult decisions in the acquisition (Marks and Mirvis, 1985; 1998), or, as will be further outlined in the following section, there might be an occurrence of leadership vacuum (Haspeslagh and Jemison, 1991). Additionally, there might be occurrence of management passivity (Pritchett, 1985; Schweiger, et al. 1987; Schweiger and DeNisi, 1991), increased management turnover (Walsh, 1988; 1989), lowered work performance (Buono and Bowditch, 1989), decreased communication and appearances of rumors. Finally, on a collective level there might be cultural clashes between the two involved firms partly due to differences in their organizational cultures (Buono and Bowditch, 1989; Marks and Mirvis, 1986; Nahavandi and Malekzadeh, 1988; Larsson, 1990; Sales and Mirvis, 1984; Schweiger et al., 1987), and there might also be an arising feeling of “we versus them” (Marks and Mirvis, 1998).

Moreover, Haspeslagh and Jemison (1991) have in their literature, another disjunctive approach to the problems arising in the acquisition integration. According to them there are three repetitively returning complications; *determinism, value destruction and leadership vacuum* which, in the integration process, tend to impede the fostering of the proper atmosphere that shall result in capability and knowledge transfer in the acquisition. *Determinism* explains the management’s propensity to maintain the initial approach to the acquisition even though post-acquisition reality is stricken by unexpected external changes and events. Example of these shocks may be changes in the technology or in the industry, or due to the fact that additional information becomes available after an acquisition. The problem of determinism appears due to the management’s low ability to adapt to these changes and instead cling to the initial plan

for the post-acquisition phase. Furthermore, *Value Destruction* refers to the influence that the acquisition has on individual managers and employees. Since a major part of the recognized, daily operations in the firm changes after an acquisition, individuals in the organization may experience uncertainty, fear and increased self-preservation. This leads to value destruction for the individuals, which in its turn interferes with their willingness to work towards the success of the acquisition. There is even a risk that some employees resign or retreat to past behaviors. Consequently, due to the inclination of value destruction, the importance of a strong leadership after the acquisition becomes even more indispensable, and this is referred to by the third reoccurring problem; *Leadership Vacuum*. This occurs when there is an absence of adequate leadership to convey a new objective, common for the two firms. This lack may interfere with the creation of capability transfer since the individual's motivation to contribute declines, as well as the transactions of know-how. In order to avoid this problem in the post-acquisition phase, the importance of a strong leadership is significant and if the acquisition is to be successful, the individual managers and employees need to understand and embody the common purpose initiated by the strong leadership, and also see their own role in it (Haspeslagh and Jemison, 1991).

3.4 EMNCs Acquisitions in Developed Countries

The role of multinational companies originating from emerging countries (EMNCs) on the international business scene has increased significantly over the last few years, especially regarding the new phenomena of conducting cross-border M&As in developed countries. In 2010 international M&As accounted for 30.7 % of total outward FDI conducted by emerging countries, whilst from developed economies the rate was only 25.2 % (UNCTAD, 2011). Hence, there is a tendency that companies originating from developed economies, which have traditionally been of acquiring position are now subject to take overs by firms from emerging countries, which in the past, used to be their targets (Bertoni, Elia and Rabbiosi, 2010).

This recent phenomena has accordingly gained augmented attentiveness in International Business literature, in particular for three reasons. Initially, the actuality and the lack of knowledge of the matter demand for further research and investigation.

Further, the traditional theoretical framework is not easily applicable regarding explaining the comportment of EMNCs, seeing that it has its foundation in the behavior of firms originating from developed countries. Finally, the influence of the EMNCs on their home and host nations is still a rather unexplored field of study (Bertoni, Elia and Rabbiosi, 2010).

The underlying drivers, reasons and objectives for EMNCs acquisitions are of various kind, but most of them targets business and finance services though manufacturing, transportation and construction has gained increased attention (Gammeltoft, 2008; Sauvart, 2005). However, of importance is that EMNCs are in a wide manner, subject to national specificities such as differences in economic, social, regulatory, legal and historical perspectives. Thus, seeing the purpose of this thesis we have chosen to specify the characteristics of Chinese acquisitions from a theoretical perspective, as to the extent possible; the integration process.

3.4.1 Chinese Acquisitions in Developed Countries

Chinese cross-border acquisitions have experienced a tremendous increase since 2003, seeing that the prohibition for private Chinese firms to invest abroad was then abolished (Bertoni, Elia, and Rabbiosi, 2010). In fact, in the current state, Chinese EMNCs are encouraged and to a large extent supported by the Chinese government in their global strategies (Gammeltoft, 2008; Kumar, 2007; Sauvart, 2005; UNCTAD, 2005). General characteristics for Chinese acquiring companies is that they are of large size, and usually aim for firms in developed countries suffering from financial and strategic complications, in order to make them profitable or just gaining access to resources and distribution network (Rui and Yip, 2008). However, most transnational acquisitions are conducted by state-owned companies, driven by their aspiration to achieve market shares and build a global brand name, as well as gain access to advanced technology and management procedures (Wu and Chen, 2001). The majority of Chinese acquisitions occur in sectors such as manufacturing, electronic and electrical industries, but acquisitions in services are increasing. Further, most of their acquisitions aim for sectors in which the Chinese EMNCs can use their cost advantages, and in which the competition between local and global firms is high (Morck et al., 2008; Rui and Yip, 2008).

3.4.2 The Integration Process in Developed Countries Conducted by EMNCs

A survey conducted by KPMG resulting in the article "Emerging Market Acquisitions in Developed Economies", thoroughly describes certain patterns and approaches to how EMNCs regard the integration process. Firstly, as a general conclusion, all agreed that acquisitions in developed countries are difficult, but also that there is an acknowledged desire for EMNCs to learn and adapt possibly due to their short experience within this area of business. They all acknowledged that acquisitions in the west demands thorough planning, flexibility and a customized approach, rather than a "one-process-fits-all" mindset, in order for acquisitions to succeed. Emerging market acquirers also to a great extent adopt a slow approach towards integration, hence under almost all circumstances they leave the local management team alone and uncontrolled to operate. This is rather in contrast with the western approach to integration, where most firms believe that most value is created within the 12 first months, especially regarding cost synergies, and they aim to insert the standard operating procedures of the acquirer as soon as possible (Barnes and Chandra, 2010). Further, regarding the view of the firm, almost all EMNCs aimed to be seen as a leading *local* firm, not as a leading, for example, Chinese firm, hence the constant focus on local adaption was a common characteristic.

Finally, one can see a shared aim of the EMNCs to encourage and authorize, as well as give opportunities to, the management of the acquired firm. However, as mentioned above, all EMNCs have different characteristics due to national specificity; hence it can be misleading to have the perception of EMNCs as a single unit when scrutinizing their approach towards the integration process. Thus, regarding the very purpose of this thesis, we see a need for further specified investigation of how Chinese firms chose to conduct the integration process.

3.5.2.1 The Integration Process Conducted by Chinese EMNCs

In the survey conducted by KPMG, they have discovered differences within EMNCs approach to the integration after a takeover, and to illustrate this they define three major differences between Chinese and Indian EMNCs. First, Chinese firms find cost reductions and the structuring of economies of scale more important, in contrast to Indian firms who rather stresses access to know-how as a primary aim. Second, Indian

firms accentuates alignment and slower synergies concerning the integration of the operations, while Chinese firms faster pays attention to operational synergies. Last, regarding the organizational structure, it is seen that Chinese firms favors a regional hub model in which the management of each region is independent to a very large extent. Whereas in India, they regard the acquired firms as independent units that strives for the same overall objective.

Regarding the integration process Chinese firms, in line with Indian firms, adopt a slow process approach concerning integration of the management, hence leaving them rather intact. Though, regarding the operational integration Chinese firms tend to move faster and adopt a more western approach, since, as mentioned previously, the objective is often to make a financially stressed company profitable by cost reduction and a fast establishment of economies of scale. Further, a quotation from a senior management of Geely Automotive indeed explains how Chinese firms create opportunities for the companies they acquire;

“We leave the acquired companies alone and support them in three ways: lowering the costs by sourcing from China, helping them manufacture in China, and helping them access the huge Chinese market.”

This opportunistic approach is indeed of significance, seeing that there is a possible skepticism from target companies when being acquired by Chinese firms. There is a common conception that they have deficient technical know-how, no long-term plans and insufficient capital. There is also trepidation of unemployment and cultural disparities. Hence, the EMNCs face many issues to disprove, something that is partially already done seeing that the net results of almost all acquisitions are followed by a rise in local employment. Further, the phenomena of EMNCs being the acquirers, has given rise to a new challenge regarding compensation seeing that the employees in the acquiring company earns less than the ones being acquired. Chinese firms deals with this issue by making their management team wealthier through stock options and equity (Barnes and Chandra, 2010).

In order to conclude this section, one can, even though the mentioned risk in seeing EMNCs as one unit, clear out a few key characteristics of their approach towards the integration process; they take it slow and do not rush synergies. Further, they aim to be the best company on a local level, as well as increasing the opportunities for, and empowering, the local management. Finally, a mutual, constantly imminent issue for them all is to face and refute the skepticism coming from target companies and customers.

3.5 Theoretical Discussion

As seen from the above elaborated summary of our theoretical framework, it is evident that the integration process can take different shape and form. However, we find that all stated theories express its significance for the outcome of an acquisition. As outlined above, Haspeslagh and Jemison (1991) states that integration is the key to making acquisitions work and that value is not created until the two corporations involved in the acquisition collaborate towards a common objective. Regarding the process itself, they contribute with three phases regarding integration interaction, while Pablo (1994) means that managers use several different decision perspectives that are influenced by five decisions criteria. Further, the level of the integration is determined by the motive of the acquisition. Additionally, Angwin (2004) emphasizes and discusses the importance of speed throughout the process. Thus, we believe that parts of our theoretical framework constitutes an example of what is, within research, called “the western approach” (Barnes and Chandra, 2010). However, seeing to the ever changing global business area, we believe that this approach can be questioned in regards to our purpose.

As initially stated, Chinese acquisitions in developed countries is a phenomenon that is constantly increasing, and according to Barnes and Chandra (2010), Chinese acquirers’ approach towards integration is not completely aligned with the so called “western approach”. These two factors relates to our research question concerning how Chinese companies proceed in their actions regarding the integration process when conducting acquisitions in industrialized countries. Thus, we argue that there is a need for this field

of study to be examined within the scientific research as to increase the understanding of Chinese cross-border acquisitions' integration.

Chapter 4 – Empirical study

In this section we will provide an introduction to the case study of Pandas Fireworks acquisition of Hanssons Fireworks and as described in the methodology section, this empirical study is solely based on qualitative interviews. Initially, we will address the industry of concern and the background of each company involved in the acquisition. Further, we present all phases of the acquisition process, since we are of the belief that it is of high importance in order to obtain an all-embracing comprehension of the case. This enables consistency with our research question and permits us to conduct a more precise and thorough analysis. Thereafter, we address the very heart of our purpose; the integration process. Finally we will see to the future aspects of the acquisition.

4.1 Background

4.1.1 The Firework Industry

The art of fireworks was invented in China in the 7th century (Temple, 2007), and today this nation is the largest producer and exporter in the world, manufacturing approximately 90 % of the global annual fireworks production, and exporting to an annual value of over US\$500 million. The main consumer nation in the world is the United States, closely followed by China (Knowledge@Wharton, 2012).

In Sweden the fireworks industry has annual sales of approximately 250 million SEK and on the market there are seven operating actors (Grundberg, 2007), of which Hanssons Fireworks holds the second position just after their main competitor Hammargren Pyroteknik AB. The industry is to a fairly large extent responsive to external influences such as changes in legal restrictions, environmental issues and consumer behavior. An illustration is the drastic decline in sales, which afflicted the industry due to the grief period that was announced after the tsunami in Thailand, 2006 and subsequently the sales has never truly recovered. Seeing to the top actors within the industry, it is evident that China has a significant role since they both have been acquired by Chinas leading fireworks companies. Hammargrens was acquired by Brothers Pyrotechnics Inc. in 2002, and the same year the second largest actor Hanssons

Fireworks also got a new owner; the Chinese corporation Panda Fireworks Ltd. However, for this case study we have chosen to examine the last of these two acquisitions, and in the following paragraph we will outline the characteristics of the acquiring company.

4.1.2 The Acquiring Company: *Panda Fireworks Ltd.*

Panda Fireworks was established in 1989 but the company's short history of merely 23 years has not hampered their success within their industry. As of today Panda is a great actor on the global market and one of the leading Chinese exporters, however they aim to become the number one leading company within the global fireworks industry. A corporate belief is that "*being professional enables us to lead the industry*" and additionally they emphasize devotion, pragmatism and innovation in their corporate values. In their assortment they have more than 300 products consisting of a variety of fireworks and firecrackers. The large-scale production is based in China, however Panda has more than hundred large and medium-sized fireworks production firms around the world. Besides production, Panda also offer their customers the service of arranging artistic fireworks shows, a segment which has helped the company to reinforce their position as a global actor. This is very much due to the size and scope of the arrangements they have been responsible for, as an example one can mention a landmark within their history; Panda was responsible for the whole artistic firework show in the Beijing Olympic games in 2008. Today the company has approximately 1000 employees in China and in 2009 their revenue amounted to ¥1.74 billion (Panda Fireworks Ltd., 2010).

4.1.2.1 The Acquisition Strategy of *Panda Fireworks Ltd.*

During the first 10 years of the Panda history the company developed within the borders of China, and in 1998 the company was the first and is still today the only within their industry to become publicly listed on the Shanghai Stock Exchange. This was also the year when the company first took a step on to the international scene by establishing a wholesaler in the USA. When discussing the acquisition strategy of Panda with the CEO of Panda Fireworks in Sweden, he states that they do not expand according to decided strategies; rather they act upon arisen opportunities, thus they do not have a formulated strategy for takeovers. They regard every possible acquisition as an individual case that

requires different sorts of actions, thus one can not say that Panda Fireworks has an established acquisition strategy. However, their overall objective in their global expansion is to be as close to the final customer as possible and this imbues every conducted acquisition. Further, another overall objective with their acquisitions that is in fact more important to the company than their affiliates reported profit, is the enhanced reputation. By being present in as many locations as possible, they have a greater ability to satisfy their customers, which in its turn improves the corporate reputation. Through their overseas marketing and acquisition strategy they have established their own sales company, distribution network and strategic partnerships in some major consuming nations of fireworks such as in the UK, Italy and Sweden.

Regarding Pandas expansion in Sweden they acquired one of the nations leading firework companies, Hanssons Fireworks AB, in the year of 2002, and seeing to the very purpose of this thesis, we chose this acquisition to constitute the foundation of our empirical study. Hence it will, as a case study, be thoroughly outlined from the procedural perspectives in the following paragraphs.

4.1.3 The Acquired Company: *Hanssons Fireworks AB*

Hanssons Fireworks AB was initially founded by Mr. Carl Robert Hansson in 1888, in the area called Landala, situated in Central Gothenburg. He was known under the name “CR” and was probably the first pyrotechnic operating in Sweden. 124 years later, the company is still in operation though the organizational and external circumstances have indeed undergone numerous alternations. Currently the company has seven employees and seven different categories of products, varying from bombs to different kinds of rockets. They also specialize in the arrangement of fireworks and offer their services to any kind of events (Hanssons Fireworks A, 2011). They do not perform any house production, instead they import various sorts of products by maritime transport, which they further provide to the Swedish market, hence they have a role of intermediary. The company operates in an industry, which has been environmentally questioned in Sweden during the last decades, thus Hanssons has been obliged to take into consideration several additional legal restrictions. However, since they are members of the umbrella branch organization “Plast och Kemiföretagen”, they are subordinate to

their regulations (Hanssons Fireworks B, 2011). As mentioned above, Hanssons Fireworks was acquired by Panda Fireworks Ltd. in 2002, and the actual takeover and its subsequent impacts will be further outlined in the following section.

4.2 The acquisition

Regarding the ownership history of Hanssons Fireworks, the alterations have continuously been kept within the Swedish borders. However, in 2001 the US dollar was highly appreciated and since this was Hanssons trade currency, the owner found himself in a financial dilemma due to the future insecurity regarding the value of the US dollar. At this time, Panda Fireworks was the sole supplier to Hanssons Fireworks; hence they had developed a well-established contact as well as insight regarding the circumstances of the Swedish company. In addition, Panda had, by that time initiated a European expansion approach with takeovers in both Denmark and the United Kingdom. Due to the distressed business situation that Hanssons found themselves in, the previous owner wanted to sell and Panda, as the sole supplier, spotted an opportunity to acquire. In fact, this very acquisition presented several advantages for Panda. First, Hanssons is located close to Gothenburg in which the largest port of Scandinavia lies (Port of Gothenburg, 2012) and this is indeed of significance since Pandas major mode of transport is by sea. Second, in addition to gaining full access to the Swedish market, the acquisition also presented a gateway for Panda to reach to the northern European market. In addition, the value creation for Panda in the acquisition was incorporated in the Swedish established company brand, as well as in the local knowledge that the employees possessed.

Seeing to the already established relationship between the two parties, and the fact that Panda delivered a friendly bid, the negotiation procedure was indeed of uncomplicated sort. After the visit of Panda Fireworks CEO Mr. Zhao, it only took two months to complete the acquisition and in the year of 2002 Hanssons was fully subjected to the mother company Panda Fireworks. Subsequently an integration process conducted by Panda took place and with regard for the purpose of this thesis, we will thoroughly outline its characteristics in the following section.

4.3 The Integration process

4.3.1 The Appointment of a New CEO

Seeing that Hanssons Fireworks was now a part of the global conglomerate Panda Fireworks Ltd., it was natural that certain changes took place during the integration of the two parties. The first impact of the acquisition was seen in the alteration of the organizational structure; Panda directly, after inquiry, transferred Mr. George Shan, employee at the Guangzhou-based headquarter, and appointed him to be the new CEO of Hanssons Fireworks. Mr. Shan has worked for Panda Fireworks since 1997, and during his career he has prior to the acquisition had Europe related assignments and worked and studied in the US. Thus, he had experiences of western culture and business. He has since the acquisition also been a board member of the mother company, and today he is the Vice General Manager. According to Mr. Shan it is not always that Panda appoints and transfers one of their own employees to run their affiliates. However in the case of Hanssons the acquisition resulted in that the position of CEO was vacant and since Panda wanted to have a senior employee based in Europe, as well as they saw that their knowledge could be of positive impact, they decided to transfer Mr. Shan.

During the first month after his arrival, Mr. Shan had as a primary objective to observe the daily operations as well as the corporate environment at the new Swedish affiliate in order to attain an extensive insight and a comprehensive understanding of the commercial context. Mr. Shan states that the mother company did not want to impose any of their way of doing business, nor their corporate culture, thus he had as a directive to maintain Hanssons daily operations as prior to the acquisition. However, he had a mission to elucidate potential need of organizational and operational changes, with regard for his experience and knowledge descending from his past employment at the mother company. Though, according to Mr. Shan there was no need for drastic changes, thus he did not alter the degree of authority amongst the personnel, but in accordance with his position as CEO he consequently obtained the final say. Moreover, as previously stated the value creation in the acquisition was incorporated in the established Swedish company brand, and this is expressed by Mr. Shan:

“Actually, at this time, our strategy at Panda was to combine the two companies, while keeping Hanssons as an independent brand.”

This strategy indeed has its advantages seeing to the risk aversion, the facilitated mode of entry and the procurement of an already existing consumer base. Hence Panda Fireworks had the belief of local adaption as the greatest mean to fully utilize the newly acquired asset in its global conglomerate, and further within the global structure the affiliates continues to operate as independent units.

4.3.2 Concerns Amongst the Acquired Employees

Concerning the initial phase of the integration process, Mr. Hempel expressed that there was an existing atmosphere of anxiety amongst the employees. This even though the acquiring company was not completely unfamiliar to them, since they had been in business collaboration with Hanssons for an extensive period of time. Regarding Hanssons history of ownership, they had always been under Swedish governance and the employees had foremost been of Swedish nationality. Thus, they had no prior in house corporate experience of other cultures, which conceivably had a negative impact on the level of uncertainty. The employees were incognizant of how Panda would act in their role as an owner in comparison to their former role as a supplier. They were completely unaware as to what the future would bring and subsequently this fathered certain fears. Peter Hempel mentioned a fear of potential upcoming lay-offs, as well as a dread for potential changes in daily operational tasks, and also the anxiety of finding themselves in a situation characterized by a lack of control, both regarding daily and future context. Further, due to the large dimensions of differences regarding compensation between the two countries, and the fact that in this case the acquiring company originated from a nation characterized by low wages, a fear of decreased salaries arose, seeing the threat of becoming victims to a mechanism that would calibrate transnational wages. There was also an additional fear that certain corporate benefits would be eliminated, such as company cars, business trips and other comparable bonuses. Moreover, seeing to the extensive cultural distance existing between Chinese and Swedish populations, the obvious fears of cultural clashes appeared. However, seeing to the fact that Panda totally adapted to the Swedish circumstances, no major changes took place, thus the anxiety was indeed uncalled for.

4.3.3 Outcomes of the Integration Process

Regarding the integration process from the perspective of Hanssons, it has neither resulted in reorganization, nor in structural or systematic changes. It has rather taken form in an enhanced cooperation and communication between the two parties, much due to the cultural link that was provided through the new CEO. According to Mr. Hempel, there was no opportunity what so ever to influence the assortment of products prior to the acquisition, a situation that was not ultimate in order to meet the demand of the Swedish consumers. However, the position of Hanssons not only being a mere distributor, but now operating as a subsidiary incorporated within the Panda conglomerate, improved the context of business. A deeper relation of trust was established and subsequently Hanssons received more high-quality products. Since Mr. Shan sincerely valued the insight of his co-workers local awareness, he consequently communicated their requests to Panda Fireworks International. Moreover, he also confided the marketing strategic decisions to the native staff members due to their knowledge thereby.

4.3.4 The Current Situation and the Future of the Integration Process

At the current moment, ten years after the acquisition was concluded, there are no further phases in the integration process planned to be conducted. The firm continues to operate independently, and Mr. Shan still possesses the position as CEO of the Swedish affiliate. He reports the financial situation on a monthly basis, however there are no requirements concerning the results set by the mother company. Instead the main objective for Mr. Shan is to keep the Swedish affiliate running and survive on the market.

Regarding the turnover of the company it has decreased from prior to the acquisition, however a correlation thereby cannot be found. The decrease is, as discussed above, foremost due to external effects such as the tsunami in Thailand 2006, additional legal restrictions, public announcements and diminishing consumer demand. In fact, Mr. Hempel considers the corporate situation of today to be better than when Hanssons Fireworks solely had the role of being a distributor. He sees no need for further integration and the collaboration with his Chinese CEO is of outermost quality. Hence, the above outlined uncertainties and skepticism that were experienced amongst the

employees at the time of the acquisition, were indeed uncalled for and has been replaced by an opportunistic view of their acquirer.

Concerning the future of Hanssons Fireworks, Mr. Hempel states that as long as the company survives on the market, the firm can proceed its business as in the current situation. However, if that is not the case and the company finds itself in a situation of financial stress and provides negative results for a longer period of time, Mr. Hempel expresses an uncertainty regarding the company's operating future. He is not sure of how Panda Fireworks would manage this situation of its Swedish affiliate since it is of less effort to either close down or sell the business, than keeping it at a loss or use resources in an economically unjustified manner as an attempt of rescue. However, Pandas approach to such a scenario would be dependent on their valuation of the significance of having an affiliate in Sweden seen in a corporate context.

4.3.5 Challenges in the Integration process

When asking both Mr. Hempel and Mr. Shan concerning any arisen challenges during the integration process, they both agree that they were indeed of limited kind. Amongst the acquired personnel a certain degree of uncertainty emerged in the initial phase of the integration, however it did not father any other challenges according to Mr. Hempel. By coming as a new CEO, Mr. Shan faced the natural task in adapting to Swedish business culture and manners, however in retrospect he is not of the belief that this period of time was characterized by challenges. Moreover, with regards for the fact that the few employees of Hanssons work closely together, it is possible that their cultural backgrounds affect the business environment, though neither Mr. Shan nor Mr. Hempel recognizes this as a challenge.

Chapter 5 –Analysis

The following chapter consists of a thoroughly conducted analysis of the integration process that was subsequent to Panda Fireworks acquisition of their Swedish distributor Hanssons Fireworks. We will continuously throughout this section derive our analysis of the empirical study from the theoretical framework presented above, foremost by comparing our case study scenario to the different research theories in the M&A field of study. This analysis will provide us with a scientifically justified foundation, which we will subsequently build our conclusion upon, thus it is a component of sincere significance as to enable us to answer our research question and reach the very purpose of our thesis.

5.1 Value Creation for Panda Fireworks

According to George Shan, CEO at Panda Fireworks in Sweden, the source of value creation when Panda acquired Hanssons was the value within the brand, the market knowledge and the already captured market shares. Hence, the most valuable resource for the acquirer in this case is the transfer of local knowledge and awareness, and this with the perspective of Haspeslagh and Jemison (1991) would translate into their presented capability transfer. According to them value creation is derived from capability transfer, which can be recognized in three various forms; *Resource sharing, Functional Skill and General Management Skill*. Regarding our chosen case study when seen in this context, we believe that neither of these categories is entirely in line with the capability transfer taken place after Panda acquired Hanssons. This due to the fact that Panda did not have the underlying reason to create value through neither the creation of economies of scale and scope, nor through the achievement of functional skills. Since Hanssons solely has the role of being an intermediate, there are no such skills to be obtained. Regarding the capability transfer of General Management Skills, it was not from Pandas perspective an objective in the process of creating value. Thus, Pandas source of value creation is not entirely to be found within the categories of Haspeslagh and Jemison, since their objective was to maintain the brand of Hanssons and its operations in Sweden and from there, derive value.

5.2 The Integration Process after Panda Fireworks acquisition of Hanssons

Fireworks

The integration process that took place after that Panda Fireworks had acquired Hanssons was indeed of limited sort. The major change was that the headquarter of Panda Fireworks decided to transfer their Vice General Manager, Mr. Shan, to be appointed as the new CEO of Hanssons Fireworks. Mr. Shan had as the sole directive to observe the current business and not implement new operating or administrative procedures, nor impose a new corporate culture. This was due to Pandas motive behind the acquisition; their desire to derive value from the brand of Hanssons. When seeing this with the view of Haspeslagh and Jemison (1991), we believe that their presentation of the procedure of the integration process is difficult to apply in the case of when the Chinese conglomerate Panda acquired Hanssons.

Haspeslagh and Jemison (1991) decompose the integration into three sorts of interactions that establish an encouraging atmosphere, which allows for capability transfers. Thus, value is created and the objective of the acquisition is realized. The collaborative interactions are of substantive, administrative and symbolic character, though the degree of each differs depending on the circumstances of the acquisition. In our case one can see substantive interactions regarding market adjustment and development, foremost due to Pandas and Hanssons increased collaboration after the acquisition. However there are no administrative interactions between the two parties since there are, for example, no mutual accounting or reporting systems. The system of Hanssons still complies with the Swedish requirements. Haspeslagh and Jemison further states that the last collaborative sort of interaction, the one of symbolic character, is generally of more importance for the acquired company than for the acquirer. This we found to be true during our empirical research as Hanssons' employees were concerned regarding possible cultural clashes. However, we found that Panda did not impose any corporate culture or new beliefs at Hanssons, instead they wanted the existing corporate culture to stay intact and the new Chinese CEO had to be the one to adjust. So out of the three sorts of interaction, the acquirer in our case just conducted one, thus the role of Panda can be seen as rather different and unobtrusive when comparing to Haspeslagh

and Jemison phases of interaction. This lack of resemblance we believe has its foundation in two factors. First, we understood from the interview with the CEO, Mr. Shan, that Panda did not want to spend valuable time and money on an integration that was not needed and as a consequence Panda regarded the planning of integration as insignificant. Thus, they did not have a predetermined plan regarding the integration process at Hanssons, instead they adjusted according to the situations that occurred while keeping their aim to maintain Hanssons as a brand. Second, we believe that the business relationship established prior to the acquisition between the concerned parties indeed was of importance and that it influenced Pandas decision to have a low level of integration. This due to the fact that they, to a certain extent, already were integrated.

Further, when examining the actual procedure of the integration process there are other researchers perspectives to take into consideration. For example Pablo (1994) gives an additional view that managers from the acquiring company always use numerous decision perspectives to evaluate what level of integration is required. Due to the above mentioned prior business relationship, Panda already possessed an extensive insight in Hanssons thus when deciding the mere level of integration they had a background in numerous perspectives, however not specifically the ones of Pablo's five decision criteria.

5.3 Panda Fireworks Approach to the Integration Process

As stated in the theoretical framework the motive for the acquisition and the desired outcome indeed determines the level of integration needed and this is consistent with the case of Panda and Hanssons. In theory, Haspeslagh and Jemison (1991) address this subject by presenting a fourfold matrix in which the level of integration is evaluated out of two different dimensions; *strategic interdependence* and *organizational autonomy* need, hence it regards the level of interdependence between the two parties in relation to the need of organizational independency. This results in four different approaches to integration which Haspeslagh and Jemison (1991) designates as preservation, symbiotic, absorption and holding. Seen to our case, we believe that the most appropriate category of approach would be the one called "preservation", since the relationship between Hanssons and Panda is characterized by a high degree of organizational autonomy and a

low degree of strategic interdependence. Within the mode of “preservation” one of the underlying motives for the acquisition and the reason for value creation is to gain access to new markets, and this is the exact circumstance in our case; by acquiring Hanssons Fireworks, Panda got a direct access to a new market. The approach of the new CEO to listen and learn from the Swedish employees also increases the degree of organizational autonomy. Further, in our case one can see that there have not been any operational changes and this also goes inline with the mode of preservation. The acquired company should continue to operate as a sovereign unit, which has been the case for Hanssons, and if Panda would impose operational changes, the intended value creation would most likely be hampered. Thus, Panda has played their part very well, seeing that the new CEO has had as a foremost aim to listen and learn from the Swedish employees. The primary objective for Panda has been and is to the outmost extent to sustain the original contexture of Hanssons, since value creation cannot be derived neither from economies of scale and scope, nor from integration of systems, resources or decisions.

Napier (1989) contributes to this area of research, by presenting a dual perspective to the motives behind acquisitions; financial or managerial motives, both with different aspects to value maximization. This is indeed a broader perspective of motives behind acquisitions, and she emphasizes the acquiring firms approach to value maximization. In our case, we believe that Pandas foremost objective when acquiring Hanssons was not to create economies of scale and scope, nor achieve certain know-how. Instead, their objective was more of managerial kind; their determinant for the takeover was primary to expand to a new market and get direct access to the final customer. Further the characteristics of Panda as a company in contrast to those of Hanssons is of significance when examining the acquisition from the perspective of Napier. Since Hanssons is extremely small, both in a financial and operating size, in comparison to Panda, one can see that their impact on the finance of Panda is indeed limited. Hence, Panda did not acquire Hanssons as to maximize the value creation for their shareholders (Bradley and Korn, 1984), instead their aim was to establish themselves in Sweden. Even though it might not have been financially optimal the important factor was that they obtained access to the Northern European market. Mr. Shan illustrates this by a comparison of

consumer markets; the annual sales in Sweden are in fact the same figures as the sales in merely one middle-sized town in China.

Further, regarding Angwin's (2004) additional discussion concerning how speed affects the integration process, our case is of an ambiguous position seeing to the limited extent of the conducted integration process. However, the very fast arrival of the new CEO was an action of speed and we believe that this helped to subdue the spread of uncertainty described by Mr. Hempel. Other advantages in our case due to the speed of the limited integration process was that Hanssons did not need to spend any time in a sub-optimal organizational phase, nor did they become highly exposed to external effects. However, the very reclusive role of Panda Fireworks after the appointment of the new CEO together with the limited integration process, contradicts to a certain extent the integration procedures described as rapid in Angwin's article. There is no attempt by Panda to undergo certain changes before a certain limit of days and as previously mentioned Panda has not imposed any altering operational or organizational transformations. Hence they do not apply what is by some called a "western" model of integration process (Barnes and Chandra, 2010) in order to get advantages of speed. This, we believe, is due to the motive behind Pandas acquisition of Hanssons and their already established business relationship prior to the acquisition. Thus, our case does in some ways advocate the importance of speed, in the same time as it contradicts the practical perspective of it described in the research literature, hence the character regarding this issue is indeed ambiguous.

5.4 Panda Fireworks and the Role of an EMNC

Panda constitutes an example of being an EMNC, as its country of origin, China, still is denoted as an emerging market. With this definition, generalizations concerning their actions can more clearly be derived from the existing research literature regarding EMNCs. When comparing the procedure of the integration process of Panda Fireworks to the survey conducted by KPMG (2010) on emerging market acquisitions in developed countries, one can find both similarities and differences. The survey found a few characteristics that EMNCs have in common concerning their approach to the integration process. The first one state that EMNCs take it slow and do not rush

synergies, however in our case the arrival of the Chinese CEO occurred rather fast, but from then on Pandas approach was of cautious kind regarding the integration process. Thus it has been almost inexistent rather than slow; and the new CEO has to a great extent left the management free to operate and continue as before. Further, the survey found that EMNCs aim to be the best company on a local level, as well as increasing the opportunities for, and empowering, the local management and we believe that both of these characteristics are applicable for Panda. Since their objective is to learn from the Swedish staff, adapt to the local market and utilize the value of the brand “Hanssons Fireworks”, they do indeed aim to be the best company on a local level. They also increased the opportunities for Hanssons seeing that the takeover allowed for them to have a higher impact on the product assortment as well as receiving a higher quality of products. Finally the survey states that EMNCs all have experienced the need to face and refute the skepticism coming from target companies and customers, but in the case of Pandas acquisition of Hanssons they did not need to respond to such a deep settled skepticism. This was mostly due to the already existing trade relation between the two parties, but also due to the strong position of Panda within the global fireworks industry. However, a kind of skepticism did arise within the company at the time of the acquisition, but we believe that it was more due to uncertainty regarding the future than being skeptical to obtain a foreign owner.

Further, the survey found that when specifically seeing to Chinese EMNCs, they tend to acquire financially stressed companies and make them profitable. This is to a certain extent applicable in Pandas takeover of Hanssons, since they took advantage of the implications that the appreciated value of the US dollar implied for Hanssons. Panda saw an opportunity to acquire Hanssons since it was financially stressed, but they did not have as a primary motive for the acquisition to turn the company around, and this is different from what the survey states regarding Chinese EMNCs. Hence Panda did not apply a fast integration process, as many Chinese EMNCs are said to do, in order to make the company profitable, since their objective was not of that kind (Barnes and Chandra, 2010).

5.5 Experienced Challenges during the Integration Process

As previously stated, the integration after the acquisition between Panda Fireworks and Hanssons Fireworks has been of limited kind, there has neither been a procedural nor a physical integration (Schweizer, 2005). Thus the challenges that commonly occur in one way or the other after an acquisition such as those of legal or time-consuming sort, has in the case of Pandas takeover of Hanssons been absent. Moreover the acquirer did not reorganize assets or impede the communication, as well as they did not demand for organizational profit to occur shortly after the acquisition (Shrivastava, 1986); and since Panda did not conduct these actions the challenges that are generally linked to those procedures did not arise. Thus the experience of Panda and Hanssons was that there were no particular challenges during the integration, simply a new management that in the end did not change Hanssons daily operations nor the environment. Additionally Schweizer (2005) refers to complications associated with involved managers and employee's reactions as *Human-Related Phenomena*. However, in the case of Panda and Hanssons there was no dramatic occurrences such as loss of jobs, transfers to new jobs, changes in jobs, salaries, benefits or career paths (Ivancevich et al., 1987) which otherwise all can foster reactions from the involved personnel. Though, subsequent to the acquisition Hanssons obtained a new CEO and this caused some uncertainty amongst the personnel prior to acquaintances had been established. Further, it is stated that the affected personnel often react and experience shock, disbelief and grief shortly after an acquisition has been announced, as well as a high degree of uncertainty may arise (Marks and Mirvis, 1985; Sinetar, 1981). Seeing to our case the employees at the acquired company experienced a low degree of shock, disbelief and grief whilst they experienced the feeling of uncertainty to a greater extent, though only for a brief period of time during the integration process. In addition to the experienced uncertainty, the employees at Hanssons experienced to a certain degree fear and self-preservation concerning what would happen to their salaries and benefits etc. However, this wore off quickly and did not lead to value destruction, which according to Haspeslagh and Jemison's (1991) could have been a possible outcome if Panda had not addressed these issues in an early phase of the integration. We believe that Pandas active choice not to impose an integration process was the main reason for the fact that they did not face

challenges such as that the personnel at Hanssons lost their willingness to work towards the success of the acquisition, nor did they leave the company. This was greatly due to the fact that Hanssons was left to continue its operations as prior to the acquisition. This decision by the acquirer also had as a result that the employees could continue to identify themselves with their firm and therefore they did not experience a loss of identity (Schweiger et al. 1987). Further by this integration approach, the employees did not begin to pay more attention to their own careers, nor did they become introvert (Marks and Mirvis, 1998).

Moreover, Haspeslagh and Jemison (1991) presents the concept of determinism which highlights the potential challenges that arises due to the managements low ability to adapt to unexpected external changes and events and instead cling to the initial plan for the post-acquisition phase. As Panda relies on the local knowledge obtained at their Swedish affiliate they forward the responsibility to Hanssons to be adaptable to external changes as was the case prior to the acquisition. Thus Hanssons is not impeded with an inadaptable mother company that obtains insufficient knowledge regarding the Swedish market.

Furthermore, seeing to our case Hanssons obtained a closer relation to the former supplier Panda after the acquisition was conducted; and as long as the business operations are not in danger, Hanssons know that they will be able to continue to operate as sovereignty. This, we believe, is from the perspective of Panda Fireworks a decision built upon trust and not a sign of management passivity (Pritchett, 1985; Schweiger, et al. 1987; Schweiger and DeNisi, 1991) nor is it a sign of vacuum in the leadership since Panda did not have the purpose to convey a new mutual objective for the two firms (Haspeslagh and Jemison, 1991). As to that of which is stated by Walsh (1988; 1989) there can be an increased management turnover after an acquisition, though this is not true in our case as the acquisition merely meant that the prior CEO and owner left his assignment as he sold the company. Further, the mother company replaced the former CEO with one from the headquarters and he still obtains the role as of today. Buono and Bowditch (1989) stated that lowered work performance, decreased

communication and appearances of rumors are likely occurrences during the integration process, though this was not experienced at Hanssons since there where no interference or impeded integration procedurals.

Moreover, regarding the potential cultural clashes that can occur between two involved firms, partly due to differences in their organizational cultures (Buono and Bowditch, 1989; Marks and Mirvis, 1986; Nahavandi and Malekzadeh, 1988; Larsson, 1990; Sales and Mirvis, 1984; Schweiger et al., 1987), this did not appear in the integration of Panda and Hanssons. This, we believe, was most likely owing to the very fact that the directives from the headquarters to the then newly appointed CEO was to observe and not to intrude on the acquired company's already established environment. Thus they averted the potential arising feeling of "we versus them" (Marks and Mirvis, 1998). With origins from such widely different social and cultural backgrounds, and since the company size of Hanssons implies close collaboration, it is easy to assume that possible challenges may arise in communication and comprehension. However, according to the CEO Mr. Shan and the District Manager Mr. Hempel this is not the case at Hanssons; instead they regard their different backgrounds as a corporate strength rather than as a challenge.

To conclude our analysis, it is of our true opinion that Pandas choice to have a low level of integration is an *active* choice, rather than an example of an absent integration process. We believe that this very approach has had a positive impact on the outcome of the acquisition. Further, we consider their already established business relationship and the character of the industry as important contributing factors to how the integration was managed, since it gave both parties a higher degree of security and trust. Thus, one can question the importance of needed integration, as it in our case is seen as unnecessary time-consuming proactive work. Here, the most evident choice is instead to act upon arising circumstances. However, if this is a common approach amongst Chinese companies we leave for further research to settle, though we will address this issue in our following conclusions.

Chapter 6 – Conclusion

In order to finalize the purpose of this thesis, we will in this chapter provide our conclusions to the conducted research. Initially, within our “research conclusion” we will present answers to our research question, which are based upon our findings that have been derived from the theoretical framework in conjunction with the empirical study. Further we outline the conclusions derived from our conducted case study, and this is followed by a discussion of the contribution of this thesis. Finally we deliberate and outline criticism to this research, as well as we present possible topics for future research.

6.1 Research Conclusion

The purpose of this thesis has been to examine the integration process that follows acquisitions conducted by Chinese companies in industrialized countries, and this we have aimed to clarify through our research question put in relation to existing M&A theories. Thus, our intention is to contribute to the existing research literature, which we consider to be deficient in this field of study. However, one should bear in mind that these conclusions are drawn from one Chinese corporations’ acquisition integration in Sweden, and since our study is of abductive kind our conclusions can be false even if the evidences are true. Thus, in order for our generalizations to be fully credible when specifically referring to Chinese companies, we would be in need of further research.

From our conducted case study in addition to our theoretical research we have found grounds for that Chinese companies approach to the integration process after having conducted acquisitions in industrialized countries *adverts* from the approaches presented in existing theory. Instead of following a rapid, progressive and to a great extent predetermined integration process, often referred to as “the western approach”, we found that Chinese companies act upon the circumstances of each acquisition. Hence they customize their integration process to each given case. Additionally, we found in our research and case study that Chinese corporations do not follow a predetermined procedure, nor do they divide the integration process into separate phases in a progressive manner. However, we have recognized that they are to a fair extent

characterized by conducting a rapid integration in operational perspectives, though then again this depends on the circumstance of the acquisition.

Further, we found that the existing theory preeminently emphasizes the post-acquisition phase and the importance of conducting a well thought through integration procedure, whereas we have found in our research that Chinese companies not necessarily emphasize this phase to such an extent. In our case study, this is prevailed in the fact that Panda to a great extent left Hanssons to operate independently and they did not impose any changes in the acquired company, hence we found that the integration procedures were not regarded as proactive work, rather as unnecessary utilization of resources. Thus, we conclude that since Chinese companies has this approach towards integration, it has as a result that challenges normally arising after an acquisition, which are widely discussed and emphasized within existing research literature, does not appear to such an extent after Chinese acquisitions in developed economies. In their perspective, the integration rather concerns how the Chinese acquirer should adapt in relation to the acquired company and its local context. This is supported by the findings derived from our case study, in which Pandas procedure of integration consisted of a transfer of a Chinese CEO to the acquired company, whom had as directives to adjust completely to the very local context.

Moreover, we have recognized from our case study that Chinese firms do not impose a certain corporate context, which often is the case in the western approach; they rather aim to establish a profound business relation with their acquired object in order to realize the intended outcome. Additionally, within the existing theory it is prevailed that the level of required integration depends upon the motive of the acquisition, and this we have found to be in consensus with Chinese companies. Thus, the motive of acquisitions in industrialized countries is, for Chinese companies, the determinant factor for the level of integration, and this finding we believe is indeed of significance. However, keeping in mind that besides the motive, our case studies' specificities also influenced the level of integration; factors such as the industry and the prior relationship between the

concerned parties. These additional factors could indeed also be determinants for other Chinese acquirers.

Finally, to conclude our research concerning how Chinese companies proceed in their actions regarding the integration process when conducting acquisitions in industrialized countries, we believe that they act upon the current circumstances of each acquisition. They aim to establish a profound business relation with the acquired object, and they adapt rather than impose. Of significance is also that for Chinese companies the motive of the acquisition is the determinant factor for the level of integration. Thus, with regard for our findings, our conclusion is that the existing M&A research literature is not applicable to its full extent with regard for Chinese corporations approach towards integration after conducted acquisitions.

6.2 The Contribution of our Thesis

With this thesis we shed light upon the currently increasing phenomena of reversed roles in which companies originating from developed economies that traditionally were acquirers, now are subject to takeovers by firms from emerging countries whom in the past used to be their targets. It is of our belief that China plays a part of outmost importance with regards for this phenomenon, a trend that we do not see an end to. Thus, we are of the opinion that there is a limitless need of attention to be devoted to this matter, and that our thesis constitutes a relevant contribution thereof.

Further, as was our purpose, we believe that our conducted research and our found conclusions contribute to the understanding of Chinese procedures regarding the integration process. Thus, it constitutes a complement to this presently insufficient field of study. We believe that research concerning this topic is indeed of importance, since it can increase the comprehension of how Chinese corporations approach, design and conduct their integration process. This comprehension will be of outermost importance within the currently industrialized business community, as the Chinese presence will continuously increase in this region.

6.3 Criticism to Research

In order to reinforce the validity of our conducted research we have continuously had a critical view to our way of procedure. The evident animadversion of our research is that we founded our case study on solely one acquisition. Thus it thwarts our very capability to reach to accurate generalizations, and as a consequence it hampers the conclusions drawn from our research. Though, at the same time it presents us with the opportunity to carry through qualitative in-depth interviews with essential personnel, as well as it enabled us to attain otherwise inaccessible information that was of meaning for the analysis of this research.

Furthermore, since we solely have conducted interviews with people presently working at the acquired firm it presents the concern that our research is of potential biased sort. The possibility exists that the outcome of our research would have differed if we would have had the opportunity to interview the management at the headquarters of Panda Fireworks. However, we believe that we obtained vital information from the perspective of the acquiring corporation since one of our respondents, the CEO Mr. Shan, formerly worked at the headquarters in China, was present during the actual acquisition procedure, as well as he is still as of today the Vice General Manager of the mother company. Additionally, we are well aware of the fact that since our concerned parties had an established business relationship prior to the acquisition, this may have had an impact on the outcome of our very research and purpose. However, we have since the very beginning of our case study been aware of the potential bias, thus continuously taken it into consideration during the entire research. Hence, we have to the greatest extent endeavored to strengthen the validity of our research.

6.4 Further Research

As previously stated, we are of the opinion that there is a limitless need of attention to be devoted to Chinas role as an acquirer, a phenomenon that we believe will be of increasing significance in the future global business world; hence, the comprehension of Chinese perspectives towards the phases of the acquisition process is of outermost importance. This development fosters an accumulative need for further research in this very area within the M&A field of study.

Regarding our research, it is indeed limited by its scope in relation to a larger context, this since we based our study on solely one case. Thus, our research does not provide us with a foundation from which we can draw generalizations regarding Chinese corporations approach towards acquisition integration. As for this to be achievable, we are of the belief that the research needs to be derived from a statistically substantial quantity of acquisitions, both successful and unsuccessful. Subsequently, the uncertainties that prevail within this phenomenon could appropriately be addressed; is there a general Chinese perception of acquisition integration and how do they manage its process? Do they have a specific approach method, and how does it differ from “the western approach”?

An increased comprehension for Chinese acquisition procedures would not solely benefit the acquirer; instead it would, according to us, foremost be beneficial for the target markets in the industrialized economies.

Chapter 7 - References

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Appendix

In the following section we provide the semi-structured interview guides that constituted the foundation for our discussions with the management of the chosen case company. All questions were composed with the foremost objective to answer to the very purpose of our thesis; therefore they were continuously derived from the theoretical framework as well as from our research question. However, prior to the interview, we submitted a reduced version of these guides to the selected case company, in order to prepare the respondents and increase the possible quality assurance.

Semi-Structured Interview Guide – CEO of Hanssons Fireworks in Sweden AB

Warm Up Questions

- How is the organizational structure of Panda Fireworks Sweden and Panda Fireworks Ltd. and what is your position?
- For how long have you worked at Panda Fireworks Ltd?

The Firework Industry

- Which are your main competitors? Which are the main producing and consuming countries? *Is the industry labor, know-how or capital intensive? What is Panda Fireworks Ltd's position in the competition?*

Panda Fireworks Ltd.

- How many acquisitions has Panda conducted before? *Has it increased since 2003 due to the ease of the legislation?*
- Does Panda have a strategy for acquisitions and if so, how does it take form? *For example do you search for companies that are financially stressed?*
- What is your objective and criteria for the target companies? *Brand, technology, market, distribution network?*

The Acquisition

- What was the reason for Panda to acquire Hanssons? *Which criteria made Hanssons a suitable target?*
- Did you do a lot of due diligence before? *Was it an open or secret process? Long / short? Friendly / hostile?*
- What was the final price tag for the take over?

The Integration Process

- After the acquisition, were there any initial integration procedures? *For example, operational changes, accounting systems, production, employees restructuring?*
- To what extent did Panda integrate the management of Hanssons? *Did Panda leave them independent or did they limit their authority? Did they replace the management?*
- How do you think that the acquisition of Hansson would be of economic value for Panda? *Cost reduction? Risk sharing? Resource sharing? Local presence?*
- Did you impose a new corporate culture at Hanssons?
- Was the level of integration decided by Panda as a mother company or by the management in Sweden?
- Did Panda customize their integration process or was it a “one-process-fits-all”? *Did Panda aim to integrate Hanssons as fast as possible? Did they aim to gain operational synergies in an early phase?*
- Does Panda aim to see themselves as a leading local firm or as a leading Chinese firm in Sweden? *Has Panda helped Hanssons gaining access to the Chinese market?*

The Current Situation of the Integration Process

- Do you believe that the integration process is finished in the current state? *If not, what is left? How is the contact with the mother company?*

Challenges in the Integration Process

- Did you face any challenges during and after the acquisition? *Disruptions? Legally? Work procedures? Employees? Communication? Profit? Was the integration hard and time consuming? Cultural clashes?*
- Did you change the planned integration process at any point, and if so, why?

The Future of the Acquisition

- What is the outcome of the acquisition? Is Panda content with it?
- How does the future look?

Semi-Structured Interview Guide – District Manager at Hanssons Fireworks

Warm Up Questions

- What is your position at Hanssons Fireworks and how does it fit into the organizational structure?
- For how long have you worked at Hanssons Fireworks?

The Firework Industry and Hanssons Fireworks

- How has the firework industry changed over time in Sweden? Please, tell us a little about the history of Hanssons?

The Acquisition

- When did you first learn about the interest of Panda to acquire Hanssons? *How did the process before the acquisition look like?*
- What was the economic situation of Hanssons prior to the acquisition? *Was the company up for sale? Situation of the industry? In need of capital?*
- How did you announce that Hanssons was to be acquired by Panda?
- Where you skeptical to be acquired? If so, why? *First reaction?*

The Integration Process

- After the acquisition, were there any initial integration procedures? *For example, operational changes, accounting systems, production, employees restructuring? How was the new organizational structure? Was there a change in authority?*
- To what extent did Panda integrate the management of Hanssons? *Did Panda leave you independent or did they limit your authority? Did they replace the management? Is Hanssons an independent unit?*
- Do you experience that there was a new corporate culture at Hanssons?
- Do you believe that Panda has given you opportunities? *Access, sourcing, manufacturing in China?*
- Were there any drastic changes regarding the employees? *Such as lay-offs, tasks, changes of bosses and production lines?*
- How was the reaction amongst the employees? Shock, disbelief, uncertainty, excitement, we versus them, lack of leadership?

The Current Situation of the Integration Process

- Do you believe that the integration process is finished in the current state? *If not, what is left? How is the contact with the mother company?*

Challenges in the Integration Process

- Did you face any challenges during and after the acquisition? *Disruptions? Legally? Work procedures? Employees? Communication? Profit? Was the integration hard and time consuming? Cultural clashes?*

The Future of the Acquisition

- What is the outcome of the acquisition? Is Hansson content with it? How has the turnover changed before and after? In your opinion, is the situation better for Hanssons now than prior to the acquisition?
- How does the future look? Will you expand? Work more with China?
- Are you in need of more integration?